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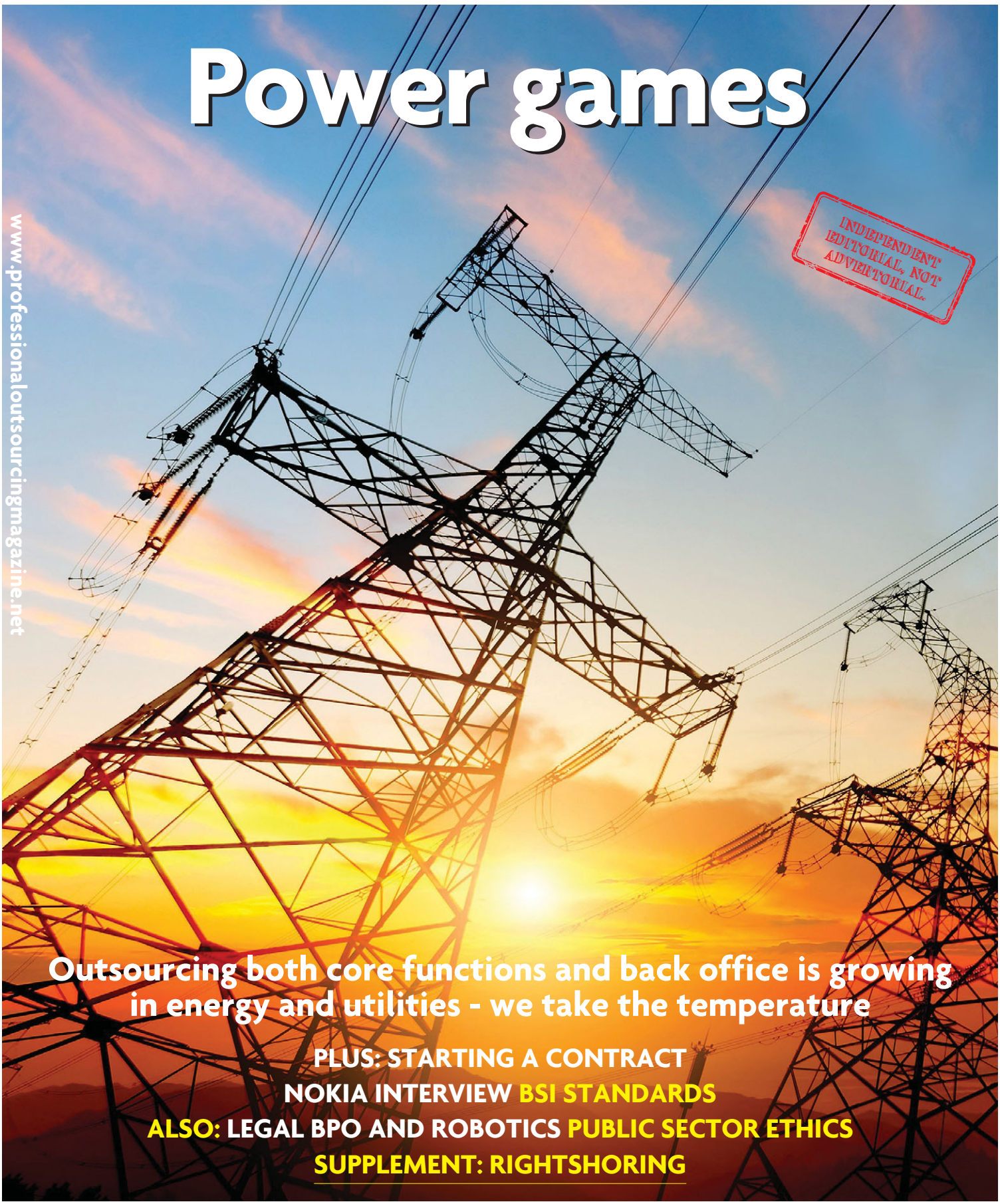

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Outsourcing both core functions and back office is growing in energy and utilities - we take the temperature

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Transition your partners

In the first of two articles, Sara Cullen, Leslie Willcocks and Mary Lacity look at the periods of transitioning in and exiting that receive little coverage and seem relatively straightforward, but have a range of pitfalls through which outsourcing arrangements need to be steered.

