



2011 WINNING CASE STUDY  
Outsourcing  
Ernst & Young with the National Grid



## Executive Summary

Major energy company National Grid is on track to achieve year-on-year cost reductions of 20% in the back office services area through outsourcing parts of an existing shared service centre. Ernst & Young (EY) helped to design the approach and worked alongside National Grid to manage the initial stages of the transition. The consultants also transferred relevant skills to National Grid's own staff so that they could complete the outsourcing process (and comparable future programmes) themselves.

This project carried a high level of operational and commercial risk, and had to succeed within the announced time-frame. The joint team met National Grid's objectives by creating a highly controlled, tightly measured transition process, and by working with stakeholders to avoid misunderstandings about what had to be done when. Change was sensitively communicated, and progress made transparent. Other challenges overcome included the need to ensure smooth collaboration with offshore resources and to enlist the co-operation of people whose jobs would no longer exist in the new organisation.

National Grid and EY worked together seamlessly, with indispensable contributions from both sides. 'National Grid's commitment to this change, as demonstrated by the speed at which its people engaged and delivered the programme, was extraordinary,' says EY Programme Manager Kunjal Haria.

*"We could not have succeeded without EY's experience of, and insights into, large-scale back-office outsourcing programmes. Even more important, though, was the consultants' willingness and ability to transfer that knowledge to our own staff,"* comments Kevin Leadbetter, National Grid Programme Lead.

## Project and approach

National Grid, one of the world's largest investor-owned energy companies, plays a vital role in delivering gas and electricity across Great Britain and the north-eastern US. It owns the high-voltage electricity transmission network in England and Wales and operates the system across Great Britain. It also owns and operates Britain's high pressure gas transmission system.

### The client challenge

National Grid already had a well-established shared service centre supporting the back office processes of its UK operation. As part of a continuing shared services transformation journey, it wanted to improve this arrangement further, reducing costs and maintaining or improving service.

## Objectives & solutions

National Grid believed that its needs could be met in part by outsourcing aspects of the existing shared service centre. Overall objectives were to:

- Deliver a sustainable cost reduction of a fifth of shared services costs by reducing onshore headcount by approximately two-thirds
- Provide a basis for continuous improvement in cost and quality by doing the same work with less resources
- Ensure services could scale to support future growth
- Deliver high-quality services to the organisation's internal and external stakeholders
- Allow benchmarking against other high-performing organisations, targeting the upper quartile
- Manage these major changes collaboratively and seamlessly

This was a flagship project, designed to set an example to other parts of the company. In addition it had high union visibility.

National Grid realised it needed an external advisor with experience of comparable finance and HR transformations and a deep understanding of how finance processes work. A team from EY was therefore engaged to work with National Grid to find the best means to deliver the required step-change in cost, performance and efficiency, manage the first stage of the transition, and equip internal staff to complete the process.

## Approach taken

The EY team validated the client's initial views on which aspects of the shared services could best be outsourced and/or offshored, drawing on external best practice as well as client objectives. Record to Report (RtR), Order to Cash (OtC), Procure to Pay (PtP) and HR were the 'towers' (process areas) identified as candidates. Within those towers, EY helped confirm which processes should best be offshored, outsourced but kept onshore, or retained inhouse.

The joint team delivered a case for change, a new operating model design and the transition itself across three phases:

- First phase: create the business case for change for each of the towers being targeted for outsourcing and/or offshoring
- Second phase: design the future Shared Services Operating Model (SSOM) and support the selection of the service provider; also support internal process improvement and performance management initiatives
- Third phase: implement the SSOM and support the internal transformation required to transition to the new model. EY would help do this for the first 'wave' (section of functionality) in each tower, and then National Grid would manage the rest of the transition itself. (For some towers there were up to three waves.)

This third phase would entail:

- Outsourcing the targeted processes to the service partner, together with significant headcount reduction
- Optimising the processes retained in-house
- Reducing headcount further by restructuring the retained organisation

# How the process was managed

Novel features of our management approach included:

**Evaluation method:** we helped National Grid to define an approach for evaluation of the bidders, to make sure the right data was collected and the right criteria were in place to choose the most suitable vendors.

**Rigorous transition:** we shaped an approach to ensure that every aspect of change was handled in a complete and orderly way: documentation of processes, training of staff, office set-up and (particularly) communication of change. This approach was fundamental to the engagement and has now been adopted by National Grid for subsequent waves of change and other major change programmes.

**Robust go/no-go criteria:** we developed an unusually specific set of stage-gate criteria for each project phase, and ran workshops to ensure everyone understood how they worked. We provided detailed written guidance about the documentation required to allow a stage-gate to be passed (e.g. sample user acceptance test plans).

