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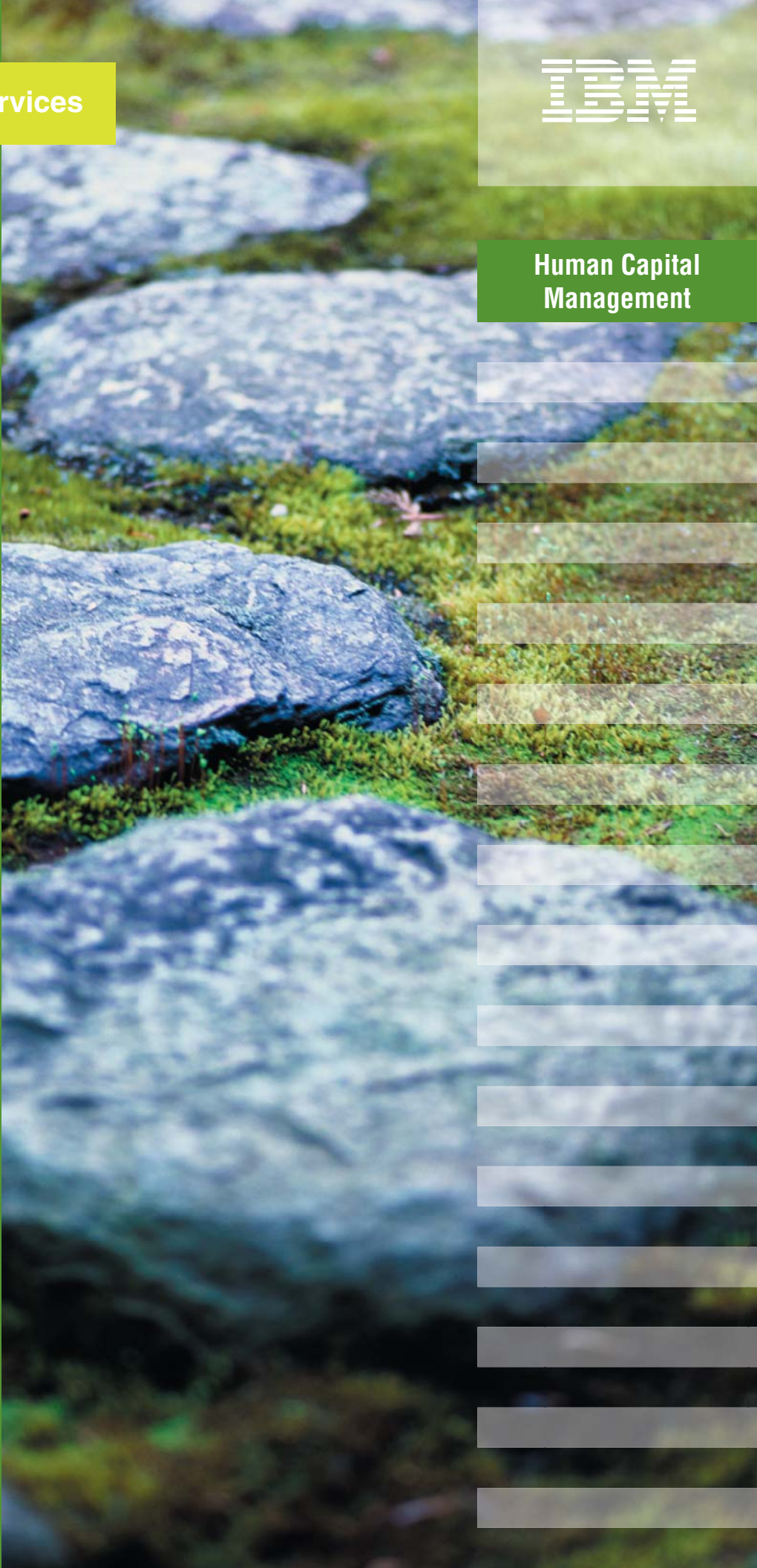


*IBM Institute for Business Value*

# Outsourcing the learning function

Laying the groundwork  
for a successful  
transformation

Human Capital  
Management



## **IBM Institute for Business Value**

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.



