Part I

Outsourcing in Practice

Chapter 1

Introduction

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Outsourcing, however defined, is big business. Globally the outsourcing market was said to be around 1,500 billion US dollars for 2009. At the time of writing we are unsure of how long or how deep the current recession will be, yet many outsourcing organizations suggest that this 'credit crunch' will lead to a further increase in outsourcing as companies strive to achieve cost reductions. Views on the impact of this recession on outsourcing are mixed, with some suggesting an increase in bringing work back in-house and others arguing for an increase in offshoring. New locations, particularly in IT outsourcing, are likely to become popular,[1] with all the issues that can arise with understanding cultural differences. All seem to agree that costs will drive the business decisions but that efficiency will be crucial. Yet we will argue that it is the human aspects that can make a difference to success or failure in outsourcing. As with all business processes, outsourcing depends on people to make it work, yet it is these people that receive the least attention when outsourcing deals are struck.

In this introduction I will outline the range of outsourcing contracts and some of the issues involved for people management. I will explain the rationale for this book and then introduce the chapters in Part I, emphasizing their contribution to our understanding of management practice. A brief overview of Part II will also be given, although this section also includes a separate introduction where a broad range of theory is outlined. Overall, this book focuses on the importance of human behaviour and relationships in outsourcing contracts, an aspect which in our view is not given sufficient consideration in current publications. Many books and articles have been written about the high-level decision-making processes, selecting

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[1] See for example www.noa.co.uk/index.php/noa/hartofoutsourcing/

suppliers and contractual aspects, but very few consider the relationships between people that make these happen, or the perspective of those whose jobs and careers are affected. Brown and Wilson (2005) do include a guide to an outsourcing career and tips for outsourcing entrepreneurs; however, these are aimed only at very senior managers – far more people are affected at the lower levels, and all are vital to the success of the contract.

The term outsourcing is used very broadly, often to refer to processes that would previously have been termed subcontracting; for example, Bartel, Lach, and Sicherman (2008) define it as 'the contracting out of activities to subcontractors outside the firm' (2008, p.1). For some researchers, a crucial point is whether the work would have been done internally before outsourcing (Domberger, 1998). Outsourcing is a particular form of externalization of employment, and in many cases involves an outside contractor taking over an in-house function (Purcell & Purcell, 1998). A broad range of activities have been transferred in this way, including catering, cleaning, and security, often termed 'secondary' or 'non-core' functions. However, professional services have also increasingly been outsourced, with IT being a large part of the market, with finance, HR and increasingly complex activities such as business process outsourcing (BPO) and knowledge process outsourcing (KPO) coming to the fore. Outsourcing is also very different from insourcing, when contractors are used to assist with work, for example supplementing internal capacity (although some of the people issues remain, we would argue that they are less problematic). Offshoring is also a major trend, as business processes, especially call-centric services, are handed over to organizations operating from parts of the world that enjoy a labour cost advantage over the local workforce. A range of risks specific to offshoring have been identified (e.g. Kliem, 2004) but although cultural differences are highlighted, they are rarely discussed in detail. Nakatsu and Iacovou (2009) found that language and cultural differences, along with lack of business or technical know-how by the offshoring team, were key risk factors in offshoring versus domestic outsourcing; again, these are all linked to the human aspects. Finally, as the market is maturing, the concept of back-sourcing (or re-sourcing) internal organizations must be considered, as more companies see the need to bring people and processes back under their control. Logan (2008) suggests that 25–30 per cent of outsourcing deals are brought back in-house, indicating a real need to understand the experience of staff in these circumstances. Figure 1.1 gives an overview of the different main forms of outsourcing. With these multiple aspects of outsourcing, most of which require people to be moved back and forth between different companies, no wonder there are some issues to be resolved.

