

# The Art of Outsourcing

BY ANDREW S. LANG

The Tire Association of North America has four regular meetings, a major annual meeting, and no meeting staff. TANA has a bimonthly magazine, a biweekly newsletter, and a weekly news service on its Web site—but no publication staff. It has significant government relations activity, but no government relations staff. And, despite intensive use of technology, information systems staff are nowhere to be found.

If you want to confirm any of these details, don't ask the receptionist. She or he, as well as all the support services, plus all the furniture and equipment, except the laptops, comes with the offices that TANA rents in Reston, Virginia.

Dave Poisson, CAE, who engineered the change from the traditionally operated but overstaffed and money-losing operation he inherited to this model of outsourcing, says that the association was nearly out of business when he was hired as executive vice president with a \$2.6 million budget and 3,800 members. Now the association, which has a \$3.5 million budget and 5,700 members, is thriving. Membership is growing, and a strong bottom line is allowing Poisson not only to rebuild reserves but also to invest in new programs. No wonder Poisson is referred to as "the father of the virtual association."

I chose to begin this article with the TANA example because,

ASSOCIATION MANAGEMENT  
takes a close look at  
outsourcing and how  
this trend is affecting  
association operations.

while it may seem extreme, it indeed reflects the outsourcing trend we're seeing in every dimension of association management. In these challenging economic times, where rapid change is constant and functional solutions essential, no broad-ranging solution is more strongly embraced by associations than outsourcing. So ubiquitous is outsourcing that I felt it was time to do some research on the topic before offering advice about its successful deployment.

You'll read in the following pages what we know about outsourcing in large and small associations as demonstrated through a recent ASSOCIATION MANAGE-

MENT survey, my review of outsourcing literature, and insights from association executives. Sidebars describe steps to follow in the outsourcing process as well as an outsourcing evaluation tool and the framework for an outsourcing contract. The picture that emerges from these sources is that, at a minimum, outsourcing has the possibility of giving your organization a competitive advantage. Outsourcing at its best enables you to excel at your core competencies while your outsourcing partners excel on your behalf in their core competencies.

Changing the way we do business

Why the interest in and use of outsourcing? The answer may be found in the various pressures weighing heavily on

today's associations. To begin with, there is the matter of economics. Associations are under pressure to provide additional services or employ expensive new technologies—often in circumstances when resources (e.g., dues income) are harder to come by and competitors are becoming more aggressive.

Solutions for associations facing this dilemma—short of mergers, alliances, and bankruptcy—include raising revenue or cutting costs. Raising revenue is time consuming and can be initially costly both financially (for instance when new programs are being developed) and politically (for instance, when an association tries to raise dues significantly).

This leaves cutting costs as the more likely alternative. One option—to terminate programs that have lost their viability—is often quite challenging politically because even smaller, older programs invariably have a vocal constituency. Another alternative is outsourcing.

The growth of outsourcing. In years past, associations have contracted with vendors to handle a variety of activities—usually cyclical or specialized (e.g., payroll preparation)—that for one reason or another the organization itself preferred not to undertake.

The National Association of Women in Construction, Fort Worth, Texas, which has 6,200 members and six full-time employees, has outsourced the convention director position for four years. “Our outsourcer usually comes in one day a week, depending on the workload, but otherwise she works from home,” explains Dede Hughes, executive vice president. “We contract annually for her services, but her workload varies widely. As we get closer to the convention we take up more and more of her time. Not only do we save on space and equipment, but we also don't have to provide benefits. It works well for us, and she seems quite pleased with the arrangement as well.”

The current labor market. The second substantial pressure facing associations is the current labor market. Simply put, no matter what job an organization is trying to fill, filling it will be a challenge. Based on conversations with association executives, many turn to outsourcing because of the difficulty in finding and keeping

qualified people.

If a function is outsourced properly, the association can be reasonably certain the task will be accomplished. For certain activities, the risk associated with having the work done wrong by marginally qualified staff can outweigh even a potentially higher cost for outsourcing the job.

The labor shortage has also created the problem of too many senior association executives performing basic tasks that divert their attention from more important responsibilities. This can result in diminished quality of essential services and products. With key staff being stretched thin doing today's tasks, far too little thought is being given to the association's strategic issues.

