Avoiding the common pitfalls of outsourcing

An integrated approach to effective outsourcing initiatives

Outsourcing is a business imperative

Outsourcing has been an important business enabler and will continue to support many corporate strategies. An outsourced service delivery model, when properly executed, can offer both quantitative and qualitative benefits. Many companies are striving for optimization within mature markets and are struggling to expand within emerging markets; utilizing an outsourcing arrangement for elements of service delivery is a common method to reduce operational costs and to help improve process maturity while allowing the company to focus on core business lines. Many companies are also leveraging managed services models to help overcome gaps within their services to internal or external customers where the company's talent, processes, or technology may be sub-optimized.

The purpose of this paper is to share a view on how the effective integration of transition planning and execution of human capital, change management, and operating model implementation can be instrumental to laying the foundation for effective operations in the long term. Within the context of an overall approach to outsourcing, we highlight specific areas of opportunity to plan for transition efforts, regardless of whether the transition is a first generation outsourcing event, change of provider, or insourcing initiative.

A balanced and integrated approach

Many companies have fallen short of achieving the demonstrated benefits of an outsourcing relationship by failing to integrate transitional and human capital elements.

Over the course of the next several pages we will share insights on:

- The common failure points that companies may experience
- How to balance outsourcing elements to help overcome these potential failures
- How to effectively align and integrate different outsourcing elements

By taking a balanced and integrated approach to outsourcing by bringing together the elements of contracting, transition, and vendor management, with the operating model, retained organization, and organizational change management, you can significantly increase the odds of your initiative's success and long-term viability.

The common pitfalls of outsourcing

Effective outsourcing initiatives can become a significant competitive advantage. Nearly half of the respondents to Deloitte's 2014 Global Outsourcing and Insourcing survey have ended up terminating an outsourcing contract early. Failures in outsourcing initiatives can be attributed to issues in many areas. These can include the initial outsourcing strategy, the implementation/transition effort, the ability for the contract to affect or incentivize the client's and provider's strategic intent, the ability of the retained organization to mature into a managed services model, or a combination of these areas.

A common theme among failure points is "tunnel vision." We have found that tunnel vision typically occurs when organizations overly emphasize only one or two dimensions (e.g., contracting, transition, or vendor management) of an outsourcing arrangement. Organizations neglect to balance their focus of integrating the contractual and transition elements with the broader view of the new operating model that results from outsourcing or insourcing, the development and enablement of the retained organization, and the execution of organizational change management.

Common failure points

- Disconnects between provider sales and implementation teams
- Differences in desired transition outcomes between providers and clients
- Failure to establish retained organizational readiness for transition of process to provider(s)
- Lack of focus on communications and relationship management resulting in many escalations to senior management
- No clear plan for the retained organization to obtain the maximum financial benefit from the relationship
- Service challenges in the first 90 days of operations, which undermine executive management and employee confidence and put stakeholder jobs at risk
- Underinvestment in overarching service governance and the vendor management function, and the failure to factor those costs into the business case
- Lack of preparation to conduct special reporting during the transition to help the business and provider(s) understand performance and progress towards steady state operations and business objectives

The results of these issues can include schedule delays, cost overruns, service shortfalls, compliance failures, and an adverse employee experience. These failures significantly impact the business, put stress on the deal, and can drive the termination of outsourcing arrangements.

Case example

Signing the contract does not mean you are ready to launch

Educational Company
- Revenue: Under $500M
- Workforce: Under 10K

An outsourcing provider had been selected and the contract signed, however, over a year later, the intended services had still not been fully transitioned. The company had failed to focus on the retained organization and particularly change management. This failure caused extensive turnover driving significant delays and forced the company to increase provider spending to cover retained organization service gaps.

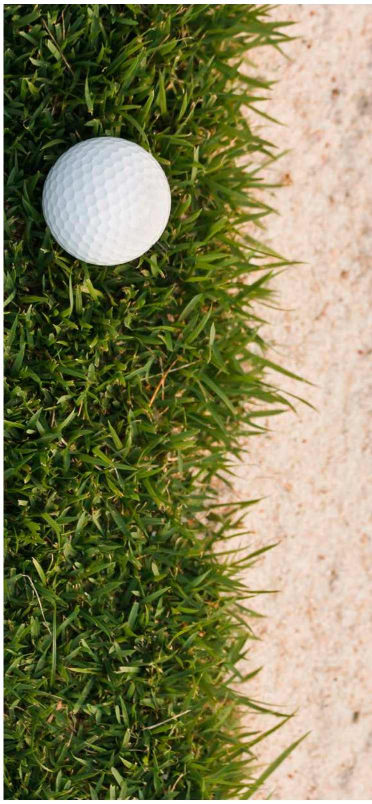
Key learning

- A lack of managing human capital elements can have significant impacts (e.g., cost, time, quality, credibility) over the long term

A balanced and integrated approach

Through our experiences helping large and small clients effectively transition to managed services operations, we've identified a balanced and integrated transition approach that can help overcome the common pitfalls of outsourcing efforts. This approach combines the focus of resources on contractual and transition elements with the human capital elements of the operating model, retained organization, and organizational change management (OCM).

