

OUTSOURCING IN-HOUSE – WHY IT WORKS

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Abstract

This paper discusses the growth in the **Outsource In-house** industry. The author has provided **Outsource In-house** solutions to a range of clients over the past 7 years. This paper includes his insights, the lessons learnt and possible scenarios for the future.

Skill Shortages – In both Australia and NZ, skill shortages have had an adverse impact on many businesses. The transport infrastructure sector is not immune and churn rates of 30% are not uncommon. Universities and technical colleges are unable to train the number of engineers and managers required to fill the gap. Utilising **Outsource In-house** services is one solution to this skill shortage.

Consultants (small, local versus large, multinational) - Since the early 1990's, the growth in Alliance, Term (PSMC) and Full Facilities Management contracts has driven large contractors and multinational consultants to work together in a close symbiotic relationship. This is contrary to the historical and sometimes confrontational relationship between consultant and contractor. There have been some interesting outcomes as well as unexpected twists. For example, many contractors are now building up or acquiring their own professional service teams in order to improve the bottom line and minimise risks. **Outsource In-house** staff play a key role in this process.

Intellectual Knowledge and Knowledge Transfer - In 1988, NZ embraced outsourcing of central and local government services. Contractors and consultants quickly recognised the opportunities and over the intervening years have build up their staff resources by recruiting central and local government staff. Many of these staff took with them their knowledge of asset management.

Outsource In-house is a way of regaining access to this knowledge.

Key Words: outsource, skill shortages, consultants, smart contractors, intellectual knowledge, knowledge transfer

Introduction

This paper discusses the growth in the **Outsource In-house** industry from a New Zealand (NZ) perspective. The term **Outsource In-house** applies to the concept whereby staff from one organisation, such as an engineering consultancy company, work inside their client's organisation as if they were a member of staff. This solution is a way of addressing skill shortages on either a short or long term basis. Provided the terms of reference are clearly spelt out, this can be an innovative solution that is a winner for all concerned.

The author has provided, and continues to provide, **Outsource In-house** solutions to clients in the transport infrastructure, construction and maintenance fields. This paper includes his insights, the lessons learnt and possible scenarios for the future.

Skill Shortages

In Australia and NZ skill shortages have had an adverse impact on many businesses. The Transport Infrastructure sector is not immune and churn rates of 30% are not uncommon in the industry. Universities and technical colleges are unable to train the number of engineers and managers required to fill this gap.

In its submission to the Royal commission on Auckland Governance, the Institute of Professional Engineers NZ (IPENZ) quoted the Association of Consulting Engineers estimate of *"A shortage of 800 engineers and technicians in the industry."* (IPENZ, 2008). In a further quote, the IPENZ submission states, *"As a result many local authorities, consulting firms and contractors are competing for the limited pool of labour."* (IPENZ, 2008). Although this position has changed somewhat due to the current financial situation, there is still a significant

shortage of experienced engineers, particularly in the traffic and transport disciplines.

Faced with the challenge of retaining existing staff, innovative companies are implementing a number of initiatives for their senior (most experienced) managers including:

- Asking them to defer retirement
- Allowing flexible working hours that reflect the desire of senior managers for an improved work/life balance

But for some senior managers these incentives are not sufficient inducement for them to stay. The author is aware of many reasons why senior managers resign/retire and then set themselves up as small/one person consultancies but in general they include:

- The need to step out from the protection of a large organisation and rediscover the passion and brutality of relying on one's own engineering skills and knowledge
- Frustration with an organisation's bureaucratic systems and corporate mind games
- Desire to specialise in a particular field or industry

Seldom is it about the money.

Consultants – Are Small Local Companies Better Than Large Multinational Ones?

Since the early 1990's, the growth in Alliance, Term (Performance Specified Maintenance Contracts (PSMC)) and Full Facilities Management Contracts for procuring road maintenance services has driven large contractors and multinational consultants to work together in a close, symbiotic relationship. This is contrary to the historical and sometimes confrontational, relationship between consultant and contractor. As a consequence, a number of these new relationships have not worked as well as the client intended them to work. The reasons for this include:

- Contract success is highly dependent on the expertise and skills of people selected for the Project Management Boards/Project Control Group.
- Consultants tend to be risk averse and want to protect their Professional Indemnity exposure

- Contractors mistrust Consultants due to previous experiences with traditional contract models (where the Consultant performed the duties as Engineer to the Contract). In other words, a master/servant relationship.
- Contractors view Consultant's high hourly rates with suspicion and question the time Consultants spend on investigation and design.
- High rates of staff turnover in both Contractor and Consultant organisations.
- Consultants and Contractors poaching each others staff.

