CAN YOU GO HOME AGAIN?

Repatriation's Role in the Sourcing Strategy Mix

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EXECUTIVE SUMMARY

Early outsourcing strategies were characterized by a sole source "one throat to choke" approach. Over time, the pendulum swung to a multi-vendor model designed to leverage best-of-breed capabilities and provide competitive advantage. Throughout this evolution, repatriation of outsourced services has periodically surfaced as an alternative solution. Some businesses concluded they had outsourced too fast and too aggressively; others were dissatisfied with their service providers and decided they could do better on their own.

Today, we see repatriation or insourcing emerging as one component of the overall sourcing strategy mix. Many enterprises seek a selective or "right-sourcing" approach that identifies specific functions that are better suited to in-house management. In this sense, growing interest in repatriation is more a sign of increased maturity rather than an indictment of outsourcing. That said, in some cases these initiatives reflect a level of dissatisfaction with service provider performance. And while businesses are getting smarter about their sourcing strategies, many still pursue repatriation for the wrong reasons. Moreover, clients often fail to anticipate and prepare for the significant costs and risks involved in transferring services back in-house.

This ISG white paper examines functions typically impacted by insourcing and describes potential benefits and unanticipated challenges. The author focuses on how enterprises can make informed decisions about repatriation and manage repatriation risk more effectively. Strategies to improve business outcomes – either through outsourcing or in-house operations – are outlined.

WHAT'S MOVING

Some very high-profile examples notwithstanding, few major global enterprises have undertaken large-scale repatriation efforts. For the most part, the focus is on areas such as technology strategy, core business and industry-specific knowledge and innovation. Companies that recognized they were outsourcing critical competitive differentiators are taking a step back and focusing on how to retain control over the keys to the IP kingdom.

At the same time, some customers are retaining commodity service functions such as end-user support that involve close interaction with internal customers, particularly at the executive level. In these cases, IT seeks greater control over the people involved in direct interactions with key stakeholders.

The growing importance of SMAC and automation technologies introduces a new set of insource versus outsource questions. We've observed that social media capabilities are generally kept in-house, while mobility and analytics capabilities tend to be outsourced. Cloud is a mixed bag and represents an opportunity for service providers to partner with cloud players to deliver innovative solutions. Automation, meanwhile, raises myriad strategic considerations around the selection of licensed, proprietary or in-house solutions.

Any repatriation strategy must consider the risks and costs associated with attracting and retaining necessary talent. Resource availability and stability is a major challenge, and a number of clients have found that an insourcing strategy can be surprisingly expensive, as in-demand skill sets can command lucrative salaries, particularly in mid-market cities. Moreover, while the difficulty of recruiting and retaining talent is often a key reason to outsource in the first place, many enterprises don't consider their recruitment strategy when making a repatriation decision. If talent shortage played into the original outsourcing decision, the challenge will assuredly still exist.

ORGANIZATIONAL CONSIDERATIONS

From an organizational perspective, repatriation requires a shift in focus from managing a service provider to managing in-house staff and business outcomes. The risk here is ensuring that the appropriate leadership competencies are in place. Specifically, every role being brought back in house must be clearly defined in terms of competencies required, scope of work and responsibilities. In other words, the organization needs to understand how each job is being done under the outsourcer and how that job will be done under the new model.

Organizational structure can impact sourcing decisions, with potentially negative results. While decision-making is straightforward in a centralized enterprise environment, under a federated approach business units sometimes choose to manage their own localized applications. The potential result is a pocket of insourcing within a service provider-managed enterprise. This forces the provider to develop a one-off process to work the internal unit, adding significant complexity to the operating model and diluting the economy of scale benefit of outsourcing.

LACK OF RESULTS

Some clients repatriate because they fail to achieve anticipated cost savings or value from outsourcing. In many cases, however, the disappointment results not from outsourcing per se, but rather from ineffective management of the provider, coupled with the burden of unproductive staff. Customers often understaff and undertrain their vendor management function when they initially outsource. This leads to value leakage and misalignment between the sourcing model and business goals. At the same time, overall staff reductions often fall short of plan, as retained employees are shuffled into new departments and roles they are not prepared to assume.

In this context, repatriation represents a risky and dubious solution, as simply insourcing a dysfunctional outsourced environment is unlikely to eliminate the dysfunction.

NIGHTS AND WEEKENDS

We've observed clients who repatriate in response to dissatisfaction with outsourcing caused by contractual terms that constrain flexibility. From the client's perspective, providers rarely exhibit a "go the extra mile" attitude — they're unwilling to work nights and weekends and take on ad hoc tasks, and are reluctant to accommodate even the smallest request that's not specifically defined within the terms of the agreement. Providers, meanwhile, argue that they have a business imperative to avoid excessive scope creep and keep the relationship profitable.