#### Highlights of the ASAE survey

To investigate the extent of outsourcing in the association industry, I prepared a survey that ASSOCIATION MANAGEMENT sent to 3,600 association chief executive officers nationwide. More than 650 responses were received, of which 621 had sufficient data to be useful. The survey listed 34 activities that could be outsourced and 13 possible reasons for outsourcing. In addition, it requested respondents to identify themselves by type of entity (e.g., 501(c)(3), 501(c)(6), or other) as well as by size of staff. For purposes of the survey, outsourcing was defined as

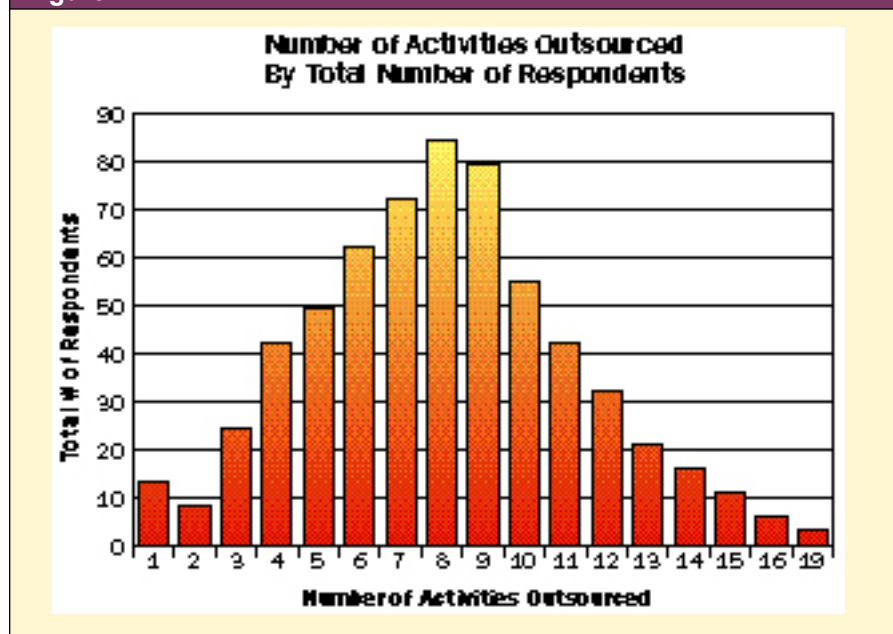
“contracting with a vendor to provide a recurring internal activity.”

Almost all respondents indicated they outsourced a variety of activities. Only 21 of the 621 responses indicated the association was outsourcing only one activity or none at all. The average for all respondents was 7 outsourced functions, and more than 20 percent indicated they outsourced 10 or more activities. (See Figure 1.) These figures might be viewed with circumspection given that those who outsource were more likely to respond to the survey than those who did not. Nevertheless, information provided in responses was quite interesting.

For instance, by far the single most popular activity to outsource was legal services, as noted by 442 of the 621 associations responding. Given that 44 percent of the respondents have 1–10 staff and a total of 73 percent have 50 staff or fewer, outsourcing legal services to this extent makes sense; associations that size generally do not need and cannot afford a full-time general counsel.

It is not surprising that payroll services, given its particular nature, was second in popularity, being outsourced by 61 percent of the associations responding. Pension administration, another complex technical task, was third at 54 percent. Web design and development was out-

Figure 1



sourced by 52 percent, and thus was a close number four in popularity. This result indicates the pervasiveness of the need for the service, as well as the apparent challenge many smaller associations feel in taking it on. (See Table 1 for a complete list of activities outsourced according to the ASSOCIATION MANAGEMENT survey.)

There was not a great deal of difference between what 501(c)(3) and 501(c)(6) organizations are outsourcing. However, there was an enormous difference in the relative number of respondents. Of those identifying themselves as one type or the other, more than twice as many respondents indicated they were 501(c)(6) trade associations. The survey was sent to a representative sample of ASAE's membership, of which 501(c)(6)s make up 45 percent and 501(c)(3)s make up 44 percent—illustrating that outsourcing is by far more popular with associations whose members are businesses.

### Corporate comparisons

It appears that the nonprofit world is only beginning to catch up with the for-profit world. The U.S. market for outsourcing was \$100 billion in 1996 and \$164 billion in 1998, according to The Outsourcing Institute, a New York City-based organization that keeps tabs on outsourcing in the world of larger for-profit organizations.

The *New Corporate Cultures*, by Terrence E. Deal and Allan A. Kennedy (Perseus Books, 1999), offers additional fascinating insights. For example, in the mid-1990s Nike (which continues to be the leading global supplier of athletic shoes) operated with “fully 100 percent of its shoes . . . produced by contract manufacturers.”

Outsourcing obviously has “bottom-line” appeal for corporations, as several books and studies that explore both the short- and long-term thinking behind such arrangements indicate. However, few such studies have been done on outsourcing in the nonprofit world, and certainly none with so great a sample of the association world in particular. Thus the results of the ASSOCIATION MANAGEMENT survey should be of particular value to the association.

