Executive Summary

IT outsourcing typically leads to a readjustment in terms of size, roles, and responsibilities of IT employees in client firms, referred to here as IT resizing. In this study, we focused on the usage of three common approaches to resizing—downsizing (layoffs), outplacement (transferring employees to a vendor), and inplacement (internal transfer)—and the impacts of these approaches on retained IT workers. We apply the concept of “psychological contracts” to highlight the issues that arise in executing these three approaches. Based on our study of 12 firms, we provide guidelines for IT managers to help them not only achieve their IT resizing goals, but to restore and renew their psychological contracts with their retained IT employees.

CHALLENGES OF OUTSOURCING-DRIVEN IT RESIZING

IT outsourcing has increased enormously in recent years, resulting in organizational readjustment in terms of size, roles, and responsibilities of the in-house IT workforce. Companies engaging in IT outsourcing often downsize their IT workforce and reskill their internal IT personnel to take on new roles and tasks in the changed IT organization. We refer to these efforts as IT resizing—organizational repositioning and readjustment of the roles and size of the internal IT workforce. IT resizing efforts could range from a simple redesign of the IT organizational structure to drastic changes involving downsizing and a complete overhaul of IT personnel.

Managing IT resizing in response to outsourcing poses significant challenges to most companies. Depending on the extent and nature of the resizing, the resulting changes could lead to low morale, resentment, retribution, anxiety, and even poor performance among the retained IT workforce. In some instances, the retained employees do not have adequate clarity about their new roles and new work responsibilities. In other cases, they do not have the tools, authority, or incentives to perform in the ways required by the process changes accompanying outsourcing. Moreover, resistance to change is common. Unless IT resizing resulting from outsourcing is handled effectively, it could lead to increased stress, loss of trust, and reduced commitment among retained IT employees.

CIOs and senior IT executives need to pay more attention to IT workforce issues that arise from outsourcing for several reasons. When resizing the IT workforce, managing
knowledge and sustaining internal capabilities become more challenging.\(^5\) Resizing could lead to potential loss of valuable expertise, generating the need for significant retraining and retooling of retained IT personnel.\(^6\) In addition, successfully blending external contractors with internal IT workers requires considerable time and effort. Resizing could also impede learning and innovation as it breaks informal social ties that have been built by IT personnel over many years.

Ignoring these IT workforce issues could lead to a gradual erosion of internal IT capabilities, loss of valuable tacit knowledge, and can even render the IT function obsolete or ineffective in the long term.\(^7\) Therefore CIOs and senior executives need to carefully balance their outsourcing plans and managing the changes to the internal IT workforce. In this article, we focus on two questions:

- How do organizations resize their IT workforce in response to large-scale IT outsourcing efforts?
- How can CIOs and senior executives effectively manage the IT workforce changes and challenges induced by outsourcing?

Between 2006 and 2009, we carried out extensive fieldwork with 12 companies, conducting multiple interviews and analyzing their varied approaches to managing the transition of the IT workforce when they engage in large IT outsourcing deals. We interviewed key IT, business, and HR executives in these firms and tracked their experiences in IT resizing (see the Appendix for more details about the firms, their resizing programs, their perceptions of the change management processes used by the organization, the outcomes of IT resizing, and their own feelings about IT resizing activities. Our analysis of these experiences indicates an evolving set of change management approaches that is coalescing into a body of best practices as IT outsourcing matures.

To better understand the issues involved in IT resizing, we build on the concept of “psychological contracts,” which is described in the next section. We then show how these contracts play a vital role when IT resizing programs are implemented. Next, we describe three common IT resizing tactics that firms use when undertaking large-scale IT outsourcing efforts. The article concludes with lessons learned and best practices for IT resizing, based on the experiences of organizations we studied.

**PSYCHOLOGICAL CONTRACTS**

The concept of a psychological contract is used to describe an employee’s relationship with his or her employer. It refers to employees’ perceptions of what they owe their employers and what their employers owe them.\(^8\) Formal employment contracts list the specific terms of the employer-employee relationship and govern the exchange of time, expertise, and energy for salaries, incentives, and benefits. Psychological contracts, though, represent the implicit, unwritten, and informal expectations that are developed by employees. When employees join a company, they make an unwritten psychological contract with the organization, which characterizes their psychological involvement in terms of their contributions and expectations.