In our new book, *Outsourcing – All You Need To Know*, we detail the multiple practices clients need to adopt to make their outsourcing arrangements effective. We think of outsourcing as a lifecycle of four main phases – architect, engage, operate and regenerate. There are, of course, many life cycle models. The strength of our own is that it rests on 20-plus years of research into more than 2,100 case studies looking at what works and what does not in which sort of deals across Asia Pacific, Europe, the US and Africa.

Transitioning in and transitioning out are both seemingly uncontentious, but if not done well can cost a lot of unnecessary time and effort, and harm relationships between the parties. Transitioning in comes at the beginning of the operate phase: once you have negotiated and sealed the deal. At this point, you generally face a monopolistic provider for the scope and duration of the contract, unless operating under a panel configuration designed specifically for continuous competition. However, if the deal is not working, you will rarely have the option – pragmatic, economic or political – other than to continue with the provider. Outsourcing deals can be prohibitively expensive to renegotiate, terminate and either backsource (bring back in-house), or transfer to another provider. Therefore, it is vital to get this building block right.

Sarah Cullen

Leslie Willocks

Mary Lacity

At this stage, the benefits of the previous work done pay off, but you really do get what you deserve. The operate phase either proceeds smoothly as a result of the strategies, processes, documents and relationship designed in earlier building blocks, or the transition suffers as a result of misinterpretations, ambiguities, disagreements and disputes. By the time transition has become operations, such problems can only be corrected through huge and tedious remedial efforts.

Transition – start well

In theory, transition begins at contract commencement and ends on a specified date. In reality, it begins much earlier and ends much later. Indeed, if not properly managed, it may never end. However, you plan for this building block to end when the parties sign a transition acceptance certificate (which states that all transition-related work has been successfully executed). The key objectives of the transition are to ensure that normal operations can begin as soon as possible and that both parties

The right agreement is essential

are in a position to fulfil their obligations as laid out in the contractual documents. Our research suggests six actions are key to effective transition.

Action 1 – finalise and mobilise plans

All the planning should have already taken place, so the transition is when the plans are updated and executed, allowing for the inevitable contingencies and adjustments needed when, as one CIO put it, "the rubber hits the road". Updates typically include:

- Transition-in strategy. Your initial strategy was designed in the early days of the outsourcing lifecycle when you prepared the proposed mobilisation schedule and the provider bid. Make sure the current circumstances are reflected in this document.
- Contract management and retained organisation strategies. Your future needs were developed in the architect phase. An update would be prudent.
- Communication strategy. This was developed earlier for all the life cycle phases. Transition is a time of considerable anxiety for staff and communication is an important method of minimising anxiety. Another key part of communications is to set the expectations of the customers. This is particularly important if there will be changes to KPIs or a new way of operating, to understand and minimise any expectation gaps. Lastly, a programme of "kick-off" announcements is standard with any outsourcing initiative. The transition-in component should be developed in more detail now.

Property management case: a plan without resources

A provider was awarded a property management outsourcing contract in October and had specified a three-week transition period in its winning bid. However, the client made all but three staff redundant in June (to meet the budget requirements before the financial year-end of 30 June). As there were no retained staff to speak of, no service delivery work had been performed since then. When the provider came on board in October, there was a huge backlog and angry customers. Furthermore, as there was no retained organisation, there was no one available to assist the transition. The actual transition took six months and the provider was never able to cleanse the inaccurate and incomplete client data inherited from the rushed process. Furthermore, since the client's entire process to outsource was rushed, it consequently had not extracted any of the strategic benefits from the deal, only the initial headcount reduction.

Planning is essential

"Your initial strategy will have been designed in the early days of the outsourcing life cycle. Check that it still fits in current circumstances."

Action 2 – determine the transition teams

A transition project can require many teams, depending on the complexity of the change being introduced and the degree of integration and re-engineering required. The types of roles to consider

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for the transition projects are shown in Figure 1.

