Chapter 1

Outsourcing

A Business and Economic Model

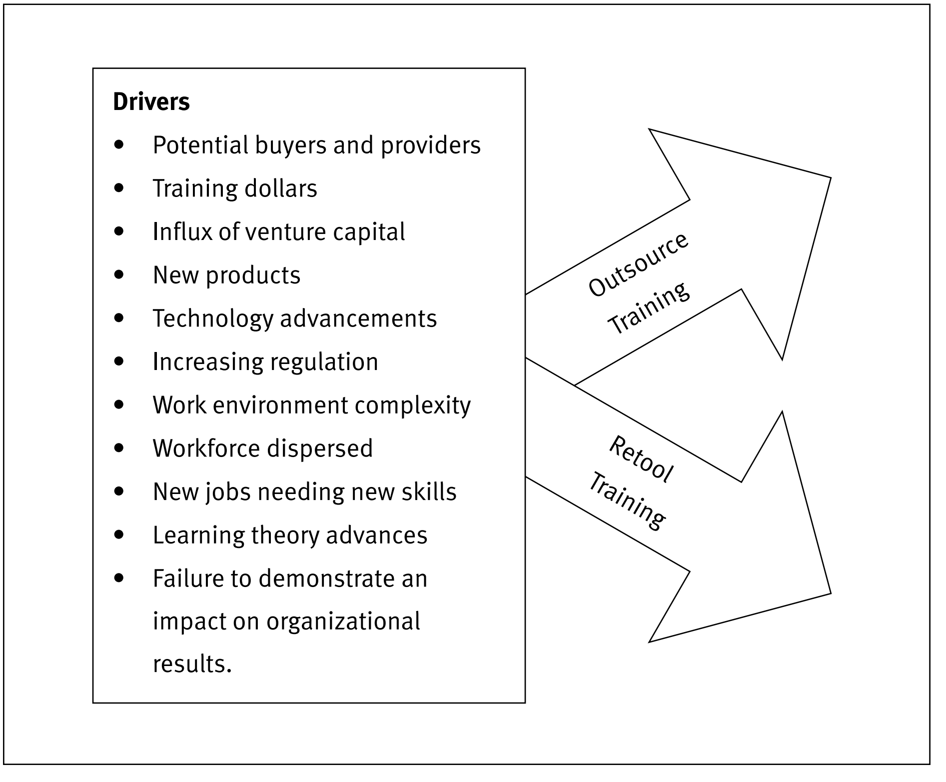
This chapter is about what is driving the increased interest in outsourcing training. There are three major drivers—economic, technology, and training's past performance. The economic drivers are the number of potential buyers and providers of training goods and services, the number of dollars spent on training, and the amount of venture capital available to new consulting firms. According to the Bureau of Labor Statistics (BLS), there are more than 200,000 people employed in training and development and there are approximately 3,800 independent training consultants.[1] According to the U.S. Census Bureau, there are almost eighteen million sole proprietors and approximately two million partnerships and five million corporations in the United States.[2] Of those enterprises, more than a million have five hundred or more employees, and almost 600,000 have more than 10,000.

It is difficult to accurately establish the amount of money organizations spend on training, as the number differs depending on the source. What is known is that larger organizations spend more money on employee training and they develop and market training to their customers. According to *Business Week,* industry is spending approximately $63 billion annually on training[3] and an increasing proportion is being outsourced. According to the Exceleration Group, expenditures or the market size for training and development services in North America will exceed $120 billion in 2004. This includes an estimated $53 billion targeted for employee training expenditures (*Training,* October 2003) and approximately $65B for customer training.[4] This investment in training in turn is attracting private investors who are underwriting both new and established training firms.

The increased use of the intranet and the emergence of technology-based training is another factor driving outsourcing of training. Technology and web-based training have created a need for instructional designers and training managers who understand both technology and learning, a combination not traditionally found in the training function. Today, the team involved in the creation, delivery, and maintenance of training consists of highly skilled programmers, graphic artists, and instructional designers experienced with multimedia suite development tools and web-based technologies. Outsourcing firms are able to hire or subcontract with the full array of specialists required to produce technical training programs capable of being deployed by way of an intranet to workers dispersed all over the world.