IT workers implicitly agree to give a certain amount of loyalty, creativity, and extra effort, but in return, they expect more than mere economic rewards from the organization. They seek job security, fair treatment, cordial relationships with colleagues, individual growth, and organizational support in realizing their career goals. Therefore psychological contracts are best viewed as voluntary actions that IT workers (or their employers) take with the belief that the other party will reciprocate. For instance, if an IT worker provides extra, after-hours work to meet a project deadline, there is an expectation that the other party will recognize and adequately respond with some kind of reward. Such expectations about mutual obligations typically develop from promises or assurances made during the recruitment process, employees’ interpretations of past experiences, or experience of co-workers in similar situations.

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Psychological contracts play an important role in IT employee-employer relationships when companies embark on IT outsourcing. Violations of psychological contracts occur when an IT worker perceives that the employer has failed to fulfill its obligations. Most violations typically involve reneging on promises or a disconnect between IT employee expectations and organizational actions.

Many CIOs, under pressure to cut costs and make drastic changes, have outsourced at least part of their IT function. Such outsourcing arrangements tend to alter employment relationships and the psychological contracts that underlie them, ultimately leading to potential violations of psychological contracts. Typically, there are two types of impacts from psychological contract violations. The first is a negative effect on employee attitudes. Psychological contract violations could generate insecurity, dissatisfaction, and poor organizational commitment, and cause employees to start looking for other jobs. The second is performance related, where violations result in poor output and inferior work. IT workers, who tend to have high growth needs, are likely to exhibit stronger psychological responses and feelings of psychological contract violations.

Therefore CIOs need to be aware of their employees’ unwritten psychological contracts and the potential violations that can occur when they undertake IT resizing programs in response to outsourcing initiatives.

### THREE IT RESIZING APPROACHES

Insights from our field work suggest that there are three broad approaches that a company could follow when resizing its IT workforce in response to outsourcing: **downsizing**, **outplacement**, and **inplacement**. All three were common, although there were some differences in the specific manner in which companies implemented each approach. We also found that organizations tend to use the three approaches in combination, though the extent to which each is used varies, depending on the organizational context.

**Downsizing** is where a company terminates the employment of selected IT personnel. Also known as retrenchment or layoffs, it is a common approach that firms pursue when outsourcing their IT activities. Downsizing results in a reduction in the IT workforce that directly translates into immediate decreased IT costs to the organization. Firms use layoffs to reduce IT headcount and IT labor expenses, thus paving the way for immediate savings from outsourcing.

**Outplacement** involves selected IT personnel being transferred to an external party such as an outsourcing vendor. While these employees are absorbed by the vendor, they are often (though not always) placed back at the client firm as contractors. Firms engaging in IT outsourcing could transfer their internal IT staff to an external third party and require that they continue to work on the firm’s projects. Outplacement offers a way for firms to preserve their organizational knowledge while simultaneously reaping the economic rewards of outsourcing.

Outplacement can be viewed as a part of employment externalization strategies used by organizations. These strategies involve the use of part-time, temporary, and casual staff, and fixed-term contract arrangements and are typically pursued to increase labor flexibility.

**Inplacement** occurs when the organization retains the existing employees and reassigns them to other roles within the firm. These roles could be within the IT function, or in other functions or business units. In many cases, such workers would need some retooling or training to take up their new roles. Inplacement redeploy critical IT human assets to other areas of the organization, rather than losing them completely. Firms can re-use the expertise and knowledge of the employees and, in human terms, inplacement is seen as less disruptive than the other two resizing approaches.

### HOW IT RESIZING AFFECTS RETAINED IT WORKERS

Regardless of the specific IT resizing approach adopted, IT resizing generates psychological contract violations typically involve reneging on promises or a disconnect between IT employee expectations and organizational actions.
violations. These violations often demoralize those employees who are retained in the organization’s IT function and create a sense of uncertainty that compromises worker engagement, loyalty, and, ultimately, their job performance. However, the nature of the impacts will depend on the specific resizing approaches adopted as well as the transition-management practices that the firm followed in moving to IT outsourcing. Retained IT workers pay great attention to how the organization treats the displaced employees. This, in turn, influences their psychological reactions to IT resizing. The more that retained workers perceive negative implications from the IT resizing approach, the greater the likelihood of psychological contract violations. Therefore, it is important to ensure that the retained workforce is fully aware of the assistance offered to displaced employees.

