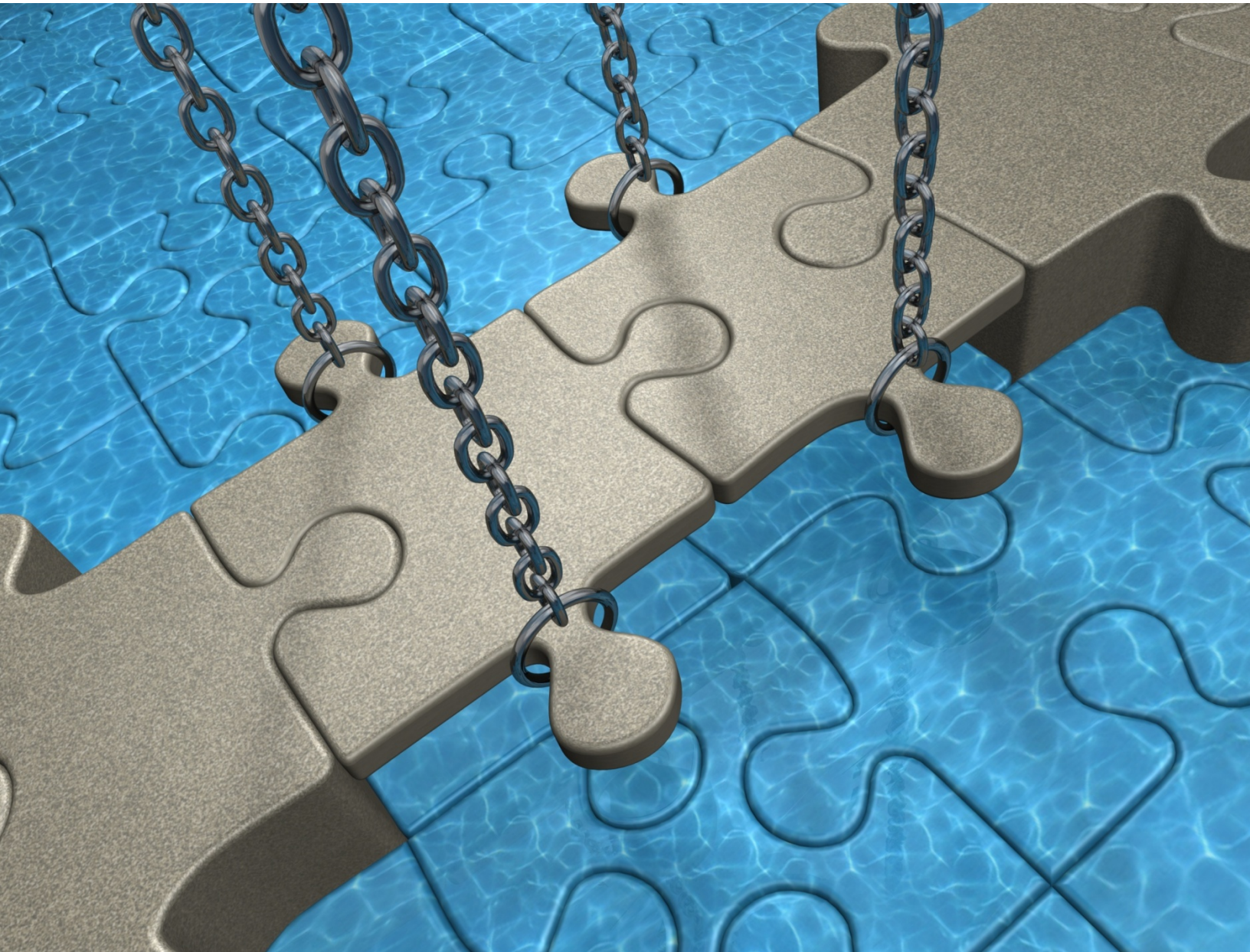


Aligning the Organization for Effective Outsourcing



Endeavor Management

2700 Post Oak Blvd.
Suite 1400
Houston, Texas 77056

P + 713.877.8130
F + 713.877.1823
www.endeavormgmt.com

Endeavor

Aligning the Organization for Effective Outsourcing

Overview

Now that we have gotten through the maze of negotiations, contracts, and transactions and gotten our outsourcers in place, it should be smooth sailing. The exceedingly competent outsourcers we selected will be able to take it from here, providing effective and efficient performance across the outsourced business processes and information technology, as well as meeting all service level agreements (SLAs).” Nice idea, but the harsh reality is that an organization that has outsourced still has some heavy lifting to do before the outsourcing solution will work as planned.