# Outsourcing the learning function

## *Laying the groundwork for a successful transformation*

In many organizations, learning professionals are facing a serious quandary. They are regularly asked to address the complex and ever-changing needs of the business, while at the same time, deliver effective learning solutions with fewer and fewer resources. Much like kayakers paddling upstream against a fast moving river, learning professionals are looking for answers to help them stay on top of the water and avoid the obstacles scattered along the way.

More and more organizations are looking toward outsourcing as one way of equipping themselves for the growing complexity of today's environment and increasing expectations of their senior executives. In the last few years, both the size and scope of outsourcing in the learning market have continued to grow. A recent study from IDC estimates the U.S. learning outsourcing market alone to be approximately US\$1.3 billion in 2005, which represents seven percent of the entire learning market.<sup>1</sup> Further this number is expected to grow over the next four years to US\$3.3 billion, or just under 13 percent of the total learning market. IBM's experience in learning outsourcing and our knowledge of this market suggest that companies are relying on outsourcing to:

- Design, deliver and coordinate learning activities on a worldwide basis to support global expansion.
- Develop more effective learning solutions to address a range of issues, including the challenges of an aging workforce, regulatory compliance, as well as increasingly more complex bundles of products, services and solutions.
- Reduce costs as companies face continued pressures that limit learning budgets and headcount, forcing leaders to continually "do more with less."
- Reap the benefits of enhanced technologies (such as learning management systems and distance learning) without the need for significant capital upgrades and additional technological skills.

The evolution of learning outsourcing mirrors much of what we have seen in the HR outsourcing landscape. Many of the original HR outsourcing arrangements focused on individual processes, with a strong emphasis on administrative areas such as benefits and pension administration. However, over the last several years, we have seen a trend toward integrated, multiprocess outsourcing that incorporates more strategic capabilities, such as recruiting and compensation planning.

Currently, we are seeing the learning function progress through a similar transformation. Initially, learning outsourcing started with areas such as hosting for distance learning and application management services. Now, it has begun to incorporate more processes, including content design, development and delivery as well as facilities management. As the market grows and matures, we expect to see continued out-tasking, more end-to-end outsourcing and an increased number of deals where learning is bundled with other human resources processes.

Recently, IBM completed a major research effort to better understand some of the key decisions and risk mitigation strategies associated with multiprocess HR outsourcing.<sup>2</sup> As part of this research effort, we conducted interviews with a range of providers, consultants, academics and individuals responsible for outsourcing arrangements. The findings from this research, coupled with our experience in helping clients outsource their learning function, provides us with some important insights that influence the ultimate success of a learning outsourcing effort. This report focuses on how organizations can apply the lessons from our research and experience to their own learning functions.

## Outsourcing the learning function: Four drivers of success

Based on our research and client experience, we have identified four pivotal actions for organizations as they begin to undertake an outsourcing effort:

1. Identify the appropriate *leadership capabilities* required to oversee the overall outsourcing effort.
2. Create an overall *transition management* plan that identifies all the activities required to transfer responsibility to the vendor.
3. Develop an ongoing *governance and relationship management* structure to address conflicts and build an effective working relationship between the client and the vendor.
4. Build a *measurement and reporting* framework that communicates how well the outsourcing arrangement is operating.

### **1. Identify the appropriate leadership capabilities required to oversee the overall outsourcing effort.**

Given the strategic importance of, and complexity associated with, outsourcing the learning function, organizations need to identify an individual, or individuals, early in the outsourcing process who have the right skills and capabilities to lead the effort. For many companies, this initial challenge becomes a significant issue, as the individuals who are most likely to be effective at taking charge in this new environment are often attached to other efforts and may be difficult to discharge from their original duties.

The skills and competencies that are needed to lead an outsourcing effort are very different from the skills garnered from leading a functional department. In an article published in the *Sloan Management Review* in 2000, Michael Useem from the Wharton School of Business and Joseph Harder from the Darden School at the University of Virginia identified six key leadership capabilities that are valuable in outsourcing arrangements.<sup>3</sup> Though the context in which they were writing focused primarily on IT outsourcing, the six capabilities

provide a relevant framework for the types of leadership skills needed by learning professionals as they take on outsourcing responsibilities.

