

## Learning from the Outside (Mar 09)

*Outsourcing the learning function can be a way for HR leaders to cut costs and improve quality.*

*By Tom Starner*

When American Airlines entered into a major business-process outsourcing deal with IBM in 2007, one of the key components was a move to outsource its learning programs. At the time, with gas prices sky high and the economy starting to sag, Dallas-based American Airlines, like most of its competitors, was struggling to stay aloft in the passenger airline industry.



Looking over its learning situation, the company realized it needed what David Levine, American's managing director of HR delivery, says was a much better way to tie learning to the company's strategic objectives.

"From the start, we were looking for IBM to create a new, better way to deliver training within our company," Levine says. "Put simply, we wanted more learning for the dollars we spend. We're now doing that, with IBM's help."

So far, the company is satisfied with its progress.

American Airlines is not alone.

According to a September 2008 report from the Everest Research Institute in Dallas entitled *Accelerating the Learning Curve*, learning-services outsourcing is focused not only on the obvious -- cost reduction -- but also on producing tangible business results, such as quicker time-to-market for new products, higher talent-retention rates or increased productivity.

Simply stated, LSO entails the ongoing transfer of the management and/or execution of one or more learning processes to an external services provider, as opposed to doing it in-house. There are many variations of learning outsourcing, of course, as is the case with most large-scale outsourcing activities.

There are dozens of LSO providers, but some of the main names include IBM, ACS, Accenture, Convergys, Raytheon Professional Services, GeoLearning Inc., Intrepid Learning Solutions and General Physics Corp.

Economic conditions have changed even more dramatically since the Everest report was released. The global economy has been in free fall the entire time, with layoff announcements, scandals, bailouts and credit problems hitting the headlines almost daily.

Yet, even with the severe economic downturn, employers considering a move to LSO still have some tremendous opportunities, says Brad Everett, executive director of the human resource advisory practice at Houston-based EquaTerra.

For example, many organizations with extensive training requirements haven't deployed meaningful technologies and, therefore, have extensive labor costs tied to learning delivery. In addition, they're often dependent upon large numbers of third-party training vendors and haven't been able to aggregate these relationships to provide sound economic leverage.

Learning outsourcers can offer significant utilities that allow for a variety of methods of delivering training, maintaining programs and curriculum, and monitoring the ROI of the dollars devoted to training.

"Because of the downturn in the market, the focus is more around the provisioning of technology, which immediately reduces cost," Everett says, adding that right now, many employers are hanging back on "full-blown" learning outsourcing. By that, he means they're using both technology and expanded learning process delivery.

"If all they can afford in the short term is the provisioning of technology, this will allow for an enhanced leverage of internal resources, thereby reducing overall delivery costs," he says.

### **Not Just About Cost**

The good news from the September research study is that LSO is not only about cost reduction anymore, according to Monica Barron, Everest's vice president for research.

"The biggest surprise in our research is the strength of the industry and the excellent statistics in terms of ROI and goals LSO can achieve," Barron says, adding that, typically, HRO processes are hard to quantify when it comes to ROI, but in the case of learning, that isn't the case. Employers can identify costs up front and it's easier to see the benefits, which can go well beyond cost-cutting into improved business processes, she says.

Those benefits include access to capabilities that clients wouldn't otherwise have; the ability to transform the learning function through one or more measures, such as centralization of learning, technology consolidation and delivery transformation (from classroom to blended learning); integrating learning with other talent-management components; and, finally, a focus on strategic objectives (i.e., identifying and designing learning programs that create business impact) by greatly reducing transactional and administrative work.

"The key is aligning any LSO effort with strategic business goals," Barron says.

The LSO market is also moving to new levels, she adds, as evidenced by established suppliers expanding capabilities to include or expand LSO offerings such as curriculum design, content development, management and delivery, learning-management systems, and learning registration, among others.

According to Barron, the market will expand further as buyers become more aware of the benefits of learning outsourcing.

Other key points of the Everest LSO study include:

- \* Manufacturing, high-tech and the financial-services industries are the leading adopters of LSO.
- \* The majority of LSO buyers are companies with more than 15,000 employees with multi-country presence; therefore, about 60 percent of LSO transactions cover multiple countries.
- \* Companies are successfully outsourcing both HR-led training and development functions, as well as line function-owned learning.
- \* To date, more than two-thirds of LSO deals have originated in North America; however, demand from Europe and Asia-Pacific-based companies is rising.

\* In the majority of LSO deals, the technology component is also outsourced. Key drivers for technology bundling in LSO deals include buyer demographics, supplier strategy and learning technology advances.

\* Finally, e-learning is the most common mode among many delivery options, with most companies using a "blended" approach (a mix of classroom-based instruction and e-learning).

### **Need for Scalability**

According to American Airlines' Levine, the company conducted two years of due diligence and detailed planning before launching its major learning outsourcing project with IBM's managed business process services division.

The LSO contract covers the airline's developmental learning activities in areas such as leadership and customer service. The training- development piece "cut over" to IBM in March 2008, with the training delivery phase moving over to IBM this March.

Finally, the learning- administration piece will move to IBM during the third quarter of this year. Levine says American Airlines will continue to maintain its current learning management system, which is also being upgraded. IBM is delivering a blended-learning approach for the airline.

Apart from an improved training strategy and structure in general, American valued IBM's ability to scale up and down, depending on client needs. For example, a certain group of American Airlines employees needed a "refresher" course in a specific area in 2008, and IBM was able to put the program together very quickly -- something American Airlines could not have done using its in-house learning capabilities, says Levine.

