

INFORMATION TECHNOLOGY: MANAGEMENT ISSUES IN THE TRANSITION PHASE OF OUTSOURCING CONTRACTS

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This article concerns the investigation of management issues in the *transition phase* within information technology outsourcing (ITO) contracts. The ITO life cycle is used as the flow structure for the investigation. The user expectations that occur in the transition phase of the ITO life cycle are identified. The “Coetzee solution framework” is used to ensure that the identified management problems are addressed in a structured approach. The transition phase of the ITO life cycle, with its expectations and problems, are discussed in the context of the solution framework.

Key phrases: information technology, information technology outsourcing, transition phase, management issues

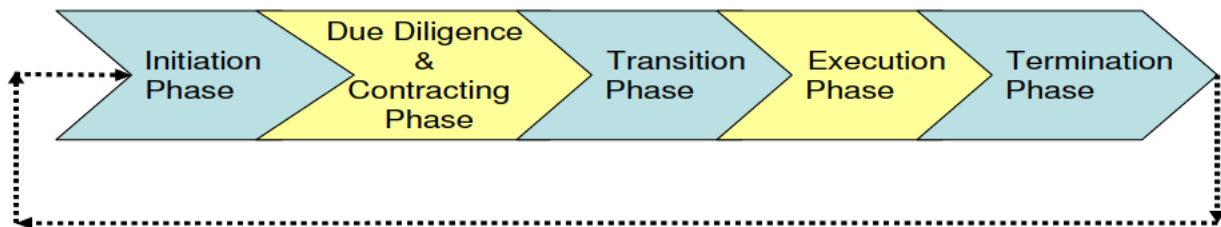
BACKGROUND TO THE MANAGEMENT ISSUES IN THE TRANSITION PHASE

This is the third article in the series of articles around the management issues that arise in information technology outsourcing (ITO) contracts. The first two articles focused on the initiation phase of ITO and the due diligence and contracting phase. It was clearly positioned that these two phases set the foundation on which the future success of an ITO is based.

Since organisations now view ITO as a vehicle to increase competitiveness in combination with the traditional drivers of IT outsourcing namely to reduce operation costs, improve information systems (IS) flexibility, focus on core competencies, and increase operational efficiency, it is critical that the foundation phases (initiation, due diligence and contracting) are properly executed (Casale 2001:3).

There are essentially five main phases in an information technology (IT) outsource contract life cycle as is depicted in Figure 1. Each of these phases will be briefly described in order to give context to the ITO life cycle phases. This article will only focus on the transition phase of ITOs to describe the management issues, user perception problems and the relevant solutions that are available to address the management and user perception issues.

Figure 1 Information technology outsourcing phases



Source: Siemens Business Services 2003:1; Simmons 2004:1 (adapted)

