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FACTORS INFLUENCING SUCCESSFUL CHANGE MANAGEMENT IN IT OUTSOURCING FROM TRANSFERRED PERSONNEL POINT OF VIEW

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ABSTRACT OF MASTER'S THESIS

Outsourcing and especially IT outsourcing are current phenomena, which have proven to be challenging to companies. Thus, outsourcing has drawn much academic interest. However, several studies have concentrated on partnership, decision making and contracting aspects of outsourcing but those of concentrating on change management and its success have been missing. In this study, the aim is to describe and understand the most critical change management factors influencing successful change management in IT outsourcing from transferred employees point of view.

The theoretical part of this thesis investigates related literature concerning change management and organizational change in the context of outsourcing. The theoretical part studies the success factors and their influence and furthermore creates a framework for the empirical part of this study. In addition, the theoretical part takes a look at previous research on people transition process and its influence on change management success. The objectives of the empirical part of this study is to investigate change management in the case company, analyzing the case and to find the critical actions that influence the success of change from the transferred employees' perspective.

When analyzing the success factors, some imperfections were found, but it was also found that people's emotional transition process had to be taken into account before making judgements.

The main result of the study is a refined framework that describes the success factors required for successful change management in IT outsourcing. The key success factors from transferred employees' viewpoint were found to be visible, aligned and committed leadership, clarity of direction and targets, broad based participation with real decision power, targeted and effective communication, enabling resources and structure for change, motivating people to change their behaviour, and cultural understanding.

Table of contents

List of tables and figures

1 INTRODUCTION

1.1 Background and motivation of the study

It appears evident that managing and implementing change has become one of the most critical factors for successful management of business (e.g. Salminen, 2000). The future of organizations may depend on the success of the change projects, on being able to utilize benefits from it. Change management and transformation has generated much academic interest in organization development theory (see e.g. Kotter, 1996; Kanter, Stein and Jick, 1992; Bridges, 1991; Paton and McCalman, 2000). These studies have provided valuable analyses of the successful change management in different organizational change situations. However, there is a scarcity of research on implementing and managing change especially in outsourcing.

Outsourcing has experienced something of a boom over the last two decades and is also a topic of increasing academic interest (Kakabadse and Kakabadse, 2003). Although there exists a growing literature on the substantive area of outsourcing, it does not form a coherent whole. It is characterized by different researchers studying these phenomena from different perspectives. The studies have broadly covered issues such as management of outsourcing relationships, outsourcing decision making, and contracting aspects of outsourcing (see e.g. Klepper, 1998; De Looff, 1997; Lacity and Hirschheim, 1993; Milgate, 2001). Outsourcing, however, has become more and more the way to transform organization, and thus, its success is critical for overall business success. But many publications have given less attention to change management. In addition, the point of view to change management is usually managerial instead of operational. Consequently, there is a need for an analysis of change management and factors contributing to the success of change in outsourcing environment.

Originally, my motivation to go deeper into the subject rose from my engagements in outsourcing transition projects. It became evident that transition to new way of operation and transition of people were complex processes, which require well planned and successful change management. My special interest is on how transferred employees experience the change and what are those critical change management actions that influence the success of change.

1.2 Research questions, goals and scope

The object of this research is change management in IT outsourcing. The empirical target of the study is IT outsourcing between Alfa and Beeta companies.

Research questions in detail are:
- Which factors influence the success of change management in IT outsourcing?
- How transferred employees experience the change in outsourcing?

The goal of the study is to describe and understand the most critical change management factors influencing successful change management in IT outsourcing from transferred employees point of view. Secondly, the purpose is to understand how transferred employees experience the change. Thirdly, the aim is to give practical development suggestions to the case company.

The perspective in this study is change management, to take more an operational than a managerial viewpoint. The study will investigate related literature concerning change management and organizational change in the context of outsourcing, to give theoretical insights into the field.

Within the concept of change management the research focuses on change in outsourcing environment. Furthermore, the focus will be on the outsourced operations including application environments, their management services, and business processes. This study examines the change in complicated IT outsourcing deals between large companies, where objectives of outsourcing are rather demanding, even transformational. Moreover, the study will examine outsourcing in national context. Thus, smaller and more simple outsourcing or international outsourcing, are not examined in this study.

1.3 Definitions of the key concepts

Change and change management

According to French and Bell (1999, 2) "change means the new state of things is different from the old state of things". Dalziel and Schoonover (1988, 10) define change as a planned or unplanned

response of an organization to pressures which stem from variety of sources both inside and outside the organization. External forces may be, for example, regulators, competitors, customers, and technology, whereas internal pressure for change may come from obsolete services and products, new market opportunities, new strategic directions, and an increasingly diverse workforce (Lanning 2001, 9). Adler and Shenbar (1990) claim that every change requires changes and adaptation in human skills, procedures or processes, organizational structure, strategy and culture.

The term change management has been mostly reserved for managing organizational change, i.e. change in organizational structures, job structure, roles, values, leadership and culture, often handled under the organization development theory (Salminen, 2000, 57). Nyman and Silen (1995, 47) claim that comprehensive change management includes all subsystems influencing the success of change. Its purpose is to give a framework and measurements to steer and measure the change according to the targets. (Nyman and Silen, 1995, 47) Bendor-Samuel (2004) continue that the goal of change management is to build awareness, increase knowledge, drive people to accept and embrace the change and, ultimately, – to show them how they have ownership in the success of the business – their careers.

In addition to the scope or subject matter of the change and change management, different change efforts can be identified by the radicalness and thoroughness of the change. Fundamentally, change can be divided into incremental and radical change. Incremental change is related to evolutionary changes, fine tuning and fixing problems, - in overall, improving organizational performance without fundamentally changing the organization - whereas radical change is fundamental, large-scale change in an organization's culture and strategy. Radical change is also referred to as revolutionary change, transformation and turnaround. (Lanning, 2001, 10)

Outsourcing

Literature indicates that the term outsourcing is applied to a range of, at times, contrasting activities, among others, procurement, purchasing, subcontracting and various organizational forms of contracting out (Kakabadse and Kakabadse, 2003, 60). According to Lacity and Hirscheim (1993, 2) definition of outsourcing reflects the use of external agents to perform one or more organizational activities and applies to everything from use of contract programmers to third party facilities management. Kiiha (2002, 1) instead, argues that in outsourcing, company transfers an existing service or function to outside of the company either to an own separate company or to an already

existing company. Kakabadse and Kakabadse (2003, 60) concludes that contracting out of activities previously performed in-house, the latter being a more accepted view of outsourcing.

Outsourcing activities have been classified in several ways. For example, Feibig (1996) has presented three groupings for outsourcing: simple outsourcing, transfer outsourcing and joint venture outsourcing. Joint venture outsourcing means establishing a new business unit together with the vendor. Transfer outsourcing involves a complete transfer of employees and equipment from one organization to another. Simple outsourcing intends an "off the shelf" solution between the outsourcer and the supplier.

On the other hand, outsourcing activities can be classified according to their nature – for example, Mazzawi (2002) and Kakabadse and Kakabadse (2000) separate traditional and transformational outsourcing. Traditional outsourcing focuses on shedding non-core activities and adding value by accessing suppliers' best practice and economies of scale in non-core and non-complex areas. In contrast, transformational outsourcing stimulates and facilitates business change, and helps to create and sustain adaptive enterprise. Traditional outsourcing aims for cost saving, whereas transformational outsourcing aims for added value through business process transformation (Kakabadse and Kakabadse, 2000; Mazzawi, 2002). Traditional and transformational outsourcing are further discussed in Section 2.1.

Information technology (IT) outsourcing

Information technology outsourcing is defined as a process whereby an organization decides to contract-out or sell the firm's IT assets, people and/or activities to a third party service provider, who in exchange provides and manages these assets and services for an agreed fee over an agreed period (Lacity and Willcocks, 2001). IT outsourcing differs from other types of business process outsourcing, such as marketing or payroll. IT does not only affect to one function of the supply chain but, instead, is a fixed part of the supply chain and thus affects to the whole chain. (Kiiha, 2002, 8)

Outsourcing is becoming the dominant way that enterprises buy IT services. The outsourcing industry continues to evolve, but the imperatives for enterprises that are considering outsourcing are constant - focus on core business, access to critical technical expertise and optimized IT operations. (Gartner, 2004b) Gartner (2004b) expects the world-wide IT outsourcing market to grow from

$180.5 billion in revenue in 2003 to $253.1 billion in 2008 at a compound annual growth rate (CAGR) of 7.2 percent.

IT outsourcing activities can be classified according to their nature. For example Manninen (2004) categorizes the IT outsourcing market into the following types:

- Outsourcing of infrastructure
- Outsourcing of application area and application development
- Outsourcing of business processes, e.g. financial administration
- Outsourcing of developing business areas
- Offshoring, moving of operational activities to countries with cheap labor

1.4 Structure of the thesis

This chapter has described the background and motivation for the study as well as the scope of it. The research problem was defined and further refined into research questions. Moreover, key concepts were determined. The aim of Chapter 2 is to describe specific issues related to outsourcing and change management in outsourcing. The chapter starts with examining the existing literature of IT outsourcing objectives and further explains the difference between transitional and transformational outsourcing. It continues with determining people's emotional reactions to change and how transition process affects to employees' reactions for a change.

Chapter 3 concentrates on describing successful change management, that is, what are those most essential matters to be handled or thought over in order to put outsourcing change management successfully into effect. The previous research is summarizes at the end of the chapter. Methodology of this study is discussed and the selected research methods are explained in Chapter 4, starting from the definition of approach, proceeding to research method, specifying and justifying the methods to be used. After that the research data collection, and reliability and validity issues of the study are discussed.

Chapter 5 starts with introducing the target company of the study and further explains the change management implication and realization from transferred employees' point of view. Chapter 6 concentrates on an analysis of the study results. In the last chapter the final conclusions are drawn.

In addition recommendations for the target company are given, and finally, suggestions for future research are provided.

2 CHANGE MANAGEMENT IN OUTSOURCING

2.1 IT outsourcing objectives and challenges

Before examining previous research in change management in detail, the different IT outsourcing objectives are discussed. It can be presumed that the underlying objectives of the outsourcing deal determine the content of change management.

According to Klepper (1998, 47 – 53), there are several different drivers for IT outsourcing decision:
- improving business results by the use of a vendor to manage an information systems dependent business process with the specific objective
- provide services at lesser cost and make costs more predictable and better controlled and transform from a fixed asset with fixed costs to a more variable cost
- transfer equipment and other fixed assets to the vendor in exchange for cash and free up capital funds for investment in areas that are important to strategic success
- outsource routine information services and concentrate on activities that bring real value, improve service quality and flexibility to handle fluctuations in work load, move to new technology that better serves customer needs
- gain access to cutting-edge skills and technology
- outsource routine operations so that own staff can concentrate more on new technology and better human resources management
- facilitate organizational change and corporate reengineering
- politics of information systems in organizations

Several researchers argue that the drivers for outsourcing are about to change. The drivers mentioned above can be classified mainly as traditional or classic reasons for outsourcing. According to Kakabadse and Kakabadse (2000), there is actually a paradigm shift taking place from classical outsourcing to a new model, which is characterised by long-term, collaborative, and

strategic partnerships. In the new model, the outsourcing company aims for externalisation and becoming an extended enterprise relying on business partners to fulfil major parts of its supply and value chain requirements. The primary driver in classical outsourcing is reduction or control of operating costs, whereas in the new paradigm the main driver is to grow and stay competitive through outsourcing.

