



Outsourcing transactions: managing employee communications

András Gurovits Kohli
Niederer Kraft & Frey

www.practicallaw.com/0-505-9387

The success of an outsourcing transaction often depends on the treatment of employee issues, regardless of the size of the project. The importance of this is often underestimated, however, and outsourcing projects may fail to achieve their intended purposes if employee issues are given insufficient consideration throughout the project. Research into the effects of major change situations such as outsourcing projects suggests that relying on economic factors alone may not ensure project success. When planning a project, management should also specifically consider the expectations, fears, emotions and needs of those employees who may be affected by the transaction.

From a legal perspective, many jurisdictions require that employees be involved in the outsourcing process if, as a result of the transaction, the employer of those employees will change (for example, if the employees transfer from the outsourcing company to the outsourcing provider, or if the reverse is to occur once a project has completed). For example, in the EU, the relevant guiding principles are contained in Council Directive 2001/23/EC on safeguarding employees' rights on transfers of undertakings, businesses or parts of businesses. In Switzerland, the relevant rules are found in article 333a of the Swiss Code of Obligations.

Effective communication with employees on an outsourcing is vital both to ensure compliance with any legal requirements concerning informing and consulting employees, and to ensure the success of the project. This chapter provides guidance on how to communicate effectively with employees from a management perspective. In particular, it considers:

- Common employee perceptions of outsourcing projects.
- The implications of these perceptions for the outsourcing company and its managers charged with overseeing the project.
- The importance of communicating with employees, and provides some guidance on how to do so successfully.
- Some other related measures that can be used to ensure the successful implementation of an outsourcing project.

EMPLOYEE PERCEPTIONS

In situations of major change, such as outsourcing projects, many affected employees often display negative reactions such as fear, mistrust and resistance.

Fear is usually experienced because employees may be uncertain about potential layoffs, loss of control and loss of identity or reputation. Employees may also worry about whether they will be relocated or be required to take on new duties or responsibilities as a result of the outsourcing. Major change situations like

outsourcing can even result in employees suffering stress and serious illness. While employees usually look for job security, outsourcing projects can result in employees feeling uncertain about their own future. This can even result in employees resigning if appropriate job alternatives are available.

Plans to outsource can also result in employee resistance, and in some circumstances employees may build up and display anger, hostility and resentment, which may be expressed as resistant or subversive behaviour. Such negative reactions can result in the outsourcing organisation losing know-how, experiencing a drop in productivity and even facing the risk of project failure.

In contrast to the above, some (often a minority) of employees may take a much more positive attitude to an outsourcing transaction. Such employees are those who may not be negatively affected or undermined as a result of the outsourcing and who usually believe that the project will offer new job opportunities.

IMPLICATIONS FOR OUTSOURCING COMPANY

An outsourcing company and those managers overseeing the outsourcing process must accept that the success of any outsourcing transaction heavily depends on the project managers' ability to successfully communicate with and motivate and retain employees, in particular those employees who have held and/or will hold key roles in the areas affected by the project.

However, there is often a tendency within organisations to underestimate the importance of this and to focus on short-term success. This narrow focus may undermine the organisation's ability to achieve long term gains that are, or should be, the drivers for the project. While short term success is often measured by hard facts such as visible figures (cost reductions), long term success usually also depends on what are known as "soft synergies", such as successful knowledge transfer and/or the maintenance of core competencies and best practices. Ensuring long term success requires that organisations pay particular attention to their human capital including personal, interpersonal and group dynamics that go along with the outsourcing transaction.

Ultimately, protecting the company's human capital is vital for the outsourcing transaction's success. While the departure of key employees is normally a clear symptom of poor project implementation, high retention levels are usually a clear sign of project success.

In view of the above, companies should craft and implement measures that avoid or reduce fear and resistance among employees, and that minimise employee departures and maximise employee retention.



THE IMPORTANCE OF COMMUNICATION

Managers overseeing an outsourcing need to have a clear and comprehensive understanding of the negative impact an outsourcing can have on existing employees and should ensure that sufficient resources are channelled into communicating with the affected workforce. Communication should be a “top priority” topic in any outsourcing project.

There is no standard set of rules that project managers should adhere to in their efforts to communicate with employees. However, there are some basic principles that are generally appropriate and, if implemented properly, can help to mitigate project failure due to issues such as employee fear, resistance and departure. Some basic components of effective communication are:

- **Frequent and open communication.** Project managers should recognise that communication is not a simple one-off task. Research suggests that managers should continuously communicate with their employees, which usually requires an increase in the number of staff meetings and other communication measures. Managers should be prepared to “talk down” the project (that is, provide detailed information on the project) very frequently and to ensure that what they say is honest, comprehensive and consistent.
- **Face-to-face communication.** The holding of large audience staff meetings, however, is usually not sufficient to ensure communication success. Instead, successful change or implementation managers suggest that more personal face-to-face communication with affected employees works best. This includes face-to-face meetings in small groups as well as one-on-one sessions. Relying on “cold communication” (that is, on large audience meetings or e-mail communication) only without considering face-to-face sessions may not be enough to successfully convey the intended message and is less likely to bring about the desired results.
- **Being open.** An important facet of successful employee communication is “being open”. To be open in this context means that managers overseeing the outsourcing are honest and openly communicate with the affected employees. This includes communicating all information available (including bad news) at once. Such openness is normally taken well by employees affected and may significantly increase credibility even if the news to be communicated is bad. Withholding bad news from the affected employees may release the manager from an unpleasant task in the short run, but will not fix the issue in the longer term and will raise or increase mistrust and fear.
- **Dealing with emotions.** Communication with affected employees, in particular with those who may be negatively affected, should be more than just an intellectual exercise explaining the goals and facts of the project. Managers should also carefully handle the “emotional fallout” that may be caused by the announcement of the outsourcing project and the consequences for the affected employees it may entail.