In an integrated approach each of the key outsourcing elements should interact with the other components throughout the outsourcing transition, rather than a narrow or siloed focus around contracting and execution elements (as is typical).

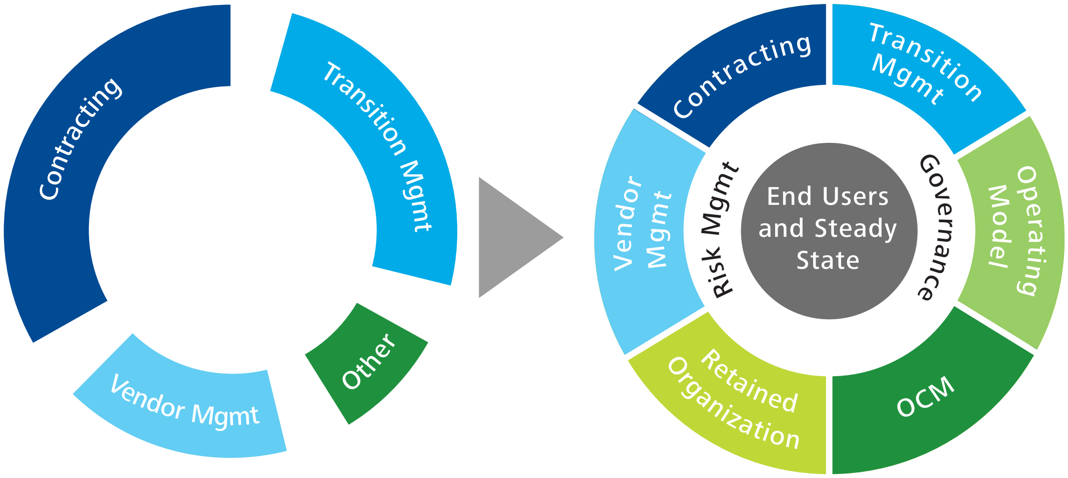


From narrow and siloed…

- Many outsourcing initiatives tend to only focus on contractual elements
- Transition management caters to contracting efforts and deprioritizes other work elements such as how people will work together
- Outsourcing elements operate in silos, unaware of or neglecting dependencies
- Service focus stops at service launch without a structured program for continuous improvement in place

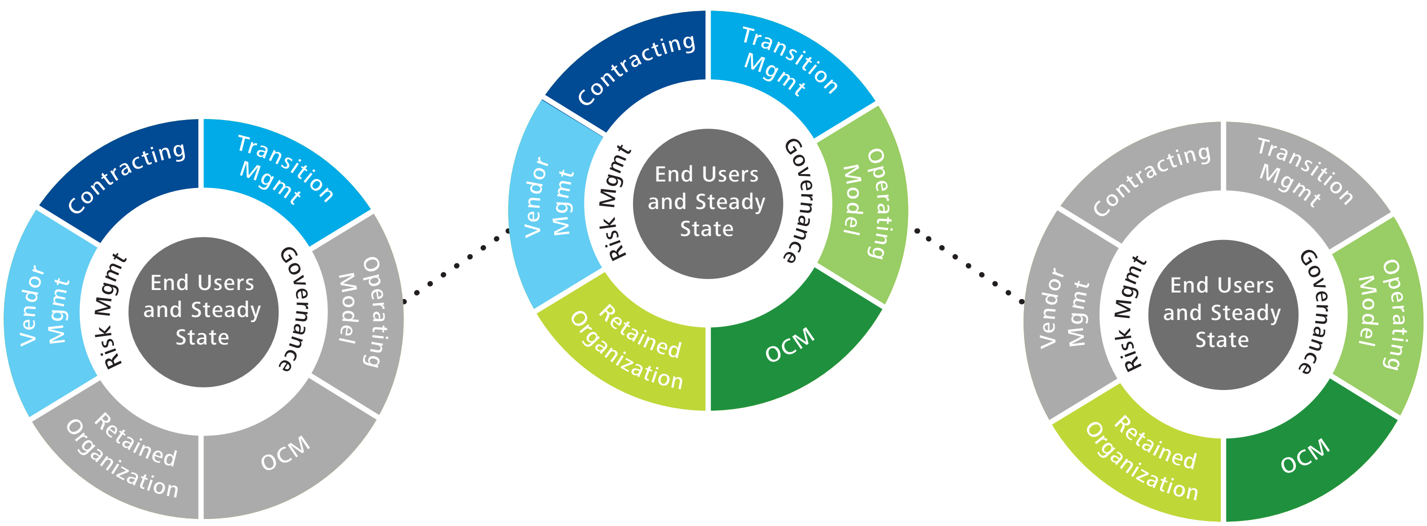
…to a balanced and integrated perspective