Impact of Downsizing on Retained Employees

In the companies we interviewed, the promised payoffs from IT worker layoffs have been quite mixed. Although labor costs were reduced, downsizing can have profound psychological impacts on the retained IT workforce. From a retained IT worker’s perspective, the company has reneged on its obligation to provide continued employment and benefits to its employees. These workers perceive their employer as having made a “purposeful” breach of the psychological contract and respond accordingly.

Research suggests that retained employees experience “survivor’s syndrome”—a set of emotions, behaviors, and attitudes displayed by surviving personnel—that can result in poor performance. Several studies have shown that survivors often exhibit resistance to change, fear, withdrawal, and paralysis due to increased cynicism and burnout as their workload increases and their department shrinks in size.

Some IT managers we talked to reported that layoffs have had a negative effect on their subordinates’ productivity, morale, and overall commitment to the organization. Retained IT workers feel a heightened sense of anxiety because of an increased workload, change in duties, and the possibility that they could be let go soon. The following quotation from one of our interviews demonstrates the survivor syndrome and increased workload among the retained IT staff:

“You felt like you were lucky to be one of the people who remained, but it was extremely stressful wondering what was going to happen next. The colleagues who worked with you are now gone, and you’ve got to pick up their work load.” (Software developer, Company 8)

In addition to anxiety, uncertainty, and stress, retained IT employees commonly start looking for other jobs, as confirmed by other research studies on downsizing and our interviewees:

“I feel very anxious. I don’t feel very secure in what I am doing. And I have to keep proving myself over and over again here. I will start looking out for other jobs.” (Business analyst, Company 7)

Participants in our research also indicated that their employers expect more and more from them after downsizing. They complained of additional workload, long work hours, and more stringent deadlines. IT organizations that downsize their IT workforce when they outsource may act forcefully to increase work pressure on retained workers, perhaps to maintain the level and quality of IT services. However, senior IT executives should bear in mind that the continued viability of the IT unit often rests on the competence and dedication of the retained IT employees to meet the job demands and prepare their IT organization for the future.

Effective CIOs must move quickly to rebuild the psychological commitment of the retained staff and to sustain their productivity levels. We observed some interesting practices that firms followed when downsizing their IT workers, many of which helped rebuild the ruptured psychological contracts of the retained IT workforce. Many executives we talked to emphasized the importance of detailed planning and executing the layoffs in a single round, rather than multiple waves or stages, so that employees can quickly deal with and begin accepting the changes. Repeated waves of incremental layoffs prolong the negative effects and mean that retained IT workers take longer to adjust. Our guidelines for managing downsizing are listed in Figure 1.


Life After IT Outsourcing: Lessons Learned from Resizing the IT Workforce

Impact of Outplacement on Retained Employees

When a firm outsources some of its IT operations, outplacement seems an attractive approach to resizing because it enables the firm to freeze or reduce its permanent IT headcount and re-hire the displaced employees as contractors. The firm will no longer have to pay social security, healthcare, and other benefits that regular IT staff are entitled to—benefits that typically amount to more than a third of total IT personnel costs. However, the outplacement approach to resizing is especially challenging as it raises issues that extend beyond psychological contract concerns. Outplacement tends to create an invisible two-tier workforce structure of “insiders” and “outsiders.” This invisible structure disrupts how IT personnel from the client and outsourcing vendor interact, engage, and coordinate work with each other. However, strong working relationships, as well as social networks across the two-tiers, are critical to outsourcing success.

