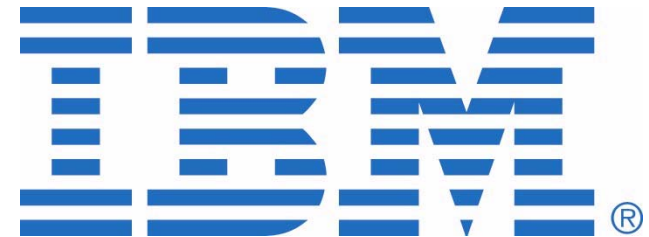


Learning Outsourcing Research Report

May 2005

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A research study conducted by ASTD in partnership with IBM

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ASTD marks its beginning in 1944 when the organization held its first annual conference. In recent years, ASTD has widened the industry's focus to connect learning and performance to measurable results, and is a sought-after voice on critical public policy issues. For more information, visit www.astd.org.

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Introduction

Background

Recently, service suppliers have been promoting learning outsourcing as a way to improve the efficiency and effectiveness of the corporate training function. Analysts (for example, IDC and SRI) see great potential for business process outsourcing (BPO) services in the learning area but caution that the market is immature and demand is still unpredictable.

Two surveys of HR outsourcing (Conference Board and Society for Human Resource Management) in 2004 estimated that only 1 or 2 percent of organizations were outsourcing the entire training function. The Conference Board survey estimated that 48 percent of organizations were outsourcing parts of their training functions, while the SHRM survey estimated that 20 percent of organizations were partially outsourcing training.

ASTD benchmarks (2004 State of the Industry Report) indicate that the percentage of learning budgets spent on external services has averaged between 25 and 35 percent in the period 2000 to 2003. However, most external training services have involved discrete short-term projects (out-tasking) rather than long-term arrangements where the provider takes responsibility for large and critical elements of the learning function.

We set out to determine the extent to which corporate learning executives are embracing the concept of outsourcing and changing the way they engage external service providers. We conducted a survey to identify learning executives' current and future perceptions and intentions with respect to outsourcing, as well as what drives their decisions.

Definitions

For the purpose of this study, outsourcing encompasses situations where

- an external services firm takes complete responsibility for, and control of, selected learning processes or activities
- an outsourcing firm *takes over* an organization's total training operation or major portions of training such as learning infrastructure, administration, or design, development, and delivery. This is a "business process outsourcing" (BPO) approach which is common in for other service areas such as IT, customer care, and HR. For example, in the HR area, many organizations outsource the payroll process.

In contrast, out-tasking refers to situations where specialist firms help with specific tasks or parts of the learning process. Out-tasking tends to be project driven and uses transactional pricing. The major difference between outsourcing and out-tasking is the level of control assumed by the service provider.

Executive Summary

- In August 2004, 174 learning executives from a wide range of organizations responded to an online survey consisting of 10 questions about learning outsourcing.
- The most pressing issue for these learning executives was establishing a link between learning and organizational performance.
- Interest in learning outsourcing increased in 26 percent of respondents' organizations in the previous year and interest will increase in 41 percent of organizations over the next two years.
- Forty-four percent of respondents were not outsourcing any of the main elements of their learning functions. However, that number will decrease to 25 percent in the future.
- Content services and technology infrastructure were the elements most frequently outsourced and will continue to be the elements considered most for outsourcing in the future.
- Only 2 percent of respondents currently outsource the entire learning function but 7 percent indicated they would consider it in the future.
- Operating cost reduction was the main driver of decisions to outsource, followed by lack of internal capability, and access to best practices and talent.
- When considering outsourcing, the characteristic of a potential provider deemed most important was the provider's knowledge of the client organization and its industry. Next in importance were ability to deliver on agreements, speed of delivery, and ability to deliver without disruption.
- The top three perceived barriers to learning outsourcing were inability of the outsourcer to meet the organization's learning requirements, loss of control of the learning function, and lack of clear ROI or value.
- Business executives (CEOs, CFOs, and COOs) were as involved as learning and HR executives in making recommendations, but were more involved in making final decisions about learning outsourcing.

