



BEST PRACTICE

Sourcing - Managing the Human Element

Change management has been around for decades and is often considered out of date — it was a popular theme for consultants and companies alike during the 90s. Now, change management has matured combining both science and tested processes to ensure that an organizational transformation can occur.

To accomplish this transformation, leaders must properly handle and win over the mindsets and support of all parties involved. Elements of successful change management include developing an approach that takes into account mindsets that will be encountered, cultural backgrounds, communication plans, leadership behavior and commitment.

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“If you finished changing, you’re finished”

Benjamin Franklin

Change Management - It's still relevant

Change management has been around for decades and is often considered out of date — it was a popular theme for consultants and companies alike during the 90s. Now, change management has matured combining both science and tested processes to ensure that an organizational transformation can occur.

To accomplish this transformation, leaders must properly handle and win over the mindsets and support of all parties involved. Elements of successful change management include developing an approach that takes into account mindsets that will be encountered, cultural backgrounds, communication plans, leadership behavior and commitment.

In outsourcing relationships, the first inclination is to look at the contract, focus on processes, technology, and SLA's before turning to some of these “soft” topics.

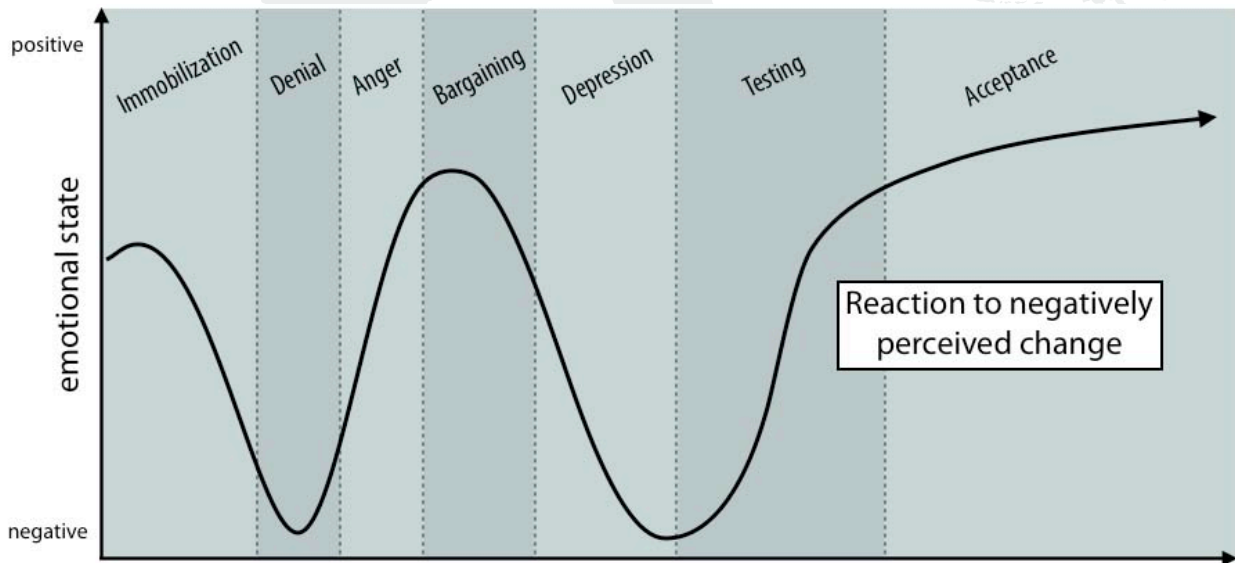
Professional change management programs address a range of issues from the initial feelings of irritation due to late or poor communication to outright intentional resistance. In either case, the result of poor change management can lead to insufficient key knowledge transfers or complete skill-loss. In outsourcing initiatives, these mindsets and emotional factors can jeopardize the intended long-term outcome of the program.

Understanding Outsourcing

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

It is not unusual to read about resistance to outsourcing initiatives especially in the case of offshore outsourcing. The likely answer to the resistance is based on emotions and the impact that outsourcing has on the individual, team, and organization.

Common reactions and feelings to offshore outsourcing initiatives can range from being labeled as unpatriotic and uncaring for local employees to destroying communities and customer service for short-term gain. 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. Furthermore, while it seems obvious, many managers forget that people have concerns and emotions that will ultimately define individual motivation and productivity.



Implementing a professional change management approach can minimize disruptions to businesses, turn the human element into an advantage and achieve a productive change in mindset.

Effects of Outsourcing Engagements on an Organization

There are diverse groups of people affected by any outsourcing initiative. The impact and fear factor differs by stakeholder. In brief, **senior managers** are concerned about how outsourcing initiatives will affect the company's position in the market, the shareholders and the organization.