COMMUNICATING WITH EMPLOYEES: KEY COMPONENTS

Managers tasked with implementing an outsourcing should focus on doing the following when communicating with employees:

- Communicate frequently and honestly.
 - Communicate face to face.
 - Be open.
 - Handle emotions with care.
 - Be empathetic.
 - Allow employees to speak up.
 - Explain the rationale, goals and effects of the project (sensemaking).
 - Create trust.
 - Create positive personal perspectives.
 - Consider incentive payments.
 - Ensure equal treatment of employees.
 - Craft efficient implementation measures.
 - Consider employee workloads.
 - Implement the outsourcing as speedily as possible.
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- **Empathy.** Appropriate handling of employee emotions requires that managers have the required social skills, and that they be able to feel empathy for the affected employees. In this context, empathy includes managers trying to “win the minds and hearts of the people”. The display of empathy by managers often does not cure the problems of those employees who are negatively affected by the transaction, but will contribute to establishing a climate that facilitates the acceptance of, and support for, the contemplated change.
 - **Providing employees with the right to speak up.** Experience shows that effective communication normally also includes providing affected employees with the ability to speak up and openly address their concerns and fears about the outcome of the project. Ideally, employees who can speak up will also provide valuable feedback on the company’s goals and plans in relation to the outsourcing. Good managers take such feedback into account as it may serve as a means of improving the project.
 - **Sensemaking.** Another dimension of effective communication is “sensemaking”, which is the process of discerning the meaning of the project. Research has shown that sensemaking is an important tool for gaining trust among the affected workforce. Employees should be told what the goals of the outsourcing project are and what the contemplated change will mean to their work, their roles, and their status. The better the employees can understand the rationale and effects of the project, the higher the likelihood that they will welcome and support the project and will not decide to resist or leave.



- **Creating trust.** Adopting the above measures (being empathetic and open, providing opportunities to speak up and explaining the goals and effects of the project) contributes to creating an atmosphere of trust that usually leads to positive reactions to the project and should positively influence key employee retention. Managers who are open, transparent and honest are seen as trustworthy, and trust among the affected workforce will provide a solid basis for successful project implementation.

OTHER MEASURES

Some additional measures can be undertaken to contribute to the successful implementation of an outsourcing project. It may be advisable to adopt these as part of the outsourcing company's communication process. They are:

- **The creation of positive personal perspectives.** Providing and communicating attractive new job opportunities within the new working environment usually has a positive impact on any major change project. Personal factors heavily influence employees' attitudes towards a project and their decision to support it and stay with the company. On the other hand, disillusionment may be a major threat if an employee is faced with a change that negatively affects his perspective of his job. Under such conditions there will be an increased risk that key employees will resist the change and even decide to leave.
- **Incentive payments.** Another way of increasing employee loyalty and creating a positive attitude towards the project is by providing incentive payments. Monetary rewards such as, for instance, cash-based bonus payments and/or higher salaries, may help to positively influence employees and to keep them on board. Equity-based rewards such as stock options, if available, could even lock-in key employees long-term.

Note however, that while the advantages and benefits of incentive payments are obvious, they cannot resolve every issue, and there are limitations to pure monetary measures. Incentive payments may often serve only as a "short time helper" to positively influence employees and keep people aboard in the short-run. However, additional measures (such as providing positive personal perspectives) usually have to be applied to secure long-term project success and employee retention.

- **Equal treatment.** Outsourcing transactions often combine workforces from different organisations that have distinct salary schemes and conditions. While such differences may need to be retained in the short term, it is advisable to eliminate such differences over time as much as possible. Otherwise, frictions may lead to employee dissatisfaction and frustration, which in turn can jeopardise a positive project outcome.
- **The crafting and implementation of efficient implementation measures.** Applying appropriate implementation measures and ensuring the smooth transition of the outsourced operation into the new environment increases the likelihood of a successful project

outcome. Efficient project implementation usually has a positive effect on employee perception. Explaining how the project will be implemented should always form part of the communication strategy.

- **Consideration of workload.** Experience shows that during the implementation phase of an outsourcing, employees may have heavy workloads imposed on them, which may reach unsupportable levels. Project implementation often creates additional workload as employees entrusted with that implementation usually have to deal with their normal day-to-day activities in addition to implementation of the transaction. Project managers should carefully craft implementation plans that pay particular attention to employee workload.
- **Speedy implementation.** Project managers must also keep in mind that speedy implementation of the outsourcing is an effective way of reducing concerns among affected employees and reducing the risk of fear, mistrust and departure. The quicker the outsourcing project can be implemented, the more comfortable the employees concerned will feel, while, in contrast, slow integration may lead to frustration and cause key people to leave.

CONTRIBUTOR DETAILS



ANDRÁS GUROVITS

Niederer Kraft & Frey AG

T +41 58 800 8000

F +41 58 800 8080

E andras.gurovits@nkf.ch

W www.nkf.ch

Qualified. Switzerland, 1991

Areas of practice. Telecommunications/media/technology (TMT); competition; corporate/mergers and acquisitions; sports law.

Recent transactions

- Assisted Swiss Re in its large cross-border outsourcing project affecting substantial parts of its IT infrastructure worldwide.
- Assisted major international data and systems provider in the automotive and insurance industry in its business development activities in Switzerland and Europe.
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