

# synnovation

/// VOLUME 2 ISSUE 2

## WE'RE IN THIS TOGETHER

From processes to products, business protocol continues to change. And everything that makes an enterprise grow ultimately affects the biggest resource—people.

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THE JOURNAL OF THE EDS AGILITY ALLIANCE



*The Three*

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# KEYS

*to*

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# IT OUTSOURCING SUCCESS

People. People. And People.

by Gary Thompson and Mark Arian, Towers Perrin



AS

BUSINESS STRATEGIES GO,

INFORMATION TECHNOLOGY OUT-

SOURCING (ITO) IS CERTAINLY NOT THE

new kid on the block. But despite ITO's maturity and widespread acceptance, success still eludes some companies.

Logic would say that any business process that has been around as long as ITO should achieve more consistent results.

In reality, many clients tell us that they're not getting the

financial and operational efficiencies they

expected. Some have actually reported

that IT outsourcing has resulted in a

greater spend than insourcing. We

believe this experience may be more wide-

spread than reported and may be a factor con-

tributing to the relatively short average tenure of

a chief information officer at a Fortune 1000

company—which is currently around three years.

When it comes to ITO, often big bets are being made by

organizations and big risks taken by CIOs. And success or

failure is quickly determined. So why do some organizations

appear to struggle with such a mature business process as ITO?>>

Two processes inherent to ITO are complex and difficult: ITO *governance*—defined as the oversight, control, and smooth operation of outsourcing among client, vendor, and line of business—and the *people* component of ITO implementation. Often, ITO transactions are heavily focused on procurement and technology, and not nearly as focused on the human capital side of the equation. So while HR participates in the outsourcing process, it usually does so primarily as it relates to people leaving the organization and not in terms of the retained IT organization, i.e., those roles and the people filling them in the client organization who will remain onboard to make sure the deal is successful.

Without HR's steadfast focus on the IT organization following outsourcing, retained employees may experience a combination of confusion about their new goals and responsibilities, doubt surrounding their career and promotion prospects in the new organization, and uncertainty about management's long-term business plans. Unless reversed, these feelings can leave employees disengaged. And instead of lowering costs and increasing worker productivity, ITO can actually lead to higher operating costs and the delivery of less measurable business value.

### People Are a Lot More Complicated Than Technology

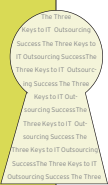
Nowadays, there's no shortage of technical prowess available in the marketplace. So it's unlikely that some organizations' lack of ITO success is a result of inadequate technology implementation. There are undoubtedly some technology issues that undermine fulfillment of the ITO business case. But our experience is that most of the problem revolves around people-related issues. Enterprises often aren't sufficiently focused on the suite of fundamental human capital and change management issues involved in outsourcing, including ITO governance, skills development, communications, consequence management, and program results measurement.

As companies shift IT operational oversight to a vendor, the day-to-day job responsibilities of the

retained IT organization change markedly (see Exhibit 1). The hands-on project management style familiar to most employees must be replaced by supplier management skills. Instead of dealing directly with their line clients, employees must now act alongside their outsourcer as part of a two-party team to address clients' needs. And as clients' needs change, employees must repress the urge to intercede directly with clients and instead communicate those changes to the outsourcer for handling. Perhaps most important, employees need to be strong advocates for change within their organizations.

But IT people quite naturally tend to focus on what they know best and what they're most comfortable with: technology enablement issues. And they often do so at the expense of people-related issues. Absent an equal (or greater) focus on the people issues, ITO success may be in jeopardy. In fact, by some industry estimates, if companies are not placing at least 15 percent to 20 percent of their "spend" on human capital issues relating to a major business transformation like ITO, the chances of success are greatly diminished.

Those organizations that follow a disciplined process that includes a strong human capital orientation are much more likely to succeed. Such a process requires a clear outsourcing strategy, operational discipline, and close ongoing attention to the people-related issues of outsourcing. We believe there are five critical elements



## BEHAVIORAL CHANGES FOLLOWING OUTSOURCING

### Current Behavior

- Caring about the “how”
- Providing IT services as “part of the family”
- Jumping in when problems arise
- Reacting to customer changes and new/additional requirements
- Acting as an internal team to achieve clients’ objectives
- A potentially different execution model in each locale
- High procurement skills
- Two-party relationship management skills
- Technology orientation