Another driver is the failure of training departments to demonstrate value. Training functions struggle with knowing how to show that their programs contribute to their organization's goals, and the fact that they are considered fixed costs makes them vulnerable to cost-cutting measures. Some drivers are shown in Figure 1.1.

Figure 1.1. Economic and Marketplace Drivers



The investment in training is expected to increase because, according to the Bureau of Labor Statistics, organizations believe training develops skills, enhances productivity and quality of work, improves morale, and builds worker loyalty. According to the ASTD *2004 State of the Industry Report,* only 8 percent of their 213 benchmarked organizations do Level 4 evaluation (demonstrate the value gained from the investment in training); therefore, very few training departments can demonstrate that they add value to the organization.[5] Yet, businesses believe there is a direct correlation between the levels of investment in training and a firm's performance in the marketplace. Other factors that are driving the need for training are new products, technology advancements, and increasing regulation. The work environment is more complex, the workforce more dispersed, and there is a growing number of jobs in fields that are generating new knowledge.

At the same time the investment in training is growing, business and industry are being pressured to cut costs, reduce headcount, and avoid long-term liabilities like pension plans. As a result, organizations are looking for ways to meet the demand for training without hiring training specialists or investing in the development of their training function. A solution is to outsource.

A LITTLE HISTORY

Given that outsourcing is leveraging the capability and capacity of external resources long term, outsourcing today does not differ significantly from the large training contracts of the past. Major industries, particularly telecommunications, computing, automotive, and the military, have outsourced training services for years. The contracts were for millions of dollars and ran for a number of years, and contracting helped the organizations avoid hiring additional personnel. Similarly, sole proprietors and small and medium-size businesses have always outsourced their formal training and still do. Small and medium-size firms outsource through the local Better Business Bureaus, professional and trade associations, and community colleges. Large firms hire the expertise of consultants and training firms. Smaller firms tend to do basic skills training, and larger firms tend to do job skill training. So the attributes of leveraging external resources long term is not new.

Outsourcing Versus Contracting

The question becomes one of when is a relationship one of contracting versus outsourcing. Contracting, as a business model, is to use vendors to do special projects that are one-time events or supplement internal staff on specific assignments. Contractors are hired to augment training staff. Outsourcing, as a business model, is to substitute external resources for current employees. The goal is to either reduce the number of full-time employees (FTEs), avoid hiring more people, or replace current staff with outsourced personnel so they can be redeployed to other needed tasks that are perhaps less easily outsourced. The result is that the organization can either reduce or avoid increasing fixed costs. Here are some examples.

Outsourcing is the acquisition of external resources to perform current tasks or new ones so as to:

- Reduce headcount;
- Avoid the need to increase headcount; or
- Keep headcount the same but reassign them to tasks less easily outsourced.

Contracting is the acquisition of external resources to:

- Increase capability short-term or
- Augment staff's capability short term.

RESEARCH FIRM

Background: The firm has 8,000 employees and 2,000 contractors on site. The Training Department has thirty full-time employees. Last year the department delivered 116,00 training hours.

Contracting: If there were a project requiring someone with skills in developing a website or creating animated graphics for one or two programs, the department might contract with an individual or firm to do the work.

Outsourcing: If, however, the department wanted to deliver more training by way of websites or wanted the ability of add animated graphics to all future programs, it could either hire another employee (add an FTE), train one of its thirty trainers (redeploy the FTE), or outsource (not affect the FTE, yet expand capability).

THE SAME RESEARCH FIRM

Background: The firm spends about $1.5 million a year on tuition reimbursement. Currently one of the Training Department's thirty employees is assigned full-time to manage the tuition reimbursement program.

Outsource: The training manager wants to outsource tuition reimbursement because this would allow her to:

- Replace the person responsible for tuition reimbursement with someone with the skills that would be of greater value or
- Reassign the person responsible for tuition reimbursement to tasks he or she is already capable of doing but does not have the time to do.

Outsourcing lets the training manager still provide a service clients value, yet expand her department's capability by reassigning a resource to tasks of greater need.

Contracting: If the training manager only wanted to redeploy the person in charge of tuition reimbursement for a short time, perhaps six to nine months, at the end of which time the person would return to the old assignment, the training manager could just contract with someone.

POLE CLIMBING

Background: In the early 1980s the telephone and electric companies had a need to better train people to climb utility poles. All of the phone companies and utility companies got together and adopted a common set of standards for pole climbing.