Mazzawi (2002) has similar thoughts. He separates two types of outsourcing, *traditional* and *transformational*, which have distinctive drivers. While in traditional outsourcing a company focuses on sweating assets harder, in transformational outsourcing it focuses on changing the paradigm – targeting to adaptive enterprise. According to Mazzawi, traditionally outsourcing companies focus on shedding non-core activities and adding value by accessing suppliers' best-practice and economies of scale in non-complex and non-core areas. The objective in traditional outsourcing is to cut costs and deliver enhanced, properly managed service levels. Traditional outsourcing also focuses on avoiding doing internally what others can do more efficiently and effectively. It helps to establish capacity and capability to respond rapidly and effectively to the unpredictable events in the business environment. It potentially enables an enterprise to win quick and sustained benefit from any new market opportunity. (Mazzawi, 2002)

Linder (2004) also discusses the difference between traditional and transformational outsourcing. According to her definition transformational outsourcing means achieving a rapid, sustainable, step-change improvement in enterprise-level performance (Linder, 2004, 28). Whereas Mazzawi emphasizes the different objectives, Linder emphasizes especially the meaning of transformation, which refers to a big and fast change – a change of the business model.

Similar discussion applies to literature on organizational change as well. For example Ackerman Anderson and Ackerman (2001a, 31) divide organizational change into three types: developmental, transitional, and transformational change. Developmental change represents the improvement of an existing skill, method, performance standard, or condition that for some reason does not measure up to current or future needs. Such improvements are often logical adjustments and enhancement to current operations. They are motivated by the goal to do "better than" or do "more of" what is currently done. The key focus is to strengthen or correct what already exists in the organization, thus ensuring improved performance, continuity, and greater satisfaction.

Transitional change is more complex. It is the required response to more significant shifts in environmental forces or marketplace requirements for success. Rather than simply improving what

already exists, transitional change replaces it with something entirely different. Transitional change begins when leaders recognize that a problem exists or that an opportunity is not being pursued—and that something in the existing operation needs to be changed or be created to better serve current and/or future demands.

The degree of focus required for human and cultural components is the main difference between transitional and transformational change. In transformational change, human and cultural issues are key drivers. Transformational change is the most complex type of change that organizations face today. It is the radical shift from one state of being to another, so significant that it requires a shift of culture, behaviour, and mindset in order to be implemented successfully and sustained over time. In other words, transformation demands a shift in human awareness that completely alters the way the organization and its people see the world, their customers, their work, and themselves. In addition, the new state that results from the transformation, from a content perspective, is largely uncertain at the beginning of the change process.

IT outsourcing challenges

According to Gartner (2003) in 2003 50 percent of outsourcing projects were considered unsuccessful by senior executives, because they had not delivered the anticipated value. One reason for failures is that outsourcing IT tends to be more complex than outsourcing other processes, such as accounting or cleaning, due to a fact that IT affects most organizational processes in some way (Kern and Willcocks, 2002). Another reason is that outsourcing contracts are often valid for very long periods of time in a world of fast-moving business change (McFarlan and Nolan, 1995).

According to Gartner's (2004a) research the key challenge for IT leaders when leading an organizational transformation initiative is to deal with the human elements of the change. Often, IT organizations focus only on getting the work done during change and underestimate the impact the change will have on their employees. For an organizational change initiative to be successful, it is critical for the leaders to first have a clear understanding of employees' reactions to the modification, anticipate and gauge the form and degree of resistance, and categorize them into a stage based on the change curve. (Gartner, 2004a)

Summary

In summary, the researchers in the field agree that there are at least two fundamentally different types of outsourcing: *traditional outsourcing*, and the new paradigm, *transformational outsourcing*.

The main objective in traditional outsourcing is saving costs, whereas in transformational outsourcing the goals are more ambitious – even a business model change. As the objectives are different, it can be assumed that the change management actions needed to manage outsourcing arrangements are also somewhat diverse.

The key challenge in organizational transformation is to deal with the human elements of the change. The impact of change is often underestimated, but for organizational change initiative to be successful, it is critical to have a clear understanding of employees' reactions to the modification, and of the degree of resistance.

2.2 People transition process and emotional reactions

Understanding the uncertainty and the psychological dimension is fundamental in designing the change management and people transition processes. It is essential to understand what kind of changes people face when being outsourced, in order to be able to understand their reactions. Outsourcing as such represents probably the most radical level of cultural change, as it is not just adjusting old patterns but changing fundamentals for employees. In outsourcing, as in any major organizational change, there are a significant amount of changing elements from employee's perspective. As Khosrowpour, Subramanian, Gunderman and Saber (1996) claim it is important for managers to understand what people's perceptions are regarding outsourcing, so they can effectively deal with the problems that arise as the transition progresses.

Kirkpatrick (2001, 20-30) concludes that the emotional responses towards a major change can be positive, negative or mixed – but above all – managed. According to him, people either resist, welcome or have mixed feelings toward the change. The resistance is based on the fact that people are afraid that they might lose something (personal loss), they think that there is no need for change or that it will bring more harm than good. It is particularly common that people at the shop floor level feel that top management makes changes without knowing what is going on "down on the line". Kirkpatrick (2001, 27) continues that usually those who like a challenge react positively, while those who want to maintain the status quo react negatively.

The prospect of going to work for a company that is made up primarily of professionals can be intimidating. Transitioned professionals may fear that their skills will not match up to those that are

already available to the company in its existing pool of experts. (Khosrowpour et al., 1996) point out that the resistance must be overcome because the cooperation is essential for a successful transition.

Kessler, Coyle-Shapiro and Purcell (1999) emphasize that often the attention is on the negative and potentially destabilizing effect of outsourcing to employees. They mention, however, that it is also possible to envisage circumstances in which the consequences of outsourcing are seen as generally positive. For some employees it may provide an opportunity for enhanced career and training possibilities if it involves a move to a specialist organization. Khosrowpour et al. (1996) support that view; they state that the opportunity to work for a company that specializes in one's line of expertise presents a possibility that may not have developed working for a company that only did data processing to support its own needs.

St-Amour (2001) divides people facing change in three categories, *Achievers* that tend to be 20 % of the population and adapt to the change quickly. Second group are the *Adopters* that normally represent a majority, 60% of the people. These employees will embrace the change as long as it is well handled and subject to influence. The last group are the *Abstainers*, 20%, who do not want to have anything to do with the change and are likely to complain the most. The trick according to St-Amour is to get the achievers quickly on board and get them connected to the adopters. The objective should be to create a critical mass of people supporting the change as quickly as possible. (St-Amour, 2001)

Slight positive shifts in employee attitudes can also reflect a "honeymoon" right after the changes, rather than a more enduring state of mind (Kessler et al., 1999). Taking the idea further, this seems to suggest that the overall perception of outsourcing is subject to change over time, meaning that while attitudes toward the change can be very positive at the beginning, after some time they may worsen or the other way around.

St-Amour (2001) shows that signs of unmanaged transition will manifest themselves in anxiety, stress, resentment, guilt and self-absorption. All of these are direct costs to the bottom-line and take up valuable management time to resolve and move forward through the transition process. As reasons for misaligned transitions he points out different functional realities in different organizational levels, receiving of information at different times, and different time that people require for absorbing information. (St-Amour, 2001)

All this seems to strengthen the idea that people related issues should be given major attention when outsourcing.

People transition process

Former research has recognized that organizational change unfolds in stages. One of the earliest and best-known phase model is the three stage ice model (unfreeze – move – refreeze) provided by Kurt Lewin (1951). St-Amour (2001) looks the transition more from the employee's perspective and divides the transition into three different phases as follows:

In *findings/endings* phase the employees find out about the change and are required to face the end of the previous context. They are likely to be emotional and according to St-Amour the reactions are rather negative varying from denial to confusion. In this phase the companies taking part to the change should provide a new structure in form of strategies, procedures and policies.

The second phase is *exploration*, when people seek their own opinion and reorientation in the new situation. The main feelings that the employees face are mostly stress and confusion. The companies that take part in the transition should provide as much information of the new reality as possible.

The last phase is the *new beginning*, when support in forms of understanding, bolstering and championing should be offered to the employees. If the companies play their cards well, according to St-Amour, the atmosphere can improve from denial through acceptance to hope and even enthusiasm. (St-Amour, 2001)

Bridges (1991) also emphasizes that transition is the psychological process people go through. He divides the transition into phases of ending, neutral zone and new beginning. He states, however, that there are no clear boundaries between the phases, and a person can be in more than one of these phases at the same time, but one of the phases is dominant at a time. (Bridges, 1991)

By *ending* phase Bridges means letting go of the old reality and the old identity. The second step is the *neutral zone*, no-man's land between the old reality and the new. It is the time when the old way is gone but the new does not feel comfortable yet. The last phase, *new beginning*, does not start until the people are ready to make an emotional commitment to do things the new way. Bridges

emphasizes the importance of recognizing the neutral zone in change. He argues that most organizations try to start with the beginning and pay no attention to endings neither acknowledge the existence of neutral zone, where anxiety rises and motivation falls. However, managing the different transition phases is essential and the only way to ensure that the organization comes through the change and that it actually works. He stresses that it saves time in the long run because a significant change takes place within people – or if it does not, the change is not likely to produce the results it is intended to. (ibid.)

Summary

In summary, researchers in the field agree that people experience change differently. People either resist, welcome or have mixed feelings toward change. The resistance is often based on the fact that people are afraid and uncertain of their future, whereas those who like a challenge and see it as an opportunity react positively.

Moreover, there is a consensus between different researchers that people go through different emotional phases during the change. There are at least three different phases people go through during the transition. In the first phase, people face the end of the previous context and let go of the old reality and the old identity. Reactions are usually rather negative varying from denial to confusion. In the second phase, people are between the old reality and the new one. They seek their own opinion and reorientation in the new situation. This is where anxiety often rises and motivation falls. In the third phase, people make the emotional commitment to do things the new way and accept the change.

3 THE SUCCESS OF CHANGE MANAGEMENT

3.1 Definition of successful change management

Defining success is problematic. The ultimate purpose of change is to change the company to create a better fit with the operating environment and thus a more effective and efficient way of doing

business. It is, however, very difficult to distinguish between the effects of a change project on the economic performance and changes caused by other factors, such as changes in competition and variation in the prices of products. The simplest way of defining success would be to assess whether the goals set for change are met. (Salminen 2000, 14) According to Lock (1996, 6-7) the objectives of any kind of project are performance and quality, budget and time to completion.

Salminen (2000, 14) continues that a typical change project has half a dozen goals, which are determined in monetary terms, operationally and some through structural and cultural changes. Some of the desired outcomes are easily measurable but some are very difficult to concretize. Ackerman, Anderson and Anderson (2001b, 159) instead, argue that vision of the transformation creates a compelling picture of the organization's reality when the change has been successfully implemented.

There are, however, some shortcomings in these approaches. They do not take into account the possibility of ill-defined goals. A change project may meet the goals set, yet it may still fail to provide better performance. In a fast changing environment, today's important goals can become obsolete in a few months. Boddy and Buchanan (1992, 23) propose that the goals of a project are to be evolved in the course of the project.

