Executive Briefing
MANAGING CHANGE DURING AN OUTSOURCING INITIATIVE

A Trestle Group Research Publication

Providing the bridge between companies and outsourcing providers around the world.
# Table of Contents

**INTRODUCTION** 3
About Antoine Gerschel 3
About Trestle Group Research / Trestle Group 4

**CHANGE MANAGEMENT — IT’S STILL RELEVANT** 5

**UNDERSTANDING OUTSOURCING** 6

**EFFECTS OF OUTSOURCING ENGAGEMENTS ON AN ORGANIZATION** 7

**MANAGING CHANGE** 9

**CONCLUSION** 14
Introduction

Trestle Group Research is committed to developing thought-provoking studies for executives across industries. The Trestle Group Research Executive Briefing provides an introduction to themes that top executive agendas, combining research with expert opinions from the market.

This edition focuses on managing change during an outsourcing initiative. Organizations considering outsourcing initiatives benefit from investments in change management through increased productivity, satisfied customers and motivated employees.

This document will address the following topics:

• Change management — it’s still relevant
• Understanding outsourcing
• Effects of outsourcing on an organization
• Managing change

To prepare this document, Trestle Group Research has teamed with Antoine Gerschel, a recognized expert on this topic.

About Antoine Gerschel

Antoine Gerschel is the founder of Gerschel Global Partners, a consulting firm focusing on people issues in alliance, joint venture and outsourcing arrangements. His firm helps clients more effectively deploy collaboration agreements by leveraging and blending proven experience in strategy execution, change management and entrepreneurial leadership.

Mr. Gerschel has 15+ years of experience developing award-winning programs improving business communication and leadership within global, multicultural settings. He has lived strategic implementation challenges in many shapes and forms. Mr. Gerschel has first hand experience with alliances, joint ventures and outsourcing in the United States, Europe, Asia and the Middle East.

He has held senior leadership positions in the corporate world, primarily in the pharmaceutical industry, and has co-founded an international multimedia company dedicated to creating multilingual eLearning about leadership and business acumen.

Mr. Gerschel is originally from Switzerland and has a lic. oec. HSG (the equivalent of a MBA) from the St.Gall Graduate School of Business, Economics, Law and Public Administration. He lives with his family in Princeton, New Jersey. He can be reached at agerschel@gerschelglobal.com.
About Trestle Group Research

Trestle Group Research is part of Trestle Group; an international management consultancy firm specialized in outsourcing. Trestle Group works with companies to help develop outsourcing strategies, locate the right location/service provider and support the implementation of the appropriate outsourcing model. Trestle Group is partnered with 70+ service providers around the world offering their clients a significant portfolio of capabilities and choice.

Our experts within Trestle Group Research analyze outsourcing market trends working closely with industry leaders. Based on interviews, surveys and roundtable discussions, thought provoking studies are produced for the benefit of our clients and the market.

The Executive Briefing series is intended to provide senior managers substance related to topics that dominate business agendas.
Change Management — It's still relevant

Change management has been around for over a decade and is often considered out of date — it was a popular theme for consultants and companies alike during the 90s. Change management appeals to the emotional side of business-to-people.

In outsourcing relationships, the first inclination is to look at the contract, focus on processes, tools, technology and SLA’s before turning to more emotional topics. However, it is those emotional factors that jeopardize the intended outcome. Human nature doesn’t like change.

John Kotter of Harvard Business School, a change management thought leader of the first hour, has written several books which have become “the classics of change management”. He states: “Whenever human communities are forced to adjust to shifting conditions, pain is ever present. But a significant amount of the waste and anguish we’ve witnessed in the past is avoidable” (“Leading Change”, John P. Kotter, Harvard Business School Press, 1996, p.4).

Nearly ten years later, how can successful change management principles be applied to outsourcing? In this Executive Briefing, we are sharing some of our experiences and best practices.

