

# The Theory and Practice of Outsourcing

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*This paper discusses the reasons why companies are interested in information outsourcing (the theory) and how it **can** be made to work for the benefit of companies and individual information developers (the practice). The paper examines how information developers can, and do, react to the prospect of outsourcing. And by doing so, I hope to help information developers to understand the process and take advantages of the benefits it does offer them, while recognizing that there are some downsides to the process.*

## WHAT IS OUTSOURCING?

Outsourcing can be defined as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organisation contracts out major functions to specialised and efficient service providers, who become valued business partners.

Companies have always hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. However, the difference between simply supplementing resources by “subcontracting” and actual outsourcing, is that the latter involves substantial restructuring of particular business activities including, often, the transfer of staff from a host company to a specialist, usually smaller, company with the required core competencies.

### **Why do companies outsource?**

Here are some common reasons:

- Reduce and control operating costs
- Improve host company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally
- Share risks with a partner company

In the early days, cost or headcount reduction were the most common reasons to outsource. In today's world the drivers are often more strategic, and focus on

carrying out core value-adding activities in-house where an organisation can best utilise its own core competencies.

### **Main Factors influencing successful outsourcing**

The critical areas for a successful outsourcing programme as identified in a recent survey (ref 1) are:

- Understanding company goals and objectives
- A strategic vision and plan
- Selecting the right vendor
- Ongoing management of the relationships
- A properly structured contract
- Open communication with affected individual/groups
- Senior executive support and involvement
- Careful attention to personnel issues
- Short-term financial justification

From this list, I would select *open communication* and *executive support* as of paramount importance in a successful outsourcing process and I would personally add to the list the need for workable Service Level Agreement, which is openly available to all staff involved.

### **Open Communication**

Kudos believes that whatever the outcome of the outsourcing arrangement, managing change is fundamental to the success of the programme. Assessing stakeholder requirements is the first part of this process, and having open channels of communication during this time are vital. Everyone concerned should be involved in the process. The Fujitsu case study will demonstrate how this can be achieved in practice.

### **Executive Support**

Strategic objectives, such as outsourcing initiatives, must come from the top echelons of a company. Senior management must articulate the goals and objectives of the outsourcing initiative and communicate how the process will benefit the organisation.

Today's managers are looking ahead and recognizing that the responsibility for ensuring the success of their enterprise's outsourcing initiatives does not stop when the ink has dried on the contract. Unfortunately, this has not always been the case. A combination of uncertainty combined with a lack of attention to critical

details has created a present day scenario where, according to The Gartner Group (ref 2), 25% of outsourcing contracts will be re-negotiated or canceled within three years. Ongoing management of the relationship is important. Senior management must stay involved during the implementation of the contract. Not only should there be a clearly defined escalation procedure, but senior management should meet at appropriate intervals to discuss the outsourcing relationship. Meetings should also be held at the operational level to address the workings of the outsourcing contract in practice, to identify and resolve any problems that have been encountered, and to agree on changes to ensure continued satisfaction.

### ***Contracts and Service Level Agreements***

There are several critical components of a good outsourcing agreement. The emphasis from the outset should not be on who wins the best deal, but rather on negotiating a reasonable contract for both parties. As each aspect of the outsourcing relationship is governed by the contract, both the outsourcing company and the supplier need to reach complete consensus. Both parties need to reach agreement on issue resolution.

The key document in outsourcing agreements is the Service Level Agreement (SLA). It helps manage the strategic relationship between the outsourcing company and the supplier and includes the identification of responsibilities, which is key when processes change. Successful outsourcing relationships focus on results. To be meaningful, these results must be objective, measurable, quantifiable, and comparable against pre-established criteria.

### ***Kudos Outsourcing Methodology***

Kudos uses a sequence of logical actions for the successful implementation of an outsourcing agreement. There are four main aspects to a typical Kudos outsourcing programme:

- Programme Initiation
- Service Implementation
- Final Agreement
- Programme closure

### ***Programme Initiation***

At the start of any outsourcing programme, there are a variety of ideas and opinions about the purpose and scope of the programme, what the final result of the programme will be, and how the programme will be carried out. The Programme Initiation Stage is concerned with taking these ideas and intentions and documenting them to form the basis of a draft contract

### ***Service Implementation***

Service Implementation covers the activities required to take these ideas and intentions and develop them into a formal, planned outsourcing programme and to make the transition to the outsourced service. Specifically these activities are:

- Defining the transition project
- Transferring staff
- Defining the Service Level Agreement (SLA)
- Defining service reporting
- Implementing and handing over the service
- Implementing service management procedures

During the hand-over phase it is imperative that continuity of service is maintained at all times, that there is no reduction in the quality of the delivery and that timescales and deadlines are not compromised.