**Table 1**

### Activities Currently Outsourced

Activity	Total Count	Percent*
Legal services	442	71
Financial services—payroll	377	61
Pension administration	337	54
Web site—design/development	323	52
Financial services—investments	257	41
Web site—maintenance	234	37
Business travel arrangements	232	37
Tax compliance	219	35
Financial services—accounting	198	32
Benefits administration	175	28
Maintenance of association's building	167	27
Information systems/technology	156	25
Advertising	150	24
Surveys—member needs/market research	146	24
Government relations	131	21
Publications	128	21
Financial services—lockbox/cash receipts	108	17
Public relations	86	14
Staff training	85	14
Mailroom activities	81	13
Recruiting—temporaries/regular	79	13
Strategic planning/implementation	78	13
Meeting planning/management	61	10
Fulfillment	59	10
Telecommunications	45	7
Data management	38	6
Marketing	27	4
Sales—telemarketing	26	4
Development/fund-raising	23	4
Sales—direct mail	21	3
Product development	13	2
Membership development	7	1
Customer service center	4	1
Sales—other	4	1

ASSOCIATION MANAGEMENT'S outsourcing survey, October 1999.

\* Percent is total count divided by total valid responses received.

## Audio Seminar

Don't miss ASAE's interactive audio seminar, "Associations and the Art of Outsourcing," on Wednesday, March 15, 2000, beginning at 2 p.m. Eastern Standard Time. The audio seminar, led by financial expert Andrew S. Lang, is a little more than one hour long, and you will receive one CAE point for participating.

### About the seminar

Outsourcing such functions as payroll, customer service, and conference planning services can be of great value if used wisely—or can have unfortunate consequences if the wrong strategies are adopted. This will be the theme for the March 15 live audio seminar led by Andrew S. Lang, president and chief executive officer of Lang Group Chartered, a 52-year-old consulting and CPA firm located in Bethesda, Maryland. Lang is a leading specialist in the field of association financial management with more than 27 years of experience. He has done substantial original research and consulting in the fast-growing field of outsourcing for associations. Having learned from the successes and mistakes of a wide range of association executives, Lang will highlight clear opportunities for outsourcing as well as the red flags that identify the "danger zones."

The goal of this interactive audio session is to give you confidence in your outsourcing plans and decisions. You'll have the opportunity not only to interact with the speaker in question-and-answer sessions but also to listen to your peers' experiences with outsourcing and learn from their successes and mistakes. Lang will also share results of pre-conference and real-time polling about specific outsourcing issues gathered from the listening audience. This fast-paced audio seminar will give you the information you need to manage in a new business environment.

### To register

Register by calling (800) 775-7654 Monday through Friday, 8 a.m.–5 p.m.

Central Time; please refer to this control number: **ASE5447-0**. A confirmation will be forwarded to you upon receipt of your registration, and you will receive simple dialing instructions and a speaker outline.

### Tuition

This value-priced \$129 seminar includes one toll-free telephone connection for the time of the event and one set of written materials sent to your facility prior to the program. This per-site license pricing enables you to invite others to participate in the seminar. Take advantage of this opportunity and save money by using a conference room and your speakerphone to discuss important issues with key staff members. Remember that there is no travel time or other associated expense involved with audio seminars.

### To participate

Read "The Art of Outsourcing" on page 34 of this issue and call in to the program from any Touch-Tone telephone in the United States. Sit back and listen to the presentation and join in the lively Q and A session. Take advantage of the opportunity to ask questions about your own situation, get advice from an expert, and hear what your peers are thinking and doing.

### For more information

For more information about the audio seminar, visit ASAE's Web site at [www.asaenet.org/education](http://www.asaenet.org/education) or contact Amy Blagriff, ASAE's manager of distance learning, at (202) 626-2725 or [ablagriff@asaenet.org](mailto:ablagriff@asaenet.org).

This exciting audio seminar is being brought to ASAE members in collaboration with KRM Virtual Conference Services ([www.krm.com](http://www.krm.com)).

Keep watching ASSOCIATION MANAGEMENT for future Audio Seminars 2000.

industry.

### Rationale for outsourcing

If you're contemplating outsourcing, you'll probably start your investigation by learning why your fellow executives have done so and to what extent they've been satisfied with the results. Table 2 provides the results of the survey's inquiries regarding reasons for outsourcing. Each respondent was allowed three selections out of 13 options. The primary reason for outsourcing, by a wide margin at 61 percent, was to "gain access to expertise," followed by "focus on core activities" at 44 percent, and "lower operating costs" at 38 percent.

Practically speaking, these results might be interpreted to say, "There are many skills that we know we can get better expert assistance with from the outside. In addition, we'd rather focus our efforts on more essential activities. Besides, we're pretty sure we can save money."

The top three results matched the top three results of The Outsourcing Institute's most recent Annual Survey of Outsourcing

**Table 2**

Reasons for Outsourcing	
Activity	Percent*
Gain access to expertise	61
Focus on core activities	44
Lower operating costs	38
Better manage the activity	31
Improve service to members	27
Enhance association's flexibility	17
Improve products	15
Acquire new ideas	13
Lower investment in assets	9
Reduce association's risk	5
Enhance competitiveness	5
Change fixed cost to variable	5
Increase revenue per employee	0

ASSOCIATION MANAGEMENT'S outsourcing survey, October 1999.

\* Percent is total count divided by total valid responses received.