Furthermore, contracts are becoming increasingly complex, with multisourcing, nearshoring, and other new variants arising. Although many of the clients are in the US and UK, the global nature of the outsourcing business is an important feature. India is well known for call centres but as the economy develops they are shifting to the higher end (e.g. BPO) where they can. China is moving out to 'cheaper' parts of China itself. Some suggest that organizations will become completely 'virtual', relying totally on a spread of outsourcing contracts to complete
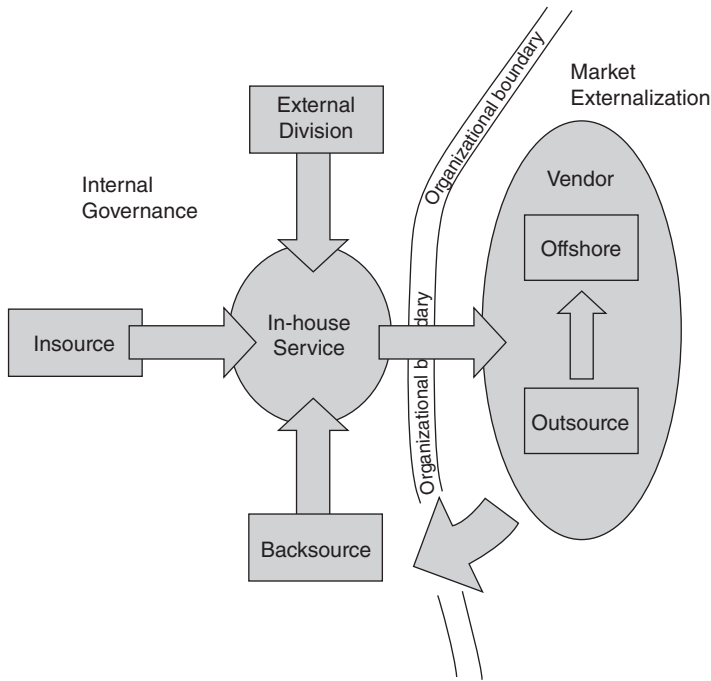
Figure 1.1   Outsourcing types

their business. In the public sector in particular, these changes raise issues around interoperability (sharing and integration of information and business processes), and, again, people are crucial to the sharing of information required (see Gottschalk, 2009).

All of this has implications for the people involved. There are issues of language, culture, legal and ethical differences that will need to be explored. There is increasing evidence that, particularly with transfers and outsourcing-related downsizing, the very health of staff can be affected (Gustafsson & Saksvik, 2005). My own research indicates that there can be a range of concerns for staff involved in transfers that may require understanding during career counselling (Morgan & Symon, 2006) and problems of anxiety linked to feelings of injustice and low engagement (Morgan, 2007). While the world of outsourcing contracts is likely to have changed even by the time this book is published, with new concepts and approaches likely, the basic people management principles will remain as important as ever. I hope that, thanks to this book, they may be better understood.

A wide range of stakeholders are involved, suppliers and clients, senior directors, managers, team leaders and staff. Lacity and Willcocks (2000) discuss the complexities of these relationships and warn against underestimating the importance of the staff aspects. A variety of departments should participate at all stages (including but not restricted to procurement and HR), which is good practice but again increases complexity.

All of these activities demand a new balance of skills. These include contractual and commercial understanding, coordination and control of suppliers, change management and strategic planning. These are all skills that can take a long time to develop, and are not easily found in organizations, particularly amongst staff who were previously running a department that has just been outsourced.

In situations where staff have been transferred to another organization, there is evidence that the anxiety and lack of control felt by the staff can lead to very low levels of morale and commitment and, related to this, reduced performance. This is not purely linked to job insecurity (indeed, for some, the only consolation is that they still have a job, although downsizing is often a factor in outsourcing transfers). The psychological stress caused by being out of control of the situation and the anxiety created by imposed change are important factors in the development of future work relationships. For the organization, research has shown that ignoring the human side of outsourcing can lead to the following issues after a transition:

- lack of organizational learning and 'memory' (the intellectual capital has all gone);
- difficulties with relationships with (ex) colleagues;
- reduction in innovation and creativity;
- reduced long-term responsiveness from staff;
- misunderstanding of roles and resistance to the 'client';
- poor negotiating, linked to above, and cultural differences (both organizational culture and national culture, especially in offshoring);
- uncertainty regarding how to develop the skills of remaining staff (and which skills are really needed).

There is evidence of financial losses due to contract misunderstandings and relationship history. As many outsourcing contracts are based on cost-savings and improved performance, this can be extremely problematic.

Even where the outsourcing deal did not include people transfer, issues have occurred during all stages. Negotiations can be fraught with problems, being reliant on suppliers requires ongoing relationship and contract management, and measuring the quality of governance and deciding when to change suppliers or bring work back in-house requires substantial time and resource to manage. Furthermore, there are still issues around the motivations of staff who are working on the contract, the trust between key negotiators and indeed the staff, and the difficulties in generating knowledge and expertise in-house when contractors are used – particularly if they are remote. Clearly, the people aspects of outsourcing need to be understood to increase the chances of success.