While both parties have a valid point, a relationship based on micromanaging terms, conditions and scope of work is a far cry from the "partnership" clients and providers ostensibly seek from outsourcing. Evidence we've seen indicates that successful relationships are characterized by providers who are willing – up to a point – to go outside the terms of the contract to help clients resolve issues.

This suggests that clients and providers have an opportunity to improve sourcing relationships through the development of contract terms and conditions that are more flexible and amenable to the spirit of partnership. While traditional contract discipline requires the crossing of all t's and dotting of all i's, an overly prescriptive approach can stifle creativity and hinder teamwork.

As such, introducing a level of ambiguity into the contract might be acceptable. In the context of an overall sourcing strategy, moreover, a contract structure that incentivizes teamwork and flexibility could preclude the need for repatriation – and thereby avoid the attendant risks and challenges.

INNOVATION KEYS

Lack of innovation from outsourcing is another common driver of repatriation. Again, both parties typically share responsibility for the shortfall. Clients often fail to articulate what they mean by innovation and are reluctant to invest in innovation or to incentivize risk-taking and potential failure. We've observed instances where, early in a relationship, providers proactively put forth ideas for innovation, only to have them ignored. Not surprisingly, providers conclude that their customer isn't interested.

Service providers, meanwhile, often lack the in-depth industry-specific technical expertise that – complemented by the customer's business knowledge – can drive real innovation. While generic IT capabilities are essentially table stakes, clients are seeking the holy grail of business outcomes; here, the provider community still has room to improve.

From a different perspective, the key to driving innovation is less an insourcing versus outsourcing question, and more a matter of organizational design and leadership commitment. This design has to align to the definition of competencies, responsibilities and metrics around the innovation process and how that process relates to business strategy. For example: Do we want to use innovation to reduce costs or win new business? Who will be responsible for what in the innovation process? How are fund/no fund decisions made on innovation proposals? How is success measured and rewarded, and risk-taking encouraged?

Too often, enterprises – whether insourced or outsourced – ignore these questions and seek to jump to a perceived innovative solution, rather than defining the foundational objectives and competencies required to get there.

KNOWLEDGE TRANSFER AND COSTS

Whatever the motivations for repatriation, transferring proprietary knowledge from a service provider to in-house staff presents significant risk. A smooth transfer requires that the service provider documents the capture of intellectual property from day one of the relationship, and that the client – as part of its vendor management function – oversees the provider's efforts and audits specific deliverables on a regular basis. The problem is that this rarely happens – both parties typically fall short of best practices when it comes to knowledge management.

While knowledge transfer when transitioning from one service provider to another is a challenge in and of itself, moving from a provider to in-house operations is particularly complex because the solution often requires establishing personnel roles, technology tools and practices from scratch. The effort and costs of these activities are most often overlooked during the decision planning process.

TAKEAWAYS

Outsourcing versus insourcing is not an either/or, black-and-white proposition. Clearly, some strategic functions that enhance competitive advantage should be kept in-house, and insourcing has a role to play in an overall sourcing strategy. In many cases, however, clients repatriate based on past negative experiences with outsourcing – and they themselves are often primarily responsible for that negative experience. While repatriation can be a way to address outsourcing mistakes, it can also compound and further expose existing organizational and managerial flaws.

With that in mind, specific considerations regarding repatriation include the following:

- Roles involving critical business knowledge and intellectual property are often well-suited to insourcing, as are certain high-visibility customer service roles.
- Repatriation presents a wide range of operational and financial risks that clients often fail to anticipate and address.
- Taking recruitment and retention in-house poses a challenge and can result in unexpectedly high costs, particularly for scarce skill sets.
- Organizational structure plays a key operational role in outsource vs. insource decisions, and can have unanticipated consequences.
- Negative experiences with outsourcing can motivate enterprises to repatriate, but repatriation in and of itself is unlikely to fix the problem, and in fact can pose additional risk.
- More flexible contract terms that incentivize partnership and teamwork can improve relationships and preclude the need for repatriation.
- Innovation presents a complex challenge and must be viewed in the holistic context of organizational design, rather than as an outsourced vs. insourced question.
- Knowledge transfer from a service provider to an in-house operation presents a significant risk that many enterprises are not prepared to address.

ABOUT THE AUTHOR

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Mary Patry is an accomplished IT management leader with extensive experience across a variety of industries. She helps clients strategize, design, implement, and lead actionable programs focused on increasing IT value. Her areas of specialization include strategic program management and planning, business alignment and business relationship management. Mary is a member of the CIO Executive Council, where she provides strategic-level coaching to IT executives on a career track to the CIO office.

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