End Users except that the order of priority was reversed: First and foremost large for-profit institutions outsourced to “reduce and control operating costs”; “improving company focus” was second; and “gain access to world-class capabilities” was third.

Like the good for-profits they are, corporations want to save money and keep their focus on what is most important. But even they, big as they are, acknowledge that it is simply not possible to bring all the specialized expertise needed by a business in-house. Outsourcing becomes a solution to ensure focus on core activities.

The Outsourcing Institute’s Web site ([www.outsourcing.com](http://www.outsourcing.com)) offers a current perspective on core competencies based on a conversation between Frank Casale, president of the New York City-based institute, and Maurice F. Greaver, president of Greaver and Associates, Centerville, Virginia. Greaver is the author of a recent, excellent text on outsourcing and teaches strategic outsourcing for the American Management Association, New York City.

“Core competencies are the innovative combinations of knowledge, special skills, proprietary technologies, information, and/or unique operating methods that are well integrated into the processes that provide the product/service benefits that customers value and want to buy,” says Greaver. “Core competencies are what create the attributes that make the organization’s products/services different, and more importantly, what makes the customer want to buy the products/services. Organizations compete for customers, revenue, market share, [and so forth], with products/services that meet customers’ needs. Accordingly, without core competencies, organizations cannot compete.”

For example, a specialized medical association might be able to provide information about cutting-edge breakthroughs that is unavailable elsewhere; members may share information not yet available to the public. While this access is itself a core competency, when combined with the ability to organize and run educational events members need and want—and can get nowhere else—you have the clear differentiation that identifies a true core

competency.

Care obviously must be taken not to outsource core competencies. To do so essentially strips the organization of its competitive ability. But what else can go wrong with outsourcing? Just about everything.

### Outsourcing pitfalls

Every management technique has its successes and failures, and outsourcing is no exception. In *Insider Strategies for Outsourcing Information Systems* (Oxford University Press, 1999), authors Kathy M. Ripin and Leonard R. Sayles mention a variety of generic problems generally relevant to outsourcing, such as companies whose sales pitch is considerably better than their product and the fact that many outsourcers want to fit your problem into their solution.

Fortunately, the vast majority of ASAE survey respondents were extremely satisfied with their outsourcing experience. The overall level of satisfaction expressed by respondents was 83.5 percent. Some areas such as payroll services and tax compliance ran as high as 94 percent. The lowest level of satisfaction was represented by “sales-other” at 65 percent. (For an

entire listing by order of magnitude, see Table 3.)

Nevertheless, the responses indicated that the association world has its share of outsourcing failures as well. Beverlee Lee, chief financial officer of the American Legislative Exchange Council, Washington, D.C., provides a prime example. ALEC employed a national conference coordinating firm to provide registration and housing for its annual conference. “Things went sour from the very beginning,” says Lee. “This conference provides critical cash flow for us. Since they were doing the registration, they input the financial activity into their system. However, they never provided us with timely reports as to what had been received. As a result, I had serious cash-flow concerns. I had to wait until the bank statements arrived to determine where we stood. They just didn’t seem to care.”

ALEC had another, more serious problem. “Instead of having a 24-hour or 36-hour turnaround in confirming registrations, the company was taking two weeks,” recounts Lee. “As a result, we were inundated by member calls.”

While ALEC initially believed the out-

## — Seeking a Desirable Outsourcer —

1. Look for an outsourcer with substantial, relevant experience in the association industry.
2. Don’t rely simply on a prestigious name as a guarantee of good performance.
3. Remember that experienced outsourcers know each new project will involve challenges.
4. Expect outsourcers to be flexible. Avoid “cookie cutter” solutions.
5. Meet with the specific staff at the outsourcing firm who will work on your job.
6. Make sure the outsourcer will always allow you to accept or reject staff.
7. Look for an outsourcer who is interested in meeting your staff.
8. Look for an outsourcer who will help develop your RFP, including providing ideas on the kinds of questions that ought to be asked.
9. Find out how the outsourcer keeps up with the latest technological and business advances.
10. Ask outsourcers how they ensure quality.
11. Look for an outsourcer who can explain how the organization has maintained successful working relationships on projects similar to yours.
12. Ask the outsourcer to describe new ideas provided to other associations.
13. Confirm that the goal of both organizations is to continuously improve whatever is the subject of the outsourcing agreement.

**Table 3****Level of Satisfaction With Outsourced Activities**

<b>Activity</b>	<b>Percent*</b>
Financial services—payroll	94
Tax compliance	94
Legal services	92
Customer service center	90
Sales—direct mail	90
Surveys—member needs/market research	90
Pension administration	89
Benefits administration	88
Financial services—accounting	88
Financial services—investments	87
Financial services—lockbox/cash receipts	87
Marketing	87
Government relations	86
Mailroom activities	85
Publications	85
Telecommunications	85
Business travel arrangements	84
Meeting planning/management	84
Advertising	83
Maintenance of association's building	83
Strategic planning/implementation	83
Staff training	82
Web site—maintenance	82
Fulfillment	81
Web site—design/development	81
Information systems/technology	80
Recruiting—temporaries/regular	79
Membership development	78
Public relations	78
Development/fund-raising	77
Product development	75
Data management	74
Sales—telemarketing	74
Sales—other	65

ASSOCIATION MANAGEMENT's outsourcing survey, October 1999.