To our readers with IT or engineering backgrounds: you may have been using the term of change management in another way. In design and development projects, “change management” describes the process and tools to track and document scope and design changes. For the purpose of this paper, we are applying a broader view to change as outlined with the following questions:

- How do leaders articulate the vision behind an outsourcing initiative?
- How are the current organization and its employees impacted by the outsourcing approach?
- How does the executive team work through the organizational and operational change and how do they successfully implement the outsourcing initiative?
- How can the company create a sustainable win/win situation both for the legacy company and the new outsourcing partner?
Understanding Outsourcing

Outsourcing is often defined as the transfer of activities or processes to a third party to achieve some type of benefit including cost reductions, increased efficiencies, access to flexible labor pools and ability to focus on core competencies.

Outsourcing in this context is not new and in fact, has existed for thousands of years in one form or another. For example, people have outsourced their money management to banks for centuries, companies have relied on governments to manage city infrastructures and very few people today supply their own energy. Adam Smith was essentially describing outsourcing when he wrote about the realized efficiencies resulting from the division of labor.

If outsourcing has existed for so long, why has it become so controversial today? It is not unusual to read about resistance to outsourcing initiatives especially in the case of offshore outsourcing. Offshore outsourcing is the practice to transfer activities or processes to a lower cost country. This business practice has matured during the past 20 years through significant investments from companies developing infrastructure abroad, as well as through local governments providing financial incentives and appropriate regulatory requirements.

The likely answer to the resistance is based on emotions and the impact that outsourcing has on the individual. Some common reactions to offshore outsourcing initiatives include:

- Transferring jobs abroad is unpatriotic
- The corporation does not care about its local employees
- The corporation is destroying the livelihood of the community
- The corporation is sacrificing customer service for short-term gains

If executives are not able to reassure their organization by anticipating and responding to such concerns, significant losses can occur in productivity, market share and project expenses.

Outsourcing affects individuals whether the activity is shifted next door or around the world. Individuals have concerns and emotions. Through a professional change management approach, corporations can minimize disruptions to their businesses and build a culture that embraces innovation and change.
Effects of Outsourcing Engagements on an Organization

There are diverse groups of people affected by any outsourcing initiative. The impact and fear factor differs with the following stakeholders:

- Senior executive management
- Departmental / project management
- Individual contributors fearing loss of their job
- Individual contributors having to change within the organization
- Customers
- Vendors

Besides the above-mentioned "operational" stakeholders, there are other groups to be taken into consideration: shareholders, the immediate community and society as a whole. For the purpose of this white paper, we limit our analysis to the way "operational" stakeholders are being affected by outsourcing.

The impact on both organizations and individuals will vary based on parameters such as:

- Outsourcing of core competencies versus outsourcing of support functions
- First time outsourcing project versus prior experience in other outsourcing initiatives
- Offshore versus onshore outsourcing

**Senior executive management** is concerned about how outsourcing initiatives will affect the company’s competitive position in the market, feedback from the shareholders and response from the organization. It is imperative that the cost savings be significant to justify the need to drive the changes and deal with any potential disagreements. As a senior executive, the decision to outsource requires strong leadership to minimize internal and external resistance.

**Departmental / project management** is concerned about the added workload associated with any new project, possible fears regarding the ability to manage such a project, especially if it is offshore outsourcing and how to respond to inevitable discussions about any pro’s and con’s of outsourcing.
They often are the people held accountable to achieve the goals (formulate the SLA’s and other metrics), set targets and justify the initiative. At the same time, they may fear losing their job as a consequence of the change (not necessarily immediately but possibly in a later phase of the outsourcing alliance).

**Individual contributors fearing loss of their job** must balance the potential loss of employment with current responsibilities. People in this situation will find it difficult to contribute to the success of the project if they believe that the success will result in unemployment. These individuals need reassurance that their position will not disappear and in the case that job loss is inevitable, proper counseling and immediate transfer of knowledge/task is required.

Additionally, we need to consider re-tooling/training of new skills, offering emotional support and providing financial assistance. Pay close attention to the know-how transfer process, especially if work is going offshore.