Contract: The companies contracted with Southern Bell to develop a pole-climbing course they would all agree to use.

Outsource: The group then outsourced the delivery of the pole-climbing course to community colleges, allowing the companies to train about 75,000 people the first year.

Developing the course was a contract because it was a one-time event. All of the companies had the internal capability of developing the course, but wanted to avoid the cost of everyone doing their own program.

Delivery was an example of outsourcing, as the program would be needed annually, and if every company delivered the course they would have to either hire trainers or redeploy their current trainers. Delivery would affect FTEs.

CAR DEALERSHIPS

Background: There are approximately 21,000 independent car dealers and 55,000 independent used car dealers in the United States. A dealership might have a manager, assistant manager, sales manager, service manager, sales personnel, and service technicians. The number of sales personnel is based on the number of new cars delivered monthly. The industry standard is one sales person for every one hundred new cars delivered.

Outsourcing: Owners contract with independent consultants, such as Tony DeSalvo, to train their managers, sales managers, sales force, and service advisors. Tony has had a regular clientele since 1995. His programs include all aspects of the sales and sales management process, including negotiations, presentation, and recommending the right vehicle for the buyer. He also has a program for handling Internet sales. Outsourcing their training allows the dealerships to avoid hiring trainers.

Therefore, a relationship is one of a *contract* if it is

- For a single purpose or for a one-time project
- Has no impact on FTEs
- To acquire needed talent to bridge a specific gap

It is *outsourcing* if it affects FTEs and fixed costs by enabling the training function to:

- Reduce headcount and the related overhead
- Avoid increasing headcount

- Redeploy current headcount

Is a long-term solution for increasing the training function's capability and capacity

WHY OUTSOURCE

Organizations choose to outsource their training in deference to building internal capability and capacity based on a combination of business and training reasons, such as:

- Focus on core competencies
- Gain scalability of the workforce to avoid the need to lay people off
- Avoid long-term liability associated pensions and profit sharing
- Avoid the cost of building internal competence, especially within the training function
- Manage training costs
- Improve the revenue-per-employee ratio
- Acquire specific talent to support a new strategy or project

Focus on Core Competencies

The focus on core competencies is a newer business model in and of itself. Organizations are encouraged to ask: "What business are we in? What must we do and be better at to stay competitive in the marketplace? What functions are best done by other organizations that have that function as a core competency?" A result of focusing on core competencies is the elimination of those functions not seen as core to the business, including support or staff functions, also known as general and administrative or G&A. Support and staff functions are necessary for running the organization's infrastructure, but of little interest to customers unless they are inefficient and interfere with service delivery. The more common G&A functions being outsourced include:

- Accounts payable and receivable
- Payroll
- Compensation and benefits
- Information technology, especially the Human Resource Information Systems (HRIS)
- Legal services
- Public relations and communications

Depending on an organization's view of its core competencies, it may outsource its marketing, manufacturing, distribution, customer support, and product installation and repair.

Training is by definition a support function—particularly if it is viewed as a cost center that does not have a recognized value to the organization—and therefore susceptible to being outsourced. Just because training is not perceived as a core competency does not make it unimportant. It means the organization chooses to turn the responsibility over to an external firm that has training as its core competency. It wants a firm whose personnel are fluent in all aspects of training's processes, including design, development, delivery, and administration. The organization also wants an external resource with the latest technology and systems required to efficiently develop and deploy programs to employees wherever they are located.

Gain Scalability

Scalability is the ability to quickly downsize or grow in response to market demands. The telecom and high-technology industries experienced a significant economic downturn between 1999 and 2003. The automotive industry is cyclical. It goes through good times and bad times. Training departments are especially affected during bad times when organizations downsize. Training functions may lose the majority of their personnel, and even whole departments can be eliminated. Organizations are looking for ways to avoid the need to lay off people in the future. One response is the ongoing search of the right size. Another response is converting functions that are fixed costs or G&A to variable costs by contracting and outsourcing services. When a company decides to outsource all or part of a function, it can construct an agreement that can be adjusted annually, even quarterly, based on need. It becomes the outsourcing firm's dilemma as to how to retain and keep qualified personnel billable. The assumption is that outsourcing firms are better able to respond to changing marketplace demands because they have more than one customer and, therefore, have the ability to shift personnel to different customers' projects.

