Cellulus
Delivering Operational Innovation

Retained Organization is the Key

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What is a Retained Organization?

The term 'Retained Organization' is used to describe the part of an outsourced environment that is kept within the Client environment in order to facilitate the running of the service once it has commenced. Almost all of the roles that make up this retained part will be new ones within the Client organization. These may be things such as Procurement, Quality Management and Operational Management.

The Retained organization can be seen as performing 3 primary functions:

- ★ Policing and Quality assessment of the outsourced service
- ★ Governance and Escalation level for the Service Provider and the Client organization
- ★ Controlling the interfaces and information flows between the Client and Service Provider organizations.

The retained organization should be considered as an intrinsic part of the outsourcing process as the client will need this additional team as a direct result of the fact that they have outsourced a part of the scope of the business. It should therefore also be considered as a direct, additional, on-going cost of the outsourcing and thus must be included in any cost and saving calculations as part of the business case.

As with any organization that is created for a specific, strategic purpose, it is important to understand the reasons for its existence and to be absolutely clinical in its definition and staffing. In the vast majority of outsourcing cases, the importance of the retained organization is underestimated and in particular the skills and capabilities that are required to perform the required tasks.

We have seen many instances where the Senior Managers involved in an outsourcing case have sought to 'rescue' the 'best' people from an in-scope environment and to give them roles within the retained organization rather than transferring them to the outsource partner. Without the right amount of careful consideration, this more often than not turns out to be folly. By placing a top employee in an environment that not only are they badly prepared for, but in which they have little interest, the Client risks losing their people or worse, de-motivating them to the point where they fail to perform.

How to define the Retained Organization?

In order to make the right decisions about the required retained organization and to ensure that the correct people are included one needs do nothing more than return to basic business reasoning and standard organization design:

- ★ Requirement assessment and definition – what does this thing need to do?
- ★ Process definition – what will we do in order to manage the outsourced environment?
- ★ Tool selection – What tools are available to help us manage this environment?
- ★ Organizational Design – what organization to put in place in order to

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operate the processes and tools and thus fulfil the needs.

- ★ Team Selection – selecting the people who will form the organization.

As mentioned above, this is all part of the standard way in which we would design any organization to fit a new requirement or a change in business focus, so there is no reason to do things differently for a retained organization.

How might we structure the organization?

There are of course many ways of creating and structuring organizations to achieve the same goals and these will depend on such influencing factors as:

- ★ The Function (s) being outsourced.
- ★ Other, related organizations and interfaces.
- ★ Company Culture.
- ★ Company Values.

Figure 1 is a schematic of a retained organization that was employed for a Mobile Telecommunications Operation outsourcing case. The general structure of the positions within the organization gives an indication of the way in which it would function. More detail relating to the interfaces and communications can be found in the 'Governance' White Paper.

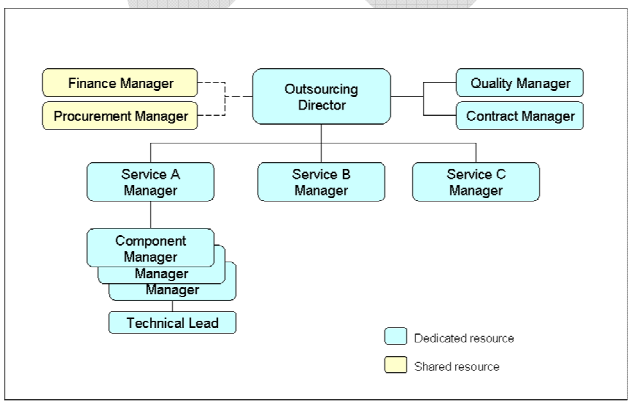


Figure 1

The scale of the organization will depend on the complexity of the case and on the way in which the Client company operates. Here we will provide the figure for headcount of between 5% and 7.5% of the headcount in the outsourced environment, but this must be considered as a very wide outline. If, for example the outsourced environment was of a single call centre of 3000 people, then a retained organization of 225 or even 150 people would seem to be excessive. A 1000 headcount engineering operation, spanning 50 countries may need an even higher percentage of retained organization.

In Figure 1, we show that there are some key roles which should be created that are dedicated to the specific outsourced case. These include:

- ★ Outsourcing Director being the highest level of interface and escalation between the Client and Service Provider.
- ★ Quality and Contract Managers who ensure that the agreed service quality is being achieved and that the service is being delivered according to the contract
- ★ Service Managers who manage the individual services or functions that are being provided and act as the interface between the Client organizations and the Service Provider for the purposes of change control and service requests
- ★ Technical resources who will provide sufficient understanding of the technicalities of the service to best exploit the delivery to the best advantage of the Client.

All of these roles are involved at the appropriate level in the Governance process which is of course a major driver for the retained organization.

How should we put the retained organization in place?

As the retained organization will include resources which have a completely new role within the Client organization, it is crucial that the designer should weigh up the goals

of providing a world-class organization against those of developing the people within the existing organization. This is another area in which company culture will form an important moderator and cannot be accounted for in this document.

The general rule should be that one should involve people who have the skills and experience to perform the role that is required, because once the Service Commencement date has passed, both the Client and the Service Provider will be involved in a commercial agreement, so there is little room for trial and error. So, it is likely that at the more technical levels of the organization, it will be essential to take resources from the outsourced scope, while at the highest levels, it will be necessary to either find skilled resources elsewhere in the Client organization or to plan a good deal of training for the existing Management team.

The greatest complexity will be experienced when considering how to select resources from the in-scope environment whilst at the same time providing the Service Provider with a suitably skilled and experienced team to continue the provision of the services after the transfer. Once again, there is no rule that can be applied to all such situations, but the current Management team who are involved in the planning stages of an Outsourcing case should use their experience of the environment to be transferred in order to make such decisions about which people to retain.

It should also be kept in mind that the Service Provider will want to have as much involvement in the selection of the retained organization as possible, so that they can ensure that they themselves receive the best set of resources. Our advice here would be to put as much consideration as possible into the selection of the retained team, so that it is believed to be the best option both in order to provide control and that the service can continue unhindered. Then this should be presented to the Service Provider as a factual part of the scope of the outsourcing and not part of the negotiation.

At Cellulus, we have gained experience with organizations that have outsourced many environments such as IT Operations, Telecommunications Operations, Financial Operations, HR Operations, and Customer Services, and the best results have been achieved through a thorough approach to preparation for the transfer. In the best of circumstances, the Client will 'carve-out' the target organization to be outsourced many months prior to starting the outsourcing case. This allows them to:

- ★ Put in-place the appropriate performance measures for the environment
- ★ Bench-mark the performance of the environment against others in the industry and outside in order to gain an understanding of the scale of savings to be made by a Service Provider.
- ★ Ensure that all interfaces and requirements of the organization are taken into account
- ★ Create the Retained Organization and ensure that it works properly before being tested in a commercial environment
- ★ Fully understand the current costs of the operation and thus be able to develop a business case for the change
- ★ Prepare the people within the in-scope environment for the change that is to come, as they are used to an environment of change and a focus on achievement.

Finally, this can of course be done as part of the outsourcing case, and Cellulus are here to assist in making the process as quick and painless as possible.

How can Cellulus help?

At Cellulus we have a wealth of experience in Merger and Outsourcing cases from either party. This has provided us with an understanding of many situations as well as the number of lessons that go along with working in this area. This all puts us in a great position to help you define, plan, and implement a retained organization.

Our aim is to provide the best possible outcome from any project and to deliver value far above our fees to the Client organization.

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