Kanter et al. (1992, 491) claim that organizational success can have different interpretations. Firstly, external success can mean that the organization is successsul in its market; it is a matter of its relationship with customers. Secondly, there is internal success, which aims to modify the organization's internal structures, processes, and systems, and its use of resources to bring about the success. (Kanter et al., 1992, 491)

As organizations are collections of people, the way people perceive the changes and feel them is of critical importance. Sometimes feelings of success can be more important than quantitative measures, as they can help to keep up the change (Beer, 1980). St-Amour (2001) continues that all changing organizations struggle with people-related issues. Most attention is usually given to the structure, processes, tools, measurements, policies and procedures of the organization. But for the change to be successful, people need to "buy in" and be committed to change. Their individual interests, values and competencies must be actively aligned with the organization's vision, culture and capabilities. (St-Amour, 2001)

Furthermore, success can be evaluated through different success factors. Success factors are the issues or actions which will essentially improve the success of a change project if those factors are taken into account. (Lanning, Roiha and Salminen, 1999, 318)

Concluding the discussion above, the success of a change can be defined in many ways. Research indicates that there are several matters which may influence the success of a change and the measurement of success. In this study, the purpose is to examine success from transferred employees perspective and success is defined in two fold. First, the scientific assumptions about change management success factors are drawn together for a preliminary model of successful change management. Secondly, success is defined according to how change is perceived by the transferred employees.

3.2 Factors that influence the success of change management

Previous research has mainly examined outsourcing cases from outsourcing rationale, saving costs, selecting the right vendor, negotiating contracts, avoiding mistakes and identifying good candidates from outsourcing point of view (Khosrowpour et al., 1996). Few articles deal with the change management aspects of outsourcing. In the organizational change literature, the theory of change management is well-established compared to the much younger research of IT outsourcing. Because there is an analogy between different kinds of organizational change, whether that change takes the form of a merger, acquisition, outsourcing, downsizing, streamlining or restructuring an organization, it is reasonable to apply the organizational change theories in the area of outsourcing. Consequently, it can be assumed that the change management success factors which are essential in organizational change, are also important in IT outsourcing.

As the emphasis in this study is on the change management success after the outsourcing contract has been made, the research reviewed in this section focuses on the best practices and success factors in implementation of organizational change.

Kotter: eight steps to transform organization

One of the most quoted models is the eight-stage change process model of Kotter (1996):
1. Establishing a sense of urgency

2. Creating the guiding coalition
3. Developing a vision and strategy
4. Communicating the change vision
5. Empowering employees for broad-based action
6. Generating short term wins
7. Consolidating gains and producing more change
8. Anchoring new approaches in the culture

According to Kotter (1996), successful change of any magnitude goes through all these eight stages, usually in the proposed sequence, none of which is to be skipped or rushed through, although it is typical that a change process operates in multiple phases at once. What is important is the sequence in which the stages are entered. Most major change initiatives are made up of smaller and more easily manageable change projects. Each of these projects should also go through the similar stages.

In managing change, establishing a sense of urgency is crucial. Most successful change efforts begin when some individuals start to look at a company's competitive situation and the market and identifies crises, potential crises or major opportunities. This sense of urgency should be translated to employees to drive people out of their comfort zones. A guiding coalition should be powerful enough, in terms of titles, expertise, reputation and relationships, to lead the change effort. Additionally, it should encourage the group to work together as a team and help them develop a shared view of their company's problems and opportunities, and create a minimum level of trust and communication.

In the third stage of Kotter's (1996) model the guiding coalition should develop a picture of the future that is relatively easy to communicate and appeals to customers, stockholders, and employees. The purpose of a vision is to clarify the direction and help to direct the change effort. Strategy is then developed for achieving that vision. The new vision and strategies need to be constantly communicated using every vehicle possible. Successful transformations also involve large numbers of people as the change progresses. Empowering people to act on the vision and encourage risk taking to develop new ideas is essential. Renewal also requires the removal of obstacles and changing systems or structures that undermine the change vision.

Real transformation takes time, and a change effort risks losing momentum if there are no short-term goals to meet. Managers should actively look for ways to create and obtain clear performance

improvements "wins", and visibly recognize and reward people who made the wins possible. Kotter (1996) continues that using the increased credibility afforded by short-term wins to change all systems, structures, and policies that do not fit together and do not fit the transformation vision is crucial. In order to produce more change, managers should reinvigorate the process with new projects and by hiring, promoting, and training people who can implement the change vision.

Until the new behaving is rooted in corporate culture, it is subject to degradation. In the last stage, the new ways of doing things are anchoring new approaches in the culture by creating better performance through customer- and productivity-oriented behaviour. It is particularly important to articulate to employees the connections between the new behaviour and organizational success and to develop means to ensure leadership development.

Pendlebury, Gouard and Meston: ten keys to successful change management

Pendlebury, Gouard and Meston (1998) consider ten keys to be essential for accelerating change and maximising the success of the change. These keys are:

1. Defining the vision
2. Mobilizing
3. Catalysing
4. Steering
5. Delivering
6. Obtaining participation
7. Handling the emotional dimension
8. Handling the power issues
9. Training and coaching
10. Communicating actively

The vision justifies the need for change and guide and act as a reference point throughout the change process. Mobilizing, instead, reinforces the desire for a change among all the players concerned, by justifying, clarifying and endorsing the objectives defined in the vision. Three objectives can be achieved by mobilizing: sensitizing employees to the need for immediate change, endorsing the issues at stake in change and choosing the improvement initiatives.

The purpose of catalysing is to set up an organization which will stimulate and manage change. Resources for a change effort need to be made available and dedicated exclusively to it. Steering focuses on the guidance system which keeps the process on the right track. It consists of planning the change process, facilitating and accelerating change, providing advice and ensuring that the other keys are applied appropriately.

Delivering means the process of change affecting the transition between the current situation and the situation aspired to. It consists of making a detailed analysis of the existing situation in relation to the improvement initiatives and devising a detailed plan for each improvement initiative. It also includes pilot testing and using the result to apply the change more generally. Delivering change requires the participation of the entire workforce. Participation is an important issue, because it enables the business to exploit the diversity of employees' skills and experience. It also helps to overcome resistance by involving employees directly, and ensures that the change is lasting.

Individuals react to change in many different ways. They may be attracted, reluctant or feel challenged by or afraid of the change. It is important to assess the problems created by opposition and mental blockage and handle these emotional dimensions properly. Successful change requires that the balance of power within a business evolves in line with the ultimate objectives. By identifying the power issues and handling them effectively the side-effects can be minimized.

Change means acquiring new skills, as well as new ways of thinking and behaving. The purpose of training and coaching is to help everyone to change effectively. Throughout the process of change the entire business must engage in frequent communication. This means not only informing people about the progress of change but also generating an abundance of ideas which enhance and accelerate the process.

Paton and McCalman: the intervention strategy model

Paton and McCalman (2000), in their intervention strategy model (Figure 1), which is based on a system approach to change, describe individual stages associated with each phase. The model provides a means of managing the change cycle in a structured manner.

Figure 1 The intervention strategy model (Paton et al., 2000, 83-85)
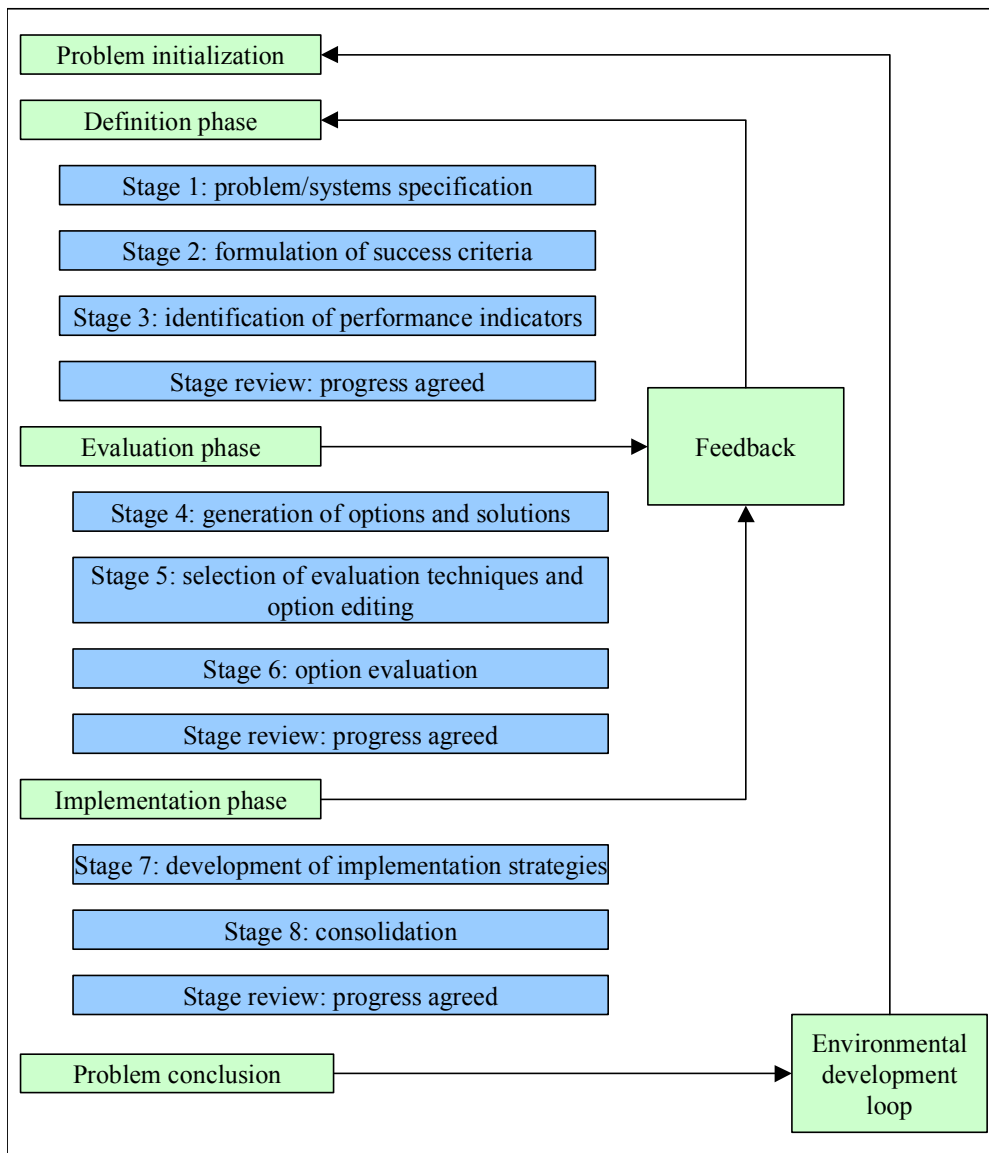
In the model, problem initialization means that a change situation has been identified and that the process of managing the change is about to commence. A problem owner and supporting group have been identified and assigned to handle the transition. In the definition phase the in-depth specification of the change situation is defined. During the evaluation phase the meaning is to generate and evaluate potential solutions, and in the implementation phase action plans are developed, which should successfully introduce the outputs of the evaluation phase.