### ***Final Agreement***

The draft contract produced at the Initiation stage is generally amended during negotiations and the final contract is produced on completion of the negotiation cycle.

### ***Programme Closure***

In order to gain maximum benefit, the programme should go through a formal close down. There is no point in continuing to argue lost causes once irrevocable decisions have been taken. Staff and companies alike need to accept the new situation and move forward. However, there will be a lot of information generated during the life of the programme, and this will have been stored with varying degrees of formality by the team members. This information needs to be formally filed away for future reference.

## **STAFF REACTION**

Through experience Kudos have been able to understand the reactions of staff faced with the proposition of being outsourced and have therefore been able to assist information developers in coping with the initial turmoil and subsequently seeing the benefits of belonging to a specialist information development organisation. Obviously, every single individual is different, but we do now recognise three phases that many people go through.

1. **Rejection:** in some people the initial reaction is almost as serious as in a lay-off situation. There is an element of shock and horror at how their company (for whom they may have worked for many years) can (a) do such a thing to them as an individual and (b) even consider getting by without internal information developers. There is a feeling of rejection, both as an individual and as an information developer. There is often total lack of understanding of how a host company can even consider such a thing.
2. **Self-interest:** understandably many people's sole aim when they finally come to terms with the fact that something is going to change is to concentrate on looking after their own career interests. This can apply at an individual level, where a person may seek to get an improved personal deal with the new company or to try and transfer to an alternative role in their original host company. In a heavily unionized environment, the union may be asked to negotiate terms with the new company or even to seek to prevent the outsourcing from going ahead. Much of this is wasted effort, particularly in Europe where European rules exist to safeguard the rights of individuals who are transferring from one company to another.
3. **Join forces** with the new company: in most successful outsourcing arrangements, the majority of staff eventually come to realise that their personal interests can best be served by supporting the new company. They may then do everything they can as an individual to help ensure that a reasonable Contract agreement is reached with a workable Service Level Agreement, which gives the new company an opportunity to succeed.

To reach this third phase takes time and patience on the part of the company (such as Kudos) who are negotiating to complete the outsourcing deal. Regular, open communication sessions are an essential means of winning the confidence of new staff gained in this way. This third phase of individual reaction has to be reached if the outsourcing deal is to be a success for the new company and the staff involved.

## FUJITSU CASE STUDY

### **Background**

Kudos has completed two outsourcing programmes with the computer giant, Fujitsu. The largest one was with its European based, wholly owned subsidiary, ICL. Within ICL's High Performance Systems division the Customer Information unit developed the technical customer procedural, reference and servicing

information required for its client base by using dedicated in-house technical writing resources. An external manufacturing and distribution company then distributed this information to ICL clients worldwide.

However, the business nature of ICL was changing from being IT product-based to delivering customer-focused solutions and services. The staff, comprising technical authors, graphics artists and project managers were totally focused on the current tasks in hand, had an uncertain future within ICL because of the impending change from proprietary product development to a service-based solution delivery business.

The production and distribution of technical information for use by clients was not classified as being part of ICL's core business. ICL had not been successful in the past in negotiating outsourcing deals for non-core business areas (for example, catering, site maintenance and IT administration and maintenance).

### **Needs**

ICL explained its needs, all of which were equally important, as:

- To achieve definite cost savings
- To ensure that the company's investment in staff development was continued
- To ensure that the quality of service was maintained and if possible, improved

### **Solution**

The HPS documentation team and all of its responsibilities were outsourced to The Kudos Partnership Limited. Negotiations between ICL and The Kudos Partnership Limited produced the following:

- Detailed business contracts to govern the working relationships between the two companies
- Service Level Agreement for both companies to use in monitoring the service provided by Kudos
- Buy-in of staff involved in the transfer to Kudos
- Working arrangements to allow Kudos to develop and maintain new information and distribution strategies for the benefit of HPS
- Kudos moving the operation into its own office premises within 30 minutes drive from the main ICL site. The actual location was selected to be easily accessible to the majority of ICL staff who transferred to Kudos, with excellent transport, retail and eating facilities in the immediate vicinity.

ICL retained access to the services of the documentation and graphics team thereby ensuring a smooth transition and the integrity of the current HPS information products. Additionally, the know-how, technical expertise and commercial experiences of Kudos enhanced the documentation and graphics design services significantly.