The purpose of this white paper is identify organizational re-alignments or adjustments that will need to be made to accommodate outsourcing and to discuss, at a general level, action plans for those needed re-alignments. But first, we will examine some of the macro factors and changing assumptions that move companies toward the outsourcing solution.

Forces that move companies toward Outsourcing

Three profound forces are at work in the business environment that have a direct effect on the practice of outsourcing. First, the pervasive pressure for growth and greater returns requires companies to look for alternatives that promise both lower and, in some cases, locked-in costs. No public company, at least, can afford to ignore the outsourcing alternative.

A second force has been set in motion with the general acceptance of the idea of “core and noncore competencies.” Business now explicitly works with the notion that some of its competencies are more critical (core) than others for achieving competitive advantage in the goods/services marketplace as well as in capital markets. Given the notion that companies don’t effectively compete based on non-core competences, why not let some other organization do that kind of work, hopefully, less-expensively than could be done in-house.

A third, and closely related, force is the rapid changing of a paradigm that has been around for decades. A way of thinking that “we can always do anything better from the inside of our organization” has contributed to the sheer size of many companies who have constructed their own internal department for just about every kind of product and or service needed to run a company ... from their own delivery services, print shops, engineering and construction departments to software developers. But times have changed. If today’s managers were surveyed, you might find that many think “it can usually be done better by vendors from the outside,” or at least “it is easier to manage outside vendors” than many of their internal departments.

Aligning the Organization for Effective Outsourcing

Today's Management Position

Four direct statements summarize the position of many managers today:

1. *I want to focus on my firm's core competencies ... and keep their advancement and operation in-house.*

The firm's core competencies make the difference between competitive success and failure. These core processes, at the heart of the company's value proposition, can become the firm's most important assets. Optimizing these competencies becomes one of the firm's business imperatives that are best managed from the inside by the firm's "best and brightest."

2. *I want to save time, energy, dollars and focus for my core competencies ... by finding other means to handle my non-core competencies*

Despite the firm's best efforts, it seems that scarce time and energy are used up in the management of competencies that are not core for the company ... competencies like accounts payable and some facets of information technology. Finding other ways of managing these non-core competencies saves time and energy for optimizing what really counts; the firm's core competencies.

3. *I want my non-core competencies handled by someone for whom those competencies are core ...*

If my firm chooses to have other firms manage its non-core competencies, it seems to make sense to choose firms whose primary focus is those noncore competencies. That is, my non-core processes are managed by firms whose primary focus or core competency is the services I want to move outside.

4. *...thereby saving cost and keeping me closer to the leading edge than I could afford internally.*

If other firms who specialize in our non-core competencies are in regular competition for our business (and the business of others), we assume they will be driven to both lower costs and technological innovation to remain winners in their fields. Using these firms should ensure that my firm will always have access to not only the best and brightest in those fields but to leading edge technology for the field. And the company gains the additional feature of converting fixed cost for the functions to variable costs through the outsourcer.

In short, today's managers are willing to look at and commit to a number of alternatives that might not have been considered (or been available) just a few short years ago.

Aligning the Organization for Effective Outsourcing

Changing the Way the Company Does Business

Most organizations that choose to outsource significant business operations soon discover that getting the outsourcing arrangements and transactions in place is a significant effort. Once outsourcing operations begin, however, those same organizations discover that operating in the outsourced configuration is a far greater challenge, requiring continuous, high levels of effort for the duration of the contracts.

In fact, they realize that the way they do business internally will need to change significantly. Companies feel and see real pressures that call for:

1. a “re-alignment” of how they will manage the business functions (e.g., IT or printing) now that the functions have been outsourced, and,
2. a “re-alignment” of how the company’s users of outsourced services will need to do business (e.g., how users will get the IT services they need from the outsourcer).

In short, while outsourcing can have real promise, significant internal adjustments must be correctly made if the company is to realize tangible benefits from outsourcing.

Re-alignment of Management

Re-alignment for the management of the outsourced business functions/processes has two critical parts:

1. identifying and putting into play the “management work processes” that will be used by the company to control outsourcer operations, and,
2. getting the cadre of management in place who will be effective in day-to-day management of outsourcing.

While many of the management processes needed to manage outsourcing operations are likely built-in to the outsourcing business contracts, other needed management processes should be identified, specified, and documented.

- I. Changing a statement of work (SOW) in an outsourcer contract
- II. Ensuring that necessary and appropriate controls are in place (particularly important in this Sarbanes Oxley environment)
- III. Ensuring the quality of outsourcer performance ... on target, on time, and on budget.

