**Outsource: Should I or should I not?**

**Introduction**

From a strategic planning perspective, it is very important to analyze the need for adopting an outsourcing business model. More often than not, outsourcing decisions are based on success stories of organizations that have been early adopters of outsourcing models. With dynamism and rapid advancement, in the so called “low cost” locations, cost of operations has almost caught up with some of the economically developed countries. This has sparked debates on factors other than cost considerations to arrive at the overall business benefits with a long-term perspective.

Presented below are some critical factors that need consideration before embarking on a decision to outsource functions in the form of a case study.

**Case Study**

In the Board room of a multinational engineering company the chairperson was under pressure from other members to adopt outsourcing strategy for increasing profitability. The reason cited by the members included

* Competitor A have outsourced some component manufacturing, accounting and IT functions to reduce costs
* Move work to low cost locations
* There is a big pool of service providers, with enormous head count, from where a partner could be chosen
* A cost benefits analysis with projected financials for next five years shows material cost savings

Though the above points carried their own merits the chairperson had a few concerns and questions that needed clarification.

* Are there any other parameters that need consideration before approving the proposal?
* Are all the organizations that have outsourced their functions satisfied with their decisions?
* Would a standard outsourcing solution be beneficial to the company?
* Have the areas identified for outsourcing been arrived at keeping in mind the company’s long term vision?
* Are the risks and challenges of outsourcing fully understood by the management?
* How do we choose the right partner for our requirements?

Therefore, the chairman agreed to consider the proposal provided the management could come up with convincing answers and provided the following guidelines to work on.

**Chairperson’s guidelines**

Over the years, a lot has been talked about outsourcing and their perceived benefits. Most of the arguments favor the business model with financial projections. The primary areas of interest are economies of scale and cost reduction, which in turn could improve profitability.

 Globalization and revolution in technology has made the world a smaller place. Time and distance are no longer show stoppers for off-shoring business processes.

However, the true answer to the question of what, why and how to outsource usually remain clouded by the euphoria of apparently logical reasoning and quantitative representations of benefits.

It is not enough to create a strong business case running into volumes with mind boggling financial analysis and quantitative projection of benefits. In reality, the way individuals and organizations react to situations could be substantially different from the assumptions made in a business case.

 Outsourcing, with cost advantage alone as the primary trigger could provide only short term benefits. Over time it may prove to be a costlier proposition because

* low cost location may not remain cheap for ever
* managing outsourced work could involve substantial costs

Successful implementation of outsourcing strategy could be challenging and would depend on the maturity of the organization to cope with change.

To ensure success, organizations have to:

* Outsource with a long term perspective of benefits
* Ensure, quality is not compromised
* The sentiments of various stakeholders(owners, employees, service providers and customers) are not adversely affected
* Be sensitive to cultural changes
* Show flexibility and adaptability, if the real life scenario is different from the business case

**What suits you may not suit me**

A standard methodology, process or business model cannot be a solution for organizations spanning varied industries. In fact it needn’t necessarily be beneficial to different organizations within the same industry. It wouldn’t be appropriate to replicate a business model based on past success within or outside of the organization. A careful analysis of synergies and qualitative benefits is very critical before embarking on change. Decisions based on qualitative reasoning combined with financial analysis are more likely to result in success.

**What has to be outsourced?**

Generally, any function that is perceived as mundane and redundant would be the best candidate for outsourcing. This is a paradigm that needs correction. Sometimes, functions, though perceived as boring and a drag on costs could be critical and should not be outsourced. Doing so could result in disorganization and disarray.

Therefore, outsourcing would be useful if

* Better expertise for the function lies outside the organization
* It results in improvement in the quality of the function
* Brings effective process improvements
* Improves overall efficiency of the organization
* Contributes directly or indirectly to effective growth of the organization
* Increases stakeholders’ satisfaction

 **Whom should I choose as partners?**

Normally, organizations seek to answer this critical question through established vendor evaluation process. Once again, this exercise depends a lot on quantitative parameters. Processes on their own cannot provide answers to all business needs.

 Effective solutions are provided by talented, skillful and proactive **people** who can strike the right balance among key business values viz.,

* Innovation
* Promptness
* Quality
* Effectiveness
* Goodwill
* Relationship
* Satisfaction

Therefore, it is important to note that partners with established brand name, impressive financial statements and process certifications need not necessarily provide you with effective solutions. Evaluate the capability and potential of the people who would be handling your assignments.

**Transition plan**

This phase involves display of very high standards of human values by the organization and the chosen partner. The managements have to be sensitive to human emotions, insecurities, individual bias and resistance to change. Appropriate dialogues have to be initiated within the organization to effectively answer any concerns from the stakeholders. **Leadership** rather than **Management** is more likely to result in effective team building to ensure smooth transition.

**Conclusion**

A revised study based on the above guidelines brought out the following insights:

* Outsourcing IT and manufacturing could result in loss of productivity due to delays in delivery owing to regulatory procedures.
* Cost of quality assurance could be high.
* Outsourcing is not the best option for some of the branches and subsidiaries considering their current size of operations.
* All of accounting function cannot be outsourced due to controllership issues.
* Weightage to qualitative parameters have to be given while choosing partners.
* Draw up risk assessment and mitigation plans.