### New Behavior

- Focusing on the “what”
- Overseeing and facilitating IT services that are being provided by a third party
- Monitoring problem escalation and resolution processes
- Facilitating line-of-business planning and communication with the vendor involving new/additional requirements
- Acting as a two-party team to achieve clients’ objectives
- Single, global execution model
- High supplier management skills
- Three-party relationship management skills
- Business and services orientation

EXHIBIT 1

contributing to ITO success. Addressing them all may not ensure your enterprise’s success. But not addressing them almost surely guarantees failure. These elements include:

- 1 ITO Governance**—how to design and then manage the overall control structure required to integrate the various internal and external players in the retained IT organization
- 2 Performance Metrics**—establishing agreed-upon operational and financial performance targets along with the ability to measure results versus goals
- 3 Skills Inventory & Career Mapping**—identifying retained IT employees’ skills gaps vis-à-vis their new responsibilities—before entering an ITO deal—and backfilling shortfalls with customized training and development programs
- 4 Consequence Management**—achieving desired ITO program results by consistently rewarding employees for doing the right things and disciplining them for doing the wrong things
- 5 Rational & Behavioral Communication**—targeted and comprehensive communication programs that are an appropriate blend of rational (just the facts) and behavioral (how will I be impacted) messages

### ITO Governance Is Key

Once processes have been outsourced, the retained IT organization isn’t so much an organizational structure as it is a series of connected IT governance control structures that address the basic issues of performance management, change management, enterprise architecture, program management, business architecture, dispute resolution, and business organization representation. This structure includes not just client people but supplier people as well. These control structures don’t need a lot of people. In fact, except for maintaining adequate staff for the collection and analysis of performance metrics, they operate best with fewer rather than more people.

The overall goal of effective governance is to encourage an environment of collaboration and consensus, strategic and business alignment, audit and measurement, leveraging of supplier assets, and the ability to deal with risk and crisis more effectively. IT governance isn’t something you put in place just because you outsource; ideally, IT governance already exists within the client organization and just needs to be modified or adapted to reflect the reality of now having an outsourcing partner.

Not only does process become more important following IT outsourcing, so do the skills of the retained organization. In this case, the retained organization refers to >>>





Organizations should never enter into an outsourcing arrangement without a good quantitative sense of where the starting point is and where the enterprise is headed.

those roles and the people filling them in the client organization who are there to facilitate and make the deal successful. By its very nature, the success of the organization post-outsourcing is now far more dependent on many fewer employees, and every single individual must be hand-picked at this point.

Finally, the specific roles and approach to managing the client-outsourcer relationship need to be properly established from the start. And client and outsourcer together need to ensure that those lines of business affected by the changes understand both the benefits and consequences of the new deal for them. This includes how IT services will now be delivered as well as any changes in service level agreements that they should expect. If the new client-vendor working arrangement isn't clarified, there's a good chance that line businesses may become dissatisfied with the changes and perceive that the overall transition is being poorly handled. The reputations of the senior business leaders and of the service provider will be damaged, and the outsourcer will be forced to quickly shift from service delivery to service recovery mode.

### Performance Metrics

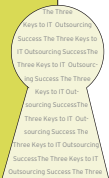
When it comes to outsourcing, you won't get what you don't measure. In too many cases, companies merely pay lip service to this crucial part of the outsourcing process. They neglect to develop a solid strategic outsourcing plan up front—with ITO plans and goals that support the broader company business plan—and then measure results against target metrics.

Organizations should never enter into an outsourcing arrangement without a good quantita-

tive sense of where the starting point is and where the enterprise is headed. In most cases, companies already have a set of metrics that they've been using to measure performance prior to outsourcing. When this is the case, these same metrics can often be shifted from the client directly to the outsourcer. This is especially useful because, instead of starting from scratch, enterprises start with a solid historical baseline of performance against which to measure future results. At a minimum, metrics should cover operational performance (including service quality), financial performance (what's being achieved for the dollars spent), and the overall health of the client-vendor relationship.

But enterprises need to measure more than just the overall effectiveness of the retained IT organization against its new job responsibilities. Accountability for program results should include management performance as well. Organizations need to seek out ways to measure the work of members of the senior IT management team and the value they're contributing to the success of the new operating model, then reward their performance accordingly.

Finally, offshoring of IT services is increasingly used for infrastructure and applications development outsourcing, adding another element of complexity to the benchmarking challenge. While IT outsourcing has a long history, offshoring of IT services for most companies began during or immediately after the Y2K push. As a result, historical metrics for offshoring are less available. Here especially, enterprises are being forced to abandon the old cost and service quality metrics and baselines for entirely new performance measures.



