

To outsource or not to outsource? That is the corporate version of Hamlet's famed question

Find partners who can enable what uniquely differentiates you... but avoid giving away your core competence, argues **Jacques Linden**.

Every organisation today outsources some of its corporate activities. Outsourced services range from simple utilities such as cleaning and security, for example, through to major strategic services such as supply chain management, direct customer services and product delivery. If business managers reading this article map out their value chain on a piece of paper and identify the number of different partners contributing to the creation of their final product and the sustainability of their success, they will end up asking the following questions: "Who actually controls my success or performance? Where is there too much influence in the hands of others? Where is the risk to our stability, growth and longevity?"

Today's organisation is a cocktail of components in-sourced and outsourced. Outsourced 'ingredients' can include:

- The creation of your vision
- The definition of your culture
- The way in which you grow and reproduce
- Your execution and implementation
- Your strategic thinking
- Your core infrastructure
- The way in which you make your product

An 'organisation' could be defined as the sum of all its goals, strategies and processes, powered by the people working within it, each organisation being unique and distinct from another. It has its own characteristics and personality, with a 'culture' that creates its own fingerprint. Therefore, what becomes a concern is when an organisation appears willingly to outsource its core thinking. This could be the governing processes which control its performance or - more worryingly - the definition of its very purpose.

Every single day, organisations need to open their doors to outsource partners because it would make no financial sense for an organisation to perform every single function for itself.

But how do you find the right outsource partner - it makes no sense simply to allow armies of consultants who quite openly admit that they are probably not experts in your core business to wander in and get paid to be educated in the basics of that business. Consider going to see your

doctor when you are unwell: there will probably be a good systematic process or method to reach a diagnosis and a recommendation, so why not take the same approach: outsourcing analysis would be a wise move. When it comes to the remedy we always want to be sure the surgeon conducting the operation is both highly experienced and also incredibly successful. You wouldn't let just any surgeon practice on your child now, would you? This is perhaps where things can start to go a little wrong.

Every organisation wrestles with the challenge of really getting to know its core purpose. For example, do you manufacture or distribute or retail, or do all three or any combination of all three? Are you in the right markets? What are the right markets? Who is your ideal customer? If you are not in control of the process this is where it can start to go wrong - how do you determine the answers to these questions? It is in this formation of original thought that every organisation must begin by being fully in control.

Lets face it, who can resist a decent, respectful offer of 'a little help' with thinking, using solid processes to determine new goals and strategies, ably supported by a sincerely run 'workshop', characterised by clear, simple thinking, typically followed by a little more help with the writing of implementation plans and a 'communications strategy', and then cascaded down to the troops. Then head hunters help you find the right people, a well-respected training company offers to develop your staff skills, a well priced manufacturer presents an efficient solution followed by a great logistics partner, and finally all of these offers of support are capped by a service company ready to merchandise your product or service into the big chains, or to franchise your stores. Can it all be so easy?

The tale above is a little simplistic, but it doesn't take much today to reach the point where you can become a 'virtual' organisation. Questions such as "Who are we?" and "What are we?" can sound a little immature when we are all adults, but we better know before we do get taken up by markets which have become specialists at stripping everything down to owning the customer and dominating the supply chain.

It is therefore important to know where in your value chain you must have complete control. It is likely to be from the beginning to the end

of the value chain in critical areas starting with primary research and going all the way through to world class customer relationship management. If nothing else such a process of questioning “Who are we?” and “What are we?” will begin to find the answers to “Where do we, and only we, control these parts of the value chain?” If you already know, it just serves as a useful reminder that even the best laid plans can be thwarted by a little complacency.

So what do you outsource and how do you outsource successfully?

Core Competencies are Generic

So what makes you unique? Start by creating a relationship between people competency and organisational competency. The relationship is so close that we often confuse organisational core competencies with people competencies and technical skills.

It is well accepted today that core competencies are generic. Products are broadly generic in terms of their core functions and service delivery is reluctantly accepted as a major differentiator, but thankfully we are all generally poor at it. When we examine core business competencies – for instance, service delivery; logistics solutions or customer relationship management - we rely in each case on people competencies to execute them.

There are essentially three types of people competency:

- Core competencies exist in everyone’s job and are therefore central to every person’s performance. The level of competency can range from novice to expert.
- Elective competencies refer to areas of responsibility over and above the core competency. Again the level of competency can range from novice to expert.
- Technical competencies refer to specific and specialist competencies, such as those for an electrician or aircraft pilot.

Finding and holding on to your ‘Differentiators’

Finding what truly differentiates you as a business generally means finding your core business competency. It allows you to stretch ahead giving you more room to grow. Most companies know what these are. For instance: the recipe for your product, your manufacturing or production processes, your huge reach and international footprint, your speed in bringing new products to market every week, or your cost of distribution.

