IS YOUR OUTSOURCING SOCIALLY RESPONSIBLE?

Outsourcing need not result in the all too familiar "blood on the floor," which can often impact a company's strength over the long-term.

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While most perceive global outsourcing as an increasingly popular cost-cutting tactic — with Plunkett Research, Ltd., estimating the industry at $507 billion in 2014 — the savvy business manager recognizes it as much more; nothing short of a powerful growth strategy. By taking the long view with a social conscience, outsourcing need not result in the all too familiar "blood on the floor," which can mean a long-term loss of a company's muscle strength. Rather, a much stronger business case can be made for outsourcing as a strategic tool to free up and elevate the capability and performance of existing resources, all while achieving targeted cost savings. Indeed, this is the stuff of business transformation, which only happens when employees see what the future holds with new eyes, approach it without fear, and take charge of their destiny to intentionally build this new future.

Of course, this approach, coined Socially Responsible Outsourcing (SRO), is of a higher order and is easier said than done. Why? First, outsourcing as a cost-savings initiative occurs as incompatible with social responsibility or "investing in people." And, second, executives may perceive SRO as complex, requiring them to rethink their approach every time the market changes.

THE OUTSOURCING LANDSCAPE

Plunkett estimates that today's highest areas for outsourcing, defined as the hiring of an outside company to perform a task otherwise performed internally, include: 1) logistics, sourcing, and distribution services; 2) information technology services, including the creation of software and the management of computer centers; and 3) Business Process Outsourcing (BPO) areas such as call centers, financial transaction processing, and human resource management. However, these traditionally "non-core" functions are really just a starting place as outsourcing companies themselves become more sophisticated

in their capabilities. Expect Knowledge Process Outsourcing (KPO) to become commonplace, with outsourced workers performing business tasks that require judgment and analysis. Examples including patent research, legal research, architecture, design, engineering, website design, market research, scientific research, accounting and tax return preparation are potential tasks that already are going offshore.

EARLY EFFORTS AT SAP (ABOVE) WERE JUST ONE EXAMPLE OF EFFECTIVE OUTSOURCING.

One driver for KPO could well be the emergence of a new level of automated systems such as forms classification and data capture. As these systems get better, DATAMARK, Inc., predicts that they will displace outsourced staff who are currently performing dull, low-skill repetitive tasks like healthcare coding, which is going through dramatic changes in the U.S. due to adoption of ICD-10 standards. This sets the stage for a new level of outsourcing workers with more sophisticated skills.

However, DATAMARK predicts that the transition is still approximately two years away, due in large part to a lack of industry standards and a reluctance on the part of companies to adopt the new technologies. More use of mobile apps for business functions also is likely, along with a range of new cloud services. Look for Business Process as a Service (BPaaS) applications beginning to crop up on a consumption or subscription basis.

Offshore choices for outsourcing are also expanding. While China and India have bolstered their economies significantly thanks to outsourcing opportunities that have created tens of millions of jobs, it deserves mention that they no longer are the only game in town. As labor costs and infrastructure issues plague China and India, companies are looking to the Philippines, Malaysia, and Indonesia, which Plunkett says were among the most promising Southeast Asian outsourcing destinations in 2013. Near-shoring and re-shoring also are growing trends. Examples include the U.K. outsourcing to Eastern Europe, or a U.S. or Canadian company outsourcing to Mexico or Latin America. The obvious reason is that outsourcing can be very difficult to control, with companies finding management issues less challenging when the companies are closer to home.

TAKING CARE OF YOUR OWN

These trends are still no substitute for the institutional knowledge and dedication of an existing workforce — any company's most valuable asset. One example of effectively leveraging the advantages of outsourcing while preserving internal talent can be found in an early effort at SAP, the Germany-based information technology giant. In the early 2000s, under the leadership of Carol Wilson, then-chief information officer and current senior vice president for

work place services at T-Systems, SAP sought to reinvent its internal IT department, realigning employees who spent most of their time maintaining operations to more strategic roles. Because SAP had never outsourced to an offshore consultancy company, this was a controversial departure from the norm. The business case behind the initiative was threefold: 1) lower costs by reallocating work often performed by external consultants to SAP resources; 2) achieve the benefits of more standardized processes; and 3) elevate the level of value and services provided to SAP IT customers.

The first order of business was to define the new direction through scenario simulation and then broadly communicate this new future across the organization, as well as to key stakeholders, including unions and the press. Because outsourcing had gotten a bad name, especially in the German media, allaying fears was perhaps the most challenging hurdle to overcome. In this sense, inspiring people to actively participate in the transformation and perform at a higher level was crucial. This was accomplished by focusing on two key points: 1) Employees were encouraged to choose their future by going through an orientation and development process to take on new roles; and, 2) The success of the project rested on employees' thoroughly transferring critical knowledge to other SAP colleagues and to the third party taking over their tasks. This required a fundamental shift in a culture that valued and rewarded resident expertise and was imperative to delivering on all three elements of the business case.