- Outsourcing efforts are balanced across the critical elements
- Each element interacts with the others to help strengthen outsourcing activities
- An integrated model operates across the outsourcing process
- Focusing from the internal customer/end-user perspective helps solidify understanding of changing operational/service elements
- Metrics and methods are established to drive continuous improvement and adaption to business and regulatory change



Balancing outsourcing elements

Outsourcing efforts should be balanced across the critical elements



Contracting, Transition Management, and Vendor Management are areas that are common focal points for outsourcing engagements.

Typically, the Contracting process involves the determination of outsourcing opportunities, putting these to market, and managing through to the signing of the outsourcing agreement.

After the signing of the contract, the Vendor Management organization takes over the responsibilities of partnering with the provider to deliver services as defined in the contract and service level agreements.

Parallel to these efforts, Transition Management manages the movement of services from the current state to the future state operating model.

Operating Model, Retained Organization, and Organizational Change Management (OCM) are areas that are often overlooked or deprioritized in many outsourcing implementations.

The Operating Model is a critical first step for planning purposes and provides a future state view of how the organization will likely function and interact with the provider and internal customers.

The Retained Organization builds off of the operating model to describe the detailed structure and roles of the future state organization.

OCM efforts take place through the outsourcing effort driving the alignment and engagement of key stakeholders, communicating to those impacted by the change, and supporting user adoption through training and education activities.

Governance & Risk Management are fundamental elements throughout the life of an outsourcing or insourcing arrangement to confirm that efforts proceed as intended, including the coordination of the multitude of workstreams and resources involved while managing to cost, quality, compliance and other critical internal/external standards.

Case example — Lack of OCM integration caused stakeholders to revolt

Pharmaceutical Company
- Revenue: Over $40B
- Workforce: Over 75K

The company had launched an outsourcing effort and had completed the transition of several services when they were forced to backtrack. Employees were not using the services and challenges were made from business leaders on services selection decisions. The resulting re-evaluations and lack of support caused a negative impact to business operations and hurt the underlying outsourcing business case.

Key learning
- Integrate Organizational Change Management into transition efforts to build key stakeholder and user engagement to drive service utilization

Integrating outsourcing elements

Each element interacts with the others to strengthen outsourcing activities

The table provided below summarizes the key interaction points between the dimensions of a typical outsourcing effort.

	Operating Model	Retained Organization	Organizational Change Management
Contracting	The operating model helps determine which services are strategic and should be retained versus more tactical or transactional services that could be targeted for outsourcing; clarity is needed not just on operations under the contract, but roles, responsibilities, and costs.	The business case should be tied to the retained organizational design in terms of workforce sizing to help align to cost savings as well as the workforce transition plan for the timing of workforce transition and the planned cost savings.	Defining who should be involved in which elements of the contracting process and communicating the details of the contracting process (e.g., RFPs, initiative communication black-outs, rejections of provider proposals).
Transition Management	As provider solution design sessions take place, the transition management office should monitor alignment to the intended model and should review alternative solutions to determine alignment with the future state operating model; focus is needed on project transparency and the alignment of service delivery design with contracting commitments.	Leadership of the retained organization should be integrated into the transition management leadership, with defined hand-offs from the project role to their future state organizational role; careful attention is needed on the impact of the transition on employees. Who needs to be reassigned, repurposed, or replaced?	Transition management efforts should closely partner with OCM to stay aligned with the execution of the service migrations, the change readiness, and clear communication/ training on new processes. OCM priorities and actions should enable "day one" operational readiness to help avoid service disruptions that have become commonplace in outsourcing transitions.
Vendor Management	Vendor management organization should align with the operating model scope for defined hand-offs and areas of ownership.	The enablement and training of the retained organization should align the roles and responsibilities in preparation to managed the new organization on Day One.	Provider operations should be communicated with and trained on in order to put new policies or procedures into action at the right time.