Our fieldwork revealed several challenges that retained IT staff face in working with contractors who were former colleagues. First, retained IT workers are often puzzled by the dual identities of outplaced personnel. The altered nature of their employment means that outplaced employees simultaneously straddle two organizations—the vendor and client firm—that have different cultures, employment structures, and work arrangements. As outplaced workers have multilayered roles and reporting relationships, their professional identities get stretched and reshaped. This “dual identity” creates ambiguities on the nature of the ties between retained and outplaced IT workers. As an interviewee commented,

“...The person who used to sit right next to me didn't belong here anymore, but I had to continue to work with him. He was the same person, but he now wears a contractor's hat. So our relationship changed all of a sudden. It was very awkward.” (Project manager, Company 1)

Second, outplacement also places considerable constraints on the formal work arrangements and expectations of retained IT employees. The nature of work performed by outplaced contractors is largely governed by the service contract between the firm and the IT outsourcing vendor. Retained IT personnel may not be able to exercise any flexibility on the tasks assigned to outplaced workers as before. However, they might continue to have the same expectations

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15 It should be noted that terms of employee transfers might be subject to government regulations that widely differ across the globe. For instance, the U.K.’s Transfer of Undertakings (Protection of Employment) Act protects an employee’s employment contract. Based on this directive, IT workers who are transferred to an external vendor as a part of an outsourcing agreement have to be provided with the same or comparable employment terms and benefits as their former employer.

16 An interesting case study explaining the importance of stronger social ties between internal IT employees and contractors is presented in Rottman, J. W. and Lacity, M. “A U.S. Client’s learning from outsourcing IT work offshore,” Information Systems Frontiers (10:2), 2008, pp. 259-274.
Third, in addition to formal relationships, the social ties between retained and outplaced employees suffer. As we observed in our fieldwork, in some instances, retained IT workers distance themselves from outplaced staff. Often, outplaced workers get left out of the informal groups and social networks they used to be a part of. In some cases, outplaced workers did not enjoy the same benefits (e.g., use of company cafeteria or discount coupons for the company’s products) that they enjoyed as employees, further distancing them from their co-workers. Two outplaced workers shared their experiences:

“As a contractor now, I have to stop at the desk every single day and sign in and sign out. I have to sign out every time I leave the building, even if it is only going to the car. In the holiday season, there are parties and everyone is invited … except the contractors.” (Network engineer, Company 11)

“You are out of the group … Period. So you don’t go to group parties, happy hours, or luncheons [any] more.” (Application specialist, Company 3)

Such disruptions of social ties increase the emotional distance between the retained and outplaced personnel, generate day-to-day frictions, and create an undercurrent of discomfort and stress for both parties, corroding the work atmosphere in the IT organization.

Sometimes, outplacement also leads to unhealthy competition among retained and outplaced IT workers. They start viewing each other as rivals rather than as co-workers striving to reach the same project goals. One IT manager who had lead a team with both retained and outplaced workers recollected how he felt in the first few weeks after outplacement:

“It was as if there were two groups fighting with each other. There was a lot of paranoia and backbiting. Everyone wants to score at the other’s expense. It was driving me nuts.” (Project manager, Company 1)

Additional issues arise when outplacement creates significant disparities in pay and other benefits between retained and outplaced IT workers. These issues distance retained employees further from outplaced workers. Another fallout is the uncertainty that sets in about the continuity of outplaced workers. In one company we researched, retained IT workers viewed outplaced workers as “temps” as they were unsure of their continuity with the vendor. One of our interviewees said:

“I think a lot of us freaked out because if the vendor decided one day to stop working with the company ... the vendor could pull [the outplaced staff] off the contract.” (Project manager, Company 12)

To mitigate the challenges raised by outplacement, CIOs and senior executives need to engage in detailed planning. While many of our interviewees cautioned against downsizing in stages, they favored implementing outplacement in multiple phases. Their rationale was to make outplacement a gradual and slow process so as to avoid abrupt shifts in the nature of ties between retained and outplaced IT workers. Capitalizing on pre-existing relationships among IT personnel from internal and outplaced groups helps ensure continued smooth operations in the IT organization. Figure 2 provides our guidelines for managing outplacement.

**Impact of Inplacement on Retained Employees**

Our research suggests that, of the three approaches to resizing, inplacement generates the least psychological contract violations in retained IT workers, because they perceive that the company has upheld its employment contract, albeit with altered conditions. Inplacement provides ongoing employment with the company and, in some cases, might provide opportunities for career advancement and a chance to gain new skills. Moreover, inplacement can help in developing cross-functional expertise and cross-pollination of IT-business ideas.

