PEOPLE PLANNING

Personnel Considerations for Outsourcing

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Operations outsourcing continues to grow in scope and popularity. Properly executed, outsourcing can eliminate distractions from non-core activities, expand scalability and geographic reach, help to "future proof" technology costs and reduce overhead expenditures. But while the benefits can be substantial, outsourcing also brings a range of complex considerations.

Two of the most common misconceptions about outsourcing are that it eliminates the need for in-house operations expertise, and that the universal purpose of outsourcing is to reduce staff. On the contrary, in-house operational knowledge remains vital if an outsourcing relationship is to be productive, and institutions decide to outsource for a diverse range of reasons with an equally diverse range of approaches to the repurposing and/or redeployment of personnel.

There is no single best practice with these matters; every organization must chart its own path based on its culture, values, business priorities and local regulatory requirements. However, drawing on experience with dozens of clients, we have seen that the most successful outsourcing initiatives share a common thread: thoughtful analysis and planning around personnel considerations.

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STRATEGY, RATIONALE & THE OUTSOURCING MODEL

Institutions can opt for decidedly different ways of managing outsourced activities, which in turn define the effects on personnel. In the broadest terms, there are two basic approaches that can be employed to outsource operations in their entirety, or for specific component functions:

- **Full or "True" Outsourcing** – This refers to the comprehensive transfer of one or more operational functions to a third-party administrator while ceasing to perform that function using in-house resources. This approach transfers workload, cost, and a portion of the operational risk to a third-party provider. At the same time, the manager must relinquish a measure of control over how operations are performed.
- **Shadow Outsourcing** – This refers to the transfer of official responsibility for one or more functions to a third party while continuing to perform in-house processing. There are a variety of motivations for this approach. In some instances, shadow outsourcing is a temporary function to help the manager gain comfort with the administrator's processes. In others it's a permanent part of the model.

Naturally, shadow outsourcing requires a substantial number of operations personnel to continue with current functions, while full outsourcing creates more redundancy. Where the primary objective is cost savings, a full outsourcing model may be the choice. However, for managers seeking to enhance operational controls, support improved business resiliency, or meet investor/regulator demands for independent administration, a shadow model may be more appropriate.

ADDRESSING THE SHIFT FROM FUNCTIONALITY TO OVERSIGHT

Outsourcing creates a shift in the purpose of operations personnel. Internally managed operations focus on processing and data delivery for the front office. With outsourcing, that focus shifts to an oversight and governance function. Regardless of the model employed, operations expertise can contribute to the success of the outsourcing program.

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- **Relationship Management** – Outsourcing requires a dedicated contact to manage the administrator relationship, ideally someone with substantial operations expertise. It is tempting to assign this role to front-office personnel or executive leadership to maximize cost savings, but in our experience, doing so can distract key personnel from their primary roles, while an operations-oriented lead tends to yield a more effective relationship.
- **Business Process Design** – Outsourced activities do not occur in a vacuum; they must be integrated with the rest of the manager's operating model. Effective integration requires operationally minded professionals who can think through controls and workflows for integrating outsourced and in-house functions, design effective change management procedures for other groups within the firm, and collaborate with the administrator to design efficient business processes.
- **Governance and Quality Management** – Oversight is most effective when performed by individuals who can evaluate and understand the strengths and limitations of technology and operations platforms. Operations professionals have the expertise and background to understand the administrator's controls, assess the quality of the administrator's work, collaborate to resolve issues, and generally manage the relationship efficiently.

Dedicating time and thought to managing this change helps promote long-term success for the overall outsourcing initiative. Specifically, managers should consider the level of resources required to support oversight and governance and develop a training plan to help personnel transition to their new responsibilities.

DEVELOPING A PERSONNEL STRATEGY

Managers have several options when considering personnel matters: they can retrain and redeploy resources to other functions, seek a "lift-out" arrangement and transition staff to the administrator, or reduce or eliminate staff. Staff reductions are still common when cost control is the primary objective. But in an age when firms have leaner personnel structures, the redeployment of operations personnel is an increasingly popular option: institutions can leverage that additional capacity to pursue goals that had been postponed or cancelled due to resource constraints.

In all instances, this decision is driven by several key considerations:

- **What are the strategic goals of outsourcing?** Managers seeking reduced costs may elect to downsize, while institutions seeking better technology, reduced operational risk, or other advantages may elect to lift out or redeploy staff.
- **What is the scope of the outsourcing relative to the business?** Mapping out the function(s) to be outsourced, their strategic importance to the business, and how many people are affected relative to the size of the organization can all help drive decisions around where to convert staff to oversight functions, where to redeploy them, or when to make them redundant.
- **If additional resources were available, how would they be used?** Redeployment scenarios need to be assessed within the context of the organization's priorities and the skill sets of the staff. The value of redeployment is maximized when the skill sets of staff align with the organization's strategic goals. Still, looking at the future and having a strategic view of post-outsourcing resource deployment (how many resources are available, to which functions will they be redeployed, in approximately what proportions), helps management make informed decisions around an overall personnel plan.

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- **How are other personnel affected?** Outsourcing affects everyone in an organization: teams will see their daily routines changed in the form of new procedures, systems, data formats, etc. Understanding and documenting these effects relative to the staffing model help inform a sound strategy: tapping operations professionals to aid in change management can maximize the success of the broader initiative.

COMMUNICATIONS AND TRANSPARENCY

When addressing personnel matters, communication – timing, content and transparency – is critical. Handled well, outsourcing can actually be a positive experience for staff, but failure to manage the message appropriately can have significant consequences.

The idea of outsourcing understandably generates anxiety among staff at all levels of an organization: operations teams are concerned about their futures, while other groups are concerned about how outsourcing will affect their daily routines. We have seen our clients manage this issue most effectively by using staff communication plans that are flexible, transparent and endorsed by senior leadership.

- **Timing** – Managers often restrict knowledge of outsourcing activities on a "need to know" basis during the initial stages, communicating with staff once plans are more fully formed. While this is understandable, having contingency plans to accelerate communications is a good practice, as rumors and speculation can damage employee morale, increase turnover and lower productivity if left unaddressed.
- **Preparation** – Once the strategy is set, employers can anticipate many of the most pressing questions from staff. As the official announcement nears, be prepared to discuss the strategy and rationale for outsourcing, as well as answer questions around timing, effect on non-outsourced staff, training and redeployment plans, and severance/job placement services, depending on the situation. If a lift-out is part of your plan, consider inviting representatives from your outsourcing partner's HR group to discuss benefits, the transition process, relocation plans, and similar items that will affect staff.
- **Transparency** – Outsourcing is a sensitive topic and emotions can run high. Employees will have specific and urgent questions, and answering those questions can do a great deal to alleviate concerns. Management should be prepared to deliver clear and honest answers to employee concerns, especially when the news may be bad for some employees. While announcing major changes can be a very difficult message for senior management to deliver, transparency, honesty, and sensitivity can aid significantly in helping employees cope with change and mitigate its effect on morale and productivity.

Outsourcing presents each organization with a unique set of challenges. The benefits can be substantial, but outsourcing does have profound effects on personnel. Acknowledging these, actively managing employee concerns, and having a well-considered strategic plan are critical success factors in any outsourcing initiative.

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