



Update

Staff Transitions: Managing the Impact of Outsourcing on Staff

by Sara Cullen

The “human side” of an outsourcing deal may be difficult to visualize at first, but if the fears and apprehensions of your staff are not managed well, it may not be long before it is the leading problem your organization faces. In some outsourcing deals, employees have not only refused to work, but they have deliberately sabotaged the process itself. Not surprisingly, then, some of the larger client organizations, as well as service providers, have invested a lot of time and effort developing appropriate staff transition policies and practices.

Irrespective of the formal start and end dates of the official transition period of an outsourcing contract, the transition actually begins much earlier and ends much later. It is critical that your organization begins planning for the staff transition as soon as it believes outsourcing may move forward, so that you create an environment that is as free from surprises and unnecessary disruption as possible.

This *Executive Update* takes a brief look at some of the factors and issues that must be planned for when staff will be affected by outsourcing. We first identify the different types of staff transitions and then discuss the techniques you may want to consider to assist staff in the changes that outsourcing will bring about.

TYPES OF STAFF TRANSITION UNDER OUTSOURCING

Three types of transitions may occur to staff that are currently party to a function or activity to be outsourced:

1. **Transferred** — staff that become employees of the service provider
2. **Retained** — staff to be kept within the organization but typically in a changed capacity
3. **Redundant** — staff no longer required in the organization

Staff Transferring to a Service Provider

First-generation outsourcing clients (i.e., it is your first time going to market) may transfer a portion of the current service delivery workforce to the successful service provider. This is done typically either to: (1) transfer needed knowledge and resources to the new operations or (2) minimize redundancy liabilities, both financial and political, by having the supplier take on staff as a requirement of the deal.

For organizations seeking to transfer staff to the service provider, there are two general approaches:

1. **Clean break** — the staff members deemed excess are

provided with their redundancy entitlements, and their possible future employment with the service provider is left for the service provider to manage.

- 2. Negotiated transfer** — the staff members to be transferred to the service provider are agreed between the parties, as well as the terms and conditions of their employment.

The clean break is a popular approach, as it is the less complex option of the two. Fundamentally, the client makes redundant all staff it no longer requires and pays out any entitlements accordingly. The service provider is then free to interview, make offers, and employ any of the staff members as it sees fit. However, it does leave the client with the total redundancy liability and leaves staff members with uncertain future employment prospects. Unionized environments may have significant issues with the approach and may strike over the deal or seek to generate negative publicity for the organization over it. Governments also may be sensitive to such arrangements since outsourcing may raise the unemployment rate, even if only temporarily. And lastly, some organizations have chosen not to use the approach because staff members receive redundancy payments for their jobs, which in fact, they will still be performing, albeit under a new employer. This can be controversial; particularly for public-sector organizations keen to avoid adverse reaction to taxpayer-funded “double dipping.”

The negotiated transfer approach is used when the organization wants to ensure some staff are transferred to the service provider to maintain knowledge continuity, or if the service provider’s ability to successfully deliver is dependent upon a certain number of staff transferring. The simplest option here is a very basic transfer, whereby the organization has only a single requirement over the service provider to

make offers to a specified number of staff members.

Anything additional becomes more complex and must include agreement between the parties on the following issues:

- The individuals who will be transferred, subject to the individual agreeing
- The interviewing and recruitment process, as well as the hiring criteria
- The specific employment conditions
- Where staff will be employed, including location and business unit
- What liabilities will be transferred to the service provider and what will be paid out by the client
- The minimum guaranteed employment period whereby the service provider is not allowed to make the staff redundant and can terminate only for cause that has followed an agreed due process
- Guaranteed training and development

This approach is sometimes preferred by clients to minimize redundancy liabilities; it also demonstrates that the organization is looking after its staff and ensuring that as few jobs as possible are lost. Unions may get involved to ensure that membership continues, as well as to maintain that the employment conditions are no less than what the employees previously had. However, it often requires extensive negotiations with the service provider, particularly if the conditions are better than the rest of the service provider’s employees, or if the service provider does not actually want the staff members and is reluctantly taking them in to win the contract.