Even so, IT organizations that choose to inplace IT employees affected by outsourcing face some significant challenges. For example, employees may have to move from an existing and comfortable relationship with their current supervisor to a relatively uncertain relationship with a new supervisor. The impact of inplacement on retained IT workers depends largely on the nature of the moves. IT employees, whose expertise is largely technical,
may not be a good fit with other functions in the company. A key fallout of this type of inplacement situation is loss of trust of retained IT workers, if they perceive the transfer of their colleagues to be unfair.

Inplacement might also make retained IT workers feel less valuable in their current department or feel uncertain about their future career path and position within the company. Conversely, transferring IT workers to non-IT units could also create a new pecking order. Retained IT employees may feel superior to those who were moved out and the former IT workers, despite their technical expertise, may feel inferior to their new co-workers who have more functional expertise. One of our interviewees recollected her feelings for an inplaced colleague:

“Though he wasn’t fired, I feel sorry for him as he is now like a second-class citizen there. He knows networks, databases, and software. What will he do in purchasing?” (Data specialist, Company 10)

IT work is knowledge-intensive and interdependent, and IT workers seldom work on their own to accomplish their work objectives. They rely on co-workers, users, and external parties. When an IT worker is moved to other departments or units, it may not necessarily preserve the worker’s knowledge for the business because the new pecking order could rupture the social ties between IT workers and lead to knowledge loss. Though one of the primary motives behind inplacement is to retain the knowledge of inplaced IT workers, they may not be willing to cooperate with the retained employees due to the “social distance” generated by inplacement. A project manager recalled his experiences with an inplaced colleague:

“She doesn’t want to help us anymore ... She feels she got a raw deal in this outsourcing. We all could retain our roles whereas she was moved out [inplaced].” (Project manager, Company 2)

How inplacement is executed when a firm outsources is another factor that determines its consequences. In some companies we studied, IT workers were forcefully reassigned to other units or roles within the firm. In others, they were asked to apply for other roles or positions within the organization with some assurance that internal candidates would be preferred over external applicants. Like outplacement, huge disparities in pay and benefits between inplaced and retained IT workers could also create resentment among the retained employees.

We offer our suggestions for dealing with inplacement challenges in Figure 3.

**SIX LESSONS FOR EFFECTIVELY MANAGING IT RESIZING**

Regardless of the specific approach(es) used, IT resizing ruptures the psychological contract of the retained IT workers. CIOs need to actively work on renewing the psychological contract with the retained
IT workforce through effective transition-management practices to minimize the negative effects of IT resizing. We have provided the above guidelines for managing each IT resizing approach independently. From those guidelines, and from the experiences of the firms we studied, we now offer six key lessons common for all three resizing approaches to managing IT resizing.

Lesson 1: Adopt a People-Centric Approach to IT Outsourcing

Any major IT outsourcing program creates people issues. Roles will be changed, new team configurations will have to be devised, new skills and capabilities must be developed, and many IT employees will be outright resistant. Dealing with resizing issues on a reactive basis puts the entire IT organization at risk. A proactive, formal approach for managing the IT workforce transition—beginning with the IT leadership and then engaging key stakeholders—should be developed early on.\(^{18}\)

Resizing the IT workforce must be an integral component of the overall IT outsourcing strategy. Although it is commonly accepted that IT workers lie at the heart of any IT organization, their needs can be lost in the deluge of contracts, requests for proposal, and service-level agreements that are part and parcel of the IT outsourcing process. IT leaders need to invest considerable time and effort in planning for their resized IT workforce. By doing so, companies can plan for and actively manage the IT workforce through IT resizing while reducing the potential negative reactions.

In one of the companies we studied, a detailed assessment of the IT workforce’s skills was carried out even before the company had chosen an external vendor. The company prepared a talent-matrix listing the skills and capabilities of its IT workers. In addition to technical proficiency, the matrix included productivity parameters related to an individual’s on-the-job performance and several “soft” parameters, such as the ties an employee had with users, functional expertise, and versatility in handling a variety of projects. The matrix also recorded details of discussions with employees, which helped the firm get an idea about their expectations, feelings about their work and current roles, their career goals, and their “marketability” outside the firm.

