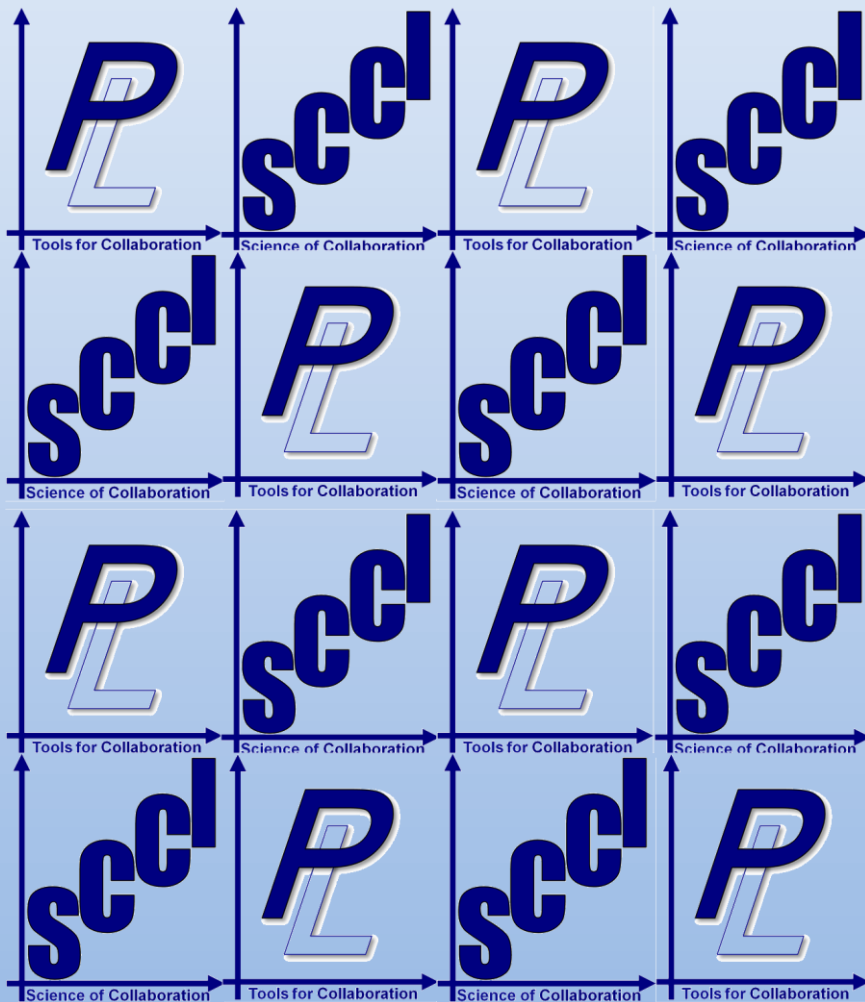


Losing Control? Product Performance in Strategic Outsourcing



Andrew Humphries & Linda McComie



Third Edition 2022

First published in Great Britain in April 2015 by Humphries and McComie.

Copyright Andrew Humphries and Linda McComie

The right of Andrew Humphries and Linda McComie to be identified as the authors of this work has been asserted by them in accordance with the Copyright, Designs and Patents Act 1988.

Every possible effort has been made to ensure that the information contained in this publication is accurate at the time of going to press and the authors cannot accept responsibility for any errors or omission, however caused. No responsibility for loss or damaged occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by the editors, publishers or any of the authors.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without prior written permission of the copyright owner. Nor can it be circulated in any form of binding or cover other than that in which it is published and without similar condition including this condition being imposed on a subsequent purchaser.

Published by

SCCI Ltd
Milton Keynes,
England

Losing Control? Product Performance in Strategic Outsourcing

By Andrew Humphries & Linda McComie

Outsourcing is a business model whereby an organisation decides that it will no longer carry out a function inhouse. Instead, this function will be provided by a third party. Outsourced functions could include manufacturing, IT, accounting and facilities management. The decision to outsource is based on business imperatives such as concentration on core activities, cost savings, risk mitigation and access to resources. Resources such as personnel and facilities may be transferred to the provider.

Traditionally cost savings have been the initial reason why companies outsource business functions. However, as companies learn that cheap labour is a short-term benefit, they increasingly outsource for other reasons such as to increase organizational flexibility and access talent and specialized capabilities. Thus, firms not only try to cut costs but also create value through global outsourcing, a phenomenon known as strategic outsourcing.

There has been a noticeable tendency for organisations to go beyond outsourcing business processes such as call centres and manufacturing, and into the knowledge based, intellectual activities such as product design and R&D. This trend became increasingly visible during the 1990s when companies such as IBM began to outsource not just manufacturing but also design activities. It reached its peak within the past decade when even companies such as Boeing and Hyundai started outsourcing innovation activities. This leads to the question of how far outsourcing strategies should go. Is there a danger that companies become too dependent on outside suppliers and surrender too much control?

What happens when your suppliers gain a better technological understanding of your products than you do? What happens when you lose control over the overall design concept which incorporates your knowledge of customer requirements which your suppliers don't have? What happens when you then lose the capability to integrate components into a quality end product? Some major organisations have not realised they have lost critical control until experiencing reduced sales and an increase in product failures and recalls.

It has been proposed that companies should keep activities in-house that have direct impacts on product performance and they should maintain control over activities that impact on the performance of the overall product. This advice is theoretically correct however, in reality the cost, time scales and disruption make it impractical to implement as an expedient solution.

In order to move forward we recommend that organisations need to put in place a formal system of Enterprise Relationship Management. This encompasses the management activities for jointly co-ordinating all the business processes and functions that are essential to the success of a joint/multi-party endeavour. This redefines the meaning of outsourcing relationships away from the arms-length style to a closer, collaborative approach.

Further Reading:

What Happens When You Outsource Too Much?

Francesco Zirpoli and Markus C. Becker, MIT Sloan Management Review, Winter 2011

The Stability of Offshore Outsourcing Relationships The Role of Relation Specificity and Client Control

Stephan Manning , Arie Y. Lewin and Marc Schuerch, Management International Review (2011) 51:381–406

Andrew Humphries & Linda McComie (2022), **Implementing and Managing Collaborative Relationships – A Practical Guide for Managers**

Routledge, New York, ISBN 978-1032-1173-86

155 pages



For Further information contact:

Telephone: +44 1 908 561892

Email: sales@sccindex.com

Website: www.sccindex.com