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Outsourcing of Organizational Functions

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Outsourcing continues to be a popular management tool. In both the private sector and public sector, organizations are increasingly turning over various internal functions or sub-functions to outside vendors. Sometimes done in a whole-scale manner, while in other instances done on a small-scale selective basis, every function or sub-function of an organization is ultimately a candidate to be outsourced.

Arguments about what deserves to be outsourced and what should remain in-house have been heatedly taking place since outsourcing began to rise in popularity. Common wisdom dictates that any function or sub-function that is considered strategic and therefore an essential part of the core competency of an organization should not be outsourced. Logically, anything not a core competency is then considered a viable outsource candidate.

Though the core competency notion seems simple enough, the subsequent debate about what is and what is not a core competency muddies the waters. Is the marketing function a core competency of your organization? Is the finance function a core competency? Is your Information Technology department a core competency? Trying to decide whether a particular function or sub-function is a core competency can be a difficult and downright ugly process.

Some also say that if a function or sub-function is a core competency then you should strive to make it world-class. But, seeking a world-class goal is costly and arduous. Indeed, many outsourcers argue that they offer true world-class function-specific capabilities because they can concentrate their entire being on just the specific function. Thus, if you abide by the preceding logic, you might even believe that if you really need a strategic core competency than you would be better off using outsourcing rather than trying to build it yourself.

Perhaps the rule about what to outsource should be enlarged. Consider everything outsourcable, regardless of whether it is a core competency or not. Or, another viewpoint suggests that you should especially outsource core competencies and not bother with non-core competencies since they do not need to be world-class anyhow (a complete reversal of the earlier rule!).

Obviously, if you cannot readily determine which function or sub-function is a core competency, then you cannot readily determine what deserves to be outsourced (at least, according to the view that the core competency issue is the sole determining factor for outsourcing candidates). Thus, many organizations outsource and then insource, and then outsource and insource, as they weave back-and-forth between believing that an area is part of their core or not part of their core. It's a seesaw approach that merely distracts organizations and causes more headaches than benefits.

So, where do we go? If the core competency factor does not provide a definitive answer to what should or should not be outsourced, what else can we rely upon? Roll of the dice? Random selection? Or, perhaps the lowest function or sub-function on the totem pole?

Actually, there is a more systematic method. In my outsourcing methodology, I provide an answer in the form of guidelines that categorize functions and sub-functions to reveal whether they should be considered outsource candidates or not (see further description below). In the end, there is no single, precise way to state that a particular function or sub-function should be outsourced, but instead a process of reviewing functions or sub-functions as they currently exist in your organization and asking fundamental questions about the nature, contribution, and capability for your organization.



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Evaluating Outsource Candidates

I have identified ten major categories of function or sub-function situations whereby outsourcing of the function or sub-function is worthy of detailed investigation. Note that it is not automatic that if a function or sub-function fits into a given category that it must be outsourced. Instead, a function or sub-function that fits into a category should be red-flagged as a candidate for outsourcing, and the costs and benefits of outsourcing should then be carefully reviewed and evaluated.

Problem Child. A function or sub-function that is a problem, a distraction, or an irritant to the organization is a viable outsourcing candidate. Though you might be tempted to solve the problem via internal political means rather than outsourcing it, the internal bloodshed during the process is often too much for many organizations to stomach. Therefore, the easier method to resolve the problem child is to outsource it. Of course, if the outsourcing is done in a haphazard manner, the problem child could still remain a problem (and might even worsen).

Cash In. A function or sub-function that can be turned into a quick cash infusion is a viable candidate for outsourcing. As an example of the cash infusion, many organizations decided in the late 1980s that they could outsource their computer data center and have the outsourcer pay for the assets, such as a mainframe system and peripheral devices. Organizations that were having difficulty financially found this a way to "raise revenue" without having to solve larger-scale sales related issues. Of course, the quick cash approach may do little more than stave off a bigger problem, namely, weak sales or poor spending.

Non-Core. As previously mentioned, the most popular approach to outsourcing dictates that a non-core competency function or sub-function is a viable candidate. Wanting to be comprehensive, I naturally list the non-core viewpoint in my categories, but urge the reader to review my earlier discussion on the merits of the non-core competency approach.

Copy Cat. If a competitor or group of competitors have all chosen to outsource a particular function or sub-function, then that same function or sub-function in your organization should also be viewed as a vi-

able candidate for outsourcing. I do not usually abide by a herd mentality, but if everyone else is doing something, then they may very well have good reasons to do so. And, if they are reducing costs or increasing overall effectiveness by doing the outsourcing, you should try to at least match their efforts so as to not be left behind.

Market Option. Major outsourcers seem to have settled on certain functions and sub-functions that they offer to outsource for organizations. Thus, if a function or sub-function in your organization is one of the popular outsource areas, it is a viable candidate for outsourcing due to the ready supply of market substitutes. Hopefully, if you believe in marketplace competition, the functions or sub-functions that the outsourcers offer to substitute have been marketplace-honed due to outsourcer versus outsourcer competition (making them more efficient and effective than you could otherwise reach internally without a similarly competitive open environment).

Fade Out. A function or sub-function that is strategically being excised or gradually reduced and then removed is a outsource candidate. Rather than have a lingering death inside the organization, you might outsource it and structure the deal so that the element is eventually deleted. In the meantime, if done correctly, the displaced workers will have the potential for other job placement inside the outsourcer and be more amenable to the excising exercise.

New Business. Suppose that your organization has decided that a good strategic move would be to step into a new business line. Rather than doing so immediately and outright, you could contract with an outsourcer and try out the business line first. This approach does have some significant weaknesses, including the fact that you are essentially embracing a competitor (who faces the tricky problem of revealing secrets to you). A slightly different stance would be to approach this on an alliance or partner basis, rather than a conventional outsource basis.

Fade In. Suppose that your organization lacks a manufacturing capability and wishes to shift from services into a manufacturing mode. One approach would be to use outsourcing as a means to initiate the manufacturing function, and then over

time insource the element to become a normal function or sub-function of the organization. Doing so requires being up-front with the vendor about the intended insource outcome, otherwise a disastrous legal battle could be launched by the outsourcer when you decide to embrace the unit and drop the outsourcer.

Politically Incorrect. Is there a function or sub-function that your organization is being smeared with as a politically incorrect element? For example, a manufacturing sub-function that union workers believe is unfair and have prodded the media into blistering your firm about. If so, you might consider outsourcing the function or sub-function. The outsourcing act will not completely get rid of the politically incorrect aspect, but it could distance the organization from the element and point the smear in a different direction.

Other Strategies. This last category is my final catch-all. Any additional strategic reasons that provide a solid rationale for viewing a function or sub-function as a viable outsource candidate should be given their due merit. There are bound to be future strategic factors that I could not recite now that will arise in five or 10 years as a clear basis for considering outsourcing. Thus, do not become fixated on the preceding nine categories and assume that they exhaustively cover all bases. The business world is a changing place, and my list of categories must acknowledge the unknown that will be discovered at some point in the future.

Conclusion

There is no magic wand that reveals whether a function or sub-function is an outsource candidate. Organizations must review their present status, contemplate the environment around them, assess their internal structure and capabilities, and decide what makes sense for their organization to outsource or not outsource. I hope that my methodology, which I have briefly described here, will help your organization be careful and systematic about how it uses the outsourcing tool. Outsourcing can be a powerful tool that aides your organization, and it can also be a tool that when misused can harm your organization. As the sign says, use with caution. ■