Aligning the Organization for Effective Outsourcing

It is this set of management processes that will ultimately determine how well outsourcing goes. (We will not go into detail about these processes in this white paper, since the discussion for any given company needs to be driven off the specific outsourcing contracts the company has put in place.)

Moving to the outsourcing configuration has real impact on the organization's current **cadre of management** who are assigned to manage outsourcer operations. Under outsourcing, responsible company managers move their focus **away** from managing the "direct operations" of the work processes/functions that have been outsourced and **toward** "managing the business relationship with the outsourcer."

The shift in management focus from "managing operations" to "managing the business relationship with the outsourcers" requires significant changes in day-to-day behaviors of the manager. The chart below shows only a few of the differences in behavior needed from the manager responsible for the outsourced operation:

BEFORE Outsourcing	AFTER Outsourcing
<ul style="list-style-type: none"> • Management of a business 	<ul style="list-style-type: none"> • Management of contracts
<ul style="list-style-type: none"> • Direction of "what, when" 	<ul style="list-style-type: none"> • Limited direction to "what"
<ul style="list-style-type: none"> • Incremental adjustments ("a little more here") 	<ul style="list-style-type: none"> • Specified adjustments (task or SOW)
<ul style="list-style-type: none"> • One-on-one unlimited worker conversations 	<ul style="list-style-type: none"> • New vendor way operation
<ul style="list-style-type: none"> • Use of favors and social credits to influence work flow, volume and speed 	<ul style="list-style-type: none"> • Negotiations needed for changes in speed, hours, volume, etc.
<ul style="list-style-type: none"> • Transparent work flow 	<ul style="list-style-type: none"> • Opaque work flow
<ul style="list-style-type: none"> • Ensuring company controls 	<ul style="list-style-type: none"> • Ensuring company and outsourcer controls

The net result of shifting to outsourcing is that company management now has a very different job to do; a job that requires very different competencies; a job that not every manager can do. The significant challenge to the company that outsources its work, is to put in place a cadre of management who can handle the needed kind of work and to support those managers with the development and supervision they will need to accomplish business objectives and succeed personally.

Aligning the Organization for Effective Outsourcing

So, how does the company make the needed shift or adjustment to get its cadre of managers ready to be effective? What is needed for the company's managers to "get their new acts together?" The steps needed should be incorporated into a clear plan with a schedule:

1. **Setting an organization-wide vision** and strategy for outsourcing
2. **Clarifying business goals**, objectives, and measures for outsourcing
3. **Defining and documenting the work processes** that will be used to **manage** the outsourcer, and the outsourced processes, across organizational lines (e.g., tasking, changing a SOW or a SLA, etc.)
4. **Rewriting roles**, responsibilities and job descriptions for managers who supervise outsourcing (e.g., who has what role in contract management?)
5. **Selecting/de-selecting management personnel** as needed to get qualified managers in place
6. **Contracting and training of managers and workers** in the new required skills (e.g., "use case")
7. **Ensuring the managers have the hands-on support**, the over-the-shoulder guidance needed for success (e.g., coaching in management of an outsource vendor)

There is an old business saying that goes something like this: "Business is simple. All you have to do is make something, sell something, and make a profit...that's all there is to it, except for a few million details." The short list of actions above works, but has a million details that must be worked out with precision if the outsourced arrangements are to be properly managed.

Re-alignment of Users

The company's user population will not be able to access outsourced services in the same ways they did when those services came from an in-house unit. For example, when information technology is outsourced, users may no longer be able to go down the hall and ask a buddy in IT to "Tweak this app for me, please...I'll buy you a cup of coffee." Tweaking an app could turn into a major business issue (or opportunity) in an outsourced environment. In short, relationships and modes of operation with the outsourced service personnel change dramatically.

And in an unusual twist, users are sometimes required to change the way they work to match those of the "contract bound" outsource. Whether the user work processes need to change or not, it is usually best to document the business processes that will be used for all key transactions. As *Figure One* illustrates at a very high level, a single business process can move around a great deal through company departments and back and forth between, in some cases, multiple outsourcers. Note that in the figure, the line between company and outsourcers is illustrated as the "money line"... transactions across these lines have been agreed-to in advance and any changes in what or how the transaction gets done can have incremental dollar impacts.