- *Strategic learning vision* – To be able to determine what capabilities need to be handled internally versus outsourced to an outside vendor, the leader of an outsourcing effort needs to have a solid understanding of the firm's existing and future business needs and its current learning capabilities. Further, the individual must be able to articulate how outsourcing can be a cost-effective alternative to internal resources and how an outsourcing vendor will fit into a larger portfolio of learning services.
- *Analytical approach to problem solving* – In a learning outsourcing environment, the focus moves from managing a set of internal activities to evaluating a set of outcomes and results. Therefore, the leader must be able to analyze and draw conclusions from key metrics, such as service level agreements, to validate that the vendor is delivering on its promised commitments. Also, he or she must be able to evaluate the results of learning programs and determine how those programs are contributing to the organization's goals.
- *Deal making* – Leaders of an outsourcing effort need to understand both the current and projected capabilities of outsourcing vendors and be able to make decisions regarding their viability as potential partners. Once the potential vendors are determined, the learning outsourcing leader needs to be able to work effectively with other organizational stakeholders, such as the legal and procurement functions, to put together a working arrangement that is agreed to by all parties.
- *Partnership governance* – Given the complexity and interdependence required for a successful outsourcing arrangement, the client and vendor must frequently interact with one another. Therefore, the ability of a leader to maintain an effective relationship with peers on the vendor side is paramount. This includes being able to address small problems before they become larger issues, while at the same time protect the company's longer-term interests.

- *Change management* – Given the magnitude of change associated with end-to-end outsourcing of a function the size and magnitude of learning, an outsourcing leader must be able to manage the information and involvement needs of a number of stakeholder groups. This includes individuals at all levels, from internal customers to staff whose jobs are being displaced, relocated to a vendor organization, or significantly altered to meet the needs of the new environment.
- *Program management* – With numerous operational and transformational initiatives occurring simultaneously in a learning outsourcing environment, the leader must be a skilled program manager. Among the key skills necessary is the ability to understand the links and interdependencies between projects, allocate and juggle resources, identify potential roadblocks and communicate status to a variety of interested parties.

Because one individual may not possess the full complement of skills required, companies should be open to supplementing with capabilities from inside, or even outside, the learning organization when managing a large-scale outsourcing effort. For example, deal making and partnership development skills may be more readily found in a business development or alliance management

function. And program and project management capabilities might be more common in an IT department or central project office function.

In one of the client organizations that we have worked with, two individuals were selected to lead the outsourcing effort. One brought with him a strong sense of the business issues facing the organization and experience in pursuing deals with a number of learning partners. The second person had a background in managing an HR outsourcing effort, and provided a wealth of operational knowledge on developing metrics and running a large and complex outsourcing program. By combining the skills of both individuals, the organization provided the groundwork for setting up an effective outsourcing relationship.

**2. Create an overall transition management plan that identifies all the activities required to transfer responsibility to the vendor.**

Perhaps there is no time during the outsourcing process that a company feels as vulnerable as during the transition of processes from the company to the vendor. Not only is the organization literally “handing over” its processes (and in some cases, its people and systems), but at the same time, it needs to validate that everything works properly when the vendor begins operations.

**Figure 1. Identifying key leadership capabilities within the organization.**



Source: IBM Institute for Business Value analysis.

Any slip up during that time can interrupt service levels, destroy credibility and bring out the legions of outsourcing critics. A well-orchestrated transition management process can play an important role in facilitating the exchange of resources (both physical and know-how) and improving the odds that operations will run smoothly once the transition is complete.

Within a learning outsourcing arrangement, there are six components of a transition plan that need to be addressed:

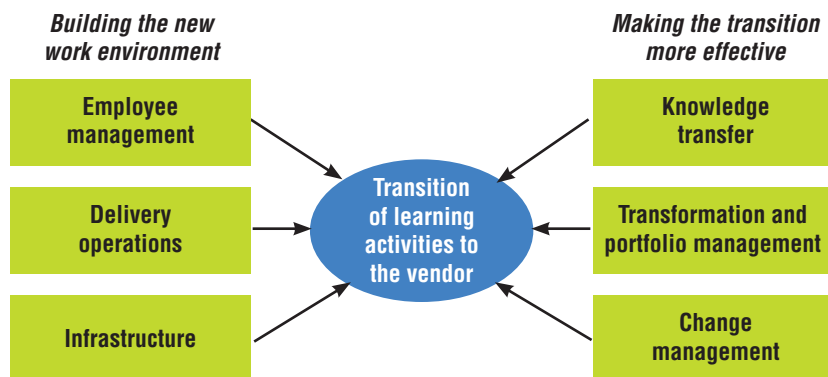
- *Employee management* – To avoid disruption of day-to-day activities while providing a seamless transition to the outsourced environment, companies need to address the concerns of three groups of impacted employees. First, there are a number of employees whose positions may be eliminated as a result of the arrangement. Firms need to treat displaced employees fairly throughout the separation process. This includes identifying the amount of time they are required to stay through the transition process, and providing them with a comprehensive suite of severance packages, outplacement counseling, job search assistance and retraining opportunities.