If you know your core differentiator or differentiators, you can then focus all your resources and capabilities, which makes finding supportive outsourcing partners easier. There are a number of models that can assist you in defining the type of organisation and structure you need.

One such model is the hub and spoke model. The hub being the ‘home’ or ‘host’ to your core competencies and differentiators, the spokes being the non-core support services which you can then outsource. The hub and spoke model also determines the people competencies you will need – core; elective and technical. These are also called skills groups, and they connect your core business competencies to your people competencies. ▶

CORE COMPETENCIES

Core competencies

- 8 core competencies
- Each has 5 discrete and progressive performance levels
- Every employee from CEO to newest employee must develop these core competencies

Operational strategies

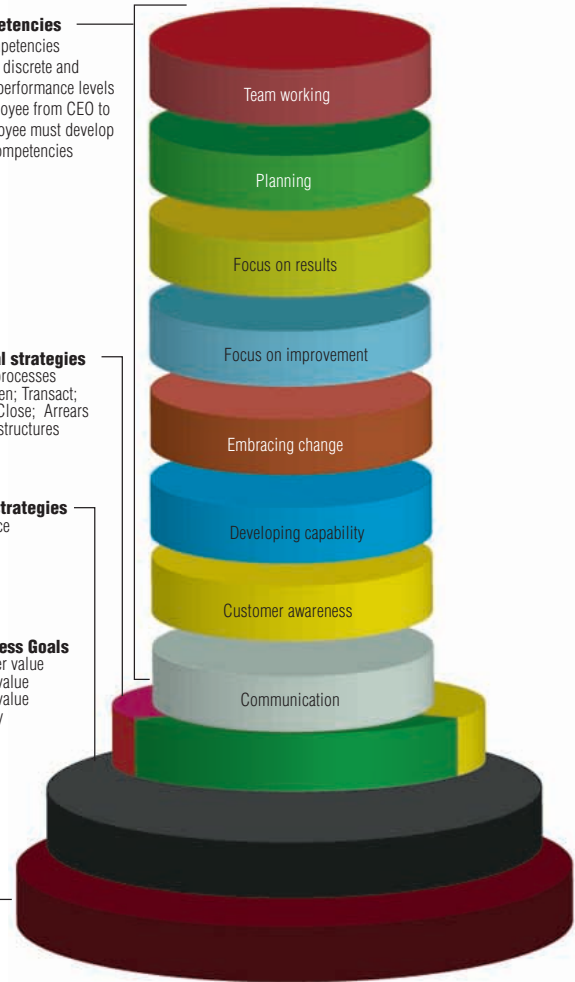
- Business processes
- Attract; Open; Transact; Maintain; Close; Arrears
- Operating structures
- Staffing

Business strategies

- Marketplace
- Customer
- Product
- Service

Core Business Goals

- Shareholder value
- Customer value
- Employee value
- Profitability
- Growth



CORE SKILLS GROUPS



These skills groups cover core generic competencies shown in the diagram. A golden rule in outsourcing is that once you have defined your core skills groups you should never leave one of these functions unattended, and you should never outsource it.

Further Essentials for Good Outsourcing

There are many good and sensible procurement processes, all of which are extremely efficient at searching, selecting and engaging an outsourcing partner. However two essentials of effective outsourcing are:

- Outsourcing for success, and
- Realising the benefits through benefits management

If these two essentials are adhered to there is an excellent chance of the relationship becoming a partnership and lasting a long time.

To outsource for success Lovejoy developed eight tests for very large projects to challenge all major decisions within a project. These tests translate well into testing outsource planning and projects.

Customer test	How will the services benefit the customer's customers; finances; people and processes?
Means test	Are the means (the how) for the services explicitly explained and demonstrated?
Identity test	Is it completely clear who does what?
Measurement test	Are all the input (process) and output (result) measures of the services clearly expressed?
Sufficiency test	Are all the output results sufficient now and in the future to warrant the costs of outsourcing?
Side Effect test	Could the outsourcing activities and outputs have effects on the rest of the business or related stakeholders?
Assumption test	Are there any untested assumptions in the process of outsourcing or related processes?
Jargon test	Are there any processes or terms we can't immediately explain?

A benefit delivery plan is a simple but robust methodology for ensuring benefits are consistently and systematically managed. It identifies every question which needs answering and addresses practical challenges such as day-to-day competing commitments and dependencies between your company and the outsourced partner.

There are of course many other factors and considerations when setting up a good, long- lasting outsourcing relationship, but the elements mentioned above - competency frameworks, hub and spoke model, skills groups, benefits management and Lovejoy Tests all aid successful design.