\(^{18}\) When planning IT outsourcing, workforce management is typically not given the same attention as drafting the contract or choosing the right vendor. Ignoring people issues during outsourcing has been cited as an important reason for failure of several outsourcing deals. See Robinson, M. and Equa Terra, P. “An Ounce of Prevention: Guarding Against IT Outsourcing Failure,” CIO Magazine, June 19, 2007.
The information in the talent matrix was subsequently used for making decisions on whom to lay off, transfer, or retain. Senior management examined individual employee information in the matrix as well as took a holistic view of the characteristics and expectations demonstrated by teams of employees. The team-level information was also used to determine the type and extent of change management that would be needed to manage employees through the IT resizing process.

**Lesson 2: Stay Engaged; Don’t Delegate to HR**

Many CIOs leave the planning and execution of resizing to the HR department, which may lack intimate knowledge of IT workers. Such delegation is understandable because an IT executive may be uncomfortable with laying off his or her employees, or reshuffling them. A CIO who had to lay off a portion of his staff remarked:

“I didn’t want to be the guy carrying the bad news. I have worked with these guys for 10 years ... This was one of worst times of my career. It was only natural for our HR to take over and get this done.” (CIO, Company 2)

Since any resizing program will be inherently unsettling for the IT workers, they will turn to the CIO and senior IT executives for information, explanations, strength, support, and direction. If senior IT leaders don’t directly engage themselves in the resizing process, it can only magnify the psychological barriers and further distance the employees emotionally. An unhappy respondent remarked:

“One of the things I felt during all of this [resizing] was that management became very hands off in our day-to-day lives and activities.” (Business analyst, Company 7)

**Lesson 3: Provide Advance and Ongoing Direct Communications**

It is essential that CIOs honestly and directly communicate to their IT staff the reasons for outsourcing, the resizing plans, and the assistance that will be available both for affected employees and for retained IT workers.\(^\text{19}\) Providing advance information on resizing helps IT workers adjust and develop coping mechanisms, as one respondent elaborated:

“I’ve seen instances where someone is suddenly called into a meeting and asked to leave the company. I’ve seen that happen, and it’s not pretty, because that approach instills more of a fear than anything else, which then leads to people not doing the best job that they can do. People will feel betrayed. That’s not a good situation to be in. But I thought the company that I work for actually handled it pretty well.” (Project manager, Company 4)

The CIO of one of the retailing companies in our study held multiple town hall meetings to explain the company’s rationale and plans, in addition to having one-on-one meetings with each IT employee who was to be displaced as the result of outsourcing. Retained IT workers appreciate open, frank, and frequent communication that provides them with clarity on the situation.

“[We had an] initial group session where [the outsourcing and other changes] was all spelled out; immediately after that, in our own staff meetings, there was a question-and-answer session.” (VP-IT, Company 1)

**Lesson 4: Treat Everyone Fairly**

Retained IT staff will judge a company’s interactions with them according to how fairly the firm treats those who were affected by resizing. Other research studies,\(^\text{20}\) as well as our fieldwork, suggest that retained IT staff will react more favorably to resizing if they perceive the resizing actions to be justifiable. If retained employees are not convinced about the reasons for outsourcing and resizing, and if they are unhappy about the manner in which resizing was actually carried out, they will find it difficult to contain their emotional distress and remain productive. To rebuild the psychological contracts between retained IT workers and the organization, it is important that the breach of psychological

\(^{19}\) HR management literature has extensively documented the importance of open and direct communication during major restructuring initiatives. See, for example Cameron, K. S., Freeman, S. J., and Mishra, A. K. “Best practices in white collar downsizing: managing contradictions,” *Academy of Management Executive* (5), 1991, pp. 57-73; and Mishra, K. E., Spreitzer, G. M., and Mishra, A. K. “Preserving employee morale during downsizing,” *Sloan Management Review* (39), 1998, pp. 83-95. However, these prescriptions have not been adequately followed in several IT outsourcing programs.

contracts between displaced IT workers and the firm be perceived as just and fair. One of our interviewees observed:

“You expect to be treated with dignity. And expect to be evaluated based on merit. Expect an open line of communication. Expect truthfulness and honesty in that communication.” (Project manager, Company 5)

Lesson 5: Devise Support Systems for Both Displaced and Retained IT Workers

Organizations engaging in outsourcing and resizing (regardless of the specific resizing approach or approaches) need to implement support systems and incentive mechanisms for both displaced and retained IT workers. Many firms that downsize their IT workforces typically offer severance pay, career counseling, and placement services to find other jobs. These activities are important for retained employees as well, because they show that the company is providing support for the employees who are being laid off. Managers who do not treat their departing employees with dignity and respect run the risk of being viewed as unfair by the retained employees. Similarly, organizations should provide support services to employees who are outplaced to external vendors.