\* Percent reflects average level of satisfaction of respondents outsourcing the activity.

sourcing organization was large enough to handle the conference, it became clear that it was insufficiently staffed. Lee believes that a more thorough review of references might have helped. In any case, "... as a result of the problems, the association has decided to bring the work back in-house."

Thomas J. Dammrich, CAE, president of IPC—Association Connecting Electronics Industries, Northbrook, Illinois, reports a similar "capacity" problem at the heart of a failed outsourcing relationship. A fulfillment center's sales pitch stated in a forthright manner that it would be able to handle the 600–800 orders a month the association currently handled. However, after the first month, the fulfillment center's system overloaded, and its monthly reporting system failed entirely. As a result, regular reports promised to the association were not produced.

A multitude of complaints from members about the fulfillment center resulted in extra work for association staff and led to the demise of the outsourcing relationship within a year. "This was the old over-promise and under-deliver," notes Dammrich, who says he's unsure as to what more he might have done—"perhaps spending a day on site or getting additional references would have helped and perhaps not."

For more insight into why services are brought back in-house after an outsourcing agreement has been entered into, it is worthwhile to study the results of two surveys included in Mike Johnson's book, *Outsourcing in Brief* (Butterworth-Heinemann, 1997). The International Facility Management Association (IFMA), Houston, conducted these studies in 1993 on the subject of outsourcing "facilities management" (on-site information systems management). While the results are most relevant to technology management, they represent typical outsourcing problems.

The first survey identifies a dozen disadvantages of outsourcing. (See Table 4.) The problems did not reflect ills of a catastrophic nature, but rather the kind of things that would make this type of relationship less desirable. For example, the number one problem was a lack of

dedication on the part of contract employees—something one might expect, especially in an endeavor where emergencies and long hours can be the norm.

IFMA's second survey (see Table 5) tells the greater tale of woe. The survey is based on situations where management of on-site information systems was outsourced but brought back in-house when the relationship failed. These reasons for failure have a nightmarish quality, given that two of the top three focus on loss of control, and the second (suffered by more than half) indicates escalating costs.

Furthermore, these surveys do not reflect a host of related problems: managerial time lost, difficulty in finding the right type of staff to do the job in-house, and other negative impacts on the organization of a failed outsourcing relationship. Both surveys do emphasize the absolute need to move quite carefully in setting up an outsourcing arrangement the right way, with the right people, the first time. Fortunately, there are rules and guidelines to help do things right. (See sidebar, "The Process of Outsourcing.")

Establishing outsourcing relationships beneficial to all parties takes more than wishful thinking. In both my review of the literature and my discussions with association executives, certain advice about how to achieve success kept recurring.

**Routine monitoring.** First, ongoing project review must be conducted by an association staffer who is both a good communicator and who is familiar with the project or service being provided. This monitoring, which needs to occur weekly or even daily at the beginning of the relationship and regularly thereafter, should include not only such issues as cost, timeliness, and quality, but also the overall success of the relationship, including the reduction of pressure on the association.

**Prompt action.** Should problems arise, deal with them promptly. Your contract should anticipate "counterproductive" relationships and provide escape clauses. (See sidebar, "Sealed With a Contract.")

In other cases, problems will arise because the organization changed, the context changed, or the world changed, and adjustments need to be made through no fault of the outsourcer. Anticipating that

<b>Table 4</b>	
<b>Disadvantages of Outsourcing</b>	
<b>Response</b>	<b>Percent*</b>
Contract employees less company oriented	51
Lengthy bid process	44
Longer response time to problems	35
Loss of control	31
Poor-quality workers	29
Difficult to change vendors	25
Reduced quality	24
Time consuming to supervise contracts	23
Low level of service	23
Increased turnover	22
Increased costs	18
Burden on purchasing	12
No disadvantages	9
<i>Outsourcing</i> , International Facility Management Association, 1993 (used with permission).	
* Percent reflects number of respondents noting particular disadvantage divided by total number of respondents.	

changes will take place can reduce conflict and create opportunities to facilitate ease of operation and good teamwork.

#### Deciding what to outsource

With a good perspective on how best to go about outsourcing, the next question is what to outsource. Identifying which activities should be outsourced and when is not an exact science. However, by giving weight to the various reasons why associations in general have outsourced, it is possible to develop a sense as to both the propriety of outsourcing a specific task and the best order for outsourcing a series of activities.