Figure 1: Example transition team structure

- Steering committee or joint reference panel – serves to guide the transition, provide strategic input and decision-making, resolve issues, and monitor the timeline and quality of deliverables.
- Programme leader – manages all the transition activities across all the divisions to ensure consistency and reports to the steering committee.
- Set-up team – a rapid-execution team that obtains accommodation, issues accesses, conducts inductions, etc, allowing the provider to start working.
- Communications team – provides communication and change management advice, develops communications messages and media, liaises with the provider's communications representative and manages the feedback loop.
- People transition team – manages staff that are transferring, staying and leaving, provides advice and support services, and assists setting up the contract management and retained organisation.
- Transfer team – carries out the transfers of assets and obligations from your organisation to the provider.
- Integration team – conducts the systems/process re-engineering and integration between the two parties.
- Acceptance team – representatives from business, administration, and technical areas who conduct testing and work with the provider until the particular activity meets the standard that allows it to be accepted as complete.

While the functions of all these teams are important, we have found the work of the communications team to be especially so. The amount of effort required of this team should not be underestimated, as stakeholders may need to hear the message several times and through different media. Setting customer or service-user expectations is particularly important if there will be changes to the KPIs or a new way of operating. It is important for you to work with the provider on the communications rollout so they have the full opportunity to "sell" themselves, and the arrangement, and identify any expectation gaps.

Staff transfer assistance options

	Description
Career counselling	Many employees may require assistance in assessing their skills, goals and career options. Career counselling helps them eliminate uncertainty regarding their capabilities in the market. The types of services offered may include skill assessments, goal formation and action plans, and job/skill matching.
Outplacement	Outplacement services assist staff in finding new employment; first by preparing individuals for the job-seeking process (by helping them prepare CVs, conducting mock interviews, etc), and, second, by finding them employment opportunities. The services offered may include preparing resumes, interview preparation and placement services.
Financial planning	Financial planning specialists can be hired by your organisation to assist staff in assessing and making provisions for their economic situation. The services that may be offered include superannuation/pension planning, future salary needs and retirement planning, investment strategies and redundancy payment options.
Personal counselling	To staff, outsourcing is an emotional issue. Personal counselling services can help employees come to terms with the change in circumstances and move them through the stages of acceptance. The services to consider offering include helping staff manage their emotional reactions, providing coping skills and techniques, and assisting them to manage the impact on their family relationships.

Fig 1

"Since the client's entire process to outsource was rushed it had not extracted any of the strategic benefits from the deal, only the initial headcount cuts."

Insurance case: leaving expectations wide open

After intensive negotiations, concluding with an exhaustive marathon session over the weekend prior to the handover date, the final agreement was eventually signed. To reach the cost-savings requirements of the customer, significant reductions in certain KPIs were negotiated to remove the cost of maintaining a mirrored environment and having experts on site. Each party believed that the other party would

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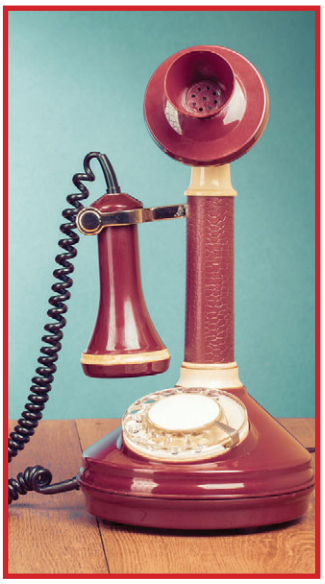
communicate the changes in operations to the client's stakeholders, thus neither gave it any thought. The provider thought that the customer would distribute the SLA and manage its own organisation appropriately. The customer thought that the provider would put out some form of announcement. Each party had thought that reaching the agreement was the "hard part" and was just relieved that an agreement had been reached. After a few months of operations, the build-up of dissatisfaction was becoming alarming. Both parties were spending an inordinate amount of time dealing with complaints and had thought that the users were just "anti-outsourcing". After conducting a root cause analysis of the underlying nature of complaints, it was found that the users had issues with outsourcing; it was simply never communicated to them what they should be expecting.

In one case, we saw lawsuits threatened all around when a marine port picked the lowest bid but the winning provider grossly under-scoped because of inexperience in the area and having misunderstood the requirements. When the systems began falling over in transition, the utility threatened to sue the new provider. The new provider then threatened to sue the former provider for negligence, but the previous provider was able to prove that it had left operations intact (by having photos, backup data, etc.).

Rather than lose the contract (and face the possible lawsuit by the client), the new provider agreed to have the former provider reinstate the old environment and then subcontract it (at very expensive rates) to run operations for no less than six months while it met certain transition milestones it had agreed with the client. Four years later, however, when this contract was retendered, the former provider won it back.