An environmental development feedback loop is linking the final outcome, problem conclusion, with the initial situation. The loop illustrates that the change cycle is never complete. Dynamic environment will necessitate additional change and the process will commence again. The feedback

loop describes that at any point, it may be necessary to iterate back to an earlier phase or stage. (Paton and McCalman 2000, 82-83) Different stages and success factors are further explained below.

1. Problem/Systems specification

   Management must, with the assistance of parties involved, develop their understanding of situation and construct an accurate picture of the present system and the impact of the changes.

2. Formulation of success criteria

   In this stage, the success criteria associated with a particular change situation should be defined. This includes setting objectives and defining constraints.

3. Identification of performance indicators

   After the objectives of the change have been specified, it is necessary to formulate appropriate measures for achieving each one. This will also help to evaluate the options.

4. Generation of options and solutions

   A wide range of techniques and methods are available in option creation. It is important not to take too blinkered a view of the change but a variety of possibilities should be considered. In addition, facilitating the learning development process is crucial.

5. Selection of appropriate evaluation techniques and option editing

   Having identified the potential options or solutions the investigator must evaluate them. This evaluation should eliminate less than optimal options, as well as develop an understanding of the interrelationships.

6. Option evaluation

   Options should be evaluated against the previously determined change objectives and with reference to subsequent implementation.

7. Development of implementation strategies

> Here the detailed foundations of a successful completion of the project have been laid. To ensure the successful implementation of change the following factors should be adhered to: participation of those to be affected, visible and tangible senior management, communication, sensitivity with those who may feel threatened, required resources and organizational structure which welcome change.

8. Consolidation

> It takes time for a new system or change to be fully accepted, thus skilful communication and visible support are required throughout this stage. Initial changes must be consolidated and enforcement of the new system will be required.

Paton and McCalman (2000) remind that one principal of the model is its iterative nature. Although it is a stage-by stage model, one must not forget the feedback loops and iterations between the stages.

Kanter, Stein and Jick: ten commandments for executing change

Kanter, Stein and Jick (1992) have constituted ten commandments for implementing successful change.

1. Analyze the organization and its need for change

Managers should understand an organization's operations, how it functions, what are its strengths and weaknesses and how it will be affected by proposed changes.

2. Create a shared vision and common direction

When engineering change managers should create a shared vision. The ideal vision is an attempt to articulate what a desired future for a company would be.

3. Separate from the past

Disengaging from the past is crucial. It is difficult for an organization to embrace a new vision of the future until it has isolated the structures and routines that no longer work.

4. Create a sense of urgency

Convincing an organization about the necessity of change is important. It is not that difficult when a company is on the verge of bankruptcy, but when the need for action is not generally understood, a change leader should generate a sense of urgency. A sense of urgency is critical to rallying an organization behind change.

5. Support a strong leader role

A leader should guide, drive and inspire the change. The change advocates play a critical role in creating a company vision and motivating employees to embrace that vision.

6. Line up political sponsorship

Coalition building between different parties is important. Change success depends on a broad base of support. Support should include both power sources, holders of important supplies, and stakeholders.

7. Craft an implementation plan

The change implementation plan is a practical road map for the change effort. It advises what to do, and when and how to do it.

8. Develop enabling structures

Enabling structures are to facilitate and spotlight change from the practical, such as pilot tests, workshops, training and new reward systems, to the symbolic, such as changing the organization's name or physically rearranging space.

9. Communicate, involve people, and be honest

Change leaders should communicate openly and seek the involvement and trust of people. Full involvement and communication can be potent tools for overcoming resistance and giving employees a personal stake in the outcome of a transformation.

10. Reinforce and institutionalize the change

In this stage it is important to shape and reinforce a new culture that fits with the new organization. Managers and leaders should prove their commitment to the transformation process and help to incorporate new behaviour into the day-to-day operations.

Kanter et al. (1992, 491), however, claim that the success models will have conditions to which they apply, and any particular situation may not meet those conditions. Complete change will almost certainly involve many other elements or may produce results by some other, unrecognized process.

Lanning, Roiha and Salminen: combining phase model and critical success factors

Lanning, Roiha and Salminen (1999, 28-29) combine the change phase model with critical success factors (Figure 2). They have divided the change project into four different phases: preparation, planning, implementation and institutionalization. Within each phase different success factors are stressed. Lanning et al. (1999), however, remind that for example communication should naturally begin already at the beginning when announcing the change project, but it should be emphasized particularly in the implementation phase. That is when people need information about what will happen, when and why.

Figure 2 Change implementation success factors (Lanning et al., 1999, 29)

3.3 Synthesis of previous research

This section summarizes the previous research presented, and suggests a theoretical framework for the change management critical success factors. The table (Table 1) below suggests 11 factors required in order to manage change successfully. The factors are derived from research presented in the last section.

Table 1 Change management success factors

Critical success factors	Kotter 1996	Pendlebury, Gouard & Meston 1998	Paton & McCalman 2000	Kanter, Stein & Jick 1992	Lanning, Roiha & Salminen 1999	Own synthesis of the main content of critical success factors
Compelling need for change	Establishing the sense of urgency	Mobilizing	Problem description	-Analyze the need for change -Create a sense of urgency	Need for a change and analysis of it	-Clarifies the need for change -Creates a sense of urgency -Sensitizes employees to the need for change
Visible, aligned and committed leadership	Creating the guiding coalition	-Handling the power issues -Steering	Visible and tangible senior management	-Line up political sponsorship -Support a strong leader role	Management support and commitment	-Ensures strong and visible leadership -Ensures senior management support -Facilitates dialogue between employees and management
Clarity of direction and targets	Developing a vision and strategy	Defining the vision	Formulating objectives and success criteria	Create a shared vision and common direction	Vision and targets	-Defines the vision and direction -Establishes clear targets
Broad based participation with real decision power	Empowering employees for broad-based action	Obtaining participation	Participation of those affected	Involve people	-Employee participation to change -Motivating people	-Involves employees in development and transformation activities -Ensures employees real decision power
Targeted and effective communication	Communicating the change vision	Communicating actively	Skilful communication	Communicate openly	Communication: -Deliver information -Offer discussion channels	-Secures broad based, targeted and frequent communication -Communicates the objectives and reasons for the change -Helps people to talk about the same things and communicate better
Generating quick wins and stimulating more change	-Generating short term wins -Consolidating gains and producing more change					-Achieves quick wins -Accelerates the change

Critical success factors	Kotter 1996	Pendlebury, Gouard & Meston 1998	Paton & McCalman 2000	Kanter, Stein & Jick 1992	Lanning, Roiha & Salminen 1999	Own synthesis of the main content of critical success factors
Enabling resources and structure for change		Catalysing	-Guarantee required resources -Organizational structure which welcome change	Develop enabling structure to facilitate change	-Defining critical roles and responsibilities of project -Assign resources	-Sets the structure that facilitates change -Defines clear roles and responsibilities
Planning implementation and delivering change		Delivering	-Generation of options -Selecting appropriate evaluation techniques -Evaluate option	Craft an implementation plan	-Project planning and organizing -Practical changes	-Makes analysis of the existing situation -Defines a detailed plan for change initiatives -Organizes the operation in a new way after outsourcing is concluded
Training and mentoring		Training and coaching			Training employees for operational changes	-Facilitates the employees' learning -Assures mentoring facilities for employees
Monitoring and measuring performance			Identification of performance measures		-Steering and follow-up -Evaluation of result	-Monitors the performance versus agreed targets -Develops necessary measures
Motivating people to change their behaviour	Anchoring new approaches in the culture	Handling the emotional dimension	-Consolidation -Sensitivity	-Separate from the past -Reinforce and institutionalize the change	Institutionalize the changes	-Anchors new approaches in to practice -Assesses the problems created by resistance and creates a solution for it -Helps employees to see the benefits and potential of outsourcing

The table (Table 1) above brings together the different success factors suggested by the selected researchers, and describes their main content. The scientific assumptions about change management success factors are drawn together for a preliminary model with the researchers' own synthesis of the main content of the success factors, which are summarized on the right column. Those ingredients of the success factor in question came up especially in the case studied.

The success factors listed by different researchers have many similarities, but they are referred to with different terms. For example, all researchers emphasize the importance of *compelling need for change* for the success of change management. Similarly, *visible, aligned and committed leadership*, *clarity of direction and targets, broad based participation with real decision power*, *targeted and effective communication* and *motivating people to change their behaviour* are considered essential by all researchers. Some of the success factors are only mentioned in one study. For example, *generating quick wins and stimulating more change*.

4 RESEARCH METHODOLOGY

4.1 Research approach

Kasanen, Lukka and Siitonen (1991) present a typology of different research approaches in business economics. The typology categorizes research to theoretical or empirical and to descriptive or normative in nature (Figure 3).

Figure 3 Research approaches in economics (adapted from Kasanen et al., 1991, 317)

	Theoretical	Empirical
Descriptive	Conceptual-analytical approach	Nomothetic approach
		Action-analytical approach
Normative	Decision-making methodological approach	Constructive approach

The conceptual-analytic approach intends to create theoretical concepts and hypotheses, which are confirmed mostly by argumentation. The nomothetic approach aims at explaining causal relationships on the basis of empirical findings. The decision-making methodological approach is used to construct models for decision making and problem solving, following principles of mathematics and logic. The action-analytic approach is related to the qualitative approach in understanding and diagnosing phenomena in their specific real-life context. The constructive approach produces an innovative construct that solves a relevant problem and is bound in the theory, is proved to be working in practice, and can be generalized. (Kasanen et al. 1991)

Järvenpää and Kosonen (2000, 5-21) continue that in action approach, researcher or researchers are acting as "change agents" in the studied organization. In addition to pursuing the research objectives, the researcher strives to use the gathered information to develop the organization. In consequence of this role, the researcher gains insights into the organization, but on the other hand the reliability of the study calls for extra attention. (Järvenpää and Kosonen, 2000, 5-21) The research approach of this study is action-analytical.

4.2 Qualitative case study as a research method

Stake (1995, 37) argues that one of the most characterizing differences between quantitative and qualitative research is the knowledge that is searched for. Quantitative research emphasize explanation and control, where qualitative research try to understand the complex interrelationships of the phenomenon (Stake 1995, 37). According to Uusitalo (1991, 79) the choice between quantitative and qualitative research depends on the nature of the research phenomenon. Uusitalo distinguishes between singular and generic phenomenon. With singular phenomenon he means specific, individual phenomenon or event, when generic phenomenon, instead, refers to generalized phenomenon. Qualitative research applies to the research of the singular phenomenon, whereas generic phenomenon can also be studied with quantitative approach. (Uusitalo, 1991, 79)

When choosing a research method, Yin (2003, 5) emphasizes three conditions: a) the type of research question posed, b) the extent of control an investigator has over actual behavioural events, and c) the degree of focus on contemporary as opposed to historical events. Table 2 displays these three conditions and shows how each is related to the five major research strategies.

Table 2 Relevant situations for different research strategies (Yin, 2003, 5)

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	how, why?	Yes	Yes
Survey	who, what, where, how many, how much?	No	Yes
Archival analysis	who, what, where, how many, how much?	No	Yes/No
History	how, why?	No	No
Case study	how, why?	No	Yes

In a typical case study, one or more cases are investigated in their natural environment and the aim of the study is to understand the problem as broadly as possible, and use diverse empirical data (Järvenpää and Kosonen, 2000, 5-21; Yin, 1981).