"We're also looking right now at other areas that we would not have had the bandwidth to do ourselves," Levine says.

"IBM is providing us something strategic, but it's an interesting thin line," he says. "By that, I mean we in HR own the strategy of what to train our people, but we are looking for IBM to deliver the best way for our employees to learn it."

Regarding the current economic climate, especially within the airline industry, Levine says that, while American currently may not be in a hiring mode, it still needs to understand how to tailor its training to meet the needs and expectations of younger, more tech-savvy workers when the economy improves.

"We need to know how to convert training for that new generation of employees," he says. "IBM can help us understand the best strategies. For example, we need to learn how to use technology to do a better job."

Metrics are a critical aspect of any LSO agreement, Levine says. So far, the main metrics for American have been delivery timeliness and feedback, in the form of frequent and in-depth employee surveys.

"So far, 90 percent of our people are reporting that our new direction is effective," he says. "We believe that's the best metric we can have in the early stages."

Levine stresses that American did not outsource learning because its in-house operation was not working well. In this case, the LSO decision came down to the strategic benefits of outsourcing, primarily access to a global community of training- development resources with a variety of talent that is readily available.

Other benefits of partnering with IBM included having access to a larger instructor pool to help with unplanned, or "rush" classroom-training requests and "best-in-class" training design options for each type of training that needs to be developed, says Levine.

Levine adds that sourcing training delivery and development to a third party allows American Airlines to focus on the corporate training strategy and budget, as IBM will manage the training-administration function to improve the class-scheduling process -- resulting in better cost control once the company's LMS is upgraded later this year.

"Right up front, we sat in a room with IBM and asked them what they have done, told them our business needs and, together, we came up with a solution," he says. "We had created a shared-services HR organization in 2000, so we'd spent many years on automation. We knew we had to use data to determine whether to do a deal at all."

So far, says Levine, the decision has been the right one.

"We did not go into this deal specifically to save money," he says. Instead, the priority was for American Airlines to get a complete overview of all of its learning and determine whether it supports the company's business imperatives and, where it doesn't, take the appropriate steps to make sure that it does.

"It's a journey," Levine says. "First, you deliver the basics. Next, you start looking at adding or changing what you're doing. We are very happy where we are, and believe that we're getting exactly what we thought we would be getting."

### **Importance of Benchmarking**

James Mitnick, former senior vice president and learning leader at Turner Construction Co. in New York (and currently CEO of Pittsburgh-based Ironwood Learning, which provides learning outsourcing to small and mid-sized companies), managed Turner's seven-year transition to a partial outsourced-learning solution via ACS, one of the larger LSO providers.

In that role, he was responsible for the Turner Knowledge Network, which today includes Turner University, an online learning endeavor to improve the skills and proficiencies of Turner employees, as well as architects and subcontractors that work with the company.

Mitnick says the Everest Research data on the expected growth and direction of outsourced learning (more aligned with business strategy) is no surprise, first and foremost because the challenge in moving to an outsourced learning platform is to consider what is truly strategic, and then ensure that the employer retains control over it.

Plus, he adds, chief learning officers who are considering learning outsourcing need to be prepared to let go of the old paradigm of doing things a certain way just because that's the way it's always been done.

"The benefits will come because you are willing to let go and turn over those functions to someone who does them as part of their core capabilities," he says.

Outsourced learning forces both the client and the vendor to be very clear in the communications process, says Mitnick. Most of all, he strongly encourages chief learning officers to not go down an outsourcing path without clear executive sponsorship, including the HR leader, CFO, COO and CEO.

"As the CLO, you will not succeed in learning outsourcing without sponsorship," Mitnick says. "Typically, the CLO does not carry enough clout to make things happen. It's just too easy to get cold feet or, worse, get half-way in and then decide to get out. That can become a mess."

"Companies have to be smarter about how they do learning, so they need vendors who are more like trusted advisers," he adds.

Scott Lever, a U.S.-based managing consultant with PA Consulting Group, a management consultancy headquartered in London, works with clients who are evaluating learning outsourcing and selecting an outside provider to deliver learning management. When it comes to deciding whether or not you really need to go the learning-outsourcing route, he says, benchmarking is critical.

"Employers must conduct a reasonably detailed inventory of learning-service processes, which should then be performance benchmarked against the market," he says. Examples of performance benchmarks include data from a consultant's other comparable clients, benchmarking data from firms that collect and sell such data, and professional societies and industry-specific organizations where that type of data is collected cooperatively.

As is the case with American Airlines, Lever says, if an employer has a well-performing LMS, it shouldn't change that specific technology.

Also, if an employer operates across a variety of geographic regions, any LSO supplier should have adequate presence and capability in key locations, and have the local experience of scaling up or down based on demand -- something that may be difficult for an in-house learning organization to achieve.

"It's smart to be careful, because it's a big investment," Lever says, adding that employers need to figure out what they need and suppliers need to understand what's viable and must be able to adjust their delivery model should circumstances change.

Finally, managing expectation is another critical success factor.

"There can be a mismatch between client expectations and what the vendor wants to provide," he says. In many cases, he adds, a client wants to offload low-value activities and keep the strategic part, the "higher level" learning.

The service provider might take an opposing view: They are willing to absorb the learning administration, but they make their margins by selling and delivering those higher-level services. "As is the case with any business-process outsourcing agreement, it's very important that folks on both sides articulate what it is they are trying to achieve," says Lever. "You need to have that plan in place to end up with the best results."

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