Action 3 – manage staff

The human side of an outsourcing deal may be difficult to visualise at first, but quite quickly it can become the biggest problem you may face – we have seen deals where employees have not only refused to work, but have deliberately sabotaged the process itself. Not surprisingly, then, clients and providers tend to invest a lot of time and effort developing appropriate staff transition policies and practices.



"The effort required of the communications team should not be underestimated as stakeholders may need to hear the message more than once."

Transferred staff become employees of the provider under either the "negotiated transfer" approach (the recruitment process, and the terms and conditions of employment are agreed between the parties), or the "clean break" approach (you are aware of, and fully support, that the provider will be making offers, but will have no direct involvement yourself).

Retained staff are kept within the client, typically in a changed capacity. Some retained staff may develop what has become known as "survivor syndrome". These staff may experience a number of dysfunctional feelings about surviving the chopping block; they may feel guilty, defensive, or even aggressive towards management.

Redundant staff are those no longer required. Making staff redundant is one of the most difficult and unpleasant tasks a manager can do and, generally speaking, organisations have not shown themselves to be very good at it.

Future staff arrangements are not easy decisions and can be surprisingly complex to execute. One frequent barrier is that particular areas of a client often act in conflict, albeit unknowingly.

Irrespective of whether an individual will be staying, going elsewhere, or transferring to the provider, all personnel involved will be affected by outsourcing. Many managers fail to realise that outsourcing can be a tumultuous change for employees and will always have an emotional impact on their careers, financial positions, or even on their self-esteem. To help staff come to terms with this, there are various tech-

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niques and services that organisations have used successfully. These include career counselling, outplacement, financial planning, and personal counselling described in the box.

It takes effort and focus to support staff during the transition process, which is why many clients do not do it (particularly if cost-cutting is the driver for outsourcing). But when you do this well, the marginal cash outlay can quickly quash the needless cost of managing a highly distracted and unproductive workforce.

Action 4 – manage transfers (eg assets, third-party contracts, work in progress)

It is not just the transfer of data, assets and work that is of paramount importance here, but also the transfer of intellect, knowledge and political networks. The people in your organisation will have built up extensive knowledge crucial for service delivery – not just operational knowledge, but organisational as well. This knowledge is rarely encapsulated in an easily transferable medium; more often than not, it is carried in people's heads.

In many cases, these transfers require dedicated teams made up of individuals from both parties, because these areas of the business were not designed to be easily transported from one organisation to another.

Action 5 – re-engineer and integrate practices

Outsourcing requires radical changes in governance. New mechanisms are required to foster mutual understanding and trust, manage potential goal divergence and opportunism, and the redistribution of authority and decision-making. When implementing the new way of operating that outsourcing represents, it is inevitable that the type of work, and how that work is accomplished, needs to be changed. Depending on the extent of outsourcing, your organisation may need to make profound changes in its strategic and operational mechanisms.

"Some retained staff might develop survivor syndrome, with negative feelings about the chopping block, feeling guilty or even aggressive."

The old ways of doing things are no longer appropriate under an outsourcing arrangement. A piece of your organisation has effectively been removed. New workflows, communications, paper-flows and signoffs are required internally within your organisation to ensure a united and efficient front interacts with the provider. New relationships need to be quickly formed. People accustomed to a certain way of operating need to start working in a completely different manner – or not, as our stockbroking case exemplifies.

Stockbroking case: outsourcing sees duplicate systems

A stockbroker outsourced all its IT operations as part of an automation (paperless office) initiative. No impact analysis took place regarding the need to re-engineer any work practices; it was assumed that once the technology was in place staff would merely disregard the old way of doing things and move right into the new. What happened, however, was that staff just added the new processes to the old rather than create new, more efficient processes. They ended up with two systems: one paper-based and one electronic. This was discovered 18 months into the contract when internal audit was performing a review. They discovered that neither system functioned effectively and that the hybrid system created was exceedingly time-consuming.

Action 6 – accept and close out

It is quite common to have a formal set of acceptance criteria (and an acceptance certificate) that signifies that the transition has been successfully completed. This is particularly important where there is a separate transition fee payable to the provider.

This theme of transitions in outsourcing will be continued in the next issue of Professional Outsourcing magazine.