

The Outsourcing Study

Business Outsourcing Relationships Before and After the Global Economic Crisis

The aim of this paper is to analyze the history of evolution of outsourcing relationships, discuss the main changes occurred over last years and point to effects of the Global Financial Crisis on outsourcing relationships.

Before...

During last decade outsourcing has become more popular, enterprises chose to outsource various functions for all kinds of reasons, some of important were reducing and controlling operating costs, improving company focus, gaining access to world-class capabilities and to releasing internal resources for more important activities. Onrush of Information and Communications technologies has brought IT outsourcing as a priority topic on executives agendas as organizations realized an important role of IT in business transformation and potential it carrying in achieving strategic goals.

Growing IT outsourcing market and continuously developing business models have had a significant influence on the type of outsourcing relationships. With emphasis shifted from short-term cost reductions to achieving sustainable competitive advantage, strategic outsourcing concept has emerged. Aimed to transform the business, and in addition to reduce costs of operations, enterprises began to look to outsource business areas to achieve greater flexibility and to gain greater ability to respond to market changes nimbly. Essentially, outsourcing is evolving into a strategic tool for change, and that change has a significant impact on outsourcing drivers and types of services involved. The emphasis has been to intellectually based service activities, such as research, product development, logistics, human relations, accounting, legal work, and marketing and market research. The outsourcing market has shifted from a cost focus to a business focus with emphasis on access and speed to market.

The co-called Business Process Outsourcing (BPO) where outsourcing employed to re-design complete business processes and increase value across whole value-chain, has turned out to be the most significant business trends and largest growth IT sector in the last years. Organizations that outsourced for strategic, not tactical benefits pursued new roles for outsourcing and pioneered new paths of outsourcing relationships. Emphasis has shifted towards closer interaction between outsourcer and provider as organizations engaged in network partnerships with multiple suppliers, each of which is best-in-class for the respective outsourcing function and where one vendor taking the role as coordinating prime contractor. The focus of that new form of outsourcing lies on long-term strategic partnerships where risks and rewards are shared, and vendors are willing to invest for innovation and technology expecting long-term cooperation and revenues.

The quality aspect of outsourcing relationships and successful management has been gaining an importance. Strategic management of outsourcing has been named by leading experts as one of the most important tool in management. New concept of outsourcing relationships referred to a purposive strategic relationships between independent companies sharing compatible goals, striving for mutual benefits and acknowledged a high level of mutual interdependence. This new type of relationships implied an investment which tied outsourcer and provider together and determined a fit which makes it beneficial to stay with one partner than to continuously having to establish new connections. Building such collaborative arrangements not only facilitated investment and innovation or accelerated reaction time but enabled organizational change that lead to competitive advantage.

In 2005 the list of TOP30 Outsourcing Benefits was published, which go beyond conventional cost reduction and resource supplementation declaring that company which outsource could achieve the following gains:

1. Reduce overheads, free up resources
2. Minimize capital outlays
3. Eliminate investment in fixed infrastructure
4. Offload non-core functions
5. Redirect energy and resources into the core activities
6. Focus scarce resources on mission-critical projects
7. Get access to specialized and sufficient skills
8. Reduce need for internal commitment of specialists
9. Save on manpower and training costs
10. Control operating costs
11. Improve efficiencies through economies of scale
12. Improve time-to-market pace and quality of service
13. Level out cyclical or seasonal fluctuations
14. Eliminate peak staffing problems
15. Provide the best quality services, products and people
16. Be reliable and innovative
17. Provide value-added services
18. Increase customer satisfaction
19. Establish long-term, strategic relationships with world-class service providers to gain a competitive edge
20. Enhance tactical and strategic advantages
21. Focus on strategic thinking, process reengineering and managing trading partner relationships
22. Benefit from the provider's expertise in solving problems for a variety of clients with similar requirements
23. Obtain needed project management and implementation consulting expertise
24. Acquire access to best practices and proven methodologies
25. Spread your risks
26. Avoid the cost of chasing technology
27. Leverage the provider's extensive investments in technology, methodologies and people

28. Reduce the risk of technological obsolescence
29. Increase efficiency by consolidating and centralizing functions
30. Keep pace and minimize the impact of rapid changes in technology without changing your infrastructure.

The Global Economic crisis of 2007–2009...

The process of evaluation and maturation of outsourcing strategic relationships should have run steadily its course unless the Global Financial Crisis has dramatically changed the natural order of things two years ago. People are no stranger to the effects that the global financial crisis has put upon different businesses and industries. Companies, under incredible pressures to take costs out wherever they can and CFO's pounding on their CIO's to just outsource everything, just offshore have returned to conventional form of outsourcing focusing only on cutting costs in the short term by reducing head-count and moving assets and liabilities from their balance sheets on to those of their service providers.

On the other hand we have seen large portion of customers studying their existing relationships to identify how more value can be derived from them. They are seeking to reduce service level requirements to reduce the cost of service delivery and therefore charges. We also see companies looking more aggressively at enforcing their contractual rights; for example, to service credits, to the exercise of benchmarking, or to the implementation of audit rights.

Many companies run headlong into a re-negotiation without taking the time to consider exactly what the opportunity might be and where the savings might lie. Equally, many customers assume that it is their right and privilege to re-negotiate downwards without considering the service provider's motivation or how the service provider can be persuaded to contribute positively to the re-negotiation exercise.

Instead of forcing service providers to focus on what is important to the buyers, customers should be more strategic in their methods allowing both parties to benefit from re-negotiation exercise. In striving to cut costs and derive more value from outsourcing contracts companies may forget all important lessons they have learned rushing into ambiguous arrangements chasing short-term, and sometimes elusive benefits.

After years of evolution of outsourcing relationships from conventional outsourcing to strategic (transformational) outsourcing enabling companies launching new strategies and reshaping organizational boundaries while improve efficiency and time-to-market, it is an imperative for business public to save all those achievements and prevent strategic form of outsourcing where long-term strategic relationships based on trust, integrity and credibility for the success. We should remember that purposive strategic relationships between two independent firms who share compatible goals, strive for mutual benefit and acknowledge a high level of interdependence not only facilitates innovation and accelerates respond time but enables rapid organizational change that lead to competitive advantage.