You have a Great Outsourcing Contract -- Now What?
Transition Issues in Global Outsourcing

Subroto Roy, Ph.D., CPSM
Associate Professor, University of New Haven
1st Vice President, Connecticut Association of Purchasing Management
Web and Blog Stratoserve LLC: www.stratoserve.com
Email: Dr.SubrotoRoy@gmail.com Phone: (203) 768 5690

94th Annual International Supply Management Conference, May 2009

Abstract:

Your organization has crunched all the numbers and evaluated offers and signed the global outsourcing contract. You are rather pleased with your efforts including involving your internal users in the RFP, perhaps organizing a great global reverse auction and concluding some great win-win supplier negotiations. Your CFO and CEO are delighted with the projected savings that will come from executing the global outsourcing contract. In fact your CEO (followed by your HR) proudly mentioned that all displaced employees might be possibly absorbed in other parts of the US organization, avoiding layoffs. This would be possible as global outsourcing will reduce costs and many more new product development and innovation projects might be speeded up – substantially. More and speedily developed new products for global markets would actually mean more jobs in the US organization! You knew that global supply chains were the way to go….

Two years down the line you find that the envisaged contract volumes have not emerged. The suppliers are complaining, your internal organization had changed with the outsourcing contract, and it's difficult to find the people who knew what was going on in the first place. The global innovation engine is moving much slower than expected and savings are not showing up on the balance sheet.

My presentation will help you understand some key steps and tools to help your organization capture the value from global outsourcing and enhance value in your downstream value chain.

The Opportunity:

At the implementation stage of outsourcing, transition occurs after the decision to outsource a particular activity and the selection of a service provider, negotiations and award of contract (although some of the contract's details may still need to be worked out). The transition period, which can last from a few days to a few months, is the first and only time that the outsourcer and provider work together with the intention of passing the outsourced task to the provider. Such transition involves face-to-face meetings, phone and electronic contact between provider and outsourcer teams. Once the task becomes routine for the provider, there is danger that it will become "out of sight and out of mind" for the outsourcer. For example Kern et al. (2002, p. 63) advise the IT service provider to "employ early end-user expectation management on the client side, especially during the *transition* period" (italics added). The transition in knowledge-based outsourcing is particularly challenging because of the criticality to core competencies and integrative tacit knowledge involved.

Managing the transition phase is critical and often overlooked. The transition phase is critical because this is the last opportunity for the vendor to interact with people doing the work and understand their explicit and tacit routines. Once outsourced delivery starts invariably the organization tends to change and it is difficult to understand the tacit elements of the previous work routines and integration issues. The organization changes and it is difficult to find people.

If supply managers become aware of some key concepts related to managing the transition phase then the chances of really capturing the value of outsourcing projects will increase(Roy and Sivakumar, forthcoming).

Objectives:

My presentation will help you understand:

1. Modularity of tasks that are outsourced
2. Challenges of integration of delivered services by suppliers when your organization changes after outsourcing
3. Evaluate the nearness of the outsourced task to your firm’s core competence.
4. Evaluate the extent of tacit knowledge in the task and its re-integration to your value chain.
5. When to use rigid controls like formal reports from supplier.
6. When to use normative controls like trust and friendship between supplier and your receiving personnel.
7. Prepare carefully for transition of work to a provider to capture the value of global outsourcing.

Why should supply managers care?

In a globalized interconnected world supply managers have an important role to play. If you imagine your company as a link in a value chain, then your customers are your downstream partners and your suppliers are upstream partners. If you split the link by introducing new global suppliers for work that was perhaps being done in house or by local suppliers then you must make sure that the new links work, not just in terms of cost but effectiveness for the downstream partners. For only when the whole chain works well can your organization compete globally and create new jobs because new markets can open up. I call these links of the supply chain, at a granular level, as “modular “pieces. The problem is that organizations that work under one roof frequently work as one team and develop clear understanding of how pieces fit together. This changes with global outsourcing as work is split and re-assembled sometimes at a third global location. There are two keys to understand the transition phase in global outsourcing and these are determining the (a) nearness to core competence and (b) extent of tacit knowledge in the outsourced task and its re-integration. Once these are figured out the supply manager has to apply, as appropriate, rigid controls like formal supplier reports or normative controls like trust and relationship between supplier teams and receiving teams at the transition stage.

What is the current role of Supply Managers in Global Outsourcing?

Best practices today include the supply manager at the RFP and bidding stage in global outsourcing. Leading supply departments take charge of the RFP process there are examples of supply managers who conduct reverse auctions and encourage user departments to become involved in the supply process. However, there seems to be some withdrawal by supply managers once an excellent contract is negotiated and signed. Perhaps, top supply management is not explicit in encouraging buyers and specialist buyers to take interest in the results that accrue from all the hard work that goes into crafting great contracts.

Based on my research over the last 5 years, I suggest that supply managers should be closely involved in the early post contractual execution of global outsourcing contracts. This will enhance the visibility and contribution of supply managers in their organizations.

What is the transition phase?

The transition phase is the early re-organization of current work processes to include a globally outsourced contract portion. Clearly, this is a new road for the organization and supply managers need to lead till the new road works smoothly. The idea is quite simple if you compare transition management with the care we take when we are driving and want to change lanes in busy multi-lane highways. However, outsourcing involves major changes in the old organization, its people and processes and suppliers who send in work teams who are quite different from their sales people who did the contract negotiation.

My presentation will help you understand some key concepts and tools to help you capture the entire value of your outsourcing contracts deliver their entire this value to your downstream supply/value chain.

References:

Kern, Thomas, Leslie P. Willcocks, and Eric van Heck (2002), "The Winner's Curse in IT Outsourcing: Strategies for Avoiding Relational Trauma," *California Management Review,* 44 (2), 47.

Subroto Roy and K. Sivakumar “Managing Intellectual Property in Global Outsourcing for Innovation Generation.” in *Journal of Product Innovation Management.* (forthcoming)