## Skills Inventory and Career Mapping

Tying outsourcing to the overall business vision and getting the retained IT organization to become more strategic in focus—as opposed to the tactical organization it had been—is absolutely critical. For starters, it's the only way that companies can hope to quickly and completely achieve the operating efficiencies and cost savings inherent to IT outsourcing. But in too many cases, this process is poorly managed.

More often than not, instead of recruiting the best available talent, retained organizations are staffed by simply reassigning past high performers to fill new jobs that require entirely different skill sets. To achieve real transformational value, companies need to critically assess the makeup and skills of their retained IT generalists in relation to their new job descriptions, including:

- How big are the skills gaps among retained employees?
- Can gaps be closed within a reasonably short timeframe using training programs designed for retained employees' unique needs?
- To what extent will it be necessary to replace IT generalists with new professionals from outside the organization?

Retained IT organizations can most effectively plan for the post-outsourcing future by augmenting the skills inventory with job/career mapping. Career mapping represents a global approach to measuring job worth, including:

- *External* market pay and competitive market pay levels
- *Internal* alignment within and across job families
- Opportunities for career growth and a clear understanding of what differentiates available career paths

For each step on the career ladder, there should be a detailed description of the employee's expected contribution at that particular level.

In too many deals, the retained IT organization gets lost in the shuffle of the deal negotiations and is more of an afterthought than a primary consideration. The career map framework not only contributes to accurate job evaluation and pay linkage, but can >>

## Towers Perrin's Point of View: Benefits of Good ITO Governance

Because it touches almost every aspect of the new client-vendor relationship, good governance rewards companies handsomely. When done well, it can help:

- 1 execute strategy more effectively
- 2 lower the risk profile of IT service delivery
- 3 optimize business performance, information, and technology asset utilization
- 4 measure success objectively
- 5 maximize supplier value to the enterprise
- 6 make faster, better business and technology decisions
- 7 demonstrate IT value and relevance to the business and enterprise leaders
- 8 stimulate innovation through collaboration
- 9 leverage supplier/partner assets
- 10 maintain an IT strategy that's relevant and current





When it comes to communicating with employees about the impact of IT outsourcing on them and on the organization, a one-size-fits-all approach is clearly inadequate.

also help managers quickly gain an understanding of which jobs sit where in the retained IT organization. At its broadest level, it provides a valuable tool to support workforce planning. At an individual level, it can provide a framework for one-on-one discussions about employees' career path opportunities and development needs.

Unfortunately, organizations frequently don't even know what they have in relation to what they will need in terms of employees/skills in the new retained organization. And the result is as predictable as it is damaging:

- Enterprises don't distinguish between mission-critical versus noncritical skills needs.
- Retained IT workers end up with jobs that are only partly mission-critical and largely noncritical in nature.
- People continue to do the nonstrategic/tactical work they always did, either because they're unsure of what to do, lack the requisite skills to tackle their new responsibilities, or, worst of all, to keep busy and feel useful.
- Enterprises end up with "shadow" organizations that actually compete with the outsourcer in an effort to demonstrate their value.
- Instead of decreasing, IT costs after outsourcing often increase.

This becomes the low point—the "valley of death" as some call it—that many retained IT organizations go through as they transition from the old to the new service model. It represents a costly and discouraging departure from plan. Worse yet, retained employees can become a

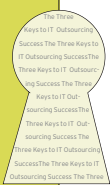
source of dissonance; they become anti-ITO and exacerbate already difficult issues associated with outsourcing.

Finally, when it comes to skills inventory and career mapping, timing is everything. Assessing and addressing retained IT generalists' capabilities and competency gaps works best when done during the early stages of the client-vendor negotiations.

The total elapsed time from when a company first embarks on its ITO initiative—including vendor identification, negotiations, and contract signing—to live outsourcing can take many months. It's a time when organizations are most vulnerable to having high-performing workers exit the company because of uncertainty about their future prospects. Completing skills assessments during contract negotiations gives employers an advantage in terms of being able to engage high performers before they leave, design clear career paths within the new organization structure, and create job training programs that will be unique to the organization's and employees' particular needs. Companies that choose to complete skills inventory and career mapping later—first executing the outsourcing contract and only then worrying about the retained staff's skills gaps—make a costly mistake.

### Consequence Management

A fourth critical component of cultural transformation is consequence management. Experience shows that it's impossible to execute effective change management without consequences—sometimes positive and sometimes negative. We



define consequence management as the method of ensuring that outsourcing processes are followed and strategic goals are met by systematically and consistently rewarding people for doing the right things and discouraging them from doing the wrong things.