Where the relationships have worked, it is usually a result of two or more of the key managers adopting a 'Best for Project' approach and forgetting all about past relationships and responsibilities. i.e. letting go of historical 'baggage'.

This tension between Consultant and Contractor can also exist between Consultant and Client. National and Local Road Controlling Authorities (RCA's) in New Zealand have found some larger Consultants:

- Less responsive to their needs for short term, quick turnaround type deliverables.
- Prefer to take the work back to their own office rather than have their staff work in the client's office (perhaps with the intention of utilising less skilled and cheaper staff).
- Have real concerns about liability. i.e. the consultant company is of large enough size to be worth litigation if something goes wrong.
- Sometimes have a propensity to carry out the work 'their way'.

Jim Collins (2001) sums up the bureaucratic nature of large organisations when he states, *"Bureaucratic cultures arise to compensate for incompetence and lack of discipline, which arise from having the wrong people on the bus in the first place. If you get the right people on the bus, and the wrong people off, you don't need stultifying bureaucracy"*.

Steve Zaffron and Dave Logan (2009) state it is now the time of *"global warming of organisations.... The world of the organisation is changing profoundly and no*

one is sure of the new rules.” Zaffron and Logan conclude that many organisations they have investigated are now so focused on profit and increasing shareholder wealth that they are forgetting fundamentals such as:

- Concern for the wellbeing of the clients and the maintenance of enduring client relationships
- Truthfulness to staff and clients
- Safety
- Long term succession planning

Many New Zealand RCA's and Contractors recognise that a viable alternative to working with large multinational consultants is to employ smaller companies that are more focused, flexible and adaptable to their needs. Contractors, especially, find these smaller companies:

- Recognise their survival depends on a long term relationship with the larger Contractor
- Put aside their traditional Engineer to the Contract role (where the Consultant manages the Contractor) and works with the Contractor to find a cost effective solution
- Easily adapt to the Contractor's culture
- Are usually more commercially astute (their survival depends on it)
- Almost always have 'a bias for action'
- Have lower charge out rates

Charles Hancy described this relationship between large organisations (usually institutional in their focus) and smaller, innovative companies in his book **The Elephant and the Flea (Hancy, 2001)**. Hancy believes the Elephants (larger organisations) are unable to adapt to changing economic conditions without the inputs and influence of the innovation arising out of the Flea (small companies). Both Elephants and Fleas are co-dependent on each other.

A small company that provides **Outsource In-house** services is the epitome of a Flea organisation.

Intellectual Knowledge and Knowledge Transfer

In 1988, New Zealand embraced contracting out of non regulatory services in both central and local government. Contractors and consultants quickly recognised the opportunities and over the intervening years have built up their staff resources by recruiting central and local government staff that were entrepreneurial, skilled and able to transition easily into the private sector. In the transport sector, these people often took their road asset knowledge with them.

The end result is that a lot of the intellectual knowledge about road assets now reside with the consultant or contractor. In NZ, an example of this knowledge transfer can be seen in RAMM data. RAMM, standing for Road Asset Maintenance Management is a database which all NZ RCA's must maintain if they wish to secure financial subsidy from the NZ Government. RCA's are responsible for their RAMM database, but in many cases, data capture, database management, validation of data, data modelling and reporting are all undertaken by the RCA's consultant or contractor.

The New Zealand Government has 'rules' around the contestability of both professional and physical works services with stringent public tendering requirements. This need to go back to the market at regular intervals under the CPP (Competitive Pricing Procedures) process, exposes RCA's to a potential loss of intellectual knowledge about their road asset should the incumbent not be successful in a rebid process.