Aligning the Organization for Effective Outsourcing

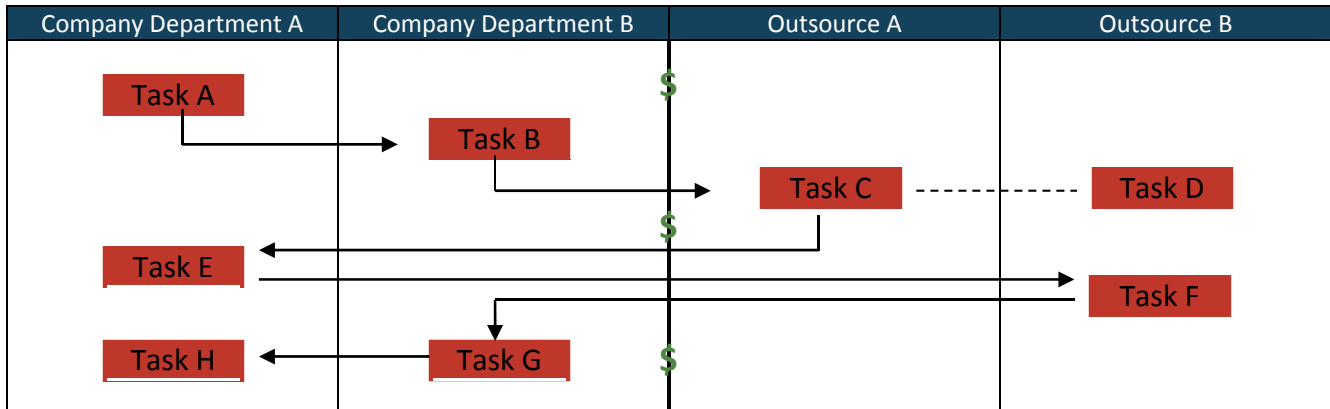


Figure One: Workflow After Outsourcing

So how does the company make adjustments to get its users (and user organizations) ready to be effective? What is needed for the company’s users to “get their new acts together?” The steps needed should be incorporated into a clear plan with a schedule:

1. **Defining and documenting the work processes** as they will need to be done with outsourcer in place (e.g., processing an account payable, requesting desktop support, etc.)
2. **Re-contracting with user personnel** using re-written roles and responsibilities that align with work processes
3. **Training users in business processes** incorporating the outsourcers
4. **Ensuring the users have the hands-on support**, the over-the-shoulder guidance needed for success

Once again, we have a short list of actions with a million details that must be worked through.

The Bottom Line: Outsourcing Changes Everything

As companies continue to search for better ways, outsourcing has come to be a real alternative. But using an outsourcer may not be as straight forward as it appears. In fact, once a company has made the outsourcing decision, real changes/adjustments must be made inside the company for outsourcing success.

- **The company managers** who will look after the outsourcer will find that their work focus changes from “supervising business operations” to “managing a business relationship” ... a relationship that may have quite a bit of complexity to it. Managers will need different competencies to perform well, and some managers may not be able to do the job at all.

Aligning the Organization for Effective Outsourcing

- **The company's user population** will not be able to access outsourced services in the same ways they did when those services came from an in-house unit. Therefore, considerable work will need to be done to adapt to the work processes required by the outsourcer environment.

Two kinds of adjustments are necessary; failure to make both adjustments will result in the outsourcing arrangement not delivering maximum business value. Outsourcing does in fact change everything!

Next Steps:

Let us help you achieve success from aligning your organization for effective outsourcing.

Aligning the Organization for Effective Outsourcing

About Endeavor

Endeavor Management, is an international management consulting firm that collaboratively works with their clients to achieve greater value from their transformational business initiatives. Endeavor serves as a catalyst by providing pragmatic methodologies and industry expertise in Transformational Strategies, Operational Excellence, Organizational Effectiveness, and Transformational Leadership.

Our clients include those responsible for:

- Business Strategy
- Marketing and Brand Strategy
- Operations
- Technology Deployment
- Strategic Human Capital
- Corporate Finance

The firm's 40 year heritage has produced a substantial portfolio of proven methodologies, deep operational insight and broad industry experience. This experience enables our team to quickly understand the dynamics of client companies and markets. Endeavor's clients span the globe and are typically leaders in their industry.

Gelb Consulting Group, a wholly owned subsidiary, monitors organizational performance and designs winning marketing strategies. Gelb helps organizations focus their marketing initiatives by fully understanding customer needs through proven strategic frameworks to guide marketing strategies, build trusted brands, deliver exceptional experiences and launch new products.

Our websites:

www.endeavormgmt.com

www.gelbconsulting.com

www.gulfresearch.com