Avoid Long-Term Liability

The financial scandals experienced over the last few years resulted in the accounting profession revising its accounting standards. The new standards require firms to be more conservative in their projections as to what their long-term liabilities are related to employees' pension plans. They must more accurately account for costs that are considered overhead or fixed. The organizations must significantly increase their contributions to their retirement plans and must more carefully estimate how many employees will stay until retirement. Outsourcing is a way to avoid this liability.

Avoid Cost of Building Internal Competence

To meet the need for training requires organizations to invest in the training function's skills and technology. Training professionals must be proficient in instructional design, adult learning theory, the use of electronic authoring and delivery systems, and learning management systems (LMS). Organizations may be willing to invest in keeping their line workers current, but not staff. The debate becomes one of if and when to hire, what skill sets to hire, and what to outsource.

The federal government and the military in particular are mandated to use commercial services, instead of hiring personnel. They have developed a set of guidelines to help them weigh the economic and non-economic factors of hiring compared to outsourcing. The argument for hiring requires looking at the job, the expertise required to perform the job, the availability and market value of that expertise, and for how long the expertise will be required.[6] The guidelines suggest weighting the following:

- Costs
    - *Employment costs*—salaries and benefits. This cost can be significant once training professionals become vested in the organization's pension plan.
    - *Currency costs*—the cost to keep training professionals current in the subject and the technology. The knowledge base for some jobs is static; but it is ever-changing for training. The cost of staying current can be significant, and this cost exists for vendors as well.
    - *Learning curve*—the cost to bring a person up-to-speed should there be turnover. This includes knowledge of the organization (its people, products, and processes), content (learning objectives, concepts and rules, and examples), learning strategy (self-study, classroom, practice, simulations, and on-the-job training), projects (status, roles, schedules, and deliverables), learning technologies (LMS, authoring systems, testing software, and hosting capabilities and requirements), and administration (reporting requirements). This cost applies to training professionals and vendors.
- Job complexity
    - *Amount and variety of product or organizational knowledge required of the job*—the jobs performed by training professionals are becoming increasingly complex. One factor is the increasing reliance on technology to develop and deploy programs. The need to constantly develop new content also adds complexity.
- Marketplace
    - *Availability*—the number of people in the marketplace with the desired combination of knowledge and skills. Depending on the skills sought, they might be abundant and readily available, or they might be difficult to obtain. If the demand for a set of skills is short term, contracting may be the only option.

    - *Competition*—the number of employment opportunities for training specialists and generalists. As more and more organizations move to e-learning and distance learning, the competition increases for certain skill sets and the cost for acquiring them increases.
- Risk management
    - *Safety*—the exposure to unsafe working conditions and the degree to which hiring or outsourcing will reduce, increase, or allow for better control over that exposure. Some work environments such as manufacturing and laboratories present workplace hazards. When contractors are on the premises, they must be trained in how to behave in those environments. The cost for training applies to both employees and contractors. When training is outsourced, training and liability costs are assumed by the vendor.
    - *Asset protection*—the access to privileged information or economic assets and the degree to which the relationship can be designed to reduce that access or mitigate loss. Training has access to the organization's plans, processes, and desires. Protecting that information can be considered very important. Whether the risk is higher when you outsource or retain the work internally is questionable.
    - *Confidentiality*—how it will be preserved should there be turnover. Signing confidentiality agreements applies to both employees and the outsource firm.
- Loyalty
    - Pertains to the risk of losing the intelligence or expertise should the person leave the organization or the vendor's employment. This is similar to the issues under the learning curve. People build relationships and gain institutional knowledge that can be abused or misapplied when employees and contractors become disgruntled.

Manage Training Costs and Improve Revenue Per Employee Ratio

One of the main arguments for outsourcing training is cost control. Organizations have a difficult time determining just what their training costs are. ASTD, the largest professional association representing the training industry, struggles with collecting valid metrics of what companies spend on training. A number of factors contribute to the confusion and lack of clarity; however, the main reason is the lack of agreement on what costs to include and how those costs are calculated. For example:

- Training is rarely centralized and not under a single budget, making it difficult to control costs. Most large organizations, even if their training function is centralized, have renegade trainers whose costs are rarely captured, much less managed.