The "Outsourcing Evaluation Tool" (see sidebar) was developed for just such a purpose. To use this tool, one assesses a value from 0 (problematic to outsource) to 10 (great potential benefit from outsourcing). Any result approaching a score of 100 indicates outsourcing should at least be considered. A result of 100–140 (the maximum) indicates that outsourcing would likely be quite beneficial.

<b>Table 5</b>	
<b>Why Outsourced Services Were Returned In-House</b>	
<b>Response</b>	<b>Percent*</b>
To better control quality	66
To reduce costs	54
To regain control	50
To improve quality	50
To improve response time	45
Dissatisfaction with provider	35
No longer needed	12
To reduce turnover and training costs	7
Service no longer available	2
<i>Outsourcing</i> , International Facility Management Association, 1993 (used with permission).	
* Percent reflects number of respondents selecting a particular reason for bringing an outsourced services in-house divided by total number of respondents.	

Each of the variables, described here briefly, was referred to consistently in conversations with association executives and in survey responses as reasons an association decided to outsource various functions.

**Core/non-core.** Outsourcing a core activity is potentially quite dangerous—most would say unthinkable. Assume, for example, that a small association in a highly specialized legal niche decided to outsource content development for its annual conference. Even though it is possible that the association could find a technically proficient outsourcer, the

chances of that provider being sufficiently astute about both the technical, cutting-edge issues in the field and the intricacies of the politics of the association are small indeed.

If an activity is determined to be a core competency, forget the tool. If the score is not a “0” or “1” for this variable, rate it and continue.

**Instability/stability.** Every business needs to avoid instability. Not only is it a problem in and of itself, but it creates other problems such as loss of staff. While outsourcing can cause instability at its inception because of new procedures

and new reporting relationships as well as changes to its in-house staffing, it can help solve previously existing problems.

Higher operating costs/lower operating costs. Any change that will reduce cost without otherwise endangering operations will generally be positive. If you predict higher operating costs due to outsourcing, first determine if you have taken into account all the costs of undertaking the operation in-house. The next step would be to review the need for additional bids. If costs appear to clearly favor doing the work in-house, seriously contemplate doing so because acting otherwise will likely raise questions on the part of leader-

## The Process of Outsourcing

One of the very best publications providing guidelines useful to associations is Maurice F. Greaver's *Strategic Outsourcing*, published in 1999 by AMACOM, an imprint of American Management Association publications. This publication offers an overview of the process, as well as in-depth information on each of Greaver's seven overlapping steps (described here with permission). While many associations will shortcut the process in one fashion or another, having a grasp of how the process should flow is important to the ultimate success of the endeavor.

### Step 1: Planning initiatives

Greaver recommends beginning by establishing cross-functional teams “to assess the risks and resources.” This team sets objectives, deliverables, and timetables and is responsible for achieving critical management “buy-in.”

Step 1 must also include sharing the information with employees “...that outsourcing will be explored. Otherwise employees will generally assume the worst... and morale will plummet.”

### Step 2: Exploring strategic implications

This is the step in which outsourcing as a strategic tool is looked at in light of the organization's “vision of the future; current and future structures; current

and future core competencies...” and the like. It is the long view to see if the solution is a good fit.

### Step 3: Analyzing cost and performance

In this step, the organization must ensure that all costs required to support the activity, both direct and indirect, are taken into account. Current performance also needs to be measured and analyzed to establish “...a baseline against which to measure improvement.”

### Step 4: Selecting providers

Finding potential providers can be accomplished through references from business associates, advertisements, RFIs (requests for information), and the like. Doing the initial sifting and winnowing takes some work. The listing of “desirable contractor attributes” in *Insider Strategies for Outsourcing Information Systems* (Oxford University Press, 1999) was used as the starting point for the broader list in the “Seeking a Desirable Outsourcer” sidebar.

Once you have narrowed the list of potential outsourcers, you'll need to develop and send out requests for proposals. At a minimum, RFPs should include what is required of the outsourcer in the way of both services and information. Evaluate returned RFPs in terms of both

qualifications and cost.

### Step 5: Negotiating terms

The association needs to carefully map out with the provider not only the services to be provided and pricing (including how changes in scope or volume will be handled), but also performance standards, management issues, and transition and termination provisions. The creation of an excellent, well-documented understanding at this point can substantially contribute to the success of the relationship. (See sidebar, “Sealed With a Contract.”) The association also needs to envision a worst-case scenario, in which it outlines a plan of action should the outsourcing relationship fail.

### Step 6: Transitioning resources

There are few greater challenges in the outsourcing process than successfully managing the impact of the potential change—and then the transition itself—on the staff of the organization. The best results come from open communication from the start.

Greaver is eloquent on this subject and well worth quoting. Human resource issues should be “...carefully addressed, and with sensitivity. When in doubt, two words to remember are: overcommunication and overcom-

ship. Nevertheless, if other factors point strongly toward outsourcing, higher cost should not, in and of itself, be a dissuading factor.