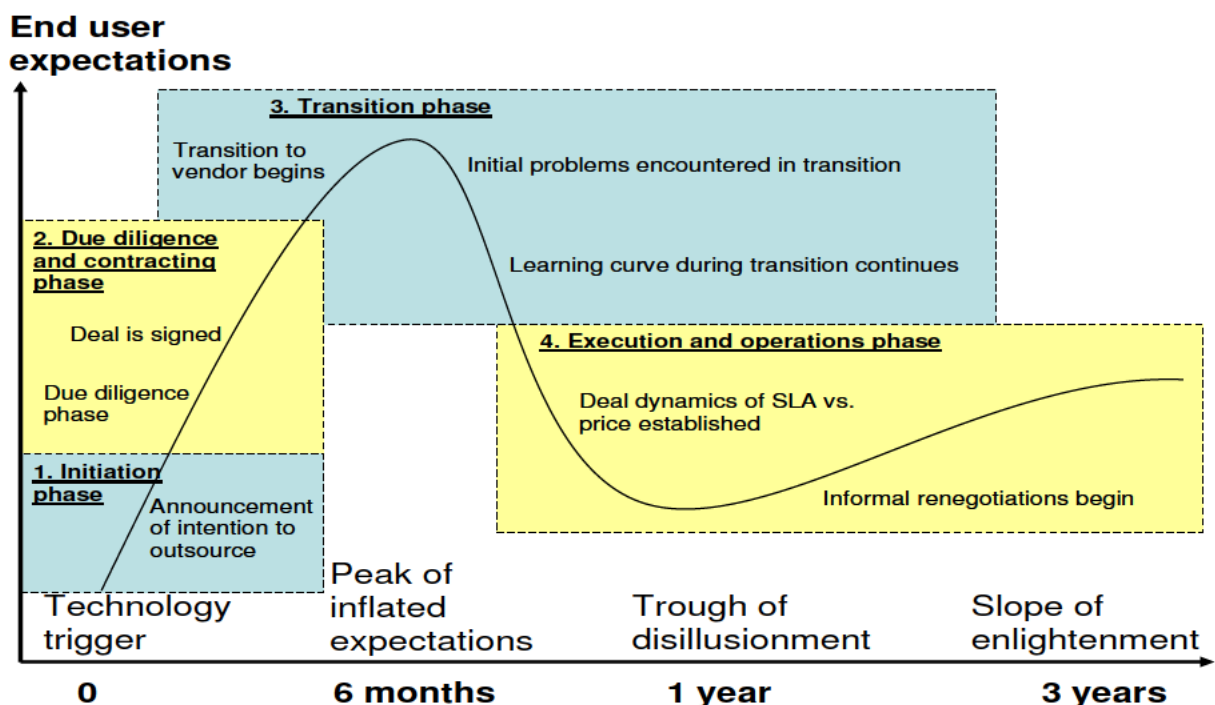
- *Initiation phase* – This is where the organisation has decided that they need to streamline the IT environment and as such start looking at the components they wish to outsource, co-source or run internally. The organisation will also at this stage typically prepare a request for information (RFI) to see what the vendors in the market can offer.
- *Due diligence and contracting phase* – Once the organisation has identified the vendor or vendors that they wish to continue working with, they open up their environment to the vendor to investigate the environment thoroughly in order to come up with the best and final offer (BAFO). There after the organisation evaluates the BAFOs and decides on the final vendor. Contract negotiation is entered into to finalise the outsourcing agreement.
- *Transition phase* – Most of the vendors then enter into a transition phase whereby the services, possibly the staff, assets, and management is handed over to the vendor.
- *Execution / operations phase* – Once the transition is complete the vendor assumes the responsibility for the operations of the contracted services for the organisation. This carries on for the full term of the contract period.
- *Termination phase* – When the contract period reaches its end, the contract is either renewed or terminated. In the event of termination, the services are either transitioned back to the organisation or to another vendor depending on the organisation's experience regarding outsourcing.

Each of the above-mentioned phases has a set of problems that arise and seem common to all outsource contracts. While many of the problems are brushed away initially, they often have significant influence in the longer term relationship and ability to deliver service between the vendor and the organisation.

The problems associated with the ITO lifecycle can be linked to the Gartner expectation curve on ITO (GartnerGroup 1999:4). The expectation curve is based on the expectations that are set by the vendor at the beginning of the ITO, but also by the end users within the customer who believe that dramatic improvements in service levels can be expected in very short times. Figure 2 illustrates the user expectation curve with the first four phases of an ITO mapped to the various stages in user expectation.

In this article the transition phase is discussed in the context of the problems that typically arise as time progresses. This is not meant to be an exhaustive discussion on the issues, but merely a short overview of some of the main problems that do occur.

Figure 2 End-user expectation curve



Source: GartnerGroup 1999:4 (adapted; phases 1 – 4 shown)

PROBLEMS THAT ARISE WITHIN THE TRANSITION PHASE

By the time the transition phase is entered the exact service scope should theoretically be understood by all and the vendor should simply be taking over the various assets and people, and start delivering the agreed services. However, in reality many vendors *underestimate the complexity* of the environment they are “inheriting”. Gartner (GartnerGroup 1999:9) has found that organisations embarking on major outsourcing projects fail to appreciate the complexity of the long-term relationships they are forming.

Responding to these challenges requires IS departments to radically restructure their management model. Vendors tend to take a simplistic and sequential approach to the transition without a *clear plan or understanding* as to how to optimally use the existing organisation processes and structures to cause minimal disruption in operations for the organisation. One of the most common reasons (GartnerGroup 1999:2) for the success or failure of IT outsourcing deals lie in an organisation’s ability to fully appreciate, plan for and manage its role in the arrangement.

At this stage *expectation management* becomes essential as all issues start being attributed to the vendor’s inability to deliver and is blamed on the ITO contract. The users do not always have a clear idea of what the transition entails and expect immediate improvement in service. *Communication* breakdowns at this point are common due to operational elements taking precedence. Putting in place *governance-, relationship- and operating structures* alleviates and assists in expectation management and communication, but is very often ignored as the teams just want to get on and do the job. This has dire consequences on the relationship, the user perceptions and the future management of the contract. Gartner (GartnerGroup 1999a:3) says that how an outsourcing project is managed is as critical as what is outsourced.