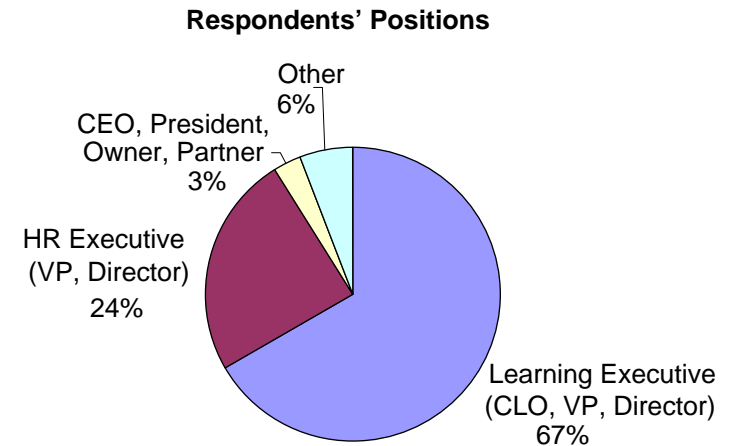
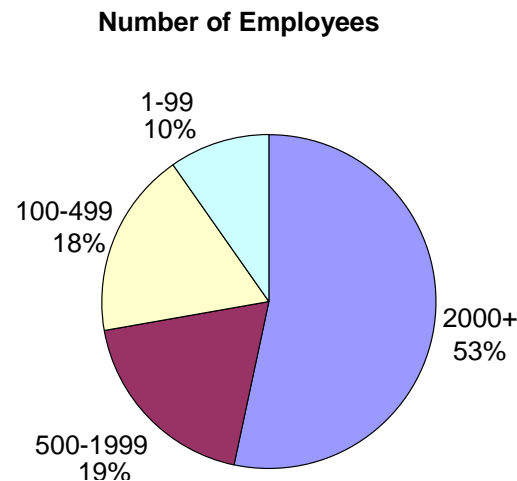
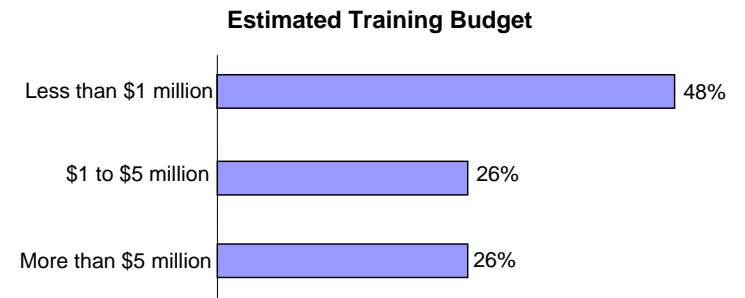
Interpretation

- Practically all organizations use external providers for some learning services, and about 30 percent of all learning budgets are spent on external services. However, according to this survey, only 56 percent of organizations have outsourcing partnerships where an external services firm takes complete responsibility for, and control of, large portions of the learning function.
- While interest in outsourcing will increase in the next few years, only 7 percent of organizations in our survey are likely to consider outsourcing the entire learning function. Outsourcing providers might be better off in the short run concentrating on services related to content (design, development, and delivery), and technology infrastructure, rather than on full-service BPO deals.
- This survey found that learning executives consider a learning vendor's knowledge of the client's industry, organization, and internal issues the most important selection criterion. This means that learning outsourcing firms with experience in vertical markets are more likely to be successful. As are vendors that use smaller contracts to demonstrate their ability to understand and address the unique business and learning needs of each client organization.
- The current drivers of learning outsourcing are similar to drivers in the early stages of other BPO markets, with the emphasis on cost reduction. As the market matures, it is likely that suppliers' ability to transform the learning function and link learning to organizational performance will play a bigger role in outsourcing decisions.

Sample

- A total of 174 learning executives responded to an online survey in August 2004.
- The sample represents a broad cross section of industries, organization sizes, and training budgets.
- Fifty-three percent of respondents came from organizations with over 2,000 employees, and 52 percent had training budgets greater than \$1 million.
- Sixty-four percent of organizations in the sample had centrally-administered budgets .
- Almost 50 percent of respondents worked for organizations in the finance, health care, and manufacturing industries.