The first section of this book concentrates on the practice of outsourcing, and allows these different stakeholders or 'voices' to demonstrate the importance of people management based on their many years of experience. Irvine Caplan has been involved with the process for many years, working in senior management as a client of outsourcing. Although he explains issues that arise throughout the life cycle, he particularly emphasizes the issues with finding and using the right skills

of those retained after an outsourcing contract has been signed, and the problems that this can create throughout the contract. Simone Hemingway has many years of senior HR management experience on the other side – for an outsourcing supplier. She too emphasizes the skills of the people involved, and the different types of 'deals' that take place. Simone also discusses the potential differences between types of contract, public and private being one key area. My own research indicates that although public sector employees do often have very specific values that are sometimes compromised when moving to the private sector, issues of identity are problematic for many staff who have come from large organizations, whether public or private. Simone outlines in particular the differences in contract negotiations between the public and private sectors. Yvonne Williams has worked for many years helping organizations to recruit for outsourcing contracts, from both sides, and gives some excellent tips for the type of people needed at different stages in the process. Finally, Ian Pogson gives first-hand experience of culture shock after being sent to China to assist during an outsourced contract. Again, Ian gives a number of tips for those who may be involved with outsourcing that requires regular visits to another country – particularly if the culture is very different.

What these practitioner voices share is a concern for understanding the other party, for enabling trust, and they also demonstrate a desire to work together to achieve the aims of outsourcing (usually to reduce costs and/or enhance performance). However, they also share similar views on the problems that arise when people have different expectations, are from different cultures (national or organizational), and perhaps lack the skills required to negotiate and manage within outsourcing contracts. While all these chapters provide us with useful tips around the human aspects of outsourcing, we argue that to gain a deeper understanding we need theory and supporting evidence. The second part of the book therefore gives us this grounding, which helps us to explain why these issues arise and how we can address them. Each of the later chapters also brings in examples of evidence, often based on in-depth interviews, of the actual experience of working in outsourcing contracts. It is also hoped that by presenting both practitioner and academic viewpoints, we do something to reduce the practitioner–academic divide – sadly, there is substantial evidence that practitioners tend not to use research, feeling it is not relevant to practice, and academics tend not to work with practitioners to address real-world problems (see Rynes, Bartunek, & Daft, 2001). We hope to increase the possibility that this book is used by practitioners in the field.

In Chapter 6 I outline the range of theory and related evidence that can inform outsourcing processes. An overview of research evidence related to downsizing, mergers and acquisitions is given, followed by a short discussion on theories of commitment, identification, identity, socialization, organizational justice, and the psychological contract. Other theories related to trust, knowledge management and culture are only touched upon as these are covered in much more detail in the following chapters. Important to all understanding is an awareness of the context within which we are working; the chapter by Roy Morgan ensures that this context is explained, along with the positioning achieved by discourses or narratives of outsourcing. Brigitte Cobb outlines how differences in national and organizational

culture can impact upon outsourcing, and Alex Watts discusses the role of trust when operating remotely from others – virtual teams are increasingly used in outsourcing. Richard Blakeley and I give an overview of the theory and research behind knowledge management and knowledge transfer, demonstrating the problems that can occur when knowledge is power and knowledge sharing relies upon the goodwill of others, who may be feeling less than generous in some outsourcing contracts. Roy Morgan gives evidence based on experience of the full outsourcing life cycle, demonstrating how important it is to think through the implications of each stage for staff. Jan Aylsworth brings an American perspective to our understanding, as there are indeed differences in process due to each country's employment law. Outsourcing and offshoring in the US have received a great deal of attention lately, and although there have been some attempts to prevent contracts, even through legislation, most argue that this is unlikely to succeed (see Earle, Madek, & Madek, 2007). Downsizing is even more likely to occur in the US, and in the US there are fewer situations where decision-bargaining is required (see Miscimarra & Schwartz, 1997), but many of the theories relevant to outsourcing are also found in downsizing, and Jan gives a good overview of the range of theory and research on the subject. After a discussion of the importance of understanding transitioning and the role of expectations and the psychological contract in moderating employee reactions, I conclude with a final chapter that develops a model of employee responses to outsourcing transitions. Although theoretically driven, all of these chapters in the second half include evidence from academic research and from the author's own studies. Indeed, each of these 'academic' authors is a practitioner at heart, with their own experiences as well as rigorous research to underpin their discussions. It is hoped that by understanding employee reactions organizations can do more to ensure good practice during a transfer, and therefore reduce anxiety and enhance performance.

Much of the practitioner literature tends to cast an overly positive slant on outsourcing and, as highlighted in Chapter 7, few people wish to be associated with failure. Although we take a more critical view, we do not wish to make the mistake of being overly negative. There are outsourcing contracts that succeed, negotiations that result in all sides gaining, staff who improve their careers due to a transfer, and transitions that are carried out with full attention to justice and employee engagement. However, there are problems, as both our practitioner and academic chapters attest. Our intention is to highlight things that can go wrong to encourage more people to do things right.

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