One of the most common reasons for the success or failure of outsourcing deals lies in an organisation’s ability to fully appreciate, plan for and manage its role in the arrangement. Organisations *must establish the skills, processes, resources and tools to effectively manage their outsourcing arrangements for the duration of the agreement* (GartnerGroup 1999:2). The vendor and organisation together should focus on ensuring that the user base understands the exact *scope of services* to be

provided to ensure user expectations are set correctly and also to prevent unnecessary *scope creep* which is often caused by misunderstanding of the original scope.

Change management also needs to start at this stage in terms of cultural elements of the staff involved in the ITO and the user environment in terms of the way the vendor will be delivering and interacting with the user base. This is unfortunately often seen by the vendor and organisation as a “soft issue” and ignored or prioritised at the bottom of the list of priorities. The change management and communication should be taking precedence over all during transition, as it creates understanding and thus creates indulgence of possible error situations. Harris (2002:31) states that the organisation should understand the vendor change management capability in order to identify any gaps there-in which might be required over and above the normal change process.

The *staff take-over* is normally an extremely sensitive issue as the staff would feel insecure in terms of their positions, their possible performance in the vendor environment and might even feel that the organisation has sold them out. Change management surrounding the staff-takeover process ensures success or disaster for the ITO at an early stage. It is often forgotten that the staff have a network of relationships within the organisation, irrelevant of the level, and will use this actively as either positive re-enforcement or as destructive perception creation in their attempt to find a “safe” niche for themselves. This can cause endless problems and political undercurrents within the end-user base. Research (Caldwell & Young 2003:29) shows that vendors consistently expressed that being candid and honest about job security is mandatory; communications with employees during outsourcing is critical.

It is further essential that both the vendor and the customer *controls and manages* every facet of the transition so as to have absolute control over the activities in order to ensure a smooth transition process. However, this is seldom the case. Harris (2002:32) indicates that organisations should not trust vendors to always do the right thing. Set up a project management team that manages the plans and actions of your vendors. This will minimise cost overruns, unnecessary consulting time and missed deadlines. This is especially the case when *taking over assets* from the organisation. The asset register from the organisation’s financial system is often

taken as the baseline and not checked or audited by the vendor. The chance that this asset register does not actually match with the physical environment is great as equipment configurations are often changed or components are removed without the information reaching the finance department. This is a *critical* mistake made by vendors due to them pushing to firstly get the deal done, and secondly to get through the transition as soon as possible.

Process definition is just as important and often completely underestimated. The mechanism used within the organisation and the new methods that the vendor will be using to deliver is often glossed over as this is expected to merely work. This is not the case, and is the basis for confusion between the vendor and the organisation. The end users are worst hit by the uncertainty of how things will operate, where they should go for assistance and what the escalation points are. In general, confusion reigns without proper process definition, operating structures and governance being implemented from the start.

Gartner (GartnerGroup 1999:3) has found that an organisation's decision to outsource is a "leap of faith" to pass control of in-house processes to a vendor. Too often, organisations divest themselves of these responsibilities in the hope that the vendor will correct internal business problems that have manifested themselves within the in-house operation. Although the vendors have economies of scale as an advantage, they have no "silver bullets" or "magic wands" for correcting flawed processes immediately. Throughout the six to 12 month transition period after the deal is signed, there is often considerable "thrashing" to position the customer/vendor relationship appropriately, which can exacerbate, rather than alleviate, the aforementioned business problems. Deals that are not established on a realistic basis and that are not good for both parties will not stand the test of time.

At this point in the Gartner user expectation curve, refer to figure 2 (transition phase), user expectation is normally replaced by user frustration and disillusionment sets in rapidly.

Faith in the ITO is replaced by internal *politics* and the organisation often starts looking for someone to blame because of the lack of success. *Buy-in* suddenly evaporates and the organisation starts questioning its outsourcing decision. The reason for this is all the issues identified in the due diligence and transition phase,

and not given attention, culminates in complete user frustration. Remedial action at this point becomes extremely difficult as faith and trust is normally gone.

THE COETZEE SOLUTION FRAMEWORK FOR THE TRANSITION PHASE

As indicated before at the point of entering the transition phase there should be a clear understanding of the operational environment within the customer and a comprehensive contract should be in place and signed off by the organisation board. The actual operational take-over from the organisation to the vendor occurs during the transition phase. Any assets or personnel to be transferred also takes place during the transition.