Industry	n
Finance and Insurance	35
Health Care and Social Assistance	28
Manufacturing	18
Other Services (except Public Administration)	13
Retail Trade	12
Educational Services	12
Public Administration	11
Other	45



Q1. What are the most pressing issues you face relative to learning within your organization? (Select top 3.)

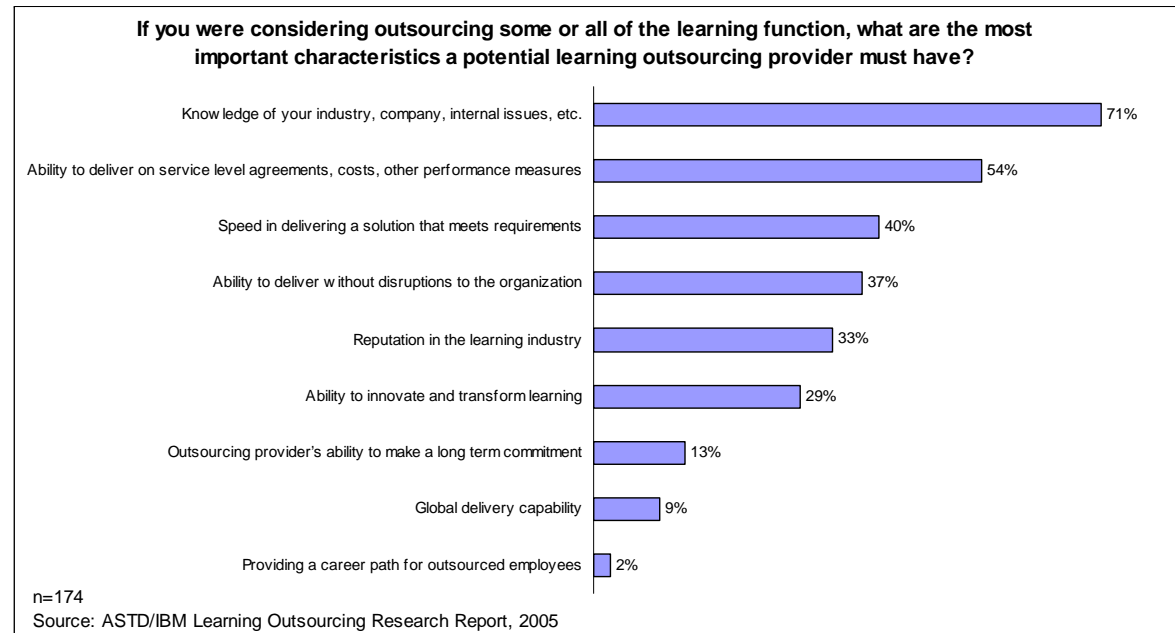
- At the beginning of the survey we asked learning executives to identify their most pressing issues. Their responses provide the context in which learning outsourcing decisions are being made.
- The most pressing issue for learning executives was establishing a link between learning and organizational performance. The second and third most pressing issues were developing the skills necessary to drive company initiatives and transformation, and establishing ROI or value for learning.



- Issues related to training content were considered less pressing than demonstrating value, serving company needs, moving beyond formal learning, and governance issues.
- In organizations with annual training budgets less than \$1 million, extending the focus of learning beyond classroom/formal training was a bigger concern than establishing ROI or value for learning.

Q2. If you were considering outsourcing some or all of the learning function, what are the most important characteristics a potential learning outsourcing provider must have? (Select top 3.)

