

More Knowledge



File Force Pty Ltd
Phone 1 300 300 395
sales@filing.com.au

SUBJECT	THE PAIN AND GAIN OF OUTSOURCING
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THE PAIN AND GAIN OF OUTSOURCING

by

HARRY E HAXTON

BEcon, MARM, AFAIM

FOUNDER AND CEO

FILE FORCE PTY LTD

[Http://www.filing.com.au](http://www.filing.com.au)

From www.fileforce.com

This paper was given to the 15th National convention of the Records Management Association of Australia in Brisbane in September 1998. Harry Haxton is the Founder and CEO of File Force a major employer of records management personnel in Australia with daily activities in Queensland, New South Wales and Victoria.

File Force is a dedicated records management company providing services to government and private enterprise in outsourced records management services.

Harry has the Status of Member in the RMAA, is a past Federal President and Federal Secretary and was the chairman of the first convention committee in 1985. As author of two books on office administration and filing, "Managing Office Mayhem" 1989 and "Filing" 1995, he is one of the leading published authors in the field, gaining Best Seller Status with "Filing", including sales in Europe and America.



THE PAIN AND GAIN OF OUTSOURCING

One of the oldest professions in the world was to outsource a service to a third party. Outsourcing is so common it is taken as part of daily life.

As citizens we outsource many things. We outsource our defense to the Army and Navy, our protection to the Police Department and our Education to Government or private Schools. In fact the government is the biggest outsourcer of all. P&O have been cleaning offices through Berkley Challenge Cleaning for years. Koné, Otis and Schindler have been maintaining our lifts for decades. The local electrician changes the light globes. Xerox provides and maintains the copier services. Councils outsource the collection of garbage to Cleanaway and JJ Richards, and Qantas outsources ticket sales to thousands of travel agents throughout the land.

Now managers through either economic rationalisation or common sense in dealing with specialists are looking at alternatives to getting a better service, which may also produce a saving or improved productivity in the business enterprise.

IS THERE PAIN OR GAIN?

The answer to this is a totally political one. It really depends on whether you are an employer or an employee as to your reaction. It also depends on whether you are contemplating the use of outsourcing or you are already outsourcing some aspect of your business.

One of the great misunderstandings of the outsourcing debate is the loss of jobs. It strikes me that those promoting this theory firmly believe that the outsourcer is using robots to do the work. There may be some jobs lost, or people paid less wages than they are offered now, but generally speaking the reduction in jobs is minimal. There is a future working for the outsourcing company.

STORM IN THE BEHOLDER'S TEACUP

I am yet to find a business that does not outsource something.

It was my pleasure in 1972 to be part of the exciting challenge to records management in establishing the first commercial records repository in Queensland (possibly Australia). It was a time when everyone said that they really could do it themselves. There were so many reasons why it should not be done outside. It was called "outside storage", not "outsourced storage". It is now a \$60M plus per annum industry that everyone takes for granted. It is now an industry which employs thousands of people. It is an industry that is entrusted with many important documents. It can deliver a service, due to economies of scale and competitive forces, which we individually cannot deliver to our employer.

Both the true records management professional and the economic rationalist amongst us, see the inherent benefit of outsourcing those tasks that require specialised and repetitive work to a specialist company that can provide you with that service at all times, irrespective of the day of the week. John Maynard Keynes was proven right; economies of scale do work. There are advantages in dealing with a specialist who is a professional in what they do, be that a radiologist or cable TV man. It makes sense to get the thing done by people who know what they are doing.

There is buying power, training power, service power, productivity and employment power.

The beauty of outsourcing lies not so much in the potential to reduce costs of the service but the costs, and irritation, of managing those services on a continuing basis when that service is not one of your core competencies.

Let's get the hard bit out of the way.



THE PAIN

For the **employee** who is currently employed in the task.

- ✓ The pain is real to those who have to bear it.
 - ✓ Possibility of losing your job and not getting it or something like it back again
 - ✓ Possibility of being unemployed at a time in life when you really can't start again
 - ✓ Possibility of not gaining employment with the outsourcer
 - ✓ Facing reality that your section is not delivering the goods
 - ✓ The possibility that you are being over paid and the outsourcing company who is taking over may not offer you nearly as much.
 - ✓ Having to report and be responsible for your work in a way that you never have before.
- The pain is in your own mind!