Next, **project and departmental leaders** are held accountable to achieve goals, set targets, and justify the initiative. Keep in mind, this group may fear losing their job as a consequence of the outsourcing initiative. These individuals need reassurance that their position will not disappear, and if so, proper counseling and knowledge transfer is imperative.

Additionally, **individual contributors and stakeholders** that must change within the organization may feel uncomfortable about new duties. After years of perfecting skills, new roles may mean training and a short loss of efficiency. Proper courses and counseling will help with this transition.

Lastly, **customers and vendors** must be considered. Customers are the lifeblood of the organization and proper communication and feedback is a must. Likewise, vendors must be watched over, as they may be

concerned with potential business losses. Thus, care must be given to ensure that there is no disruption to the supply chain during migration.

Managing Change

As a result, different mindsets, interests and positions must be considered and managed through the full course of the process. Before starting, key stakeholders must clearly define criteria in the form of a decision framework considering the following: mindset, emotion, and rationale. Furthermore, this must be transparent.

Second, the criteria for either outsourcing or retaining certain skills must be discussed and agreed upon. Next, the transformation of team and stakeholder mindset profiles has to be planned and followed during the transition phase as diligently as the factual change – including managing expected and/or observed obstacles and risks.

Finally, the overall transfer must be continuously monitored in terms of securing key resources in personnel skill and talent. This requires a holistic skill management program.

There are several change management theories and approaches that require more time and depth, but for the purpose of this article, we will focus on five essential principles of successful outsourcing initiative change.

- ▶ Visionary Leadership
- ▶ Mindset Management
- ▶ Differentiated Stakeholder Analysis
- ▶ Continuous and Open Communication
- ▶ Detailed Planning and Tracking

By attentively including these principles in the planning and execution of any outsourcing initiative, managers can achieve the transfer of labor and information from the old “source” to the new “source,” as well as create a culture of openness to change within their organization. This, in the future, can prove to be invaluable and healthy for productivity and innovation that keeps organizations one-step ahead of the competition.

Visionary leadership

Visionary leadership requires 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.

Secondly, ensure visibility. Allow for as many face-to-face meetings as possible. The outsourcing project leader should regularly visit the remote delivery centers as the need for project management discipline in a virtual project set-up cannot be overstated.

Next, be pragmatic. Prepare your teams to respond effectively to ambiguity and today's dynamically changing environment, as these projects will certainly face unanticipated challenges.

Lastly, as you provide vision, properly equip your subordinates. Often, "technical professionals" act as project leaders for outsourcing initiatives. As they suddenly become project leaders, they are faced with new challenges, requiring new skill sets ranging from interpersonal skills to confident, yet approachable leadership. If there is not enough time for a short management course, we recommend engaging a project leader coach specialized in transformation management.

Mindset Management

Successful transformation requires leaders to positively influence critical human factors. To accomplish this, the necessary activities and messages (communication strategy) must be shaped according to the existing mindsets of the top stakeholder groups. These mindsets will define the reactions (positive and negative) of the people affected. By addressing the dominant mental and cultural factors, leaders can enhance engagement and loyalty to their projects. This in turn will then rapidly spread to all aspects of daily operations in a sustainable manner.

In order to address these critical human factors, managers should establish profiles and transparency regarding the different mindsets they are confronted with as a management team. It's best to accept the fact that different types of attitudes and perceptions are defined by the various mindsets in the group of people that will be affected by a particular outsourcing initiative. This is simply a reality that must be accounted for and addressed.

Finally, remember that by planning for and anticipating the use of "soft" power elements from the beginning of a program, managers will prevent challenges and difficulties from delaying their efforts long into the future.

Differentiated stakeholder analysis

Ensure that you know the critical stakeholders from "day one." Understand what is driving them and create a plan that incorporates them as visible champions of the initiative. Additionally, remember that their hesitations and resistance are good indicators of what to expect later from the organization; this provides important input for your communication strategy. To further protect your program, identify critical people or resources where reliability could be an issue. Then, take measures to capture important knowledge and ensure proper data transfers of before trouble arises.

In taking care of stakeholders, be proactive in making sure outsourcing goals are in line with performance targets and the compensation model. All too often we assign people to projects as "add-ons" and their performance clearly reflects this.

To further support those engaged in the project, invest time, ideas and resources into the "kick-off" of the alliance. This is accomplished by creating mutual trust and respect amongst the team as everyone becomes aware of the vision, goals, roles, and governance of the project.

Finally, take care of your project leaders. Managing outsourcing projects is complex and creates both personal and professional challenges for project managers. Ensure that the project leader has a coach throughout the process and be observant of warning signals. Changes in behavior and communications may indicate that the leader is overwhelmed.