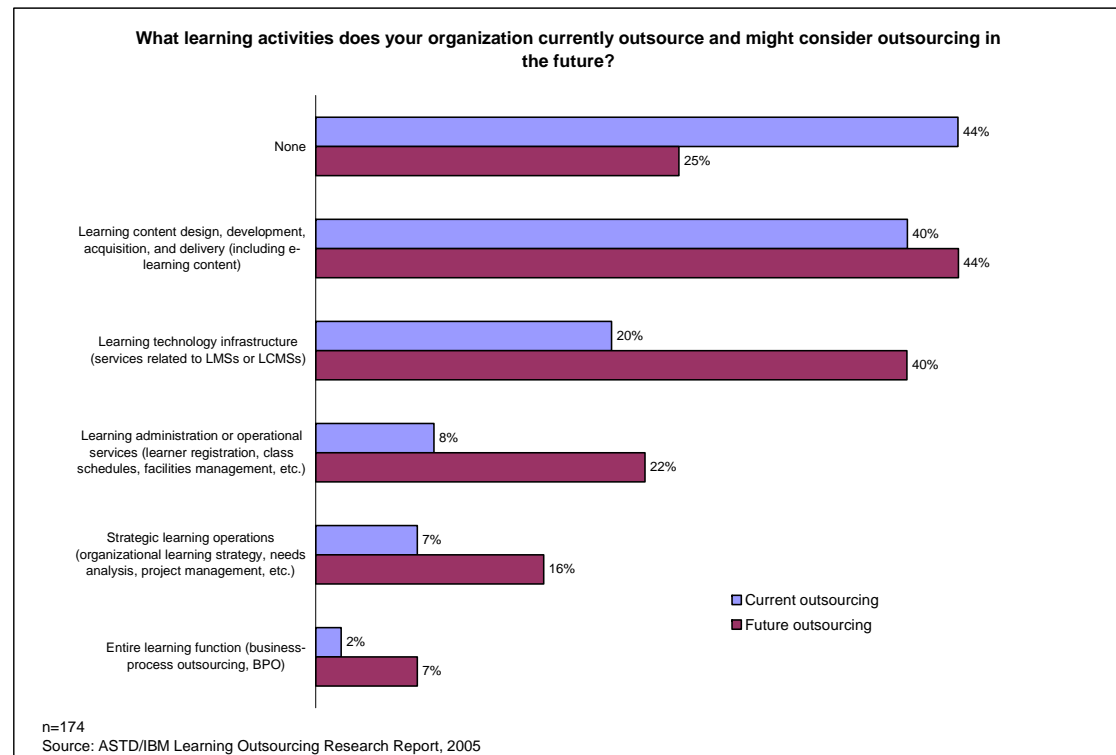
- When considering outsourcing, the characteristic of a potential provider that was most important to learning executives was the provider's knowledge of the company and its industry. Next in importance were ability to deliver on agreements, speed of delivery, and ability to deliver without disruption.
- Ranked lowest in importance were outsourcing providers' ability to make a long term commitment, global delivery capacity, and ability to provide a career path for outsourced employees.
- The pattern of responses varied somewhat depending on the industry and size of organization. A supplier's reputation was less important to respondents from larger organizations (more than 2,000 employees) and to those in the manufacturing sector. Global delivery capability was more important to respondents from the manufacturing industry. Ability to innovate and transform learning was less important to those in organizations with training budgets greater than \$1 million.



Q3. What learning activities does your organization currently outsource?

Q6. What learning activities might your organization consider outsourcing in the future?

