

Focus on Outsourcing and Offshoring

Re-examining the business case?

Nearly half of respondents in a recent survey of CFO's said 'they planned to enhance the scope of their outsourcing engagements...'

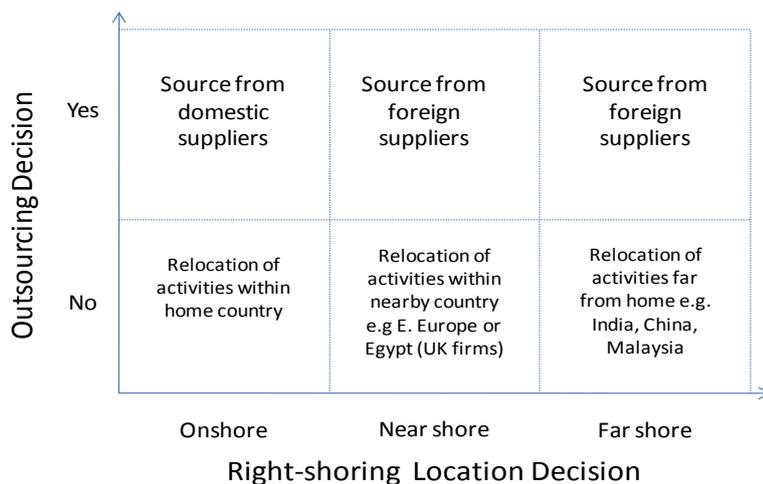
WNS Annual CFO Survey Report, 2010



IT outsourcing took off during the 1990's and Business Process Outsourcing (BPO) is now 10+ years old. All sizes of firms use outsourcing and/ or offshoring as strategies for value creation. However a wide variety of factors including global recession; rising fuel prices; fluctuating exchange rates; saturation of traditional offshore locations; improved BPO capabilities; new 'hot destinations' and protectionist politics in the UK and US are driving re-examination of the outsourcing and/ or offshoring business case by many firms.

Strategic Options in Outsourcing and Offshoring

There are six strategic options to consider and the right option to select for your firm for each activity is likely to be different depending on your core/ strategic capabilities and future vision:



Strategic Options Framework

Source: Adapted from Robertson, Lamin and Livanis, 2010

Defining the Market

Outsourcing can be conceptualised as activities and processes contracted out to be performed by another organisation. Offshoring is the relocation of some activities of an enterprise beyond the limits of its country of origin. (Olsson, Conchuir, Agerfalk and Fitzgerald, 2008). From 1989 to 2006, the global IT outsourcing market grew from an estimated US \$3bn to just over US \$250bn, (Willcocks and Lacity, 2006). The BPO market grew out of the IT outsourcing market. Gartner estimates that the worldwide BPO market grew from \$65bn in 2001 to \$110bn in 2009. Currently the largest customers for outsourcing are US and UK firms and the India enjoys a dominant position in the global market for BPO with a 48 to 50% market share, (The Economic Times, 2007).

Re-frame:

- **Are you** already experienced in outsourcing and/ or offshoring?
- **Have you** realised the full potential benefits for your organisation?
- **Is this** a strategic tool for your organisation to further improve future performance?
- **Is it** time to revisit your business case for outsourcing and/ or offshoring?
- **Do you** need help in looking into this further and making it happen successfully?

Focus on outsourcing and Offshoring

The Business Case



Research overwhelmingly shows that large and medium sized firms outsource primarily to save cost, for example: In a sample of S&P 500 firms, firms identified as outsourcers operate in more competitive industries and have relatively worse operating performance, higher administrative overhead, and higher labour overhead. These firm characteristics are consistent with cost cutting objectives and the need to respond to competitive pressures, (Paul and Wooster, 2010). In contrast, small firms tend to augment their internal competencies by engaging with networks of external innovation support, (Howells, 2008). Also, for small firms the

decision to use external partners is not a simple make or buy decision, but powered by sheer necessity because in-house resources are fully stretched, (Sen and Haq, 2011).

Key Concerns and Achieving Success

Concerns typically voiced by finance executives and associated with outsourcing include; loss of control; availability of talent; lack of understanding of the business environment; impact on the quality of service; cultural alignment; data security; process control; change management and governance, (Vora, 2010). It is certain that these areas represent a number of real risks to outsourcing and offshoring processes. For example in the Indian BPO industry high employee turnover has been reported at 30-40% per annum for outsourced work and a much lower 15-20% for 'captive' operations, (Kuruville and Ranganathan, 2010). However, like the majority of the risks and concerns listed by executives, mitigation strategies are being adopted by firms. For example, Indian BPO firms are experimenting with approaches to control turnover.

Results Achieved

There is evidence from the U.S. (the largest global outsourcer) based on a sample of S&P 500 firms, that outsourcing firms outpace non-outsourcers in the growth rate in operating performance from 2003-2006, suggesting that outsourcing enhances firms' financial prospects, (Paul and Wooster, 2010). In a recent study of a sample of U.S. small and medium sized firms based in New York State, 74% of firms realised cost savings from outsourcing, with 19% of firms achieving cost savings of >20% and medium sized firms achieving higher cost savings than smaller firms, (Sen and Haq, 2011). Research shows that the firms furthest ahead with BPO world-wide are those who were early adopters of IT outsourcing (and learnt from this experience). These firms have learned from experience to identify, negotiate with, monitor and manage IT outsourcing vendors and are able to apply this learning to BPO, (Whitaker, Mithas and Krishnan, 2011). The technology sector in particular has many examples of pioneering offshoring and outsourcing e.g. Microsoft which currently bases one of its two world-wide R&D innovation centres in Egypt, (Marathe, Journal of Case Research, 2010) and has had the Microsoft India Development Centre (MIDC) in Hyderabad since 1998, (Whitaker, Mithas and Krishnan, 2011).

Use Lamberhurst expertise in outsourcing and offshoring to help re-examine your business case.

At Lamberhurst we are business people like you. We have held senior, often executive, positions in the corporate and public sectors. We have all the appropriate academic credentials you would expect from any business consultancy, where we differ is our approach. We pride ourselves on providing a pragmatic service and prefer the label Business Practitioners. We can advise across many functional disciplines, and are always focused on measurable business outcomes. We believe that there is no real alternative to sound business experience! Sometimes our services are delivered as discreet projects – researching and testing new markets, negotiating major contracts, and managing change programmes for example; and sometimes our services are delivered through your people – as mentors, guides and coaches.