Staff Forming Part of the Retained Organization

The staff and functions staying within the organization are known as the “retained organization.” For example, one may outsource most of a hardware maintenance function but retain emergency breakdown inhouse, or it may outsource the training but retain program design inhouse.

Most organizations have some form of retained organization once their outsourcing deal has been concluded. Frequently, though, client organizations may not need to retain any residual functions, instead keeping only a contract management role. If you plan to have a retained organization, staff jobs will undoubtedly change and involve some form of interaction with the service provider. Staff may have an oversight responsibility over the service provider’s work or need to provide assistance, information, or directions in some fashion. You will depend on these staff members to make the agreement work.

It is important to note that as a result of the transition process, some retained staff may develop what has become known as the “survivor syndrome.” These employees may experience a number of dysfunctional feelings about surviving the “chopping block”: they may feel guilty, defensive, and possibly even aggressive to their colleagues and most certainly toward management. Your understanding, and the actions you put in place (described later in this *Update*), will determine how quickly your retained staff become fully productive and, ideally, highly motivated.

Staff Being Made Redundant

If you are a first-generation outsourcing client, staff redundancies might be one of your issues. Making staff redundant is one of the most difficult and unpleasant tasks a

manager can do, and generally speaking, organizations do not handle the situation well. The techniques described in the next section have proven to lessen the pain by getting such staff members ready for their next role in a new organization.

TECHNIQUES TO HELP STAFF

Irrespective of whether an individual will be staying in your organization, going elsewhere, or transferring to the service provider, all personnel involved with the work to be outsourced will be affected by the outsourcing arrangement. Many organizations fail to realize that outsourcing can be a tumultuous change for employees and that it will always have an emotional impact.

To help staff come to terms with the impact (on their careers, financial positions, or even on their self-esteem), there are various techniques and services that organizations can use. These include career counseling, outplacement, financial planning, and personal counseling.

Career Counseling

Many employees may require assistance in assessing their skills and goals and in examining their future career options. Providing career counseling will help them eliminate uncertainty regarding their capabilities in the market — particularly for public-sector employees who may harbor fears about working in the private sector and may be worried about seeking new opportunities elsewhere. Long-serving staff in private companies may feel this way, too.

Types of services that may be offered include skill/personality

assessments, goal formation and action plans, and job/skill matching.

Outplacement

Outplacement services assist staff members in finding new employment in two ways: first, by preparing individuals for the job-seeking process (by helping them prepare resumes, conducting mock interviews, and so on); and second, by finding them employment opportunities.

Financial Planning

Financial planning specialists can be hired by the organization to assist staff in assessing and making provisions for their economic situation. Often, organizations will provide one free hour of financial counseling as a service to staff potentially affected by the outsourcing initiative.

Types of services that may be offered include superannuation/pension planning, future salary needs and retirement planning, investment strategies, and redundancy payment options.

Personal Counseling

Outsourcing is an emotional issue for staff, and it can be quite disruptive to their state of mind. Personal counseling services can help employees come to terms with the change in circumstances and move them through the stages of acceptance.

Types of services that may be offered range from discussing and helping staff manage their emotional reactions, to providing coping skills and techniques, to assisting managing the impact on family/spousal relationships.

ABOUT THE AUTHOR

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Dr. Cullen has written 25 publications, conducted many reviews for government, been featured in more than 50 articles, and presented in more than 100 major conferences, in addition to research with various universities since 1994, including Oxford, Warwick, and Melbourne Universities. Her in-depth knowledge has been globally recognized, resulting in reviews of outsourcing research for the Harvard Business Review, California Management Review, and the European Conference on Information Systems. She can be reached at scullen@cullengroup.com.au or visit www.cullengroup.com.au.