- Training costs are classified under different headings in the budget.
- Managers hide training costs.
- Trainers have numerous titles, and their salaries may not be part of the training budget.
- There is no agreement on what costs to include, such as learners' time, facilities, travel, trainers' time, materials, tuition reimbursement, conference fees, professional continuing education, and so forth.
- There is no agreement on how to spread or allocate the cost of design and development across offerings.
- There are no agreed-on protocols for classifying and tracking training's indirect costs, such as for registration, record-keeping, material warehousing, and production.

When organizations outsource training, they are forced to place a value on it and manage it. They have to decide on deliverables, service levels, and a budget. The organization is then in a better position to monitor expenses.

The flip side of the cost coin is the inability of most training departments to demonstrate that they actually add value through measurable results that impact the bottom line. If value cannot be measured, the basic question that remains is whether it is cheaper to keep the training function in-house or outsource it.

Gain Access to Learning Technologies

The organization may expect to benefit in other ways as well by outsourcing training, such as:

- It may gain access to the latest technology and highly skilled specialists.
- It will avoid the need to invest in (1) the latest training software and hardware required to support the development and delivery training and (2) the ongoing development of its training personnel.

Other Benefits

Organizations may reap other benefits as a result of outsourcing. For example, investors monitor a company's revenue-per-employee ratio. This ratio is improved when the number of full-time employees (FTEs) goes down. Eliminating support functions collectively can reduce headcount sufficiently to make the ratio more attractive to investors. However, eliminating the training function alone will probably not affect the ratio significantly, as training's percentage of the overall G&A costs may be small compared to the overall number of employees.

Outsourcing may result in the organization engaging the services of fewer external resources by contracting with an exclusive vendor or a tier-one vendor. This strengthens the organization's ability to negotiate lower costs and makes management of the external resource easier. A side benefit is a reduction on accounts payable transactions.

TOOL 1.1: GUIDELINES FOR CLARIFYING WHY TO OUTSOURCE

These guidelines are intended to help you to think about why you might want to or are already outsourcing some or parts of the training function. If you are considering outsourcing all or just specific responsibilities of the training function, meet with your key stakeholders and answer the following questions. The collective answers are intended to help you begin the process of weighing all of the variables. The subsequent chapters will add other points for consideration.

1. What is your organization's business model? What is its approach to delivering goods and services to the marketplace? Does outsourcing play a role?
2. What is your organization's position on G&A or fixed costs? Does it have a plan for reducing G&A costs or converting fixed costs to variable costs? What proportion of these costs is attributable to training?
3. What problem do you think outsourcing will solve? Is it:
   a. The desire to direct more attention to the core business?
   b. The desire to be able to downsize or grow quickly?
   c. The need to better identify the true cost of training and manage it appropriately?
   d. The need to expand the function's ability to leverage technology?
4. What is your current situation?
   a. How many people make up the training function?
   b. What is your average annual training budget?
   c. Do you expect the demand for training to grow?
   d. Is there an expectation that training should do more, offer different services, or do work differently? If so, in what way?
   e. How do you measure training results? Is it just an activity, or can you show that it improves individual and organizational performance?

This information will help you build a baseline against which you can better evaluate the potential benefits of outsourcing, potential external resources, and the effectiveness of the relationship once you should decide to outsource.

WHAT IS OUTSOURCED

As a business model, outsourcing can be applied to the training function as a whole, key processes, or major programs. At whatever level it is applied, it is a purposeful decision to not hire or further invest in the training function's capability and capacity. It is a decision about how to best use internal resources. What is outsourced may include:

- Operating the whole function
- Developing and managing training's administrative activities
- Designing and developing courses and courseware
- Designing and developing e-learning courseware
- Maintaining servers and hosting e-learning courseware
- Managing and providing course facilitation

One of the better-documented examples of outsourcing the whole training function is Nortel, the Canadian Company.[7] Nortel's reasons for outsourcing its training function were to:

- Focus on its core competencies
- Gain scalability
- Better manage training costs

These are the same arguments used by other organizations choosing to outsource the function. Nortel's annual training budget was approximately $178 million. By outsourcing, Nortel established a training budget based on specified deliverables. It essentially eliminated the training function. What remained were executive leadership and administrative staff. It gained the ability to better manage its training costs and determine whether the expenditure positively affected the company's performance.