This thesis is studying a singular phenomenon, where qualitative case study applies as research method because the phenomenon is unique and the boundaries between phenomenon and context are not clearly evident. Additionally, this thesis aims to describe and understand the issues of complex phenomenon.

4.3 Data collection and analyses

Interviewing is a very general and flexible data collection method. Interviews can be structured, semi-structured or unstructured thematic interviews. Thematic interviews handle a specific subject or a theme, but there are not any strict questions prepared beforehand. In semi-structured interviews, the interviewer prepares some questions beforehand, but is free to add and change questions according to the situation. (Järvenpää and Kosonen, 2000, 5-24)

In this study, data concerning the examined case was collected in transition project and in interviews. In total 9 interviews were conducted two years after the outsourcing contract had been concluded. All the interviews were semi-structured. Interviewed people were both from managerial and operational level, including three developers, two team leads, business area manager, human resource manager, professional development manager and transformation project manager. All the interviewees were transferred from Alfa to Beeta. Furthermore, data was collected through studying the change project related documents, intranet, annual reports and other related material.

Part of the data was also gathered in transition project. The researchers' role has been to facilitate the change and transition during the years 2002 and 2003. Researchers' role was to aid the development and adaptation of new processes for the application management services business unit. For the researcher, this method offered rich empirical data concerning the studied change and a deep understanding of how the change was planned and implemented and what kinds of issues were raised during that time. However, in order to ensure objectivity, several semi-structured interviews were conducted and different documents for data collection and analyses were used.

4.4 Validity and reliability

The validity of the research indicates, whether the research examines what it was meant to examine. There are two types of validity: internal and external. Internal validity of research is the better the more accurately the empirical field research is described, and the more logical connections there are between research problems, definitions, and conclusions (Järvenpää and Kosonen, 2000, 19-20) This study explains all the phases in the research. The theoretical part clearly indicates the foundation on which the theoretical framework is based on. As regards the empirical part, all the phases in the change process are explained. However, the study may have some limitations. Firstly, this was only a snapshot in a certain time and certain phase of a change. The data might have been different if the study had been conducted in an earlier or a later stage of the change. Secondly, there was only a limited number of interviews conducted. However, as the number of interviews increased most of the interviewees begun to "repeat the same story" indicating that the data saturation had been reached.

External validity refers to the correspondence of the conclusions and the real world (Järvenpää and Kosonen, 2000, 19-20). In this study, the conclusions are made using several data collection methods (observation, interviews and project documentation). Using rich empirical data increases the external validity of this study. External validity was also enhanced by discussions about the results with an other researcher, who was carrying out a research in an other outsourcing case and with a person, who was transferred from Alfa to Beeta.

Reliability of the research is closely bound up with validity, since it refers to the repeatability, logic and inner coherence of the study. Reliability of research includes that another researcher could repeat the study and reach the same conclusions (Hirsjärvi, Remes and Sajavaara, 2002, 213). It is probable that other researcher would find the same outcomes in similar IT outsourcing case, and also in other kinds of outsourcing arrangements, where the subject of outsourcing is complicated, i.e. closely connected to the core business of the outsourcing company. Outsourcing involving smaller companies and simpler subjects certainly requires different success factors.

Reliability also means that other researchers would make similar observations and assessments from the same data (Järvenpää and Kosonen, 2000, 30). The writer's role as a consultant in the change

process certainly affects the results, since it has been impossible for the writer to examine the cases as an outside observer. On the other hand, the writer's experience of the change method used and other outsourcing and organizational development projects has helped in the analysis, and thus increases the internal reliability of the study.

5 EMPIRICAL STUDY

5.1 Introduction of the case company

Alfa outsourced its IT services to Beeta in 2002. The outsourcing commenced by establishing a joint venture, Epsilon. It started its operation on the first of August 2002. Epsilon was completely outsourced to Beeta by the end of the summer 2004. The partnership between Alfa and Beeta comprises functions of former Alfa IT. The scope of the outsourcing covered wide range of IT processes from hosting the servers and maintaining and developing applications to innovating new applications and services. According to Manninen's (2004) categorization, the case is about IT infrastructure and application development outsourcing. Alfa's IT personnel, approximately 200 persons, were outsourced to Epsilon.

The strategic decision was made and outsourcing preparations were started at Alfa in the second half of 2001. The partner was selected by April 2002, and the contract was signed by July 2002. The duration of the outsourcing contract was agreed to be ten years. Even though the outsourcing was arranged as a joint venture the employees were transferred to Beeta. Terms of employment with outsourced personnel were agreed by the end of August 2002, and an 28-month transition and transformation period was started in September. During this period, Beeta based processes and tools were taken into use at Epsilon and the organization and roles were established.

5.2 Background and business objectives for outsourcing

Air traffic has suffered from an economic downturn, and in recent years the industry has gone through a massive upheaval. The uncertainty, threats of terrorism, and global political situation are

reflected in air traffic. The gravity of the situation is revealed by the fact that world-wide, the airlines have recorded more losses during the last two years than the total profits they made during the previous 45 years. Since the events of September 11th, many airline companies have experienced bankruptcy. Other challenges are intensified price competition which leads to cost-cutting and more efficient operations and new foreign and domestic competitors. (Alfa's Annual Report, 2002)

During the summer 2001 Alfa started to develop a new strategy and direction to the company. As an outcome, the new group strategy was founded on the idea that in order to better use and safeguard the future growth prospects, resources and capital must be focused on fewer sectors. (Alfa Group's Staff magazine Okay, 2002)

Today Alfa's redefined vision is to be the leading Northern European aviation service enterprise. It aims to provide the most highly regarded travel related services, which are operationally the best in Europe and the most desirable for the customer. The goal is to be an excellent business enterprise and to have digital service processes in 2006. Alfa seeks sustainable, profitable development and growth by focusing on its core business, namely its scheduled and leisure flights businesses. Growth will be sought from Asia in scheduled passenger traffic and from the Baltic region in leisure traffic. Future competitiveness is to be based on the very finest quality and production costs adjusted to a level better than Alfa's most important competitors. (Alfa Group's Staff magazine Okay, 2002)

According to the new strategy the aim was to release capital and resources to core business from areas outside the core business. This led to a decision to found with Beeta a joint venture, Epsilon, to which Alfa's IT operations were transferred. A further reason for outsourcing was improving cost efficiency and competitiveness. The outsourced IT services should also support Alfa's goal to obtain digital service processes by improving the quality of development, increasing the e-commerce development skills and accelerating the new technology solution development.

For Beeta, partnership represents new strategic direction as well, and therefore, it is special scrutiny. The ultimate goal of Beeta is to earn profit. However, partnership has been presented and promoted externally on many forums and the setup has been presented to potential customers. The case is in accordance with Beeta's new strategy and the contract was unique in its scope among the European

airlines. It was also a pioneering case in that kind of outsourcing in the Nordic countries, and thus it gained lot of publicity and attention in the media.

5.3 Change implementation in the case company

Outsourcing partnership demands most complex integration efforts. Rules, standards, and schedules are incorporated in contract and provide the foundation for the customer interface and changes that need to be made. The contract also sets out some procedures necessary for outsourcing management, but others are needed as well. These are developed as part of the transition process from former organization to new parthership arrangement, joint venture.

To carry out transition process Beeta initiated and organized a comprehensive change program which involved 60 persons altogether - 25-30 of them full time - to plan, develop and implement changes in management structure, processes and procedures, tools and in human resource related questions. The organizational change was arranged as a separate project and run parallel with operational activities. It was divided into several sub-projects, and each sub-project was led by a project manager.

Beeta has a common change management method for outsourcing implementation, which was also followed and adopted in Alfa's case in order to effectively manage and control the comprehensive change program, which consists of two phases: transition and transformation. Outsourcing implementation phases and the goals are presented in Figure 4.

Figure 4 Outsourcing implementation in the case
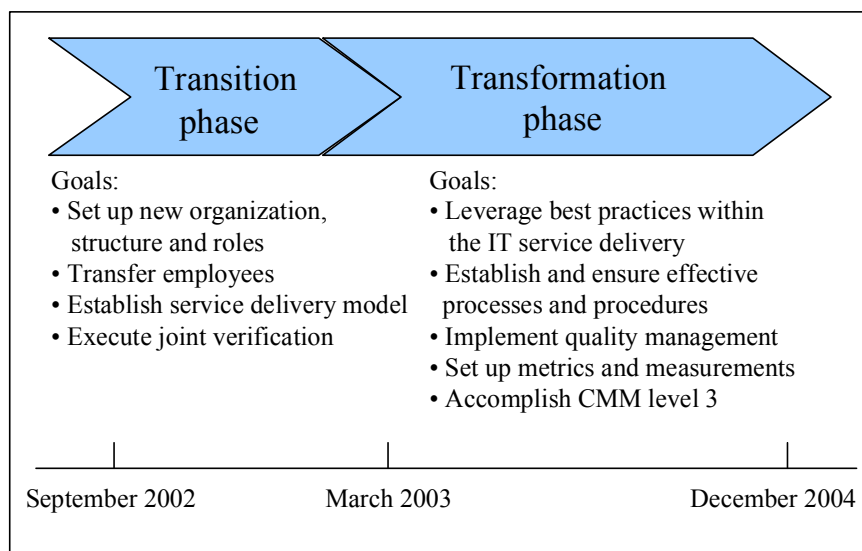
The transition period purpose and objectives were to set up and assure that all business critical functions were working properly. These functions included new management structure and customer interfaces, invoicing, service delivery operation model and the transfer of resources to the vendor. This period included joint verification, in which Beeta together with Alfa took inventory and validated any technical and commercial information that was contained in the contract, such as third party contracts, leases, licenses transferred assets, and information related to transferred employee's. In the following transformation phase the objectives were to leverage best practices in the area of IT services, implement the quality management system, and set up SLA's (service level agreements) and measurements and accomplish CMM (Capability Maturity Model for software) level 3.

A general information meeting with the employees was held during the summer. Opportunities to meet Beeta people individually were provided as well. People used these opportunities actively even during the vacation. The atmosphere was anxious, but the strongest emotions started to calm down when it became evident that major changes or denouncements would not happen at once. Human resource management required much more attention in the beginning than Beeta people had assumed. Personnel management took so much time that some other issues had to be postponed in the autumn 2002.

5.4 Practical implications of the change

The change from Alfa IT to Beeta seems to be rather big in many ways. Professional practices and ways of working changed dramatically. People were worried about how they would manage at Beeta. Many were also confused about their professional identity. Some had served Alfa a long time and regarded themselves first and foremost as Alfa employees. A part of these people had still not accepted the arrangement very well. Some others accepted the situation rather quickly and saw the change as a new opportunity. It was also expected that people work autonomously and display initiative.

Adjusting one's identity from an airline employee to, an IT specialist in a global IT company was also demanding. Formerly one delivered pieces of advice and services for "free" in an informal and flexible way. Now, one has to sell the same services to the same people according to defined

processes and document them well. The service they provide is invoiced and thus requires a systematic time recording. All this requires considerable change in the mindset of both sides.

