

Outsourcing & Offshoring: Panacea or Problems?



Over 80% of large companies in Europe, North America and Asia have outsourcing arrangements, but almost half say that these arrangements fall short of expectations. So what's going wrong? Cathy Johnson, VP at Celerant Consulting UK, believes there are four threats to making a successful road trip.

The bottom line is that outsourcing is a new build. In a new culture, with new and sometimes inexperienced people. It's complex, highly challenging and if it can go wrong, it will. So you have to be absolutely sure what you're getting into and what you want to get out of it. Above all, you have to remember that the key to success is behavioural change.

Beware the myth of massive savings

In survey after survey, the main driver for outsourcing is cost reduction. Yet all too often, senior executives don't have a clear idea of the details of the operations they're planning to outsource or offshore. So they jump to solutions before examining all the options. The result? Savings aren't as substantial as first envisaged and not measured to the bottom line.

Technology would seem an obvious route to cost reduction. It provides a global business with the opportunity to operate virtually and is a critical element of process delivery in today's environment. The downside is that there's inconsistent visibility and understanding of the real impact it has on an operational environment. So if the way forward is determined solely by a technically focused staff group, rather than those accountable for service delivery at the sharp end, it can result in technology being

selected which determines how business processes should work, rather than supporting them. And that's not a sensible way to save money.

Before any major strategic decisions are taken, it's essential to identify any issues within the existing operation and formulate an effective plan to deal with them. A broken process is a broken process, wherever you locate it. In fact, there's a real danger that you could actually end up in a worse position, because inexperienced people in a new, remote location will never be a successful substitute for a highly skilled onshore workforce that has learned, sometimes over decades, to compensate for broken processes. It could also prove very costly if these processes aren't handed over in the best possible shape - even taking labour rate arbitrage into account. With labour rate inflation in parts of the new economies now running at 60%, getting fit for purpose is not just desirable from a control point of view, it's a fundamental cost imperative.

Beware the 'Lift and Shift' mentality

Only a small percentage of companies confirm that they have achieved or exceeded the up-front cost saving promise of outsourcing. The aim must be to join them. Opting to simply 'Lift and Shift' won't cut it anymore - if it ever did. 'Improve - then Move' must be the watchwords. Even if it's not possible to get an operation into

the best possible shape before you offshore, it's crucial that you don't take inefficiencies with you.

Sustainability is about achieving the correct and lasting alignment between the work that needs to be done and the best ways to do it. So reorganise key functions around processes to achieve that alignment. Automate key activities so that the potential for variation is reduced to a minimum and ensure that you can continue to manage all aspects of performance. Set accountability for the design of the new operation before deciding on the solution, then set accountability for delivery at every level of the operation. Measure the performance of your current operation so that you can deliver a bottom line improvement in the new model. All this can be done through a robust management system, MCRS® in our language, which glues together the transformation programme and manages the transition of the project into the new way of working.

Beware the challenges of the ultimate change programme

It's pointless improving the processes within an operation if you neglect the people. How many outsourcing decisions are taken using people as a criteria? All too often they are not given the support they need to make outsourcing, and particularly offshoring, a success. A new

report 'How companies are managing change in a recession' from The Economist Intelligence Unit and sponsored by Celerant, clearly shows that the two main reasons change programmes fail is a lack of clearly defined or achievable milestones and objectives and the inability of management to win the hearts and minds of their senior managers and employees.

Outsourcing is the ultimate change programme. So leaders have to demonstrate that they are totally committed to a best practice transfer. This will help them secure real support from people at all levels of the business, particularly those leading the project.

They also have to ensure that they can embed behavioural change within all the employees involved. These people will undergo an emotional journey throughout the process and it can be uncomfortable at times, so they need to be fully supported and coached. This is particularly true of mid-level managers who, despite being at the sharp end, are often brought in later.

Behavioural change is the key to a successful transfer. Leaders must get commitment to results and buy-in through effective communication management. They must make it happen through support and leadership and then make it stick through coaching and training.

Beware the spikes in the road

Change is never simple, but if it's properly planned towards the business objectives and then well executed, it will deliver real value in these challenging times. Recognising the complexity of the processes behind the operations intended for outsourcing and the need to get them right is only half the battle. To win, you need to think through the implementation process; acquiring the knowledge on how.

BASELINE: It's crucial to gain a deep understanding of how key processes currently operate in your organisation and how the work really gets done. What goes wrong most often and why? What are the hidden workarounds? What is the size of the prize to outsource? What levers will deliver the improvement and how will you manage the new operation?

GET LEAN: Using the baseline, implement a quick win plan that tackles the inefficiencies in key processes fast. Combine activities and improve communication. Make sure everyone understands the impact of their work on others.

IMPROVE: Implement a plan for deep improvement that will prepare the operation for real transformation. Measure the work that most directly relates to real output. Eliminate root causes of variation and error. Create solutions

that reduce complexity and improve performance.

TRANSFORM: Align your processes to the excellent experience your customers demand. Re-define your performance management systems and set accountability at each level of the organisation to measure and drive performance.

SUSTAIN: The ultimate measure of success with process excellence is sustainability. The goal is a positive legacy. 'Improve - then Move' with a set of processes that will go on adding value anywhere in the world and ensure that you're ready for the challenges of Next Generation outsourcing.

Remember, it's not your location. It's your culture

Finally and most crucially, you have to create a culture of continuous improvement. A culture that is endemic to the way you do business. It should be able to evolve with your changing needs and the growing expectations of your customers.

Above all though, it must be portable, so that your business will continue to benefit, no matter where your process operations are located. ■