For the **Employer / Management** who currently pays for the service

The pain of outsourcing is

- ❖ Having to define the service that they really want
- ❖ Having to face the employee with the fact that you are not really satisfied with their service or that you are looking at the service levels of other providers and you really want to compare service levels and not some obscure notion of "loyalty, faithfulness and or obligation"
- ❖ Coming to the realisation, as a manager, that someone else may be able to provide a service better than you currently do
- ❖ The possibility of knowing that at the end of this, you may be out in the street with all the others
- ❖ The pain of going to all the effort to look at it and coming to understand it
- ❖ Having to learn new skills to manage the outsourcing project. It is a new ball game. They must become contract managers, not emotional managers.
- ❖ The employer no longer has daily responsibility. They have a long-term responsibility.

For the **Shareholder / Ratepayer / Taxpayer**

The pain is

- ❖ Why does it take so long for them to make a decision.
- ❖ Why is it so difficult
- ❖ If they really are so indispensable, why are the outsourcing companies so successful
- ❖ What is all the fuss about
- ❖ What do I put in the service level agreement
- ❖ They have to force management to accept and work with change.
- ❖ They must demand a fair contract.

In fact the pain is "the service level agreement"

A service level agreement is a document that outlines in detail the needs, processes, costs and deployment of personnel at a skill level which will enable the task as defined to be concluded to the satisfaction of the recipient organisation.

The major problem with most is that they don't have a service level agreement. They rely on "Faith", they believe that they are 'getting a good service, from a professionally qualified person". The good bit is that many of them are getting a good service from a professionally qualified person. But that person, the records manager is not the whole problem. Part of the problem is that the employer has been lax in the past, and instead of taking the bull by the horns, has taken the easy way out and placed those who should have left, in records, distribution, and administrative services.

They are satisfied with no service because there is no "Service Level Agreement". There is no contract, or even an implied contract.

Now all of a sudden, shareholders – in government called "STAKEHOLDERS" are demanding the "S" word. They want **SERVICE**.

What is service? **Service** is the thing you like to complain about at McDonalds; it is so good it is annoying to some people. It is giving the customer what they want. Now for those with a rye smile on their biased faces about McDonalds, think about this. "When you are selling a million hamburgers each day, every day of the year in 100 countries – you are doing something right. Yes you are giving 100 million people a day what



they want – a hamburger of a specified quality, quantity, service level and consistency which mean that tomorrow, they will buy more.”

In the records management industry we are giving everyone so much service, the customer is so satisfied, that they are today looking at the computer and imaging processes to replace us at a rate of knots that should worry you more than the potential fear of having records outsourced. The user is looking for “painless” records management, where they have a degree of control over the level of service.

The records manager who finds themselves in this position, should look on the outsourcer as the last possibility of them keeping a job at all.

The community has a service level agreement with McDonalds and Hungry Jacks that they have written. They don't see it, they don't feel it – but they know it We buy burgers because we don't want kebabs, we want to get a burger delivered in less than 2 minutes and in a box or wrapper that indicates hygiene etc etc. We do have a service level agreement. We did not write it, it was written by a smart “outsourcer of food preparation and delivery” who wanted to stay in business.

THE GAIN

The gain is again in the eyes of the beholder. If you don't want to see any gain, then like all things political, there will be none. (in your mind anyhow). The gain is a change in work ethic, and a change in productivity with a movement in the workplace relationships that have grown over the years.

For many the change to outsourcing is a change from an internal amateur to a external professionals where backup and research and development that is a matter of course not a matter of pot luck. Where training is demanded and given, not an afterthought when the system fails.

Perhaps a subtle distinction between the Records Manager and The Records Staff would be appropriate in this setting. The Records Manager gains a powerful tool to increase service delivery and quality whilst outsourcing the risk. The records' staff have other opportunities to consider.

From the **employee's** point of view.

If they are good at what they do, like the industry and want to stay, they will gain.

- ↳ Greater work and personal opportunities
- ↳ Greater variety of work
- ↳ Greater support
- ↳ Greater flexibility
- ↳ Better training
- ↳ More supervision
- ↳ More support
- ↳ More harmony
- ↳ Less Ulcers.