The team put in place measures to pre-empt potential difficulties, e.g.:

- Taking steps to maintain service performance throughout the transition phase and through to 'steady state'
- Minimising 'grow back' of transferred roles and processes by ensuring responsibilities were clear and people were capable of their new role
- Utilising robust contract control and performance management to ensure benefits realisation
- Managing the programme's interdependencies with other change programmes

## The client/consultant relationship

One of the key success criteria for the EY team was to demonstrate a cultural fit and work as one team with the client and service provider. Part of EY's fees was based on quarterly feedback about individual team member behaviours, as assessed by their closest client counterparts. The team scored well and was regarded as an integral part of the client organisation. Senior client stakeholders said they could not tell who was from our team and who was from theirs – we even had joint leisure activities. This close relationship meant team members on both sides challenged each other's thinking, constantly asking 'have you thought about this'?

## How the skills and experience of the consultants involved were used to support the project

Skills transfer from EY to National Grid was a theme of the engagement, as the client needed to be self-sufficient in managing later waves of change. This transfer was achieved informally through joint working, and more formally through training and coaching: we ran workshops covering areas like commercial arrangements and transition approach.

The core EY team featured all the necessary skills of outsourcing, finance processes, HR processes and contracts management. EY also pulled in subject matter specialists to share

insights with National Grid: in one session, three EY practitioners shared experience of service delivery with National Grid managers, making sure they anticipated potential risks and challenges and knew how to deal with them.

## Outcomes

### Extent to which project objectives were met

The EY engagement met all its objectives and handed over control to National Grid. The company's overall transformation journey is complete.

### Challenges

#### Sensitivities to time and risk

The need for negotiation with unions, and the pending closure of one of the client sites, brought significant time challenges. Once notice dates were served, there was no going back – any slippage in transition activity would render prior communication obsolete and look like back-tracking. It was also important for National Grid to be able to put forward a successful programme as a pattern for change in other parts of the organisation.

The team addressed this challenge with a highly controlled, tightly measured transition process, incorporating detailed stage-gate criteria. EY consultants gained the trust of the supplier and ensured a common understanding of what had to be done when. January's travel embargo resulting from the Icelandic ash cloud did not help, but sufficient contingency was built into the plan to allow the transition to remain on track. The team worked well together to manage the inevitable unexpected challenges in such a complex transition.

#### Communicating change effectively

The project was required to reduce onshore shared services headcount by approximately two-thirds. The challenge was to prevent the natural effect on morale from jeopardising the project's aims.

The solution was to make communication a central part of the project, not an afterthought. EY worked with each National Grid work-stream to define a clear communication strategy. A range of communications, from letters to roadshows, ensured that staff, as well as customers and service providers, received timely information, sensitively expressed.

#### Creating a working interface between client and provider

The programme had to transfer activities from the UK to the service provider's off-shore location; unacknowledged cultural differences could have hampered this transfer. The team organised 'onboarding' initiatives to increase awareness of cultural differences and understanding of how different work styles can be integrated for a better outcome.

The service provider had to learn how to run back office processes as National Grid required. We defined an approach for managing and assessing this process, and provided training for each tower.

To ensure that the retained organisation had sufficient understanding of the contract to take on supplier management responsibilities, we worked with client staff to create a Commercial and Contract Handbook, supplemented with a training course and workshop.

## **Achieving transparent progress reporting**

On a programme of this magnitude, with so many players involved, it can be difficult to give decision-makers visibility of progress. We therefore created a formal function, separate both from the team carrying out the transition and from National Grid's steering committee, with the remit of monitoring progress and reporting readiness. EY ran this function together with National Grid initially, later handing over to in-house staff.

## **Lessons learnt**

This engagement confirmed the value of carefully-planned communication in enlisting the collaboration of stakeholders, including staff whose jobs would alter or disappear as a result of the change.

## **Measurable results**

This project has delivered:

- On-shore headcount reduction of nearly two-thirds
- A challenging business plan, providing a real, sustainable cost reduction of 20%
- Offshoring of a significant number of roles, with cost reduction built into the contract

National Grid awarded the EY team a >90% average score for behaviour (reflecting high satisfaction with EY's conformance to company culture).

## **Qualitative results**

The programme delivered an approach that was used in the EY/National Grid-led first wave and was then successfully adopted by National Grid staff for managing subsequent phases.

Deliverables which the client can re-use in other projects include:

- A robust, trackable format for business cases
- A strategy for vendor selection
- A fit-for-purpose operating model and organisation design
- A transition plan and training approach
- A contract format with transparent stage-gate monitoring, but minimal delays

## Client testimonials

“I have been impressed with the quality and level of expertise that EY have brought to the programme, the sense of urgency and ability to drive change, as well as your ability to seamlessly integrate with the team.’

‘When we were first contemplating this change, we were keen to put together a team that would drive the change with the urgency, rigour and discipline required to manage such high risks. Partnering with EY has enabled us to meet these challenges, and with their support we have met our schedules without cutting any corners. Now we have a robust approach that we can apply to future outsourcing programmes.”

**Kevin Leadbetter, National Grid Programme Lead**