Governance & Risk Management

Effective governance within an outsourcing initiative can be a deciding factor for overall effectiveness and should be established within two distinct areas.

- **Transitional Governance:** Transition management's day-to-day planning and oversight to move from the current state model to the future state model is a key differentiator. Driving an integrated transition plan with known linkages between each workstream (e.g., contracting, retained organization, OCM) integrates activities.
- **Post-Transition Governance:** The steady-state management of the business is driven by the vendor management function. The objective is to move from a traditional governance model of issue/dispute management to a partnership model where the focus is on a transparent and metrics-based methodology to drive business outcomes. Retained organization governance should focus on the overall management of business objectives within the larger context of the organization. Enabling the right governance can be critical for obtaining the value of the outsourcing initiative.

Risk Management considerations should be taken into account throughout an outsourcing or insourcing lifecycle to develop and manage plans to prevent, detect, and resolve risks.

- **Example risks Include:** product or service quality; transition efforts; end-user acceptance; business disruption; short and long-term viability of partners; performance standards; customer satisfaction; and compliance.

Case example

Driving an integrated outsourcing approach to achieve success

Agricultural Company
- Revenue: Over $100B
- Workforce: Over 100K

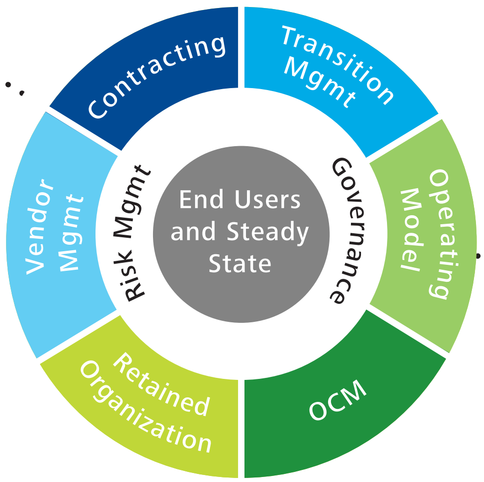
The company had initially stumbled by taking a tactical approach to outsourcing and focusing primarily on the transition management elements. Using strong governance processes overseen by a central team, the company refocused to a more balanced perspective and was able to implement services in alignment to their business case while restructuring their organization towards long-term strategic priorities.

Key learning

- Dedicate resources to all outsourcing elements with a central project management team for integration

Integrating effectively

To help increase the effectiveness of outsourcing engagements, organizations should balance their focus on the contractual outsourcing elements with…



…human capital and organizational elements that can provide direction for the engagement and support transitional efforts to gain the planned benefits of the outsourcing initiative.

Outsourcing will continue as a strategic business practice for the foreseeable future. However, many companies are finding mixed success with outsourcing arrangements due to a variety of reasons. A common theme among these reasons is the tendency for companies to narrow their focus on the outsourcing elements of contracting, transition, and vendor management. This tunnel vision approach often leads to the neglecting of the critical elements of the operating model, the retained organization, and organizational change management.

Consider a balanced and integrated approach to each of the planning and transition elements. Start with an aligned model that considers how each of these elements are interconnected to one another and builds off of each other to generate greater success. Integration can be achieved through dedicating workstreams/resources to each of these areas and providing ongoing governance and risk oversight through a central transition project planning and management team. This team should continuously seek to understand and link the dependencies between each of these elements and to confirm that the appropriate degree of the focus is applied across the transition process rather than at single points in time.

This will likely involve more time and effort invested early in the process, but can help avoid significant costs later due to poor adoption and limited realization of improved service and the business case.

Outsourcing approach considerations

- Develop a business case that measurably defines what your company desires to achieve through an outsourcing relationship (e.g., cost savings, service quality improvements, resource reallocations)
- Dedicate a transition project management team to oversee the integrated project plan and align dependencies and interconnections across each of the outsourcing elements
- Define a future state operating model that clearly delineates processes that will be retained versus outsourced to drive the company's strategic priorities/ differentiators
- Design the retained organizational model, roles, and processes to support the future state operating model (e.g., management of the provider relations for all retained processes/services)
- Focus ongoing provider management governance on driving business value objective rather than purely issue resolution

Recommended reading

2014 Global Outsourcing and Insourcing Survey Results
www.deloitte.com/us/2014GOIS
Deloitte Consulting LLP

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