In addition to supporting laid off and outplaced workers, firms need to pay a great deal of attention to retraining and retooling inplaced IT workers. It is important to remember that, although employees who are moved to other areas remain with the company, they have also been displaced from their former jobs. Firms need to ensure that inplaced workers’ new roles fit well with their career goals and aspirations. Care must also be taken to ensure that the transferred staff gets comparable pay and benefits in their new positions. Retained IT workers, who stay in their original positions but observe the treatment of inplaced workers, will again judge the organization according to its treatment of their former IT colleagues.

When retained IT workers see that the organization treats laid off, outplaced, and inplaced workers with fairness, dignity, and respect, their perceptions of the resizing will be positively influenced. This is an important first step toward rebuilding or maintaining the psychological contract with retained workers. As a second step, organizations must remember to provide as much support during the transition to the retained workers as is given to the displaced workers. For retained IT workers, support systems in the form of open forums, counseling sessions, and opportunities to interact and have a dialogue with senior management will go a long way in alleviating the fears and apprehensions generated by IT resizing.

Lesson 6: Don’t Underestimate Outplacement Impacts and Support Needs

Our interviews revealed that firms expend considerable energies on supporting laid off or inplaced IT workers but do not provide adequate transition management for outplaced workers. This can be dangerous because poorly managed outplacement can harm the company as it will have to depend on cordial relationships between retained and outplaced IT workers for future projects. Outplacement can create role ambiguity and widen the psychological boundaries between retained IT workers and their former colleagues. Many outsourcing projects fail because, like oil and water, these two groups don’t mix—they co-exist without real communication or mutual understanding and respect. A direct result is a dysfunctional team with poor relationships.

Before bringing outplaced employees back as contractors, CIOs should ensure that they clearly and unambiguously communicate the roles and responsibilities of the outplaced personnel. Clearly communicating the job and performance expectations of outplaced workers to them and to retained workers will go a long way toward balancing the expectations of both groups and ensuring they co-operate. In one of the companies we studied, tensions built between outplaced and retained IT staff because of a mismatch of expectations. Sensing the problem, the IT director stepped in to issue a clear notification of team roles and responsibilities, which helped frame more realistic expectations from contractors.

One of the financial services companies we studied took several steps to ensure retained and outplaced IT workers were united in a common purpose and respected each other’s abilities to work toward that purpose. As a part of its outsourcing agreement, it ensured that the job status, salaries, and benefits of outplaced employees were on par with what they were before they were transferred to the vendor. It also discussed preserving the outplaced employees’ seniority and ensuring a steady career path in the vendor organization. Further, the company decided
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to continue providing certain organization-specific benefits to outplaced employees, including performance bonuses and employee awards, in an effort to make them “feel a part of the parent company.”

CONCLUSION

As economies around the world continue to face financial strains, outsourcing and IT resizing assume additional importance. To exploit the potential of the changing IT workforce, CIOs have to carefully plan and execute their resizing programs.

IT resizing is both an organizational journey and an individual one. IT workers need to know how their lives will be affected, what is expected of them, how they will be assessed, and how the firm is planning to carry out its resizing program. CIOs should take a lead role and be as honest and explicit as possible. IT workers will react to, and be influenced by, what they see and hear, and they need to be informed and involved in the entire process. With heightened unemployment, IT workers face psychological pressures to not only adapt to changed work conditions but also to excel in their newly assigned roles.

Companies whose CIOs fail to prioritize IT workforce management in their resizing programs may end up either experiencing a steady attrition of IT talent or be left with a demoralized IT group that is dysfunctional. Following the guidelines set out in this article will help CIOs avoid that fate.