In an unprecedented move to gain trust, one non-negotiable item was no layoffs. "The risk of this mandate proved small," Wilson recalls, because "the business case was good to develop our own people. Most had multiple years of experience on the lower end of the IT food chain and had a propensity to learn. It was better to pull people up the learning curve, versus spending a fortune with independent consultants to fill the gaps."

Quelling and ultimately eliminating employees' fear also required answering a very fundamental question: "What is going to happen to me?" To provide an adequate answer, SAP identified core roles based on the re-defined vision, and then actively engaged employees and their supervisors in assessing aspirations, strengths, weaknesses, and overall fit for the new opportunities. Driving the overall effort were the 4Rs (Right people with the Right skills, in the Right place and with the Right partner), guided by principles of fairness, transparency, and the promise of a better future.

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Rather than "assessment," the process was coined "Orientation and Development," and, as such, provided ongoing coaching, training, and career development support. "This helped employees determine the next steps of their career and see where they compared to the open market," Wilson explains. Ultimately, the onus was on employees to choose new roles, with SAP suspending its standard performance evaluation process for two years to allow time to become proficient.

One area that pollinated a number of new opportunities was SAP's newly created project management office. Led at the time by Mark Hutchins, who is now with TCS, a multinational IT service company headquartered in India — one of SAP's original partners — it helped delineate between roles that maintained operations (non-core) versus ever-changing service projects (core). "It was through the core projects," says Hutchins, "that we were able to build career paths to support the organizational change."

Facilitating this shift were SAP managers, whose role was to coach employees through the process while ensuring that the transition to the overseas resources progressed smoothly. Involving the managers was key, as lack of cooperation from middle management is one of the largest contributors to failed change. This approach made them partners with the responsibility for success placed on their shoulders. Ultimately, middle managers were the "superheroes."

Armin Kaltenmeier, today SAP global vice president of corporate audit, was one such manager in the hot seat. Reflecting back, he says, "We communicated it to employees as an extended workbench and asked them not to look at the overseas resource as an outsider but as part of the team. As an organization we were still responsible for delivering great work; we just needed to be smart and more efficient about how we did it."

However, training the outsourcing resources proved to be a grueling "painful exercise," Kaltenmeier recalls, requiring considerable patience, particularly at the beginning. "The outsourcing companies were experiencing a lot of turnover at the time and we were constantly retraining new resources. At some point we established a core team that could train its new team members, but it was only after six to 12 months that we were able to harvest the fruits and see results." Again, fundamental to this was setting the right context so that the "experts" were willing to freely share their knowledge.

On a personal level, Kaltenmeier adds that it was difficult letting go of existing responsibilities, no matter how much business sense this made. "Along with being good for the company, we had to convince our employees that 'this is good for you. You'll be learning and growing,' which turned out to be very positive," setting an example for other departments to emulate.

To understand what the employees he managed were going through, Kaltenmeier willingly participated in the assessment process alongside them, a decision he says benefitted him greatly. "What I found was that I was strong in leading and managing teams. I also was strong at setting vision and leading people to follow the vision. It personally gave me confidence and helped me see where my career could go."

FINDING A BALANCE

Ultimately, as companies go about the business of outsourcing in a socially responsible way, Wilson challenges others to find the strategic balance between being fair and improving the bottom line. "In many ways SAP was a luxurious situation," she recalls, "We really were quite generous to the employees. It was the first time SAP had done outsourcing and it was their first time to use a partner in India, so we were not under a lot of pressure and we were able to budget enough money to do it right. Still, she says, "there are ways to manage, even without access to the extraordinary funding that we had." What any organization can always do is "give people a choice, coach them, and help them grow," as part of the process. Since leaving SAP, she says she has seen the process work at a number of other companies, including Microsoft and PriceWaterhouse Coopers.

On a broader level, being socially responsible when outsourcing also helps to protect and preserve culture. With the growing trend toward specialization, Hutchins cautions companies to think twice about outsourcing the majority of entry level jobs. "It's a moral dilemma," he explains. "If you eliminate the entry level people who have traditionally worked their way up, what happens to your culture? The specialists don't know you like your own people do."

TOP 10 BENEFITS FROM SOCIALLY RESPONSIBLE OUTSOURCING

Successfully managing people and performance aspects of outsourcing depends on:

1. Positive branding and buzz around the transformation from the beginning through quick wins, structured communication, and early enrollment of key stakeholders
2. Collaboration and partnership with key constituencies, including unions
3. A smooth transition of the retained organization
4. Retention of high performers needed in the new structure
5. A "high performance organization structure" aligned to the future vision and strategy
6. A transparent, fair, and reliable selection process, resulting in the right people with the right skills in the right place
7. Quick and effective knowledge transfer to the third party
8. A short performance ramp up for the "new" organizations: both retained and outsourced
9. Managers actively leading the transformation, rather than falling victim
10. Alignment and strengthening of leaders and talent management processes to support continuous performance improvement