Outsourcing Parts of the Function

Another approach is to outsource selected areas or disciplines and to keep those areas that the function excels in. Training departments, just like whole companies, have strengths and weaknesses. Older, more established departments may have started out developing and delivering classroom training. Another training function may have started with the information technology (IT) department. Another may have only arranged to lease off-the-shelf programs. Today, these departments may be expected to provide consultation on performance issues, recommend the best combination of electronic delivery systems, manage learning management systems (LMS), modularize training content so it can be stored and accessed through a learning content management system (LCMS), track continuing education units so employees can retain their certifications, maintain a server or an intranet to host online learning programs, and more. The expectations of the function exceed either its capability or capacity to respond with current staff. In this situation, outsourcing may be a responsible solution.

What Cannot Be Outsourced

The one responsibility that cannot nor should it be outsourced is leadership of the function. The organization still has to retain responsibility and accountability for identifying developmental needs, deciding what skills to develop versus hire, and allocating funds for development. Senior management is responsible for talent development, management, and retention, as well as for ensuring that the training has the desired result.

Figure 1.2 shows what is outsourced and what is not.

Figure 1.2. What Is and Is Not Outsourced

Not Outsourced	Outsourced
• Leadership of training function • Processes that are training department strengths	• Operating the whole function • Administration • Course development • E-learning course development • E-learning hosting • Facilitation/delivery

TOOL 1.2: GUIDELINES FOR DECIDING WHAT TO OUTSOURCE

One of the harder decisions is about what or how much to outsource, as the implications can be significant. The following questions are intended to start you in the process of identifying what your training function currently does or does not do and what you might want to outsource to expand the function's capability or capacity. Subsequent chapters deal with the question of what to outsource in greater detail. Meet with your key stakeholders and begin to discuss the following topics:

1. What are you thinking about outsourcing?
   a. The whole function?
   b. Administrative activities?
   c. Course development in general?
   d. E-learning course development?
   e. Facilitation and delivery?
2. As you go over the list above, what specifically did you have in mind for items b through e?
3. How do you think the organization will benefit if you outsource?
4. What do you see as being different as a result of outsourcing?
5. If you were to outsource all or some of the training function, how would the results be different from what the organization is experiencing now?

This information will help you be clear in your expectations and what exactly you want from an outsourcing relationship.

WHAT THE RELATIONSHIP LOOKS LIKE

The format of a relationship between a buyer and an outsourcing firm depends on the models used by purchasing, procurement, or the contacting department. Some purchasing departments like preferred vendors; others like the tiered vendor model. Most want to reduce the number of vendors the organization has. Their reasons include reducing the number of transactions handled by accounts payable, the number of security clearances that have to be done, and the number of badges that have to be prepared to allow outsiders access to the property. Having more vendors makes for more administrative work.

The outsourcing firm can take on more roles than that of a training resource. Depending on the relationship, it may function as:

- A sourcing agent that identifies and contracts with independent consultants and firms to provide services. As a sourcing agent it may charge a finder's fee or an administrative fee. Sourcing agents usually provide no oversight of the work being done. However, they can shield the organization from employment taxes and benefit costs because they can hire the independent contractors as employees.
- A general contractor that coordinates the work of subcontractors. In this model the outsourcing firm provides oversight and direction. The subcontractors do not become employees of the general contractor.

- A tier-one contractor through which all other contractors bill their services. Tier-one contractors may or may not provide oversight, and the tier-two and -three vendors do not become employees of the tier-one contractor.

The differences between these relationships are subtle but important, as they are about where responsibility rests, who provides oversight, what the employment status is of vendors, and how billing is handled. Large consulting firms, such as Accenture, Exceleration Group, Intrepid, Productivity Point, Raytheon, RWD, and others, may operate as full-service providers or as general contractors. They provide qualified personnel and oversight and may be responsible for any employment taxes and benefits. When they are full-service providers, the personnel assigned to the contract are employees of the outsourcing firm.

Other outsourcing firms operate as sourcing agents. Manpower, for example, is a sourcing agent that hires independent consultants based on the requirements of the contract. The consultants become employees of Manpower, are eligible for health benefits, and can earn paid vacation time. The buyer is responsible for oversight and supervision. Source One is also a sourcing agent; however, the personnel it provides remain independent contractors. Source One provides some oversight, but its buyers are responsible for supervision. PriceWaterhouseCooper, the firm to which Nortel outsourced its whole training function, operated as a sourcing agent.