Moreover, new commonly agreed service levels mean tighter quality and cost control for projects and services provided. This affects the requirements for the skills of employees, albeit for some employees it may provide an opportunity for enhanced career and training opportunities. The opportunity to work for a company that specializes in one's line of expertise presents possibilities that may not have developed before.

Furthermore, the outsourcing deal includes organizing the collaboration, creating and establishing appropriate management processes and forums, defining and building common business processes, and setting up information, knowledge and human resource management practices.

Operating model and management structure

Outsourcing has required an extensive change in management structure in order to manage the contract. Furthermore, Beeta's human resource management structure was applied to Epsilon.

In Epsilon, new Contract Business Office (CBO) was set up for contract management, with the responsibility to control and follow-up the contract. It takes care of customer relationship, finance and invoicing processes and customer requests for new services. New counterpart for CBO in the Alfa's side is Corporate Information Management (CIM) organization. It accounts for fulfilled contract terms and financial performance and is responsible for Alfa's IT strategy and processes, application and technology architecture, group's IT agreements and project portfolio.

The Contract business office and the management of different lines of business, such as Application management and Infra services were placed with the Beeta managers. While earlier the business communication took place between the Alfas' IT management, development teams and business units, the commercial communication now happens between CBO and CIM.

Human resource management structure has also changed. Skills and competence development has become more important and systematic and employees' professional development has been given more weight. New professional development manager is responsible for career management and skills and capabilities development to guarantee better fit with the business needs and strategic

objectives. It has become evident that due to the change from internal employee to consultant, skills requirements have raised and continuous development has become mandatory. Now, skills are rated according to different band rates which indicate the skills level and are connected to customer billing rates.

As a consequence of matrix organization each employee has now several persons to report to. In addition to reporting to professional development manager, people report to business manager and team lead or project manager in work related issues.

Customer service and processes

Moreover, customer service channels and interfaces were reorganized. New customer service center serves the customer as a single point of contact in problem management. Furthermore, the way the customer orders services were standardized. Earlier, it was feasible for business units to order additional features or changes to applications unofficially by phone or just having a chat with IT department employees. Now, work needs to be ordered by an authorized person from Alfa by using certain collectively agreed tools and procedures.

Additionally, Beeta standard processes and procedures for application management and infrastructure services were adapted into and applied to Alfa's business environment. New tools for supporting data requirements and document flow of all service requests were also introduced in Epsilon. In general, the whole operating model was changed.

Moving from a non-core IT department of an airline company to an IT service provider that is tied to contractually agreed service levels in terms of the quality and accuracy of the IT services provided tightened the demands on the employees. In other words, the targets for the performed activities became more measurable, transparent and concrete achievements were required. The employees were expected to adopt a new service provider attitude, while their previous organization was considered as their customer.

Culture

The culture change the transferred employees were going through was extensive. To be a part of a global service provider company means more and more often that the working language is English and colleagues and project members are from different countries. Whereas in Alfa, even though the

business is international, the company culture can be seen as very local. Instead of being a small working society where relationships are uncomplicated, feeling of solidarity is strong and team spirit high, the Beeta culture is considered individualistic and it manifests autonomy and initiative.

Beeta's global organizational structure is more complicated, than Alfa's and decisions are partly done in Nordic or EMEA level. However, personal responsibility is strongly emphasized and it is not only based on hierarchy, as it was earlier. Change has also brought about more dynamic working environment. Continuous learning, fastness and flexibility with working hours and location has become more evident. Current culture is more performance oriented than service oriented, which it was before. Another change is in maturity; instead of using case by case methodology the new culture is strictly process oriented.

Another consequence for employees has been the measurement of utilization. While earlier the normal working hours dictated conditions, now the emphasis is more on billable hours and utilization rate, which increases the pressures on the employees.

5.5 Change management realization in the case company from transferred employees viewpoint

In this section the examined case is described with the help of the theoretical framework presented in the Section 3.3. The description is based on the data collected in the interviews and in the transition project. The table (Table 3) below describes the change management success factors from previous research, and their role and visibility in the case studied.

Table 3 Success factors visibility in the case

Compelling need for change
The initial reason for outsourcing was a strategic decision made by Alfa. As a part of strategic re-orientation to core competencies the decision to outsource the IT department was made. Interviews showed that from the employee point of view the need for operational change in IT was seen necessary. The way Alfa IT was operating had started to become outdated. However, the outsourcing decision was quite a shock for the personnel. The news produced a lot of anxiety and

strong criticism towards Alfa. According to interviewees there would have been other options than outsourcing to develop operations, and senior management did not address the reasons nor objectives enough. This affected motivation and increased resistance to change.

Visible, aligned and committed leadership

Management was respected and trusted in their competence to lead the change. However, interviewees considered the senior management distant. The absence of informal two-way communication between management team and employees has proven challenging for information sharing and building of trust. According to interviews a stronger and more visible leadership for guiding direction and leading change has been hoped for. Employees have felt the direction and future vision to be somewhat vague.

It also became evident that there was a lack of senior management support. Team leads felt that they were left alone without enough guidance and mentoring. Furthermore, transformation project was not clearly supported and emphasized by the senior management. As a consequence, necessary decisions and approvals were delayed and transformation lost its visibility and relevance among employees.

Clarity of directions and targets

The interviews showed that the objectives and the vision have been quite clear to the people in management or team lead positions. However, employees on operational level were not aware of the objectives and the vision for the Epsilon neither for Application management systems business unit. Clear discussion of outsourcing goals and benefits has been lacking. In addition, target's actual implications to one's job responsibilities now and in the future have not been discussed with the employees.

All interviewees knew that the transformation project was ongoing and that the goal was to improve service quality by achieving the CMM level 3 (Capability Maturity Model for software) within two years. Nevertheless, there was a lack of understanding what the goal actually meant in practice. Employees criticise the transformation project being too invisible and the lack of common feeling of accelerating progress and momentum of change. Additionally, interviewees experienced that the transformation plan, - who is doing, what and by when - was not clear.

Broad based participation with real decision power
Employees' response to new procedures and tools for problem management and application maintenance was positive. Participation in change especially in the area of process development was broad and key persons assisted in adapting processes into Epsilon. During the transition phase all teams were participating in workshops in which new processes were discussed and tested within the teams' environment. However, interviewees still considered themselves as objects of the change, not as contributors. According to interviews there was a general feeling that changes were planned somehow in secrecy and people were ordered to follow the new rules without real discussion or explanation.

Targeted and effective communication
According to the interviews communication should be focused more on the reasons for changes. Many of the changes have been communicated without explaining why the changes have to be done and without real discussion with people. Moreover, communication of overall targets and transformation project progress, timeline and milestones were lacking. Information has been given in pieces and people have not been able to get a good overall picture. Other problems related to communication identified were problems in selecting the proper way to communicate and in communicating the right information to the right people. New senior manager's from Beeta took a lead in Epsilon after outsourcing occurred. Many of them where from abroad and thus the language was English. Not everyone was capable of communicating in English on a desired level, hence the presentations and communication in general were difficult to understand. Approval processes and other internal processes, such as procurement and invoicing, were not communicated, and employees were forced to figure them out on they own, which obviously caused inefficiencies. In addition, there seem to be a blockage in communications between operation, transformation and people management. Business goals were not aligned with people management goals.

Generating quick wins and stimulating more change
Right after outsourcing contract was concluded changes in organization and management structure ensured that people recognized that the old ways had come to an end. Interviewees experienced that

the organizational momentum, the force behind the initiative, were growing at the beginning. Visible outputs and wins started to take place when new processes were implemented by the end of the transition phase. However, interviewees felt that the momentum of change was lost during the transformation phase and the sense of accelerating progress was decreased.

Enabling resources and structure for change

Epsilon seemed to be a rather functionally organized company. Service delivery and application management services were separated, and the dialogue and processes between them were poor. However, there was a general feeling that new processes had brought more efficiency and a standard way of working within the application management services.

Organization and management structure changed after the outsourcing contract had been concluded. It was designed to manage and fulfil obligations of the contract and customer relationship and interface. Interviews showed, however, that the organizational structure was unclear and indefinite roles and responsibilities made the knowledge flow slower because employees reported that they had difficulties in defining and locating the right contact persons. This reduced the accessibility of requested knowledge.

Former Alfa IT employees form the majority of Epsilon employees, while the management instead was mainly from Beeta. The transition phase was led by additional people from Beeta, yet, due to cost freezes, the transformation phase was mostly led by Alfa's former IT employees, who did not have experience of outsourcing neither the knowledge of Beeta's method to execute the transformation. This caused evident troubles: the project suffered from uncertainty, inefficiency and lack of skills to manage transformation.

In addition, joint venture Epsilon caused problems for people to identify the purpose of Epsilon since it was known that it is only a temporary solution. People were also confused about the company identity, not yet part of Beeta but not anymore Alfa either.

Planning implementation and delivering change

Planning implementation related to outsourcing – organizational structure, transferring people and integrating processes around outsourced activities seemed to be well planned, since they did not cause any troubles later, as the case was examined. The data also showed that project management

procedures and skills were strong in transition project.

In delivery, however, it was stated that implementation was not in every case brought to conclusion. As a consequence, the new tools and defined practices for repeatable processes were not always used. Additionally, the tools did not always support the real flow of activities in processes, and thus they were accused of being rather complicated to use. According to interviewees they had not been familiarized with formalized documentation, and as a consequence, some persons were hesitating to use the tools and were worried of making mistakes. Nevertheless, interviewees felt that implementation of changes was deliberated and controlled.

In addition, some violation of transparency could be observed. One of the most cited instances of non-transparency was related to Request for Services –process: it was difficult to follow the progression and it caused a lot of confusion and delays.

Training and mentoring

Several introduction and training sessions were held during the preparation and actual implementation of change. Introduction to problem shooting and customer service center, to the new processes and quality requirements, to Beeta methods for application development and to the new tools were provided. Employees participated in half a day hands on tool training, and specific team based process implementation workshops were held to prepare the implementation. Also, key users in customer side were trained for new common tool and processes. In addition, new roles were established and contact persons related to tools and processes assigned to help and support the implementation. There has been a clear effort and willingness to educate personnel for new procedures and tools thoroughly, although, as mentioned before, implementation was not always carried through in practice.

Beeta had at the beginning a strong message about mentoring possibilities, but interviewees' felt that this promise was not realized. Yet, many interviewees pointed out that the need for mentoring, especially within manager and team lead positions, was clear. It would have helped in coping with the changes and in acting as a messenger to the employees.

Monitoring and measuring performance

According to the data monitoring and measurement of performance was well organized. The contract refers to the formal agreements of performance and baselines. Accordingly, measurements to measure service level (SLA, service level agreement) and track current performance were established. The KPI's (key performance indicators) to indicate supplier's progress, such as reduction of errors and improvement of performance were defined as well. For the transformation project the goal was to achieve CMM level 3 in application management services. Different measurements were monitored at regular intervals.

Employees' personal performance was also measured and linked to the targets of transformation. However, according to interviews more accurate measures were hoped for.

Motivating people to change their behaviour

At the beginning, transferred employees were very frustrated with the outsourcing arrangements. They were not motivated, because they could not see the benefits of the outsourcing arrangements, and senior management did not emphasize the objectives enough. A part of these people had still not accepted the change very well. Some others accepted the situation rather quickly and saw the change as a new opportunity. However, according to the interviews, the motivation of the IT personnel was not the most difficult task – more challenging was to get the Alfa's business unit's personnel to change their behaviour and to exploit the benefits of outsourcing.