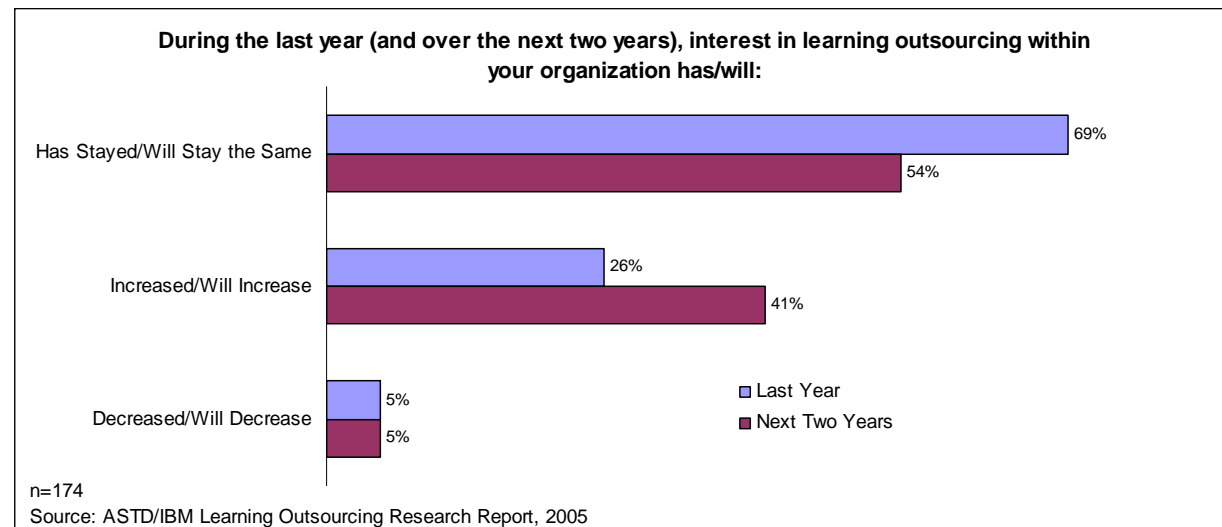
- Forty-four percent of respondents were not outsourcing any of the main elements of their learning functions. However, only 25 percent were not going to consider outsourcing in the future.
- Content services and technology infrastructure were the elements most frequently outsourced and will continue to be the areas considered most for outsourcing in the future.
- If considerations to outsource translate into actual outsourcing, the biggest growth will be in technology infrastructure and learning administration services. There will also be growth in outsourcing of strategic learning operations and in outsourcing the entire learning function.
- Only 2 percent of respondents currently outsource the entire learning function but 7 percent indicated they would consider it in the future.
- Organizations with centralized budget administration indicated less outsourcing than organizations with decentralized budget administration, and less intent to consider outsourcing, especially of content.



Q4. During the last year, interest in learning outsourcing within your organization has...

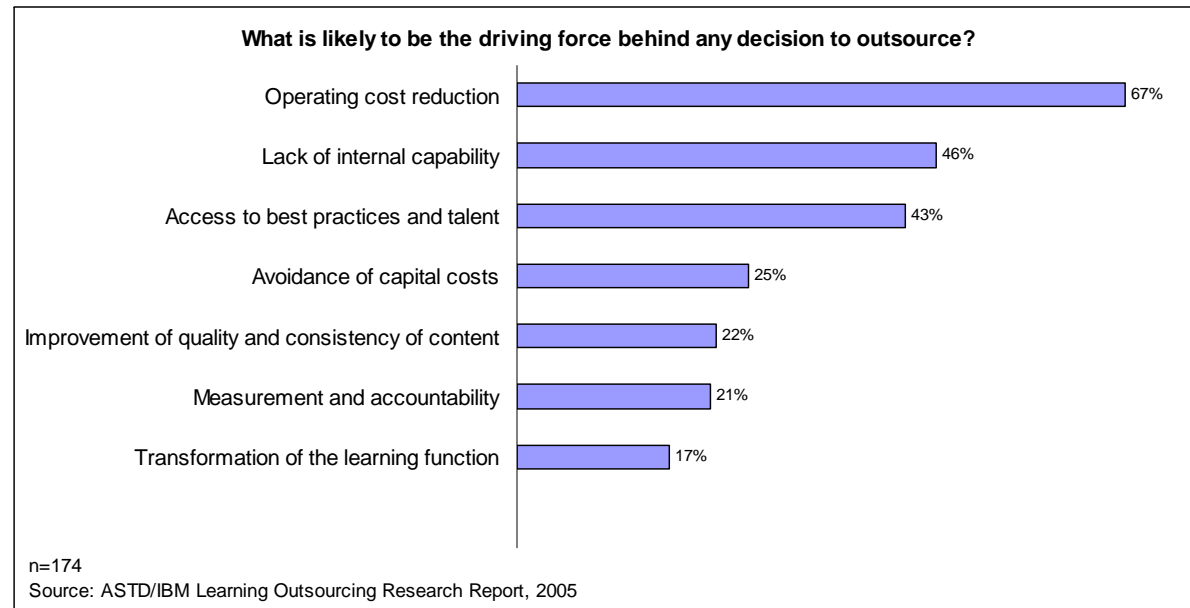
Q5. Over the next two years, interest in learning outsourcing within your organization will...