**Individual contributors having to change within the organization** may feel uncomfortable about being able to perform their new duties. After years of perfecting skills and relationships, shifting into a new role means new training and a short-term reduction in efficiency. Proper education (re-tooling) courses as well as career counseling is required to help with this transition. Like departmental / project heads mentioned above, they might have concerns that they will be part of the next wave to lose their jobs. Usually, in on-going outsourcing projects, the continuous upgrading of technology provokes a continual, planned decrease in staff. There is a strong need to plan for retention.

**Customers** are key to the survival of the organization. Any disruption in the quality of services delivered can have a negative impact on revenues. A significant outsourcing initiative needs to be evaluated carefully with special consideration of the ways in which the initiative will affect the customer. Proper communication is required and close attention to customer feedback is necessary throughout the engagement.

**Vendors** are concerned with the potential loss of business. They are in a similar position as the company’s employees. They may fear losing their contract and are concerned that their services may no longer be needed. During an outsourcing initiative, it is critical to evaluate which vendors will be affected, and communicate clearly with the existing suppliers and to ensure there will be no disruption to the supply chain during the migration.
Managing Change

There are a number of change management theories and change management approaches. Utilizing a pragmatic and sustainable approach, the following methodology applies discipline and focus throughout the outsourcing life cycle. Urgency is an ideal breeding ground and a great opportunity for positive change!

The methodology allows for killing two birds with one stone; at the same time as rolling out a new outsourcing initiative, you are creating a culture of openness to change. You can leverage outsourcing as an opportunity to build a healthy basis for future change in your organization.

Recipe for success: The four principles for successful outsourcing change

- Visionary leadership
- Differentiated stakeholder analysis
- Continuous and open communication
- Detailed planning and tracking

1. Visionary leadership

Clarity
Clarify the vision of the outsourcing initiative and its rationale. Everybody involved on both sides (outsourcing organization and service provider) needs to know how the project was initiated, who stands behind it and what the goals are.

Project sponsors have to be very clear about their outsourcing vision, the scope of each project, the details of budget, resources, milestones, governance, etc. and then need a forceful communication strategy. There are metrics and surveys to measure the clarity and the success of outsourcing communication. They look at each stakeholder group and ensure their understanding of the initiative, their commitment to it, and their readiness for action.
Visibility
Allow for as many face-to-face meetings as possible. The outsourcing project leader should regularly visit the remote delivery centers. It is hard enough to get mindshare, clarity, and commitment from people with whom we meet face to face and the difficulties multiply when the process is located offshore.

The problem of getting attention, mindshare, clarity and commitment increases dramatically when working in a virtual team. The need for project management discipline in a virtual project set-up cannot be overstated!

Pragmatism
The less talk about the contract, the better. Sure, you have to know your contract however, you also have to prepare your teams to respond effectively to ambiguity and today’s dynamically changing environment. This implies that the contract offers important guideposts. However, if you are not able to complement it with very strong relationships on each level of the outsourcing alliance, the initiative is in trouble. Relationships have to be nurtured by ongoing, open and clear communication.

"Technical professionals" as leaders
Although normally employed for highly technical functions, due to the nature of many outsourcing projects, an increasing amount of "technical professionals" act as project leaders for outsourcing initiatives. A number of studies have illustrated that certain characteristic similarities exist among technical professionals. Often, technical professionals have less managerial experience and communication skills than marketing people, for example. They usually excel by narrowly focusing on a technical problem, concentrating solely upon the problem and worrying little about communication and management. As they suddenly become project leaders, they are faced with new challenges, requiring new skill sets.

There are numerous courses fostering management and communication skills, which target technical professionals. If there is not enough time for such a course or if you need to reinforce what may have been learned earlier, we recommend engaging a project leader coach.
2. Differentiated stakeholder analysis

**Know your critical success partners**
Ensure that you know the critical stakeholders at the very inception of the outsourcing project. Understand what is driving them. Devise a plan to incorporate their assistance and make them visible champions of the outsourcing initiative. Involving the critical stakeholders at the onset of the initiative can help them develop a personal relationship with the approach, and offering them unique retention initiatives, compensation and bonus packages makes them feel as if they are an integral part of the project. Any inputs to the project by them are added bonuses. Last but not least, their hesitations and resistance are good indicators of what to expect later from the organization, providing important input for your communication strategy.