Various means were used in order to anchor new procedures into practice. First, personal performance measurements were aligned with the transformation fulfilment. Secondly, people were trained for new procedures and tools and thirdly, personnel was motivated with the help of benefits, rewards and career opportunities. The interviews indicated that people were trying to follow new rules, and new procedures were quite well established. Nevertheless, it seemed that people motivation was not done systematically and deliberately. Mutual dialogue was lacking and approach was perceived too arrogant - people related issues were not addressed enough.

The data showed some perceivable differences between the Alfa and Beeta culture which were in general unexpected on both sides. For example, in Alfa, many people do not have experience in working in English, and the gap between Beeta's process culture and Alfa's individual "hero culture" was perceived wide. Beeta culture was considered individualistic and more performance

oriented than service oriented. In general, interviewees felt that their adopting to Beeta culture was not addressed enough. As one interviewee put it " there has been too many assumptions, people tend to forget that for us, Beeta's way of working or culture are not self-evident".

In summary, Epsilon was struggling with implementation of the outsourcing arrangement. The challenges stemmed from the fact that leadership was lacking, clear discussion of outsourcing goals and benefits was inadequate, communication was insufficient, the organization structure, roles and responsibilities were unclear and an understanding of the impact of people motivation and cultural differences were lacking.

6 ANALYSIS AND RESULTS

The next chapter presents a synthesis of the findings from the case. The findings are presented in Section 6.1 based on the theoretical framework of different change management success factors. Section 6.2 presents the findings related to people transition in change management success.

6.1 Analysis of change management success factors

The table (Table 4) below describes the case findings per each success factor from the transferred employees point of view.

Table 4 Findings from the case study

Compelling need for change
Previous research emphasizes the importance of establishing the sense of urgency for change. As the need for change becomes apparent, a sense of anxiety emerges, which is necessary for getting the transformation program started and motivating people to help the effort. The examined case supported this view and clearly showed that open discussion and communication on the reasons and objectives for a change are truly important. Without understanding and accepting the reasons people are not likely to fully commit to the new operating model, new organization or new employer. If the staff to be transferred is not prepared for this type of change, it will cause troubles later with an

increasing resistance to change.

Visible, aligned and committed leadership

As previous research of change management indicates, in successful transformation efforts, leaders role is in creating a company vision and motivating employees to embrace that vision. The leadership coalition should grow over time, and broad base support from head of the organization and other stakeholders is essential. The case examined in this study showed that leadership is also needed in daily operations of change management, especially when there are conflicts and major changes. Senior management must show direction in those situations.

In the examined case, leadership was found to be lacking. Key persons had strong management skills but stronger leadership skills were wished for. Leadership capability is needed in every organizational change. Outsourcing situations are, however, more challenging, since employees may be afraid of made redundantand the future is uncertain due to transfer of employees from one organization to another. In these situations leaders have an extremely important task in leading the people through the transformation and motivating them to welcome the change. Additionally, the case showed that it is extremely important that the personnel has uncomplicated dialogue with senior management. It will increase mutual respect and knowledge sharing and help with change implementation.

It was also found that lack of senior management support leads to uncertainty and hinders the progress of change. This finding is in line with the previous research which emphasized that sustainable and successful change can only be achieved with senior management's visible involvement. The case showed that participation of senior management to change management is extremely important. The operational level needs a clear vision, according to which it can plan the details, but it also needs senior management visibility and commitment to embrace the change.

Clarity of direction and targets

According to previous research, without a sound vision, a transformation effort can easily dissolve into confusing projects that can take the organization in the wrong direction or nowhere at all. Clear objectives create a common ground and indicate core reasons for transformation and should be defined and measured clearly. The case indicates that mutual understanding about the benefits of the partnership between Alfa and Beeta was still faint. Additionally, there was no a common

understanding of targets for application management services neither for transformation. The study supports previous research regarding the fact that sound vision is essential to ensure that all strive for the same goals. The vision must be clear, and everyone should understand it in the same way. If the vision is not clear, the operational level is not able to support the change accordingly and cannot know where they should channel their attention and efforts.

All the strategic intentions are put into action in the operation level. The case examined showed that the idea of the partnership and its goals must therefore be discussed in the shop floor level as well. All the employees should have tools for everyday co-operation where resolving disagreements, and decision making take place daily.

Broad based participation with real decision power

As previous research indicates, empowerment of employees is a very good way to motivate people. Participation creates support for the vision and for the implementation. The degree of commitment will be reflected in the level of employees contribution and depend upon the extent to which they can see their own work having an impact on the adopted solution. The case examined shows, however, that participation is not always enough. What is more important is that while people need to contribute their ideas and express their concerns, how management reacts and takes into account employees' opinions also has significance. In this study, employees consider themselves more targets than contributors for the change, which seems not to be due to lack of participation but more due to the fact that they did not trust in their ability to influence on the decisions made. It is important for management and change facilitation team to acknowledge the transferred employees' opinions and courage profound dialogue with them. It must be kept in mind that in the end it is the employees, who make the change succeed.

Targeted and effective communication

The data shows that there was a need for improved communication. Apart from communication, the communication skills also have to be considered. According to research communication skills include non-defensive and active listening, and self-disclosure as well as the use of the right communication media.

The study clearly shows a lack of communication about the reasons and targets for the change, that was causing uncertainty and difficulties to channel attention and efforts to the right things. It is

important to communicate what will be done, and why, and what are the targets. Furthermore, lack of informal communication is having a negative impact on the atmosphere on the whole.

Additionally, the data supports the importance of common understanding. Communication will not solve any problems if a common understanding is not ensured. For example, English language and the used terminology was not familiar for all, which hindered the common understanding and created problems in communication.

In the examined case, communication has not been clearly organized, nor co-ordinated with different stakeholders. As Lanning et al. (1999) concluded, the effective way to associate communication to a change project is to create a communication plan. The plan with communication goals, means, media, target groups and timetable, are essential to ensure that important information and messages are targeted to the right people at the right time. Additionally, Pendlebury et al. (1998) state that in complex change communication requires the commitment of the full-time staff. In this examined case it was not achievedbut would certainly have improved communication. Clearer roles and responsibilities would also envision to know with whom to communicate.

Generating quick wins and stimulating more change
Only one of the studies examined in the theoretical part addressed the visible improvements and short term wins in order to keep up with momentum and to create more change. In the examined case this factor was not especially emphasized, however, there were systematically planned visible improvements in processes within first ten months, and new tools were launched to problem and change management, where no tools existed before. Additionally, the employees involved in making those improvements received recognition. Nevertheless, the study did indicate the importance of keeping up the momentum for change, which was found to be lacking in transformation phase. It supports Kotter's (1996) thoughts that commitment to produce short-term wins helps keep the urgency level up during a long lasting change. It increases motivation to know what benefits have already been achieved.

Enabling resources and structure for change
The case shows that the operational model was unclear to employees, and lack of understanding the roles, functions and responsibilities was negatively affecting the speed of execution. In previous

research, this success factor is connected especially to enabling resources and establishing parallel project organization to facilitate change. In this study those aspects were not the issue, but it was noticed that the organizational structure did not support effective flow of information. That caused problems for example with the availability of information. In addition, performance is likely to suffer if people do not understand organization's roles and responsibilities.

It was also found that organization is working too much on silo – there was a lack of end to end processes including both application management and infra services. Transformation project was also splitted according to this division and caused lack of coordination between these services.

Planning implementation and delivering change

This factor was emphasized in the theoretical part of the study. Previous research, however, discussed operational issues on a very general level and stressed planning more than delivery of change. Only Pendlebury et al. (1998) presented practical and concrete tools to handle the implementation. The case examined in this study showed that planning, communication and deadlines are not enough to put new procedures into practice. In addition it is important to follow through the changes. It must be ensured that new ways of working are really followed and established in practice. The study also showed the need for more collaborative roles, i.e. persons promoting the change, such as change agents who can work as bridge builders between people and facilitate the adoption of changes

The study supports the idea presented by Pendlebury et al. (1998) that the delivery process should be adopted to suit those taking part. It is essential to identify different groups and to apply an appropriate procedure to the needs of each one. In the case this method was used when implementing new application maintenance and change management processes into practice and it seemed to improve the commitment of and was appreciated by the affected people.

Management of the outsourcing change is a very challenging task and includes many issues. However, it should not be taken for granted that own procedures are superior but instead there should be mutual respect and willingness to improve – if a process seems to be too complicated to support the business and to follow through, it should be improved.

The examined company operates in IT field, and thus the mindset of the personnel was quite IT

oriented. It was noticed, however, that if the company culture appreciates engineering skills greatly, the IT tools may become too dominant. The tools should support business processes, not vice versa.

Training and mentoring

This critical factor was mentioned in the theoretical part of the study only by two researchers referred to. According to the case, training is a needed vehicle to support the learning of new procedures and tools. Yet, the changes in transformational outsourcing are very challenging and comprehensive and thus require more attention to mentoring and mentors, who can ease the transformation. This need was specially recognized within management and among team leads in order to be able to act as messenger for employees.

Monitoring and measuring performance

Only two of the studies examined in the theoretical part emphasized the measurement of performance. Previous research, however, discussed the measurement system how to formulate appropriate measures for each objectives. Nevertheless, measurements can be used to focus behaviour and incentives to motivate people and to foster commitment. Transformational outsourcing requires new measures, as Linder (2004) suggested.

The case company used wide range of metrics to measure service levels but also in linking transformational outsourcing performance to recognition and incentives. Even though the transferred employees expected the personal performance measurements to be more exact, the measurement system seem to be advanced and monitored at regular bases.

Motivating people to change their behaviour

This factor was emphasized in the theoretical part of the study by all researchers referred to (see Chapter 3.3). The case study supports the research and showed that it is extremely important that employees see the benefits and potential of outsourcing and are able to trust the employer. In the case people did not trust in their ability to influence the decisions made on the higher level, and conflicting opinions were not considered welcome, which affected motivation. To incorporate new behaviours into the day-to-day operations it is essential to motivate people and make them feel as contributors.

Previus research also stresses the importance of identifying resistance and dealing with it. Transforming attitudes and ways of thinking and acting obviously creates difficulties, because it

implies a profound change for individuals. This was also found important in the case studied.

It also became evident that in outsourcing, it is not enough to address only own change management but it should be a mutual (both partners) effort. The case showed that if the change management is not properly handled on the customer's side, it will slow down or even hinder the implementation of changes on the other side as well.

Both parties, Beeta employees and transferred employees, have expectations of each other, but not much attention has been paid to mutually developing or agreeing on these expectations. Since these expectations haven't been clearly formulated or made visible, it is possible that people have unrealistic or even false assumptions of others. Mutuality needs a different kind of a communication culture where both parties are active in listening and making common interpretations.

In addition to the success factors presented in the table (Table 4) above, the examined case also suggests that recognizing the cultural similarities and dissimilarities is essential for the experienced success.