Other organizations prefer the tiered model to reduce administration costs. Large organizations may have as many as four thousand qualified vendors whose invoices they process monthly. The tiered model reduces this administrative burden and allows accounts payable to avoid adding FTEs. However, the organizations usually place requirements on who is eligible to be tier-one, -two, or -three vendors. For example, the Metropolitan Washington Airports Authority (Authority), the organization that owns and operates National and Dulles Airports, outsources its organization development (OD) and performance management services. The vendor operates both as a preferred contractor and a tier-one vendor. The Authority identified other firms that are eligible to operate as tier-two vendors to do training on subjects such as coaching and how to use proprietary software and consulting such as process reengineering and outplacement. The Authority has strict rules on who is eligible for the tier-two and tier-three contracts. Specifically, the Authority requires that 25 percent of the contract dollars go to local disadvantaged business enterprises, known as LDBEs. Local is defined as being located within one hundred miles of the airports. Disadvantaged are women and minority owned enterprises. The tier-one vendor in OD processes all of the invoices submitted by these tier-two vendors for their services.

TOOL 1.3: GUIDELINES FOR SURFACING OUTSOURCING CONSIDERATIONS

The following questions are intended to surface the group's biases about the type of outsourcing firm it wants to consider. Meet with your stakeholders and discuss the following questions:

1. Does it matter where the outsourcing firm is located? If so, why?
2. Have we made any promises to employees, customers, investors, or the community that might affect the type of outsourcing firm we use? What are those promises?
3. How much control do we want to have over the work products and how they are produced? Why?
4. How would we rate our project management, instructional design skills, and learning technology capabilities? Would our strengths and weaknesses influence the type of outsourcing firm that is best for us? If so, how?

IMPLICATIONS

The press and media report regularly on outsourcing. *The Wall Street Journal,* for example, publishes a regular series on the topic. The position the press and media take is not always positive, and they often interchange the terms "outsourcing" and "off shoring." However, they raise issues about the long-term economic and social implications of outsourcing. Therefore, as you weigh the pros and cons of outsourcing training, you should be prepared to answer questions about loss of jobs, company intelligence, and loyalty. You may be asked questions about if and how the decision to outsource might affect the local, national, and global economy.

Some training functions that have seen much of their work outsourced believe that outsourcing is creative accounting at best or management's feeble attempt at dealing with an issue that they do not otherwise know how to handle, such as how to control the cost of developing their people. The line organization, in turn, may see outsourcing as a reasonable response to training's inability to manage its costs and prove the value of its services. Whatever position you take, outsourcing can transform the training function. It forces the organization to place a value on people development. It gives the organization access to highly skilled specialists and the latest web-based and technology-based delivery systems with minimal investment. It puts in place management and accounting systems that allow for better allocation and tracking of costs. It can bring discipline to a function that historically has avoided being accountable for the impact of its programs.

MISSTEPS AND OVERSIGHTS

It is important that when organizations and external resources begin the process of entering into a business relationship they base it on a solid foundation. Here are some of the oversights both sides make that can jeopardize the success of the relationship:

- They are unclear or have not fully examined the reasons for wanting a relationship.
- They fail to establish a baseline against which they can fairly evaluate the relationship.
- They lack a culture of a long-term relationship, and instead think applying a project-oriented model is all that is needed.
- They overlook the long-term economic implications of their decisions, whether on the organization, the outsourcing firm, or local businesses.
- They focus on the activity of training rather than the measurable results necessary to improve the bottom line.
- They fail to use legally binding contracts that adequately define and document work expectations and requirements.

This list will be continued in subsequent chapters.

SUMMARY

Outsourcing is the decision to leverage the capability and capacity of external resources long term so the organization can (1) focus its internal resources on those parts of the business most important to customers; (2) structure the training department for greater scalability; (3) control or reduce training costs, including employees' salaries and benefits; and (4) gain access to training technologies. The relationship can take different formats that address how oversight, employment costs, and billing are to be handled and who is responsible.

Figure 1.3, The Engagement Process, shows how the remainder of the book is organized. Each of the following chapters is dedicated to one of the phases in the engagement process.