Second, there are employees that will be transferring to the vendor organization. For these employees, spelling out the new terms and conditions of their employment early in the transfer process, and providing them with opportunities to get oriented to their new organization and roles will enable these individuals to remain productive.

Finally, organizations need to take into consideration the needs of individuals who will be remaining with the organization. Often, these individuals will be moving into new roles, such as client relationship management, contract management, or governance management. In this situation, training, coaching and managerial support is needed to reduce the effects of “survivor guilt” and provide individuals with the right knowledge, skills and tools to take over new responsibilities.

- *Delivery operations* – Seamlessly transferring the delivery of classroom or distance learning content from the client to the vendor is a very important and visible component of an outsourcing effort. Since several basic touchpoints (e.g., class registration, teaching, online course access) are the first visible evidence of the outsourcing relationship, making sure that these resources are accessible and user friendly is important

**Figure 2. Components of a transition management plan.**



Source: IBM Institute for Business Value analysis.

from an impression management standpoint. Having extra resources available to answer questions, schedule courses and generally help ensure the smooth delivery of day-to-day learning operations is a critical component to building support during the initial weeks of the outsourcing relationship.

- *Infrastructure* – Prior to the hand-over of the outsourcing effort, the client and the vendor need to work together to create a smooth transition from a facilities management standpoint. This includes the transfer of classroom facilities and materials, workspaces for learning personnel (including the associated access to both legacy and new hardware and applications), telephone, e-mail access and network connectivity. Further, both the client and vendor should agree on protocols and facilities for business continuity services in the event of a large-scale business or technological failure.
- *Knowledge transfer* – An important part of the transition process is the exchange of critical knowledge between the client and the vendor. Given the number and variety of learning programs occurring throughout a large organization, simply being able to identify all of the relevant parties and content associated with these programs can be a major challenge. In addition, knowledge about current business initiatives (e.g., product rollouts, acquisitions) and available resources (e.g., who is available to train customer service representatives in the Philippines) are all important subjects that both a client and vendor need to be well versed in. Compounding the issue of knowledge transfer is the fact that staff reductions can easily allow knowledge to “walk out the door” and result in a number of important knowledge gaps.

There are a number of techniques that can be used to preserve and share critical knowledge during and beyond the transition process. Work shadowing, where incumbents work side-by-side with individuals who will be taking over their activities, has been a traditional way for knowledge to be shared between client and vendor organizations. It can be a useful technique, as

it enables the newcomer to ask questions and allows the incumbent to pass along experiential knowledge in the context of the actual work being performed. However, incumbents who are subject to job loss may be resistant to this approach if their resulting job loss is not compensated. Further, if this type of knowledge transfer is not done in conjunction with some form of explicit documentation, the company may be exposed if the newcomer leaves shortly after the transfer. Other techniques include the use of collaborative repositories to store and organize important forms of explicit knowledge, and expertise locators, which can identify key individuals and areas of capability in both the client and vendor organizations.

- *Transformation and portfolio management* – Given the transformational nature of a learning outsourcing effort, there are often a number of improvement efforts going on simultaneously – some led by the client, others by the vendor. Interdependencies and conflicts that arise from these projects often need to be managed jointly by both parties in an outsourcing arrangement. For example, a new learning management system needs to be integrated with a competency management system that might, at the same time, be in the process of being upgraded by an outside third-party vendor. At the same time, the conversion of content from an instructor-led training course to an e-learning platform would need to incorporate inputs from a catalog of learning resources brought in by the vendor.