- Interest in learning outsourcing has increased in 26 percent of respondents' organizations in the past year and interest will increase in 41 percent of organizations over the next two years.
- More respondents from organizations with decentralized training budgets than centralized budgets reported that interest would increase. This may reflect already higher levels of interest among organizations with centralized budgets, and may indicate that there is more likely to be growth in outsourcing in organizations with decentralized training budgets.



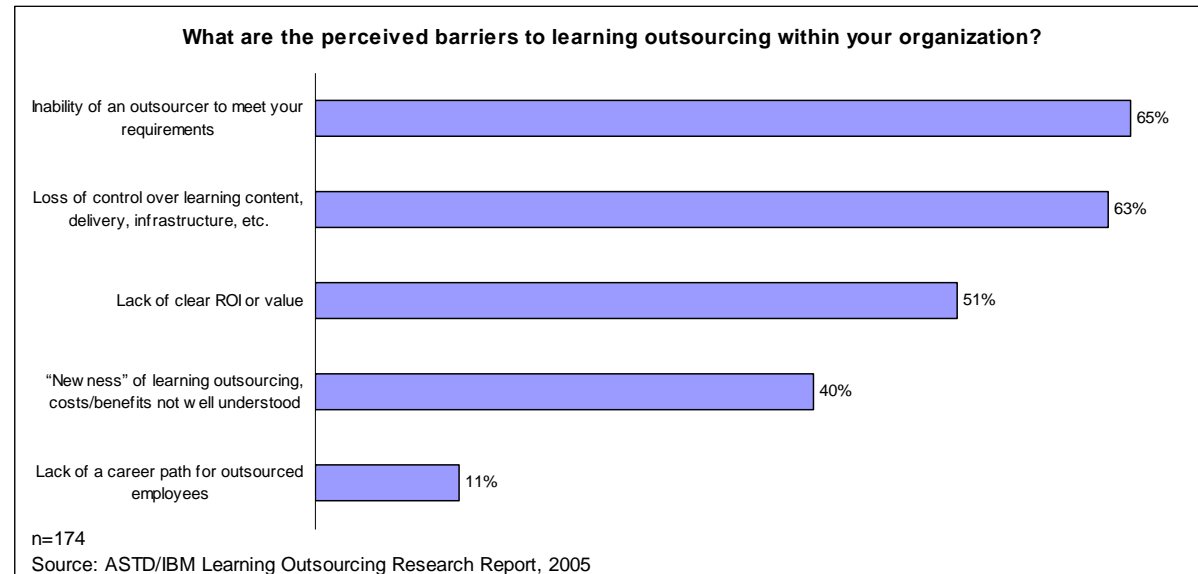
Q7. What is likely to be the driving force behind any decision to outsource? (Select top 3.)

- Operating cost reduction was selected as the main driving force behind decisions to outsource, followed by lack of internal capability, and access to best practices and talent.
- Improvement of content, measurement and accountability, and transformation of the learning function were selected as the least likely driving forces for learning outsourcing.
- These findings indicate that the market for learning outsourcing is still preoccupied with cost cutting and extending capability rather than on transformation of the learning function.



Q8. What are the perceived barriers to learning outsourcing within your organization? (Select top 3.)

- The top three perceived barriers to learning outsourcing were inability of the outsourcer to meet the organization's learning requirements, loss of control of the learning function, and lack of clear ROI or value.
- Inability to meet requirements and loss of control are perceived as bigger barriers in larger organizations.
- Lack of clear ROI or value was perceived as more of a barrier in organizations with centralized training budgets.
- The newness of learning outsourcing was perceived as more of a barrier in smaller organizations.



Q9. Who is involved in making a recommendation to outsource some or all of the learning function?

Q10. Who is involved in the final decision to outsource some or all of the learning function?

- Training managers and business unit leaders were more involved in making recommendations than in the final decision to outsource learning.
- The involvement of learning and HR executives in making recommendations and final decisions was similar. Both were more involved in making recommendations than in making the final decision.
- Business executives (CEOs, CFOs, and COOs) were as involved as learning and HR executives in making recommendations, but were more involved than HR and learning executives in making final decisions.