### ***Benefits to ICL***

The outsourcing deal was signed in May 1996 and two years later ICL's director of services agreed that ICL has realised significant technical and business benefits:

- Achieved the reductions required in the cost-base
- Maintained profit margin as the cost of sales has reduced to match the price variations ICL has applied to its products and services
- Retained the expertise and skills of the former ICL documentation team to ensure the integrity of the development and maintenance of the ICL documentation products
- Maintained its position as a market leader for technical excellence. The latest leading-edge information technologies are being implemented in the design, development and distribution of ICL information products.
- Achieved higher productivity because Kudos staff work in an environment where they can focus on information product design and development rather than large company agenda
- Improved confidence in information status as the time to market for information products starts to reduce
- Maintained coherent standards through information structures and layouts

### ***Benefits to staff***

The initial members of information developers who transferred from ICL have now been joined by an equivalent number of new recruits to form a thriving, growing organisation in the North West of the UK. Not a single member of the outsourced ICL staff has left the new company except for natural reasons such as retirement.

## **HEWLETT PACKARD CASE STUDY**

HP is supporting the communications industry by supplying communications IT infrastructure to every Fortune 500 telecommunications company in the world

today. HP and its partners deliver management, network intelligence, billing and customer-care solutions for UNIX<sup>®</sup> and Windows NT<sup>®</sup> system platforms, enabling service providers to migrate from network to customer-focused business models as the Internet and telephony worlds converge.

Hewlett-Packard's Telecommunications Infrastructure Division (TID) is based in Grenoble, France. Every HP division is responsible for its own profit and loss, and thus, is also free to adopt the business model and practices that best suit the business. The HP corporate culture acts as an overall cultural and structural umbrella, and TID is accountable to Hewlett-Packard Co. for growth and profitability.

The organisation had tried a number of models for developing documentation in the previous 5 years. The decision to move to an outsourcing option was chosen because:

- Neither TID nor HP regard technical writing as a core activity
- TID's business needed a flexible workforce model
- TID could not offer career paths to technical writers

Kudos and other established UK-based and French companies in the documentation marketplace were invited to submit offers outlining the approach they would take.

### ***Defining Needs***

TID had established selection criteria:

- A proven track record and commitment to technical documentation outsourcing
- An understanding of TID's business objectives and constraints
- The capability to sustain the Service Level Agreement and make it evolve over time
- The capability to transfer responsibility back to HP or to another company if required
- The availability of technical and management skills
- The ability to add value to the service
- The price

### ***Benefits***

The main reasons for the ultimate selection of Kudos were as follows:

- Kudos demonstrated a track record in documentation outsourcing. Most importantly,

they showed they understood the difference between partnership outsourcing and the provisioning of resources

- Kudos demonstrated they had a methodology that was relevant to TID's situation
- Kudos were prepared to invest for the long-term; they stated they would open a French subsidiary of the parent company
- Kudos stated they were not intending to set up a group of contract writers who could leave at short notice. Instead they stated that technical documentation was a core competency of theirs, and committed to employ a team of mainly permanent staff, once the knowledge transfer phase was complete

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### ***Maintaining a quality service***

The Kudos France organisation was established, and the new office opened on May 3rd 1999 - less than 100 days after selection.

Every month, Kudos and TID hold a review meeting, where progress against plan, deliverables, processes, tools and costs are thoroughly reviewed. The first quarterly review of the relationship took place in mid-July. Here are the conclusions of this review:

HP and Kudos decided to work together to better determine the short and long term needed skills and knowledge for technical writers to serve the booming Telecoms market. Mainly this concerns Telecoms IN and SS7 technical understanding. The Kudos team is perceived as efficient, positive, and the quality of work is considered better. Costs are as expected in the first three months, despite additional late-breaking work being done. The tools and support infrastructure are both cheaper and easier to maintain, backup procedures are in place, and a senior Kudos support person is permanently available to support the writing team. The group being off-site has worked well, helping to formalize the relationship. Both Kudos and HP are ensuring that people talk and use the efficient electronic communications infrastructure. HP has declared the transition phase officially over.

Kudos is seen as developing a culture of openness, based on regular and proactive communication within the team, and committed to high standards of quality.

## **REFERENCES**

- (1) "Survey of Current and Potential Outsourcing End-Users, The Outsourcing Institute Membership, 1998"
- (2) "Gartner Group Outsourcing Study and report 1997"