To facilitate close coordination between the client and vendor, the companies should create a joint portfolio management process to oversee all learning improvement efforts. During the transition management phase, the client and the vendor should first rationalize the existing pipeline of improvement projects. This includes cataloging all relevant projects, reviewing them against intended business cases and determining which ones are in or out of scope for the outsourcing arrangement. Then, both parties should build a master plan which incorporates both transformation and transition activities, milestones and deliverables.

- *Change management* – In addition to the change management issues associated with employee management discussed earlier, there are a number of larger, organization-wide stakeholder management challenges that need to be addressed. For example, the internal “customers” of the learning organization need to be reoriented toward new contact personnel, new processes for designing, delivering and conducting training, and new learning management applications. Gaining the buy-in of these stakeholders becomes critical, as they have the opportunity to undermine the transformation effort and potentially circumvent the learning organization as a whole. Identifying influential leaders early in the process and developing strategies for involving them in the change process can make a difference in getting the early support of those who are valued by others in the organization.

***3. Develop an ongoing governance and relationship management structure to address conflicts and build an effective working relationship between the client and the vendor.***

A learning outsourcing relationship represents a long-term partnership between two parties. Like any relationship, both formal and informal guidelines influence how and when the parties interact, who takes responsibility for various items and how differences are settled. By setting up a formal relationship management structure that begins at contract signing and evolves during transition and commencement of delivery operations, both sides can clearly identify who has responsibility for making certain decisions, how those decisions will be made and how the results will be communicated to others. This helps reduce overall uncertainty and clarifies the accountability that individuals from both parties have in the relationship.

In typical learning outsourcing relationships, formal governance tends to focus on three primary levels:

- *Strategic level* – The strategic governance level is typically where the leaders of the two organizations come together to evaluate the progress of the overall effort, the relationships between the two organizations and how the companies could work together more effectively for common gain. These conversations, which are generally held two or three times per year, tend to focus on reviewing high-level progress of ongoing initiatives and identifying new opportunities where both sides of the relationship will benefit.
- *Program level* – At this level, the discussions primarily focus on the performance of the overall transformation effort and the major projects within it. Typically held monthly or quarterly (with more frequent meetings during the early part of the transition), the program leaders from both parties come together to evaluate key milestones, critical satisfaction issues and proposals for new projects.
- *Operational level* – This level is primarily responsible for addressing the day-to-day operational needs of the outsourcing relationship. This could include issues such as the rollout of new courses, scheduling and facilities management, technology availability and response problems and the introduction of new staff to the project. Typically, this type of meeting is held weekly (more often in the transition and early operational stages of the relationship) and is attended by operational leaders from both sides of the outsourcing agreement.

**Figure 3. Key relationship management issues.**

- |                    |  |
|--------------------|--|
| <b>Strategic</b>   | <ul style="list-style-type: none"> <li>• How well is the overall relationship between our organizations operating?</li> <li>• To what extent do we have the right alignment of people between the two organizations?</li> <li>• What opportunities do we have to enhance our relationship?</li> </ul>  |
| <b>Program</b>     | <ul style="list-style-type: none"> <li>• How can the outsourcer support changes in the client's business strategy and processes to achieve that strategy?</li> <li>• How will we determine which new projects should be undertaken?</li> <li>• How can the client be confident that it has the most innovative, best-in-class solutions?</li> </ul>  |
| <b>Operational</b> | <ul style="list-style-type: none"> <li>• How do we manage change requests so that not every change requires alterations to the contract?</li> <li>• What do we do when there is no clear reason for dips below minimum service level agreements?</li> <li>• How do we communicate updates/changes/programs to retained service managers, outsourced service managers, employees and business units?</li> </ul> |

Source: IBM Institute for Business Value analysis.