In order to address this loss of knowledge about their road asset, many RCA's now recognise that core services, such as road asset management (including RAMM), should be brought back in house. But having decided to do this, there still exists the problem of identifying and recruiting experienced personnel to manage the data. One solution gaining momentum in NZ is to secure an **Outsource, In-house** road asset (RAMM) specialist on a part or full time basis.

The 3 R's (Risk, Reliability Responsiveness)

Large engineering consultancies are geared up for large projects. Small projects are uneconomic for them due to their high corporate cost structures. In the 1990's, as the Orewa Manager for Opus International Consultants, the author quickly ascertained

that it made economic sense to pass on minor projects to small, locally based Consultants and in turn trust they would call Opus if they secured a large project which they would struggle to resource adequately. This still occurs today.

In 2002, the author established Consultz International Ltd with a vision of providing specialist road asset, ITS and traffic management services to Contractors and RCA's. For seven years our people have worked in an **Outsource, In-house** environment and our continued success is due to:

- Clients know who they are buying. i.e. the person(s) nominated is the person who will work in their office
- We work with our clients to identify the best person(s) to do a particular task and Consultz International procures that person(s) for the duration of the project.
- Quicker response to client requests due to the lack of corporate or bureaucratic procedures. i.e. nimble and simple organisation structure.
- Consultz International personnel must keep their skills up to date if they are to be a service to our clients. i.e. Personnel can not rely on 'an organisation' to find them other work if a client is unhappy with the service we provide
- Superior value for money commissions delivered in a timely manner to high quality standards.

Issues Management

Earlier, the issue of large Contractors and Consultants working closely together on Alliance, Term and Full Facilities Management contracts was discussed. These "arranged marriages" face significant challenges for the reasons mentioned previously plus:

- When two large organisations work together, inevitably, one will try and dominate the other.
- Staff, in large organisations, can become distracted by the need to generate agreed revenue streams thus detracting them from their focus on customer service.

- Corporate and administration staff within large organisations often lose sight of who the real customer is and business systems are generated for self sustaining reasons.
- The "Hungry Hunters" who source and win new works are seldom the "Workers" who deliver the work.

The result is many clients feel their service providers (Contractors and Consultants):

- Are not client focused – *"I know you want to use Jim but he is not available. How about Mary?"*
- Don't listen – *"We know what is best for you!"*
- Do not meet deadlines – *"We encountered unforeseen problems."*
- Do not stick to budgets or "grow" the scope – *"We make our margin out of variations."*

With an **Outsource In-house** solution, the small consultant will not survive if he/she adopted these tactics. You deliver what you promised in the time specified and for the agreed budget, or you perish.

It is interesting to note that whilst RCA's and some Contractors have embraced the **Outsource In-house** concept, few engineering consultancies have done so. Is it because they would make less margin using subconsultants than they would with their employees?

Case Study – Rodney District Council

In 1990, Rodney District Council (RDC) became the first Council in NZ to contract out its services to the private sector. Works Civil Construction (now Downer EDI Works) took over responsibility for the physical works maintenance and Works Consultancy (now Opus International Consultants) became responsible for all engineering design works. In the same year, the author was appointed as Opus Orewa Office Manager and for the next 7 years developed the team into a successful engineering consultancy providing a wide range of professional services to RDC.

In 2002, the author established Consultz International Ltd and in 2005, Downer EDI Works appointed Consultz International to manage its new total facilities management

contract with Rodney District Council. The new contact combined both physical works and professional services and it was agreed that an experienced **Outsource in-house** specialist was best suited to manage the delivery of services.

The success of this undertaking has been described previously (IRF 2005, ARRB 2006). The benefits of appointing an **Outsource in-house** specialist for the Rodney contract are:

- Paradigm lift in smart thinking solutions by the contractor
- Minimum professional service fees for the contractor and greater confidence for the client knowing his interests were being looked after
- Reduced cost of work for the client and more profit for the contractor
- No disputes

After 5 years, the result is a win win for all participants and in April 2009, Downer EDI Works (and the author) were reappointed for another three years by Rodney District Council.

Whilst the physical transport operations services were being re-tendered, Rodney District Council's Infrastructure Group, now called Infrastructure ¹ selected a combination of large multinational consultants (Opus, GHD), medium sized local engineering consultants (Projenz, T2 Engineers, Hutchinson Consultants) to assist them develop long term infrastructure solutions. The author, representing the maintenance contractor, is working with the consultants to deliver on Council's expectations.