Inefficiencies/increased efficiency. While this issue is often considered simply a matter of cost savings, the truth is that inefficient operations also have a negative impact on staff: They know when they are performing redundant, inefficient tasks, which is demoralizing. A true advantage of outsourcing is that the activities being outsourced will be looked at by an independent party that specializes in the activity and should be able to develop efficiencies, if not immediately, within the

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pensation. [These staff about to be terminated because their jobs have been outsourced] have been valuable employees and they deserve respect. How these employees are treated on their way out will go a long way in determining how the remaining employees, who were not outsourced, view not only outsourcing but also the organization as a whole. Their reaction will affect future outsourcing initiatives.”

Providing these terminated employees such benefits as outplacement services makes good business sense.

## **Step 7: Managing the relationship**

Greaver says outsourcing “is a new type of management that requires new skills.” In addition to the scheduled meetings and reports, unforeseen things arise. Thus, while monitoring performance and evaluating results is important, a relationship of trust that enables problem solving is critical.

In Mike Johnson’s book, *Outsourcing in Brief* (Butterworth, Heinemann, 1997), Michael Corbett of New York City-based The Outsourcing Institute talks about the most successful outsourcing relationships as being those where both entities go the extra mile.

first year of operations.

Less flexible/more flexible. The question here is a crucial one: Will the association become more flexible in its ability to deal with its environment and core activities by outsourcing this function? Any managerial change that will make the association more nimble will make it better able to compete and to excel.

High risk/lower risk. Outsourcing a function may reduce the risk an association faces, or it may not. To outsource payroll is likely to reduce risk, since the job will be taken over by experts who, in addition to greater expertise, may well have additional liability coverage. Alternatively, outsourcing an activity when the association’s staff has built up important institutional knowledge certainly incurs risk should either the original outsourcer fail or the outsourcer and key staff turn over in an untimely fashion.

Reduce member satisfaction/increase member satisfaction. If outsourcing a function will increase members’ satisfaction and the relationship seems reliable, it would appear to be a good decision.

Stagnant ideas/new ideas. One benefit of employing great outsourcers is the likelihood that they will have new ideas to enhance association operations or product lines. It is a rare association staff that can regularly come up with good, new, “outside the box” thinking while undertaking their regular tasks.

Fixed costs/variable costs. Most in-house operations are considered to be fixed because it would generally take layoffs to reduce them. Outsourcing agreements often are fixed as well, but can be set up to vary based on the level of activity.

Easy to maintain/difficult to maintain. Finding the right individuals to staff a particular activity and keeping those individuals has proved to be one of the most rigorous challenges that many association executives face. In addition, managing certain activities is simply more challenging than managing others.

Basic skills/cutting-edge skills. Associations must accept that if all tasks are to be done exceedingly well, they cannot all be done in-house. Practically speaking, the use of new technologies is often limited by the capabilities of those who operate

them. Thus, it is rational to consider looking to outside organizations that are able to provide individuals with continually upgraded, cutting-edge skills.

Inability to grow/ability to grow. Many associations are limited in their ability to take on more activities because current staff is spread too thin. Outsourcing certain activities frees more experienced staff to engage in new tasks. In addition, some associations are simply short on space, so outsourcing creates more room for core activities.

Small capital requirements/large capital requirements. Any activity that requires minimal investment can more easily be kept in-house. Such things as costly technology upgrades require investment plus expensive staff training. Keeping capital available for new programs and reserves is a clear benefit to the association.

Difficult to outsource/easy to outsource. Always take the ease or difficulty in outsourcing a function into consideration. Not only will there be a challenge in dealing with reasonably concerned staff, but the learning curve requires a substantial investment of time both by staff and outsourcers. Most associations will also find themselves initially having to “sell” the concept to their board and officers.

## **New mind-set emerges**

In discussing outsourcing with members or with senior staff, don’t focus simply on the near- and long-term future of the association, but also on how outsourcing will be used in the future. One change that is occurring in the for-profit world is a reconceptualization, from outsourcing a task to outsourcing responsibility for results. Many term this “business process outsourcing.”

Using technology as an example, what in effect is being said is, “We need to have our information flow assured. This is an area changing so fast that we will not try to stipulate how you will do it, we will simply agree on the desired outcomes. How you reach those outcomes on an ongoing basis is your responsibility.”

Something else I’m seeing in the for-profit world is the creation of the role of director of outsourcing. If this level of focus is being placed on outsourcing, can

nonprofits afford to ignore it?

Consider this observation from Strategic Outsourcing regarding corporate America's current perspective on outsourcing: "Historically, outsourcing was used when organizations could not perform, perhaps due to incompetence, lack of capacity, financial pressures, or technological failure. Now outsourcing is being used to restructure organizations that have been quite successful. These organizations now recognize that management's undivided attention on building

core competencies and serving customer needs is critical. Anything that distracts from this focus will be considered for outsourcing."