None of the studies examined in the theoretical part emphasized the importance of culture. In this study, nevertheless, it was found out to be extremely important to create common understanding of cultural differences and of the influence of culture on the success of change. This could save from negative emotions that emerge from misunderstandings and confusion caused by cultural differences. The study showed that the root of for difficulties is often cultural diversity. In the examined case, it seemed that cultural match was not addressed enough during the outsourcing contract negotiations, which caused problems during the transition and transformation phase. Culture can be considered as glue that keeps the community together. In outsourcing transferred people come from a different organizational culture, which inevitably causes a cultural collision – confusion, misunderstandings, even irritation because the other party is thinking or doing things differently. In the case examined, it became clear that there was a lack of acknowledgement of cultural differences and almost no effort to build a shared culture.

Characteristics of a particular organizational culture can be received through those mutual ways of thinking and behaving the members of an organization manifest. As members of an organization, people take these ways of behaviour and thinking as self evident and often think of them as the right

way of doing things. It is however, important to acknowledge the differences and their impact. That will not be reached by arguing but by dialogue in which all parties feel respected. Dialogue requires genuine listening and enough time. This is often a contradictory demand with the rush and hurry people are having during the change implementation. However, taking time to create genuinely common understanding of basic characteristics of the cultural dissimilarities may save a lot of time later on. This could also save from some negative emotional energy that emerges from misunderstanding and confusion caused by cultural differences.

A partnership between two companies is at least a legal, financial, technological, business contextual, and social arrangement. Different dimensions may have different roles during the life-cycle of the change. However, the social dimension is often easily neglected. This seems to have happened in the case examined. At the beginning of transition, special attention was paid to the people related issues, but some evidence indicated that later on, people related issues got less attention.

6.2 People transition in change management success

The success of change management has been reviewed and analyzed by using the theoretical framework, presented in Section 3.3, of critical success factors, the prerequisites which need to be fulfilled so that success of the change management can be guaranteed. However, when the study was proceeding it became clear that the success of change management can not be explained only by critical success factors. The case indicated that there are other factors influencing how people perceive the change as well - the transition phases people go through during the change.

During the interviews it became clear that some people were seeing the change more positively than others. Many of them also mentioned that if the interviews would have been conducted earlier in the change process, they most probably would have given different answers. This supports St-Amour's (2001) observation that people face change differently. Others resist change strongly, while some others tend to view the uncertainty as a challenge and adapt to change quickly. The challenge according to St-Amour (2001), is adopters, they form with 60% of the people and should be get quickly on board to support the change. According to Kirkpatrick (2001) the resistance is often based on the fear of unknown and loose of something. The case study shows that outsourcing

situations are particularly challenging since employees are transferred to the new employer which operates differently and people might be afraid of getting fired. In the case, employees who saw new opportunities and liked the challenge reacted more positively to the change, and others who were uncertain of their future and liked to maintain the status quo were more negative and afraid of the change, as Kirkpatrick (2001) stated.

Research has indicated that change tends to follow a fairly predictable sequence of phases. Different models show that different phases have distinguish types of uncertainties and opportunities. In addition to the above findings that people face change differently, the examined case supports the idea of employees going through different emotional phases during the change. Obviously outsourcing, by its nature, can introduce a high degree of stress, conflict, and tension into the lives of employees. As highlighted by St-Amour (2001) and Bridges (1991) the people are going through different phases during transition. First, people are required to face the end of the previous context and reactions are usually rather negative varying from denial to confusion. In the second phase, people are between the old reality and the new. They seek their own opinion and reorientation in the new situation. This is where anxiety often rises and main feelings are stress and confusion. The last phase is the new beginning, and atmosphere, depending on how companies play their cards, can increase from denial to hope and even enthusiasm.

The case examined could be observed to be in the second phase. At the beginning outsourcing decision was quite a shock for the personnel and it produced a lot of anxiety and frustration. When the joint venture was conducted, organizational instability increased and people were uncertain about their future. Loss of organizational identity, job responsibilities and co-workers created stressful situations for employees. At the time of interviews some interviewees were quite positive toward the change and new opportunities, while others had still not accepted the arrangement very well. Resistance had, however, lessen and people seem to reorient to the new situation.

7 CONCLUSION

This chapter summarizes the main findings of this study. Furthermore, considerations to the case company and some issues related to study and implications for further research are discussed.

7.1 Theoretical conclusion

This study examined the critical actions that can enhance the success of change management in IT outsourcing from transferred employees point of view. The research method used in this study was action research, and case study. This approach was chosen, since there are studies concerning the phenomenon of outsourcing, but a common framework of critical actions that can enhance the success of change management in IT outsourcing was, however, missing.

An outsourcing arrangement causes changes in organization processes and practices. Depending on the content, scope and objectives of the partnership, changes will concern different number of people in both organizations and affect to operations to different extent. Researcher's in the field agree that there are at least two fundamentally different types of outsourcing: *traditional outsourcing*, and *transformational outsourcing*. The main objective in traditional outsourcing is saving costs, whereas in transformational outsourcing the goals are more ambitious – even a business model change. As the objectives differ, it can be assumed that the change management actions needed to manage the outsourcing arrangements are also somewhat diverse. The case examined has characteristics from both types but can be considered even transformational outsourcing. As Ackerman Anderson and Ackerman (2001a) conclude, the required focus for the human and cultural components is a key differentiator between transitional and transformational change. Transformational change requires a shift of culture, behaviour, and mindset to be implemented successfully and sustained over time. In the study, human resource related matters and culture change turned out to be the most challenging factors, which supports Ackerman Anderson's and Ackerman's (2001a) findings.

The theoretical framework presented in Section 3.3 in this study summarises previous research on the best practices concerning change management. The scientific assumptions about change management success factors were drawn together for a preliminary model with the researchers' own synthesis of the success factors and they main content. The framework was applied to analyzing the case, which explains the success factors at the pragmatic level. The examined case showed that the theoretical framework of the change management success factors is applicable also in the case of outsourcing change. In addition to the success factors presented, some new factors were found. It was found that *cultural understanding* is extremely important and will influence to the success of

change perceived by transferred employees. Cultural understanding means understanding challenges caused by cultural differences and knowing how to solve them. In addition, it is necessary to disseminate information of issues related to company cultures. As such, these form a firm basis for the actions of change project manager on an operative level, and they can be seen as the critical factors enhancing change management success in IT outsourcing.

This study indicates that transformational IT outsourcing is indeed not an uncomplicated concept to put into practice. The main problem in the case of this study turned out to be related to the following success factors: *visible, aligned and committed leadership*, *clarity of direction and targets*, *broad based participation with real decision power*, *targeted and effective communication*, *enabling resources and structure for change*, *motivating people to change their behaviour* and *cultural understanding*. These factors also proved to be the most critical from the transferred employees point of view. In addition, the study shows that in outsourcing the special issues are related to human and cultural components. Taking people related questions into account as well as managing cultural differences are issues that seem to need an extra effort, especially in outsourcing.

Organizational cultures are unique and differ from each other. In outsourcing, people have to start to collaborate with a different organizational culture. This will inevitably cause a cultural collision. In a superficial or transactional relationship cultural differences will not usually be met but in a transformational relationship this must happen. As the case described in Chapter 5 suggest, however, while cultural and people-related uncertainties can create significant problems during the change, the cultural aspects are usually overlooked in planning and analysis phase. It is easily legal, financial and procedural aspects at the expense cultural ramifications of the transformation. A good starting point could be acknowledging and accepting the cultural differencies and starting to build a new shared culture.

During the study it became, however, clear that the success of change management can not be explained only by critical success factors. These factors seem not to take into account the life cycle of people's emotional transition and commitment. Researcher's models of people transition process shows that different phases have distinct types of resistance and acceptance. From outsourcing change management perspective, these distinctions are important, since they explain the employees' reactions in different stage of the change curve. The examined case support the idea that employees are going through different emotional phases during the change. Obviously, outsourcing, by its

nature, can introduce a high degree of stress, conflict, and tension into the lives of employees, which makes it reasonable that people's reactions vary from denial, confusion and stress to acceptance during the change. It is also important to note that different people may go through this process at different rates.

Moreover, the researchers in the field agree that people experience the change differently. When employees can see a way through transition and can become reasonably comfortable with their lot on the other side, it calms down the resistance to change. The case study shows that outsourcing situations are particularly challenging since employees are transferred to the new employer which operates differently and people might be afraid of getting fired. In the case, employees who saw new opportunities and liked the challenge reacted more positively to the change than others who were uncertain of their future, and liked to maintain the status quo and were more negative and afraid of the change.

It is important to recognize the needs and characteristics of the various groups of people affected by the changes, and give sufficient attention to them. Some groups of staff will oppose change, yet other groups will support it. For change to be successfully delivered, it is essential to identify these various groups clearly and to put together a procedure which is appropriate to the needs of each one.

7.2 Considerations for the future

Every organization behaves uniquely and has an identity of its own. In outsourcing this kind of variance in actions should be acknowledged. Accepting dissimilarity is by no means an easy task. Achieving tolerance and accepting transferred people as they are, requires understanding about the reasons behind their actions. This kind of understanding is hardly reachable without patience, empathy and profound dialogue. It is, however, necessary for successful change to understand challenges caused by cultural differences, to disseminate information of issues related to company cultures and start to build a new shared culture.

The case organization needs the senior management's leadership in order to show the direction and motivate personnel to orientate to the new operations mode and to help them to see the benefits and

potential of outsourcing. It is also important to facilitate dialogue with employees and increase the amount of "management by walking" to improve information flow and trust.

Another essential challenge is the unclear roles and responsibilities. If the division of work is clear for senior management, it should be communicated at more detailed level to the organization. When the responsibilities are clear, it affects the change implementation at operational level and speed of execution.

The case company should organize meetings or other occasions to discuss with employees a focus areas, short and long-term plans from the employees point of view. It is also important to discuss and explain reasons behind the changes and how they will impact the employees. Moreover, employees should be treated as contributors with real decision power.

In addition, open and organized communication is essential. A good part of the resistance to change is fear of the unknown. The communication strategy is to make things known and calm fears. By making stakeholder analysis company could ensure that all change management activities are properly identified and designed for all the people impacted, taking into account their needs and expectations. The findings from the stakeholder analysis can also be used as input to the communication plan. The stakeholder mapping is a document where the impact and reactions of the change of different stakeholder groups is evaluated. There should also be named person or team responsible for communication.

In summary, the success factors that requires further development in the case company:
- visible, aligned and committed leadership
- clarity of direction and targets
- broad based participation with real decision power
- targeted and effective communication
- enabling resources and structure for change
- motivating people to change their behaviour
- cultural understanding.

7.3 Issues for further research

Change management in outsourcing is certainly an excellent area for future research. As a natural extension to this particular research would be a longitudinal study of the adoption of change management especially in outsourcing, involving issues like how change develops and changes over time. This could probably give an understanding of essential change management actions at different phases of companies "outsourcing-lifecycle".

Another avenue worth of future research is to identify how organizational culture affects to outsourcing and vice versa. These are areas where insufficient research exist even if these issues are at the very heart of putting the outsourcing concept into effect.

According to Linder (2004), transformation is a "big change fast", and thus transformational outsourcing refers to a radical outsourcing decision, which is implemented fast. The outsourcing transformation in the case examined in this study can be regarded as a transformational outsourcing where the objectives were not only cost savings, but also improving the ways of working. If the case can be named as transformational, it would mean that transformation can also happen slowly, and might be even a better way to implement radical outsourcing. This view to transformational outsourcing should be studied in detail in the future.

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