From this point forward most vendors have pre-defined frameworks and methodologies that they use to govern and operate the customer environment. It is key that the contract governance mechanisms, processes, procedures, and policies as defined in the contract phase be utilised without deviation. The vendor frameworks, or the elements of the framework to be used, should have been built into the contract. No new structures should arise at this stage.

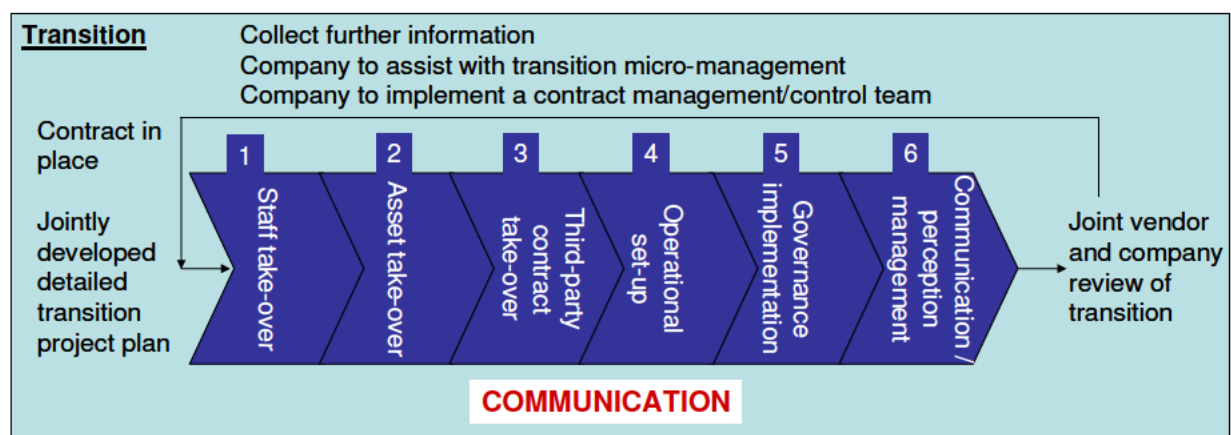
The transition phase consists out of a number of steps as per the framework suggested in figure 3. It is important to note that the sequence of steps is not important.

The transition phase is one of the most difficult phases as users within the organisation expect service improvements to take place immediately. There is also an expectation that the way in which the IT operations were delivered will change overnight. This phase is often referred to as the “honeymoon phase” as both the vendor and the organisation tries to please each other in all aspects of delivery and does not always deal with operational problems that arise. The “honeymooning” is not healthy for the long term relationship as lenience in dealing with operational problems cause problems later in the relationship in terms of a precedent being set as to how problems are dealt with.

The phase starts with the contract being signed and the vendor and organisation jointly defining the transition activities, planning for the full transition period. This cannot be lead solely by the vendor, as the organisation has an obligation to ensure

that the transition proceeds smoothly. Through communication, by the organisation and vendor, of the activities planned and the services and SLAs to be achieved, correct user expectations will be set. The plan that is defined must be holistic and cover all aspects of the transition including, staff take-over, asset audits and take-over, third party contract take-over, the operational takeover and the implementation of the governance mechanisms. The transition plan should be accompanied by a complete communication strategy and plan. Harris (2002:31) says that it is critical to spend sufficient time during the pre- and post-bid process to develop a comprehensive transition plan that provides ample time for the vendor to understand applications, protocols and locations supported.

Figure 3 Transition phase



The steps in the framework for this phase as per figure 3 are as follows:

Step 1: Staff take-over

This is a sensitive step that requires personal attention of the management of both the organisation and the vendor. The staff affected, or at the periphery of being affected, will be extremely uneasy with the entire situation as to their job security, their future roles and the impact of this on their financial situation and as such on their families. The vendor should have a specialist human resource team available to deal with the people issues in conjunction with the organisation's human resource department. The staff take-over entails a detailed mapping of benefit and salary structures, a skills mapping to the vendor staff position structures, a gap analysis on

training requirements, and any other issues that might pertain to the labour law in the relevant country. For buy-in it is important to negotiate these details with the affected staff and get their full support for the process and sign-off on the outputs.

Another element in this step that is often ignored is the organisation culture, or the lack thereof, and the impact of this on the vendor. The staff need to be inducted into the vendor environment and a special culture change programme should be available to deal with the transitioned staff. There are often large numbers of staff being transferred which could radically change the vendor organisation culture overnight. If this is not dealt with, then the vendor values and delivery standards could be affected due to the sheer volume of people being transferred.