WHERE TO LEARN MORE

Here are some resources to learn more about outsourcing training:

ASTD hosts a number of annual conferences. Both the winter ASTD TechKnowledge Conference and the annual ASTD International Conference and Expo have large expositions where vendors of training products and services display their abilities. ASTD now offers a conference just on the topic of outsourcing. All of the conferences offer educational sessions for training managers, training specialists, and instructional designers. Also check out ASTD's monthly journal, *T&D*, for relevant articles. ASTD's website is www.astd.org.

Phase 1: Identifying the Need	Phase 2: Assessing Capacity and Capability	Phase 3: Selecting the Outsourcing Firm	Phase 4: Contracting	Phase 5: Starting Up	Phase 6: Managing the Relationship	Phase 7: Closing Out
Determine client's needs a. shorten cycle times b. deliver more training • regulation • turnover c. provide greater access to training d. test learners' knowledge e. report on workforce capability f. expanding learning audience g. honor past and future commitments Determine criticality and priority	Assess strengths a. credibility and trust b. capacity c. capability d. knowledge and skills e. resources f. work processes g. standards Assess weaknesses Conduct job task analysis a. by role b. by task and skill	Set the baseline Define roles and responsibilities Define the requirements Define the selection criteria Recruit potential outsourcing firms Issue the RFQ Issue the RFP Convene the panel and decide	Prepare the contract Draft master agreement Determine scope of work a. deliverables b. reporting requirements c. problem resolution d. quality and service level e. timeliness and termination Draft addenda Agree on terms and conditions a. Accountability b. Budget c. Fees d. Flexibility e. Quality statement f. Service level statement	Build contract profile Set up governance process Develop management plan and schedule Create communication protocols Develop document standards and controls Agree on deliverable standards Identify intellectual property Create transition plan Create dispute resolution process	Provide oversight Implement the plan and protocols Share expectations and agree on goals Communicate Stay current with needs Measure and report results Celebrate success Improve processes	Notify about termination Transfer intellectual property Return physical property Reconcile financial obligations Terminate clearances, codes Execute final performance review Orient the training function

Figure 1.3. The Engagement Process

The International Society for Performance Improvement (ISPI) focuses on measuring results and improving performance. It has annual and fall conferences that work toward these ends. To learn more about measured results, go to www.ispi.org: Got results section.

The Outsourcing Training website at www.outsourcingtraining.com reports the latest outsourcing activities and facts and figures. This website is sponsored by the large consulting firms.

VNU Learning hosts two annual conferences, one in the winter and one in the fall. They are called "Training" followed by the year. Both conferences have large expositions where vendors of training products and services display their abilities. The conferences also offer educational sessions for training managers, training specialists, and instructional designers. VNU also hosts a summer Training Director's Forum, a smaller, more intimate conference for training managers. VNU publishes a monthly journal called *Training*. The website is www.vnulearning.com.

NOTES

1. The Bureau of Labor Statistics has a website with the latest employment figures. The information referenced in this book is based on BLS 04 on HR Employment at www.bls.gov/oco/ocos021.htm.
2. The last published U.S. Census was in 2001. To find more statistics about all industries in the United States, check the website www.census.gob/epcd/susb/2001/us/US. Bizstats is another website that has information about businesses in North America. It is located at www.bizstats.com/businesses.htm.
3. *Business Week*'s Online Magazine Dated January 10, 2000, states: "In 1999, the amount of private-venture capital pouring into education quadrupled, to $3.3 billion. . . And in 2000, it . . . will swell to at least $4 billion. . . . The $63-billion corporate-training market, for instance, has always been dominated by private firms. Most training is done in-house, but companies are increasingly outsourcing it . . . overall corporate training is growing 5 percent a year, the outsourcing piece is growing 10 percent to 12 percent a year. . . ." According to *Business Week*, the total education market in 2000 was $780 billion. This includes elementary and high schools, community colleges and trade schools, and higher education.
4. Outsourcing Training Facts and Figures. See www.trainingoutsourcing.com/exec_factsfigures.asp.
5. ASTD conducts benchmarking studies and publishes them in its annual industry report.
6. A-76 Guidelines. The basic argument to hire is based on what is referred to as the A-76 Guidelines. Even though these guidelines may not directly apply to profit and not-for-profit enterprises, they can help formulate the argument for and against outsourcing. Here is a website to learn more about these guidelines: www.whitehouse.gov/omb. Once at the home page, go to the section titled circulars.
7. To learn more about the Nortel experience, go to www.trainingoutsouring.com.