Keep in mind, however, that outsourcing is not right in all situations and for all time. Gail G. Kincaide, CAE, executive director of the Association of Women's Health, Obstetric and Neonatal Nurses, Washington, D.C., sheds light on this reality. AWHONN had outsourced the exhibit management portion of its annual convention for decades when it

became clear that it was time for a change.

"Strengthening our relationships with our industry partners had become a new thrust in our strategic plan. This made us rethink the situation," explains Kincaide. "We found that our volume of this type of activity had risen so that we were paying more outsourcing a part of a person's time than it would cost us to hire an exhibits manager. In addition, we really needed the perspective of a senior-level marketing expert in-house to promote AWHONN's convention and all other products and services in a unified

## Sealed With a Contract

BY JEFFREY P. ALTMAN

As you finalize selection of an outsourcing partner and focus on specific terms and conditions of the deal, it's time to begin thinking about your contract. No matter how simple or complex the undertaking, and whether the contract is a few pages or a volume, it is critically important to set forth the key terms and conditions, clearly and in plain English, so that everyone knows what is expected.

This is also the best time (while the vendor is still trying to get your business) to address and resolve potentially contentious issues, which will help avoid later misunderstandings and disputes. In drafting your contract, keep these basic principles in mind.

• **Specify expected outcomes.** Describe the specific services the vendor has promised to perform in objective, quantitative terms. Provide a timetable for completion of tasks against which the vendor's performance can be measured.

• **Maximize your leverage by making payments in steps.** Don't pay the vendor everything at the outset. Instead, require progress payments linked to the successful accomplishment of mutually agreed-upon milestones. Retain the right to withhold further payments and to terminate the contract for cause, if the vendor fails to perform as promised.

• **Prevent unacceptable personnel changes.** Especially with service

contracts, it is critical to specify the individual(s) who will work on your project. Make sure the association has the right to approve any personnel changes or to terminate the contract if the vendor tries to substitute someone who is unacceptable.

• **Get ownership of intellectual property and protect your confidential information.** Stipulate that the association owns all intellectual property and other work product developed at its expense. Request the vendor to agree to preserve the confidentiality of any association information and prohibit the vendor from using confidential information, such as the names and addresses of your members, for its own commercial purposes.

• **Include a changes clause and other standard contract provisions.** Require any changes in performance, schedule, or price to be approved in advance in writing by the association as well as pre-approval rights for any substantial out-of-pocket expenses. Include a disputes resolution clause that may provide for mediation/arbitration and requires any litigation to be brought in the jurisdiction most convenient for the association. Finally, ask your vendor to indemnify the association for any claims or damages resulting from the vendor's errors or omissions.

• **Include special provisions** that apply to the type of services (e.g., meeting

management, computer software) being outsourced.

• **Be careful what you sign.** Not long ago, at the end of a feel-good meeting, an association initialed a vendor's proposal for certain services. The association believed it was just confirming that the vendor was hired for 1999, but the proposal described the services the vendor was willing to provide through 2003. You can guess what the vendor is now arguing. The lesson to be learned? The only preliminary document you should sign is a letter of intent that your lawyer has reviewed. It's rarely worth the effort, however, and you're usually better off just skipping the preliminaries and negotiating the contract itself.

• **Carefully review the vendor's contract form.** Even if the vendor insists on using its own contract form, have your lawyer review it and propose whatever changes and additions are necessary to preserve and protect your rights. If your vendor is unwilling to negotiate a fair and reasonable contract, beware of how it will treat the association once it has a signed contract. It may be time to revisit your vendor selection decision.

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fashion. Perhaps most importantly, having this new level of strategic thinking and expertise available full time for our senior staff and board was also essential.”

What was not core had become core again; what had been well priced became expensive. Outsourcing, like so many other management techniques, can be of great value if used wisely, but it is not a panacea. A decision to outsource should be made when conditions indicate it is appropriate. However, given that circumstances change, it’s critical to revisit outsourcing decisions from time to time and re-evaluate whether this particular solution is still the best one for your association.

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# Outsourcing Evaluation Tool

(Name of Activity) \_\_\_\_\_

## Concerns\*

Rating (0-10)\*\*

1. Core/Non-core
2. Instability/Stability
3. Higher operating costs/Lower operating costs
4. Inefficiencies/Increased efficiency
5. Less flexible/More flexible
6. High risk/Lower risk
7. Reduce member satisfaction/Increase member satisfaction
8. Stagnant ideas/New ideas
9. Fixed costs/Variable costs
10. Easy to maintain/Difficult to maintain
11. Basic skills/Cutting-edge skills
12. Inability to grow/Ability to grow
13. Small capital requirements/Large capital requirements
14. Difficult to outsource/Easy to outsource

\* The reason not to outsource is listed first, and the potential benefit of outsourcing is listed second.

\*\* Where 0=problematic to outsource, and 10=great potential benefit from outsourcing

## Results:

- 70 and below                      Do not outsource
- Approaching 100                Consider outsourcing
- 100+ and above                  Outsourcing should be beneficial