Continuous and open communication

Fear, and consequently resistance, in these initiatives will certainly be a factor. We recommend addressing fear by highlighting the win/win situation for both sides of the alliance. In situations where there is no win/win, address the truth head on. It is very important for leadership to objectively communicate the impact on jobs. Discussing “who” options available and the transition process are just a few questions to be answered. Anticipate the potentially traumatizing dynamics within the organization and work according to the relevant principles. Emotions like guilt, frustration and rejection have to be acknowledged and need channeling within an appropriate space. “Survivors,” specifically, may find the situation particularly stressful as they observe their colleagues departing from the organization and find that the team is no longer like it “used to be.”

Communication should also place a strong effort in defining and emphasizing the “make or break” factors of the deal. By doing so, this process generates an awareness of the critical success factors and helps keep team members alert to project-threatening situations. One common “make or break” factor can be virtual collaboration. Advanced communication tools can provide gains if controlled and used properly, but can also magnify miscommunication and poor interpersonal skills. This in turn can lead to frustration, project delays and losses of productivity. Be sure to use these tools with diligence and a plan.

Detailed planning and tracking

Visibly measure and track metrics. Outsourcing initiatives require a detailed plan, stated deliverables, a solid budget, a clear decision-making process and accountability. With that said, metrics should not only be the “hard facts” of the transition but also the roadblocks of resistance, fear and other “soft” mindset factors that determine how the people involved will be inclined to behave. Accordingly, qualitative milestones, processes, and activities for these “soft” factors should be mapped out and evaluated in parallel with outsourcing transition.

Once the tracking measures are in place, leadership communication becomes key. Ensure senior managers are informed and aware of progress and difficulties requiring their support. Hand in hand, this also implies that the transition plan and embedded milestones address not only processes but also people. Be generous in allotting time to an outsourcing project as it requires time for establishing relationships, adjusting to business cultures, overcoming language barriers and detailing collaboration practices.

Finally, as milestones are reached, celebrate and emphasize their significance to provide a sense of progress. Lessons learned should be openly discussed so that all can benefit from the experience. By doing this, the team will grow stronger and believe it is involved in something valued and worthwhile.

Conclusion

Outsourcing initiatives affect many different parts of the organization. Properly incorporating a change management program early on to help manage mindsets and emotions will significantly decrease organizational resistance. 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.

Failure to invest in change management programs during the beginning of an outsourcing initiative will result in significant investments later. Buy-in from the organization upfront will save money (and many headaches!) in the future.

Clearly, 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 and no winning team will be successful without a strong commitment to change management.

About This Document

Trestle Group and BECN are committed to developing thought-provoking studies for executives across industries. Our experts analyze sourcing market trends working closely with industry leaders. Based on experience, interviews, surveys and roundtable discussions, thought provoking studies are produced for the benefit of our clients and the market.

Our publications provide an introduction to themes that top executive agendas, combining research with expert opinions from the market. Examples of recent topics include:

- ▶ Change Management
- ▶ Shareholder Value
- ▶ IT Governance
- ▶ ITIL and Outsourcing Engagements

Authors:

Kerstin Gollner, BECN - With over ten years of experience in advising corporations and Fortune 500 company business lines in transformation project management, Kerstin Gollner holds extensive knowledge in leadership and company restructuring initiatives. With this practical experience, Mrs. Gollner developed a unique methodology for diagnosing productivity levels within organizations. Correspondingly, she also devised strategies for implementing Mind Set management techniques that aid companies in shaping the personal motivation and approach employees take to job performance and flexibility. Through the implementation of these methods, she has assembled an extraordinary knowledge base regarding social dynamics that enables her to sincerely add value to companies in today's dynamic economic environment. Mrs. Gollner now serves as the CEO of BECN AG. She holds a PhD in Economics from Rennselaer Polytechnic Institute and a Master's degree in business administration and management from the University of Business in Vienna.

Ralph Schonenbach, Trestle Group - Mr. Schonenbach is the CEO of Trestle Group and on the Board of Trestle Group Foundation. He has held senior positions with the firms Andersen and Ernst & Young. During his career with Trestle Group, he has advised a variety of corporations on how to optimize their sourcing strategies and reduce cost through outsourcing or consolidation. Mr. Schonenbach has extensive knowledge related to sourcing destinations including Eastern Europe and Asia. Through Trestle Group Foundation, he is passionately involved with providing support to both women and emerging entrepreneurs in developing countries. Mr. Schonenbach frequently speaks at conferences and has authored a variety of publications. Mr. Schonenbach earned a degree in Business Management from Goucher College.

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productivity
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BECN AG is specialized in transformation management. We support organizations in implementing strategic goals into sustainable, successful operations. Multisourcing is about people. Our focus is managing people throughout the transformation process, channeling energy of resistance and over-eagerness into a pro-active and cooperative mind set. With our own "People Productivity System" we help to positively influence critical human factors.

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