From the **Employer / Management** point of view.

- ↳ They now know what they can expect
- ↳ They are and feel in greater control of the job, by having an emotion free means of requesting work.
- ↳ They can complain more easily and frequently
- ↳ They have more power for force issues where previously they had to take into account the office politics first and foremost.
- ↳ They now know how much it is going to cost at the end of the year.
- ↳ There is no more politics in the management of the records.

For the **Shareholder / Stockholder's** point of view

- ↳ There is now a service that can be measured, quantified, compared and evaluated that may not have been so in the past.
- ↳ They know that there is no longer any reason for inactivity that is really an excuse.
- ↳ They know that they have the resources of the service provider's corporate research and development at their disposal, for future expansions, where previously they had to develop all that expertise in-house, and then maintain it.
- ↳ They know that they can change an unsuitable supplier at the end of the contract or during it, as a matter of common law.



- Services, which previously were run on indecision, are now run under a contract.
- They know that there are obligations on both sides of the service fence.
- They can plan for the future, and discuss long-term plans in confidence with the service providers management.
- They now they have a **PARTNERSHIP**

THE PROFESSIONAL PARTNER

The professional is an expert in two things

At an **Executive Level**

In **Managing** Multiple Projects and Contracts

At a **Management Level**

In **Providing** a professional SERVICE in their area of expertise in partnership with the client and the client's staff.

The professional outsourcing company is one that has experience and true expertise in their service area. In transport it is the transport companies with the trucks; in storage it is the storage companies with warehouses; in personnel it is the agencies with placement skills; in car rental it is the man with the most cars; in car leasing it is the man with the cars and the infrastructure to face the music. In records management it is the management that can provide the project and contract management with trained records management personnel who will deliver the level of service you want.

To quote from the KPMG London Web Site

"Whatever the immediate reason for outsourcing, those outsourcing arrangements which prove successful have common features:

- Clear objectives, the implications of which have been thought through and understood.
- A realisation that cost is only one aspect.
- A commitment on the part of the organisation to manage the relationship.
- Recognition of shared mutual benefit and risk.
- Reliance on the contract as a manual rather than a set of legal rights and obligations.
- A focus on people – those who are outsourced and their importance to the enterprise.
- Clarity on what services are required and how they are currently being provided.
- The starting point is to understand the function performed by the service to be outsourced.
- The key is not to look at the service itself but at what it contributes to the organisation's competitive position.
- Cost will always be one of the key considerations driving the outsourcing decision. But few organisations undertake a complete and fair assessment of the existing function's present cost, value or risks before outsourcing.
- A function's present value to the organisation may be difficult to determine. It may appear to be a disproportionate cost centre because other functions are running more leanly as a result. The IT function often finds itself in this position.
- A function may suffer from indivisibility. It may be difficult to disentangle if it is integrated across the organisation.
- The organisation may underestimate a function's strategic importance. It may outsource an aspect of the function's activities which is really a core competence.
- All of the costs associated with outsourcing should be included in the decision process, such as the switching costs associated with contract inception and termination. Key to this can be redundancy and tax.
- Whatever the motivation, it is crucial to factor in the management time and expertise, which will be required to manage the relationship effectively.
- The organisation should ask itself where the supplier is taking its profit. The organisation should understand the supplier's economics. A function should only be outsourced if the supplier's degree of



efficiency covers the saving required to achieve the sale to the organisation, the supplier's marketing and other expenses and provide it with a margin.

- ☞ The organisation should anticipate the supplier's cash flow and consider issues such as price-escalation, obsolescence, the supplier's financial strength, the supplier's investment as well as its profit.
- ☞ The organisation should understand the supplier's mission. Is it to control the client?
- ☞ Emphasis on cost-reduction by the supplier may militate against innovation. A low-cost supplier – for instance providing the outsourced maintenance of mainframe legacy systems – may be competitive on price precisely because it is exploiting economies of scale without the need to be innovative or remain abreast of developments in the market.
- ☞ The organisation should competitively benchmark the function prior to outsourcing it. Otherwise there is a risk that inherent inefficiencies will be built into the service level sought from the supplier, to the organisation's competitive detriment.
- ☞ The promised cost benefits from outsourcing must be properly projected over the term of the contract. Some contracts are little more than over-priced leasing arrangements. The organisation's desire to preserve flexibility may mean that any cost-savings are lost in additions and variations which are priced separately."