Rodney District Council will benefit from this new and exciting approach which will deliver:

- Collaboration and coordination of service delivery across all facets of infrastructure – transport, water, parks, environmental and coastal.
- Maximum benefit to road users and infrastructure asset managers with minimal investment and overhead costs for the organisation involved.
- Flexibility for RDC to pick and mix the people they want for each project. i.e. a clear mandate to consistently adopt a 'best for project' approach.
- Opportunity to nurture and grow individuals by varying their placement in the 'family' of service providers.

Expect a progress report at the next IPWEA Conference.

Future Vision for Outsource In-house Services

It is suggested that a time of rationalisation is coming in the area of **Outsource In-house** services. Already a number of individuals, attracted by the independence and (perceived) increased income, have started their own consulting business without the skills, experience or business contacts necessary for success. Unfortunately, many of them will fail.

However, the fact remains that the skill shortage is an ongoing problem and the ability of organisations to complete successful projects will continue to be threatened by the lack of experienced staff. As a consequence, organisations are finding their project management staff lack the experience or knowledge to manage projects effectively and the result is:

- Missed deadlines
- Cost over runs
- Unrealised client expectations
- Reduced Contractor's profit margins or, worse still, reported losses
- Increased litigation

An emerging development in NZ is for one person consultancies to join forces to create, small teams of experts. The advantage of this approach is:

- Each person is an expert in their field but clients only have to deal with one organisation
- The flexibility and responsiveness of a small consultancy is retained.
- The team is unique for each project i.e. the type of project determines the skill matrix required.
- There is no large corporate overhead
- Clients only pay for the team (which they have personally selected), for the length of time they are needed.

The success of these small teams will depend on their ability to remain flexible, leading edge and client focused at a local level. i.e. stay as a 'flea' and not grow into an 'elephant'.

Growing interest in Early Contractor Involvement (ECI), Framework Contracts, plus government requirements for 'whole of life' asset management planning, further emphasise the need to have the right people for each project. It is the skills of the individual that matters; not the organisation they are employed by.

Transpower (the owner and operator of New Zealand's national electricity grid) approved Corporate Policy CP.B.CS.008 Rules for Procurement state, *"It is a requirement that Transpower procurement activities deliver goods and services to meet specified minimum performance criteria for the lowest "whole of life" cost, where applicable through the use of a transparent, efficient, fair and auditable set of processes and procedures."*

Again, the intention of Transpower is to procure organisations that deliver cost effective services for the life of the asset. Underlying these initiatives is the demand for improved performance and better value from service providers. The **Outsource In-house** specialist can play a key role in lifting service provider's performance so that they deliver projects with:

- Greater innovation and buildability
- Shorter delivery times for completing new works
- Lower risk through greater ownership

Recently ON-TRACK (the owner and manager of New Zealand's rail network) adopted a similar approach for their NZ\$1B rail upgrade for Auckland.

Conclusion

This paper discussed the growth in the **Outsource In-house** industry. Driven by skill shortages and the growing need for specialist services, organisations are finding companies providing **Outsource In-house** services can add real value as well as identifying innovation solutions.

The challenge for **Outsource In-house** companies is to ensure the skills of their people are leading edge and flexible so that they readily adapt to the organisation requesting their services.

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Author Biography



Colin Grainger established Consultz International Ltd in 2002 offering strategic business consulting services in road asset management, Intelligent Transport Solutions and traffic management. His clients include Transit NZ and a number of Auckland

Local Authorities. Colin has a Bachelor of Science (Surveying) from Otago University and an APESMA MBA (Technology Development) from Deakin University. In 2004, Colin assisted Downer EDI Works win an outcome based, performance measured road maintenance contract with Rodney District Council. Colin was appointed Contract Manger as well as Professional Services Manager.

Colin was also appointed Team Leader for Transit's Network Management Operations (NMO) Contract which is responsible for the operations of the ATTOMS Traffic Management Centre, SCATS services for all Auckland traffic signals and ATMS renewals and maintenance.

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