The critical stakeholders will need to have a separate retention initiative, separate compensation, stay bonuses, etc.

In case of doubt regarding the reliability of a critical resource, plan for alternative strategies: immediate knowledge transfer to the outsourcing partner, knowledge transfer to a peer or knowledge transfer to a third party (consultant). Never depend on single individuals without having a "Plan B."

**Align performance management/rewards and compensation**
The outsourcing goals have to be in line with the compensation model of the organization. All too often, we assign people to outsourcing projects as "add ons". Their daily deliverables and workloads stay the same. And worse, the bonus plan defined at the beginning of the performance cycle only talks about the "daily" work, not the outsourcing project - would you blame anybody to treat the project as a second priority under those circumstances?

**Train, train and re-train**
Invest time, ideas and resources into the kick-off of the alliance. You want to create mutual trust and respect. Everyone has to be absolutely clear about visions and goals of the outsourcing alliance. The governance: How is the alliance organized? What are the roles and responsibilities (clear definitions of ownership and accountability)? Who can I turn to if I need help? How are problems mediated or escalated? How do we define common terminology, tools and processes? What are other means of sharing information and learning from feedback (and mistakes)?

**Project leader coaching**
The outsourcing project leaders are a key success factor for every outsourcing project. The task of the project leader coach is to serve as a sounding board to the project leader, keep him or her on track, make sure the project gets enough attention (particularly if the project leader is only on a part time basis), keep in touch with the project team in order to be able to uncover potential problems early, suggest alternative ideas and resources and help escalate issues when and if necessary.
3. Continuous and open communication

**Address fear**
Highlight the win/win situation for both sides of the alliance. Define and communicate the "make or break" factors of the deal. This process generates an awareness of the critical success factors. Build strong relationships with the key people needed as allies and introduce them as champions of the project. Regularly and proactively survey your customers. Continuously track their satisfaction. In special cases, encourage customers to make an inventory of their fears and address them appropriately.

**Don’t hide the truth**
And, in situations where there is no win/win, address the truth head on. It is very important for the sanity of your leadership culture to communicate objectively the impact on jobs. Who may be losing his/her job, what other options are available, what is the transition process and how people affected by the change are going to be compensated are only a few of the questions to be answered.

Communicating the truth will not change the fact that you are dealing with a difficult situation. However, open communication will stop the detrimental speculations and rumors and will portray an executive team which is willing to take bold steps but also lives up to its responsibility and appropriately treats people who are negatively impacted. Such an approach will yield returns in many ways. It is the basis for future successful change in your organization.

**The world: a "global village?"**
We have all heard the promise of the brave new world, which is supposed to become a "global village." Mushrooming virtual collaboration tools and inexpensive telecommunication allow us to collaborate in an ever more multifaceted way.

But here is the bad news: Most of the time they don’t work! Many of our inefficiencies are due to miscommunication and misunderstandings. Shortcomings in the interpersonal area are intensified by the new tools. This does not mean you should not use state of the art communication tools, but quite the opposite. Use them with diligence, but do not underestimate the risks.

If done professionally, you will be able to maintain established, good relationships through virtual means but, unfortunately, building good relationships through the use technology is "virtually" (in the two meanings of the word) impossible.
4. Detailed planning and tracking

Measure and track metrics
The initiative requires a detailed plan, clarity about the deliverables, a solid budget, a clear decision-making process, accountability, defined approvals and signoffs, formal documentation and procedures about when and how to trigger corrective actions.

Once the everything has been triggered and the tracking measures are in place, leadership communication becomes key! Experience shows that in companies with no fulltime "outsourcing relationship manager," team members often have a hard time answering questions about outsourcing progress and individual productivity. Without proper metrics in place and progress communicated regularly, senior management will never know how successful the initiative is and the organization will suffer from ambiguity.

Create a realistic and detailed transition plan
The transition plan includes the transition of both people and processes. It includes a timeline and milestones.