Source kpmg.com.uk Copyright 1996.1997.1998 KPMG LONDON

When considering outsourcing, the following list indicates the potential problem areas when you think you are going the right way and doing the right thing.

Money	Should be the last thing on your agenda but it is generally the first thing that makes you really look at outsourcing. Saving cost is generally at the cost of service. This is the reason that many insiders dislike outsourcing so much. Really they do not dislike outsourcing, they dislike "Management stupidity". As a purchaser you must understand that the service provider will want to make a profit and work within a commercial market. An entrepreneur wants to make money as easily and hassle free as possible. A contract purely on money will generally have so many problems that you will not make money. Ipso facto the thing disintegrates, because of greed on the part of the purchaser and stupidity on the part of the vendor.
Trend	It is the trend. So are four wheel drives, but we don't all need to have one. You can look, but a good outsourcer will not want the business, because you don't really know what you want. For the outsourcer it is the wrong client to have, as it is not a partnership, it is abuse of privilege.
Productivity	A good reason for outsourcing but also a good reason for a change of management internally. Get to understand what can be gained. Outsourcing is a big decision. It is also a long term decision ie one where both parties want to be here in 5 years time, discussing a renewal. .
Productivity and cost saving	A difficult initial ask, but a good long-term ask.
Productivity but keep the same staff and conditions	An impossible ask. So you really expect your staff to change because they now have their cheque deposited in the bank by a different company? Dream on.
Productivity + New Technology	To outsource and change the technology that neither you nor the outsourcer have experience with is stupidity. When the outsourcer has the expertise, and you go ahead, you will have to follow for a time before you can lead the contract. This will take a very expert contract manager. This may be a case of half-and-half outsourcing.
Partial Outsourcing	A really good option for your management to get to know who to manage a contract. Our experience in File Force is that the client has no experience in managing the contract. We have lots as we write so many.

From www.fileforce.com



In the first instance all that most people talk about is the money aspect of outsourcing. Management thinks of head count and how to reduce it without loss of service. They want to focus all their energies on core activities. The real savings are very long-term, they are part of the whole infrastructure environment of the purchaser. Using an outsourced service provider for something you used to do internally will definitely mean change. You have more chance of winning lotto than getting the service provider to do exactly what you are doing now.

Because it is a different organisation, because they have a different structure, because they have a completely different workplace agreement, you have a different set of solutions to the same problem. After that much of it is all a matter of opinion. We can argue till the cows come home about which way of doing it is better. The service provider concentrates on his core business of providing a service that you as a corporation want.

The end result is the user's confidence in the service being provided. As this is something that you probably never measured before, you really may have no comparison. Certainly we have found that there is a need to check with the users independently prior to and during a contract to evaluate if we are providing the service level that they want. Much of this can be antidotal and or in impromptu "Thank you" s from the client's staff.

WHEN AND WHY TO OUTSOURCE!

"Never Outsource something you don't truly understand, or because it's a problem. Successful outsources rely on clear understanding of the task, the service levels, and the responsibilities of the parties, a huge management focus and commitment to success, and a flexible approach by both parties.

Outsourcing is a useful tool but only one tool in the tool kit"

(Catherine Thompson of Bankers Trust- interviewed by Janelle Schreiber interviewed in FM Vol 4 #4 Page 21.)

OUTSOURCING AND THE FAMILY SILVER

In conclusion may I say that when you enter into a partnership with a service provider, you do not give away the family silver any more than you do in a marriage.

A partnership can be written to govern part, some of, most or all of your records management. The chances are at the present that you already outsource your off-site storage. Thus you are familiar with the processes. In the past you have always been lead by the supplier, and that is probably why you are wary.

Today most of the suppliers have also learnt the lessons of long-term business planning. You must be prepared to discuss with them your problems, your misgivings, and your worries. It is a partnership where all desire a "win win" outcome. It is not another opportunity to screw the capitalist pig to the wall.

You should embark on the partnership with the same skepticism as one does a relationship with a significant other in your life. It's in both your attitude to win and the pre-nuptial agreement, that determine success or failure.