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<th>Appendino: Profile of Firms Studied</th>
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<td><strong>Firm Profile</strong></td>
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<tr>
<td><strong>Company 1:</strong> Retail organization with nationwide stores that sell a range of products</td>
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<tr>
<td><strong>Company 2:</strong> Global retailer of high-end luxury items</td>
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<td><strong>Company 3:</strong> Hardware retail company with stores across the U.S.</td>
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<td><strong>Company 4:</strong> Provider of banking and other financial services</td>
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### Appendix: Profile of Firms Studied (cont.)

<table>
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<tr>
<th>Firm Profile</th>
<th>Outsourcing Initiatives</th>
<th>Total IT workforce prior to outsourcing/ Number displaced by resizing</th>
<th>Percentage of displaced IT workforce who were:</th>
<th></th>
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<th>Interviewees</th>
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<tbody>
<tr>
<td><strong>Company 5:</strong> A large, multinational property and casualty insurance company with a network of agents and subsidiaries</td>
<td>1. Application development and maintenance of back-office systems</td>
<td>3,500/108</td>
<td>-</td>
<td>-</td>
<td>7%</td>
<td>Data designer, Project coordinator</td>
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<td>2. Multi-year, IT infrastructure outsourcing arrangement</td>
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<td>93%</td>
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<tr>
<td><strong>Company 6:</strong> Multinational bank</td>
<td>Application development and maintenance</td>
<td>750/95</td>
<td>42%</td>
<td>53%</td>
<td>5%</td>
<td>VP-IT, HR-IT, Application analyst</td>
<td></td>
</tr>
<tr>
<td><strong>Company 7:</strong> Global provider of risk management and reinsurance services</td>
<td>Application development, maintenance of back-office systems, and technical support</td>
<td>260/85</td>
<td>59%</td>
<td>12%</td>
<td>29%</td>
<td>Business analyst</td>
<td></td>
</tr>
<tr>
<td><strong>Company 8:</strong> Property and casualty insurance company</td>
<td>Systems monitoring and support</td>
<td>90/15</td>
<td>66%</td>
<td>-</td>
<td>34%</td>
<td>Software developer, Workforce manager</td>
<td></td>
</tr>
<tr>
<td><strong>Company 9:</strong> Global provider of consumer packaged goods</td>
<td>Multi-year, IT infrastructure/business process outsourcing arrangement</td>
<td>1,100/600</td>
<td>-</td>
<td>100%</td>
<td>-</td>
<td>IT manager</td>
<td></td>
</tr>
<tr>
<td><strong>Company 10:</strong> Fast-moving consumer goods company</td>
<td>1. ERP customization and maintenance</td>
<td>350/80</td>
<td>25%</td>
<td>12.5%</td>
<td>12.5%</td>
<td>IT director, HR manager, Data specialist</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Technical support for mainframe applications</td>
<td></td>
<td>12.5%</td>
<td>37.5%</td>
<td></td>
<td>IT director, Systems support executive</td>
<td></td>
</tr>
</tbody>
</table>
### Appendix: Profile of Firms Studied (cont.)

<table>
<thead>
<tr>
<th>Firm Profile</th>
<th>Outsourcing Initiatives</th>
<th>Total IT workforce prior to outsourcing/ Number displaced by resizing</th>
<th>Percentage of displaced IT workforce who were:</th>
<th>Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Laid off</td>
<td>Outplaced</td>
</tr>
<tr>
<td><strong>Company 11: A large airline that operates flights in U.S. and abroad</strong></td>
<td>1. Application development and maintenance of back-office systems</td>
<td>2,200/302</td>
<td>63%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2. Systems maintenance and technical support</td>
<td></td>
<td>7%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Company 12: Manufacturer of drugs and healthcare products</strong></td>
<td>Application maintenance and support</td>
<td>470/40</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

### ABOUT THE AUTHORS

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C. Ranganathan (ranga@uic.edu) researches and teaches at the Department of Information and Decision Sciences, University of Illinois at Chicago. His current interests include IT outsourcing, strategic management of information systems, healthcare IT, and business value of IT investments. His research has appeared in several journals and conference proceedings. He is the winner of the Best Doctoral Dissertation Award and the Best Teaching Case Award at the International Conference on Information Systems, and he is also a three-time award winner of SIM’s Paper Awards Competition. He holds a doctorate from the Indian Institute of Management, Ahmedabad, and a master’s degree from BITS, Pilani, India.

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