Step 2: Asset take-over

The audit of the due diligence phase should be the basis for the transfer of the assets to the vendor environment. The financial structure of the asset purchase should be realistic and care should be taken that the organisation does not overcharge the vendor for the assets, as this results in an indirect loan from the vendor to the organisation (which is illegal in some countries), which the vendor in turn recovers from the organisation over the duration of the contract. The issue with this is the fact that future management of the organisation will have to live with this premium, and it might not be understood as to why this type of arrangement was entered into in the first place. The vendor should have a complete asset database from the due diligence phase regarding the assets in terms of age, hardware configuration and location and should, from this point forward, maintain a strict asset change control process in order to track and maintain all assets and any changes to them.

Step 3: Third party contract take-over

Care should be taken in this step by the organisation and vendor to fully understand the terms, conditions, durations, penalty structures, SLAs and cession rights of each third party contract. The vendor and organisation should jointly meet and negotiate the cession of these contracts to the vendor. Any legal dispute should be identified and agreements should be reached with all third parties in order to prevent disputes later in the operational delivery. The vendor should also question the value of each third party contract in order to ascertain the reason for the organisation having entered into the contract with the third party.

Step 4: Operation set-up

During this step the operational handbook, as many vendors refer to it, will be defined encompassing the governance structures, processes, procedures, policies, service description and SLA definitions as was negotiated and written into the contract. The physical delivery structures, organisational structures, helpdesks, and systems management tools will be put in place and phased in across the organisation. It is important that the organisation and vendor communicates to all the organisation staff regarding what to expect with these transition activities, and more importantly the possible impacts on service it might have. This is critical, as user perception might become extremely negative regarding the ITO and disillusionment could start gaining momentum unless the impact is fully understood and appreciated by all.

Step 5: Governance implementation

This should be implemented immediately at the start of transition in order to create forums between the organisation and vendor to discuss and deal with any issues that arise during transition and there-after for the full contract period. To assist the vendor, these governance mechanisms should be used for communication, but also to set the benchmark on reporting, and to show the integrity of the process, in order to build and maintain the trust of the organisation. This has to be followed rigorously throughout the contract.

Step 6: Communication and perception management

This has been emphasised throughout this discussion, but cannot be emphasised enough. Communication of successes, problems and plans set user expectation and cannot be neglected or else the Gartner user expectation downward curve, refer to figure 2, starts setting in and the ITO is in trouble. Operational delivery has to match the plans being communicated and care should be taken to ensure that a realistic picture is communicated to the organisation staff. It is also important for the organisation's ITO management team and the executive management to check and endorse the vendor communication in order to show ongoing commitment and buy-in to the ITO decision and the long term benefits thereof.

During the transition process the organisation should assist the vendor in ensuring a smooth transition and to manage their internal staff perception. Very often the organisation assumes that they have outsourced and the vendor must now deal with all the issues that arise. This is not the case and should not be underestimated.

Harris (2002:32) says that the organisation should not trust vendors to always do the right thing. He suggests that the organisation set up a project management team that manages the plans and actions of the vendor. This will minimise cost overruns, unnecessary consulting time and missed deadlines. The organisation should appoint a full ITO management team to work with the vendor at all times to ensure that the envisaged goals are being achieved. If any of the goals are found to be unrealistic, then this should be escalated to both the vendor and organisation executive teams to either change or review from time to time in order to manage the impact thereof. Gartner (GartnerGroup 1999:2) says that one of the most common reasons for the success or failure of outsourcing deals lies in an organisation's ability to fully appreciate, plan for, and manage its role in the arrangement. Organisations must establish the skills, processes, resources and tools to effectively manage their outsourcing arrangements for the duration of the agreement.

At the end of the transition phase the organisation and vendor should review the transition process critically in order to ascertain as to which components went well and what needs attention into the future. *Realism* should be maintained at all times to ensure correct expectations. The GartnerGroup (1999:3) says that deals that are not established on a realistic basis and that are not good for both parties will not stand the test of time.

CLOSURE

The transition phase is a complex phase in the ITO life cycle. During this phase user perceptions and expectations are at an all-time high. It is critical that the appropriate governance structures be put in place and enforced during this period to ensure that the relationship between the vendor and organisation is started on a sustainable footing with agreed rules, processes and procedures. The complexity of the environment being taken over and transitioned should not be underestimated and detailed planning should be undertaken by both parties to ensure a smooth take-over and proper communication. If the initiation phase and the due diligence and contracting phase were properly done and realistic expectations were set, then the transition phase can be implemented relatively problem free.

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