



Out-sourcer dependency

Business Commentary

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Abstract

Should the story with out-sourcing be the same as the story of the bird that was let out of the cage? You loved the bird so much you gave it freedom and the bird loved you so much, that it returned. As with the rush to get online, have we over-looked the proven business principles in the rush to out-source?

1 Growing rumble

Out-sourcing is here, it is part of business and many successful long-term relationships between companies and their out-source partner exist. Within business however, a growing rumble about out-sourcing is being heard. About how the promised cost savings have not been realised, it takes too long to get things done, problems are not resolved and it is just all too hard. As with the rush to get online, have the proven business principles been over-looked in the rush to out-source?

2 Loss of corporate knowledge

The most valuable assets within a company are its staff and its information. These together form those intangible assets called corporate knowledge and corporate expertise. Many organisations have gone to considerable length to document processes and manage information so that this knowledge can be trapped at source and made accessible to the business. Where corporate knowledge is valued, people are encouraged to stay and may be re-allocated within an organisation rather than have them leave. An out-sourced individual's loyalty is to their company.

Corporate knowledge is an asset that it is hard to value. The loss of corporate knowledge forms a hidden expense incurred by business because it is not included within many out-sourcing relationships and agreements. Out-sourcing relationships that value corporate knowledge and continue to trap information at source provide a significant long-term benefit to their business.

3 Reflecting rapid changes in technology

Out-sourcing arrangements have also suffered from the rapid changes in technology. The rapid adoption of the Internet by business is a case in point. Examples of IT out-sourcing contracts negotiated in the last two to three years that did not include a provision of services for the Internet are common. Some of this was because business did not appreciate the importance of the Internet and part of it was because the service providers themselves did not appreciate the importance either. The Internet has not changed the proven business principles or the need for out-sourcing contracts; rather it has increased the demands made. It requires issues to be resolved at a faster pace and is changing the model under which those services are provided.

4 Ownership and responsibility

A key aspect of out-sourcing that has recently come under review is the relative responsibilities between parties and responsibility for problem resolution. Much of business activity revolves around successful problem solving and the following summary steps are commonly recognised:

- identify the problem;
- define the solution (problem resolution);
- produce the solution;



- implement it into the business.

The real value-add in the process comes from being able to define the solution – the problem resolution. It is human nature to shift problems around and to delay their resolution. It is difficult to problem solve, if it was easy there would be no problem.

The ownership of problem resolution is at the heart of out-sourcing relationships. Some of the most successful out-sourcing relationships are where the responsibility for problem resolution and the ability to problem solve are kept in-house. The value-add is with your business and not the out-sourcer.

5 The “yes men”

Some of the more spectacular business failures within recent years have resulted from the “yes men” syndrome. The successful and astute CEOs have people around them, who, when required, talk the truth, say “no” and provide alternative feedback. Contrast this with the role of a service provider who is doing their best to meet a customer's requirements. The philosophy that the customer is always right is at the heart of customer service and it is easier to say “yes” than “no”.

Doing what is best for the client is sometimes contrary to the service agreement negotiated and in conflict with the best interests of the out-sourcer's company. The problem in need of resolution is often that of the client and not of the out-sourcer. The competing interests of the client and the out-sourcer and the issues of problem ownership and problem resolution are at the core of the out-sourcing debate.

6 Cage of dependency

Where ownership of an issue and the ability to problem solve have been lost to an organisation, a culture of dependency on the out-sourcer develops. Combine this with the natural tendency of passing on problems and the contractual relationships in place and a self-sustaining cycle of dependency exists. The problem is passed to the out-sourcer who is providing a range of services according to the contract but the problem is not being solved. As the problems increase, the dependency upon the out-sourcer increases.

Is it in the out-sourcer's best interest to say “no” and stop the addiction or is it in their interest to keep perpetuating the problem?

Without the ability to problem solve in-house, out-sourcing becomes a cage to the business. The dependency means that business is often afraid to go outside of the cage. The longer the problem exists, the worse it gets.

7 Curing the dependency

Is it the fear of the unknown that keeps the dependency going? Maybe but the solution is the systematic application of proven business principles that may have been over-looked in the rush to out-source. Help can be sought elsewhere.

Even with shortcomings, there needs to be a very good business case for replacing an incumbent system or service provider. It is the business case that justifies a change in approach, if any. It is not about discarding out-sourcing relationships; it is about re-aligning them to reflect proven business practices.

The longer things get left the harder they become to solve and often cost more subsequently. The pressure on business to lower hidden costs is only likely to increase; the problem will not go away.



The phased implementation approach, with a progressive transference / development of problem solving capability back in-house, as a whole of business solution has previously proved successful.

8 Services model

Out-sourcing is about improvements in effectiveness and efficiency and particularly about lowering costs – hidden costs. Operating on a “performance based” sales model goes to the heart of out-sourcing. Like sales people on a commission, should out-sourcers be paid a base plus a percentage of every cost saving they realise. The more cost savings they achieve the bigger bonus, whilst penalties would apply for under-performance.

Adopting this model provides challenges to both the business and the out-sourcer. The measure of the out-sourcer is their preparedness to operate and deliver to this model. The measure of the business is its willingness to lower hidden costs and address the required business optimisation. The risk of creative accounting exists but if a client is serious about lowering hidden costs and using out-sourcing

9 Letting the bird go

Is your out-sourcer:

- preparing the bird for flight – addressing the business optimisation required;
- allowing the bird its freedom – allowing you the ability to problem solve;
- letting the bird return – welcoming you back when you need assistance.