Plan at least twice as much time as what you are used to, as outsourcing projects require time for establishing the relationship, adjusting to different business cultures, introducing details of the collaboration and overcoming potential language barriers. Also, you may want to allow dedicated time to address emotions, concerns and fears.

Later, it will become second nature. A new outsourcing relationship can be compared to starting a new business. Much of the steps are completed for the first time and there are a lot of (often times small) decisions to be taken collectively along the start-up phase.

Plan for turnover
Many outsourcing projects have a great kick-off meeting. Consequently, everybody is excited, on board and fully up to speed. However, a few months later, part of the initial team may have left. How do you bring new people up to speed? Many project leaders don’t pay enough attention to the "acclimation" process when hiring new project team members on both sides of the alliance.

Celebrate success and learn from mistakes
Break the project down into as many milestones as you can. Celebrate the achievement of these milestones. This gives the team a sense of progress and allows bonding between new colleagues to happen. Openly discuss mistakes. Do not put blame on anybody. Try to learn from what went wrong.
Conclusion

Outsourcing initiatives affect many different parts of the organization. Properly incorporating a change management program early on to help manage fears and emotions will significantly decrease organizational resistance and will minimize the risk that revenues will be negatively affected.

In many ways, managing the outsourcing relationship is like starting a new business. The foundation for many years of an outsourcing collaboration is established during the first few months. It is worth building a strong foundation. Short cuts in the beginning of the collaboration may haunt the success of the relationship in the long run.

When establishing a change management program, remember to follow the following principles:

- visionary leadership
- differentiated stakeholder analysis
- continuous and open communication
- detailed planning and tracking

Failure to invest in change management programs during the beginning of an outsourcing initiative will result in significant investments later. Remember, the emotional aspects of outsourcing engagements are part of the business case. Buy-in from the organization upfront will save money (and many headaches!) in the future.

Yes, resistance to change is natural. But another human characteristic is the joy and satisfaction to be a member of the “winning team.” Outsourcing is part of today’s business reality. No winning team will be able to do without it.
Trestle Group is an international firm providing services solely focused on global sourcing. Through our diverse and complementary set of services, clients benefit from support ranging from strategy through to implementation. Whether you are interested in setting up operations in Eastern Europe, outsourcing to India or ready to make the world a better place through our Foundation (www.trestlegroupfoundation.org), Trestle Group is a solid partner. Experience Trestle Group today.

**Sourcing Lifecycle**

1. Identifying sourcing potential
2. Analyzing status quo
3. Planning target state
4. Transformation to target state
5. Continuous optimization

**Trestle Group Value Proposition**

**Focus**
Trestle Group focuses entirely on IT and BPO sourcing. This emphasis provides clients with concentrated specialists that understand how to best design and implement sourcing strategies.

**Company**
Trestle Group’s current client portfolio and past project experience establishes a solid foundation of market knowledge, expertise, methodologies, and best practice experience.

**Experts**
Trestle Group market experts bring professional personalities, first-hand market knowledge and innovative approaches to deliver solutions to complex sourcing challenges.

**Research**
Trestle Group demonstrates thought leadership through market publications and remains current by following industry trends and peer research.

**Contact Trestle Group**

For more information about the services Trestle Group provides, please contact one of our offices or visit our website.

---

**New York City, USA**

245 Park Avenue
10167 New York
Tel: +1 212 672 1740
Fax: +1 212 792 4001

---

**London, United Kingdom**

1 Ropemaker Street
EC2Y 9HT London
Tel: +44 207 153 1006
Fax: +44 207 153 1111

---

**Frankfurt, Germany**

Friedrich-Ebert-Anlage 36
60325 Frankfurt am Main
Tel: +49 69 244 333 162
Fax: +49 69 244 333 207

---

**Zurich, Switzerland**

Limmatquai 94
8001 Zurich
Tel: +41 43 500 1740
Fax: +41 43 500 1744

---

**Bangalore, India**

Bangalore Raheja Towers
26-27 Mahatma Gandhi Road
560 001 Bangalore
Tel: +91 80 41 800 880
Fax: +91 80 41 800 900

---

www.trestlegroup.com