There will always be some employees who are unable to accept the strategic decision to outsource IT services. These individuals (leaders, frequently) are incapable of making the transition and working in a committed way with new vendors. Expect it. It comes with the territory. But deal with it quickly—either through education and encouragement, or, if that’s unsuccessful, through employee separation from the business. Unless you reward and censure behaviors appropriately, the ITO transition will never be entirely successful.

Ironically, many organizations tolerate or reward behaviors that are contrary to cultural transformation and consequence management. This includes employee actions, such as 11th hour heroics, where internal business clients reach out to their colleagues in the retained IT organization and ask that they temporarily shift their attention away from their new strategic focus and back to their former (now-outsourced) transactional focus in order to complete a particular client request.

Instead of enforcing a policy of automatically redirecting these requests to the outsourcer, some organizations actually reward employees who undertake these in-the-nick-of-time efforts. When they do this, enterprises plant the seeds for phantom organizations to emerge and flourish, in the process damaging the viability of their own outsourcing programs.

### Rational and Behavioral Communication

Finally, the early phase of any IT outsourcing agreement is particularly challenging for client companies as they walk a fine line between overcommunicating with their employees on the one hand and providing insufficient information about the deal and its implications on the other. Clients need to develop targeted and comprehensive communication programs for their affected staff. They need to ensure that individuals have enough information about the deal and what will happen to them throughout the process that they

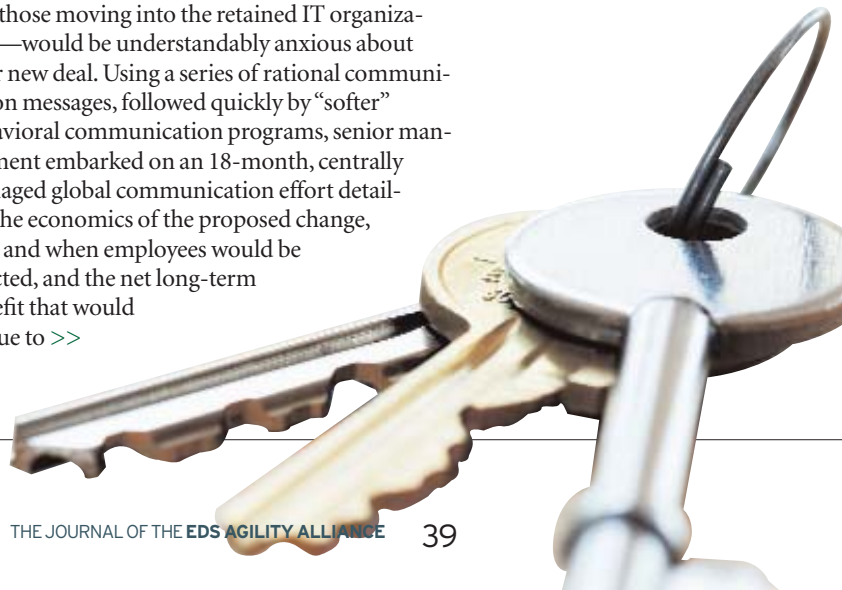
can be supportive of it.

Successful retention of client personnel—with their specialized technical, applications, and business process skills—is essential for ongoing service quality. Failure to address the possibility of unexpected or unwanted employee attrition may have severe business consequences for both the client and the outsourcer. This is the point at which clear, targeted, and timely communication is critical.

When it comes to communicating with employees about the impact of IT outsourcing on them and on the organization, a one-size-fits-all approach is clearly inadequate. Communication programs need to address a combination of rational as well as behavioral messages. “Rational communication” focuses on the what, why, when, and how of ITO. “Behavioral communication,” on the other hand, focuses on the “what’s in it for me if I do/don’t make the change?” Organizations tend to focus more on rational rather than behavioral communications. Both are critical to successful ITO implementation.

As an example, a major financial services company recently found itself struggling under the burden of a high fixed-cost operating model with limited flexibility. To survive in its highly competitive market space, the company needed to replace its existing processes with a system where operating costs moved up or down in tandem with changes in product volumes. An outsourcing partner arrangement was deemed the most expeditious solution, and the company embarked on a major infrastructure deal to help it operate under a more flexible business model. The change involved transferring several thousand employees to the supplier organization.