Simultaneous Satisfaction

When the specific nature of your outsourcing arrangements involves your outsourcing partner as the party who delivers the final service to your customer, a major requirement is a method for measuring the satisfaction of both the customers receiving the service, and the people delivering it. The test of 'simultaneous satisfaction' is one of the most critical success measures. This test can apply to any business directly delivering services through its own staff to its customers, but it is even more crucial to measure this when the final customer touch point has been outsourced.

SIMULTANEOUS SATISFACTION



Practically, Gallop published a great process and some phenomenal data in October 2007 in the book *Human Sigma*, which examined the drivers which stimulate long-term advocacy from customers and employees, both rational and emotional. This, Gallop argues, and supports by means of data sets, are absolutely necessary conditions for the long-term success of a company.

Customer drivers

Four dimensions of customer emotional attachment				
	Order	Factor	Definition	Meaning
↑	4	Passion	Can't imagine a world without it, it's a perfect company for people like me	Ultimate connectedness, lifelong membership, as employees come and go, I will be loyal to the brand and the company.
	3	Pride	Treats me with respect, I feel proud to be a customer	A sense of positive association and identification with the company, being a member says 'this about me as a person', it sharpens my own self concepts.
	2	Integrity	Fair resolution of any problems, always treats me fairly	Does this company treat me the way I deserve to be treated? If something goes wrong, can I count on this company to fix it quickly?
	1	Confidence	Always delivers on the promise, a name I can always trust	Is this company trustworthy, can its employees be trusted to do what they say they will do, day in and day out?

Customer emotional attachment © Gallop Inc.

Employee drivers

Four dimensions of customer emotional attachment				
	Order	Factor	Definition	Meaning
↑	4	How can we grow?	Opportunities to learn and grow, I progressed in the last six months	Employees who have the opportunity to discuss their progress develop a deep emotional commitment to the company, once it is formed they look to see where they can go next 'within' the company, they build their identity around their role; this deep psychological affiliation increases the desire to belong and remain. It tackles ROAD (retired on active duty) Warriors and reinvents their contributions.
	3	Do I belong?	It feels like my best friend, co-workers are committed to quality, clarity and belonging to the mission and purpose of the company, my opinion counts here	Employees need to belong to something bigger than themselves, it's important to know 'Do I have friends here, does anyone listen or care what I have to say?' People commit when there is a common purpose, continuity, consistency, confidence in the company, leaders and colleagues, being part of it all.
	2	What do I give?	Encourages development, my boss and all managers care, I was recognised in the past week, I do what I do every day	Employees must experience early success in doing their job, the job fits their talent, skills and preferences, activity is enjoyed. 'I want to do this work, it suits me and I am constantly recognised for it in a way which is not superficial but meaningful to me'. This 'codes' a positive emotion onto the memory.
	1	What do I get?	Materials and equipment, I know what is expected of me at work	These two foundation requirements are the bedrock of an engaged employee – clear expectations and basic tools to do the job.

Employee Engagement © Gallop Inc.

What is interesting is that the dimensional stimuli for both are the same, so Gallop has in fact found a formula for connecting these two fundamentals, I would highly recommend *Human Sigma* to all managers considering outsourcing.

The conclusion is simple: when customers and staff are simultaneously satisfied it makes a huge difference to the genuine relationship, its longevity and the value created.

Making it Worthwhile

Simultaneous satisfaction is not an end-goal but a way of business life. It requires an understanding of:

Right Things - what we are doing (value of the behaviour), and
Things Right – how we are doing it (competency).
The net worth is the combined effect of the two.

Optimum Worth (+/+) is achieved where high value behaviour is delivered competently = RIGHT THINGS RIGHT™

Positive Worth (+/-) is achieved where high value behaviour is delivered but the competence needs more development = RIGHT THINGS WRONG™

Negative Worth (-/+) is achieved where low value behaviour is delivered competently = WRONG THINGS RIGHT™

Destructive Worth (-/-) is achieved where low value behaviour is delivered incompetently = WRONG THINGS WRONG™



Conclusion

Outsourcing is an excellent solution when well planned and managed. Professional outsourcers are very different from consulting houses in that they have to inherit and run the operations in the medium- to long-term, so good analysis and set up is worthwhile and essential.

Clarity of outcomes and definitions of scope limits are vital, but straying into the client's areas of core competencies and taking responsibility for those core purposes is very dangerous. Partnerships are forged by delivering within each and capitalising on both of your competence sets.

Outsourcing is a successful and powerful enabler if you are clear on the rationale for outsourcing and if you build a strong framework for making your decisions and defining your core competencies. Then select outsourcing partners who enable your differentiators and your core skills groups. ■