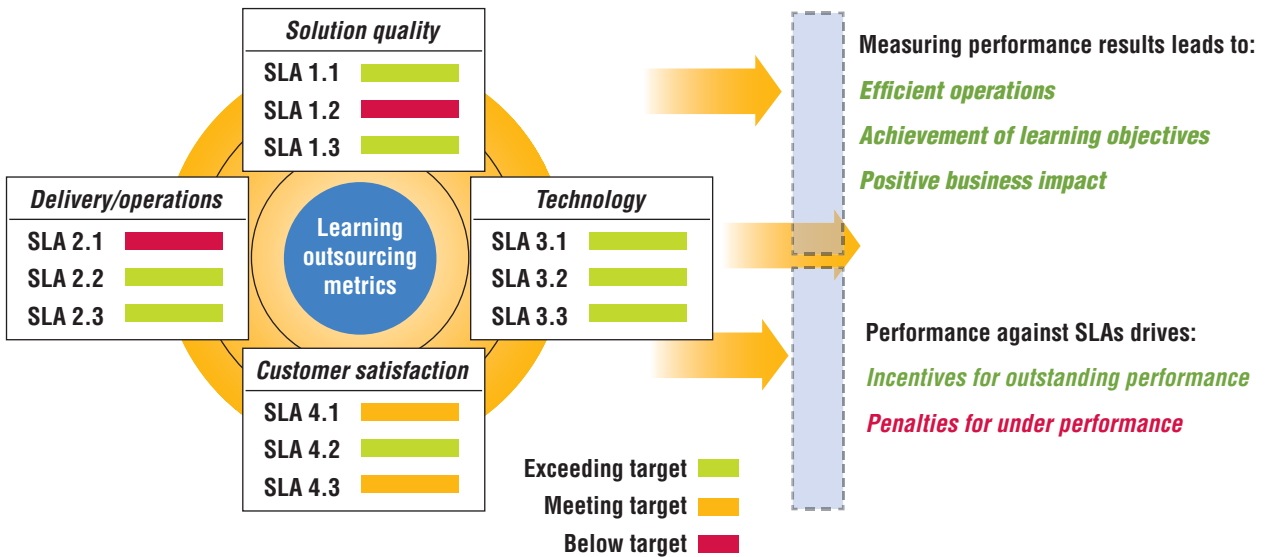
#### **4. Build a measurement and reporting framework that communicates how well the outsourcing arrangement is operating.**

A client in an outsourcing arrangement needs to understand whether the vendor is performing at the desired level of service. Therefore, at the heart of any learning outsourcing agreement are service level agreements (SLAs). These measures are used to objectively quantify the performance to be provided to a client, report performance data to both the client and vendor in a consistent format, facilitate analysis of data across sites and regions and identify areas where improvements to service are necessary. In outsourcing arrangements, vendors are generally responsible for meeting SLAs even when they are dependent on other vendors or subcontractors. When developed and implemented effectively, SLAs can be a valuable tool to gauge vendor performance and communicate the effectiveness of the outsourcing arrangement back to the larger organization.

In a learning outsourcing environment, SLAs typically revolve around four measurement categories:

- *Solution quality* – How effective were the learning activities in contributing to the needs of the business? This set of metrics is used to evaluate both content development and the impact the content has on the organization.
- *Delivery/operations* – How well did individuals from the outside provider perform their services? This includes individuals such as course developers, instructors, facilities and help desk personnel.
- *Technology* – How effective and reliable were the technologies used to enable learning in the organization? Technologies that could be evaluated include learning management systems, distance learning applications and the accessibility and integrity of learning data.
- *Customer satisfaction* – To what extent were sponsors and end users satisfied with their learning efforts?

Figure 4. A model for developing learning SLAs.



Source: IBM Business Consulting Services.

In addition to tracking SLAs (which evaluate whether the vendor is fulfilling the terms of the contract), both outsourcing clients and vendors need to be involved in gauging the effectiveness of the organization's learning programs. Unfortunately, many companies do not focus enough time and resources on making the connection between learning programs and business outcomes. A recent IBM study on Global Human Capital trends

found that only 24 percent of organizations measure the business outcomes associated with learning efforts, and only 9 percent attempt to determine a return on investment for their learning efforts. However, the ability to connect learning efforts with these critical measures is central to demonstrating business value to the line-of-business executives who influence the direction of resources and learning budgets.

## Conclusion

Outsourcing the learning function is a bold move for many organizations. Compared to many human resource functions, learning is often a complex activity that is at the heart of the core capabilities that an organization must deliver day in and day out. To get the full value of a learning outsourcing partnership, organizations need to pay close attention to the leadership, transition management, governance and measurement activities that occur early in the outsourcing relationship. By focusing on these four activities, companies can reduce the odds of early mishaps and improve the opportunities for realizing business value throughout the relationship.

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## About IBM Business Consulting Services

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