The company realized that all impacted employees—those transitioning to the new organization and those moving into the retained IT organization—would be understandably anxious about their new deal. Using a series of rational communication messages, followed quickly by “softer” behavioral communication programs, senior management embarked on an 18-month, centrally managed global communication effort detailing the economics of the proposed change, how and when employees would be affected, and the net long-term benefit that would accrue to >>



them and to the organization as a result of outsourcing. To demonstrate the importance it placed on the changes, senior management delivered most of the initial communication at in-person, on-site town hall meetings where employees had an opportunity to hear and question management's reasoning and vision for the future. Once employees were able to literally look their senior leaders in the eye and understand the rationale for the new business model and how they would be positively affected, most embraced and supported the change. In the end, almost 100 percent of employees accepted a transfer to the vendor organization.

### Getting Started

There's an inherent risk profile that comes with IT outsourcing. Here's a short list of items, all of which you need to be able to answer with an emphatic *yes* before you seriously undertake an IT outsourcing program.

- 1 Do you have a well-defined *internal governance structure* in place today that includes focus and expertise around the development of *metrics*, the creation of *historical baselines*, and good external reference points against which to measure your own internal performance?
- 2 Do you have a well-defined, highly skilled and mature *program management office (PMO) structure* in place that can successfully manage a portfolio of work for the businesses? By introducing an outsourcer into the IT mix, organizations increase the complexity of their IT processes. If you decide to outsource processes—whether infrastructure or application development—and don't have sound PMO practices and an effective organization in place, no matter how well the outsourcer is performing, the addition of a third party into the equation puts program performance at risk.
- 3 Does your organization possess a deep-seated *human capital/change management orientation* as part of its culture? Are behavioral communications and consequence management already core elements in how your

organization operates? Moving to an IT outsourced environment is challenge enough without having to simultaneously change the organization's fundamental customs.

Organizations need to look seriously at these three areas. And unless they feel positive about the answers to these questions, no matter how good their plans for outsourcing, the risk profile may be dangerously high.

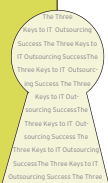
### Positive News

Each ITO undertaking and structure will be unique, determined largely by the individual organization, its background, personnel, and particular needs. Clearly, outsourcing involves a major culture shift in the way employees perform their work in the retained organization. As such, there are no shortcuts. Experience shows a direct correlation between upfront preparation and ultimate success. The commercial payback that companies will enjoy tomorrow is directly related to the amount of time, attention, and effort invested in managing the change process today.

For IT organizations, the news is positive: Studies show that, when all is said and done, success is within the reach of every company. It may be difficult, but there's a discipline for managing a successful transition. Companies that focus on the discipline tend to have the greatest success with ITO. It's not out of reach, but it's frequently outside of IT organizations' comfort zones. And that is the real challenge.

Companies need to be convinced of the link between people and outsourcing results. How well companies—clients and service providers alike—manage the people aspects of ITO is the single biggest factor contributing to the success or failure of outsourcing deals. Companies that incorporate people-focused programs into their pre-deal, transition, and transformation processes will enjoy greater success at a faster rate than companies that fail to recognize the full impact of people issues on outsourcing. |S|

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# Towers Perrin's Point of View: "Do's" of Employee Communication

Throughout the entire IT outsourcing process—from pre-deal to transition to transformation—employee communication programs should be used to set realistic expectations and ensure that employees understand how they'll be affected. Based on first-hand client experience, here are seven communication "do's:"

1

**Do communicate early and often.**

Keep employees connected. Let them know how they'll be impacted. Even during those times when there may be no new updates to report, send a message to that effect. Productivity will plummet if employees are left in a sea of rumors.

2

**Do replace the more "rational" mass media-type communications as soon as possible with more personal, "behavioral" communications.**

The latter are more effective at demonstrating employer concern and personal attention to individuals' issues and well being.

3

**Do explain the business context of the process and organization changes.**

Too often, organizations execute the outsourcing transaction without sharing management's vision—the broader C-level rationale for why the company is doing it. Employees handle change much better if they're included in, and understand, the reasons for change.

4

**Do stress the value of employees to the success of the program,**

particularly their continued commitment to the new processes and the organization.

5

**Do provide employees—both in the retained organization and in the line businesses they support—with a list of key contacts.**

As processes and people change, employees need to know whom to call as issues arise.

6

**Do provide an up-to-date project timeline.**

Employees not only need to know what's happening and why, but they also need to know when.

7

**Do celebrate the little things.**

Throughout the IT outsourcing process—and especially during the early stages of change—capture and share program successes. Publicizing "quick wins" makes employees in the retained organization feel proud about themselves and shows business clients, including senior managers, tangible proof of the positive changes resulting from outsourcing. This pays dividends in terms of employee engagement and connectivity.

