



OUTSOURCING

ABSTRACT

Beware of outsourcing your unique selling proposition. Following the herd to outsource today's fashionable process may leave you with a vital piece missing for the future.

Motivation Matters Limited



Outsourcing

Outsourcing has become a highly emotive subject, joined through the media with the effects of redundancies and the flight of jobs to lower cost countries.

Off-shoring is a subset of Outsourcing: the process is sub-contracted to an organisation in another country.

Outsourcing is a modern fashion. Henry Ford thought it wise to own or control the raw material supplies for his automobile plant. He owned iron ore mines, glassworks, a merchant fleet, a railroad, blast furnaces and an electrical power plant to ensure he could control everything needed to produce that black Ford automobile.

Not many companies have achieved that height of vertical integration. Today auto plants are becoming assemblers of sub-contracted parts.

Outsourcing's bad publicity is usually countered by quoting from David Ricardo, an economist, who died in 1823. His work on "Comparative advantage" shows that moving the supply of goods to a cheaper country enriches both countries.

His theory assumes a total flexibility in moving resources from one sector to another. It also assumes the comparative advantage between countries is flexible in the same way, adjusted through the currency exchange rates.

Realistically it is farfetched to assume that the people who used to make ships on the Tyne have all moved to the City of London to work in the financial markets. Similarly, currency exchange rates are not free to find a "true" level. The UK and the US are running massive current account deficits. The UK now spends over US\$4bn **a month** more than we earn (Source CIA – The World Factbook). Those stories of the containers leaving Felixstowe full of fine English air are true.

The oil rich states and China in particular, are running huge current account surpluses. The Chinese are holding their currency down and investing in US Treasury bonds to keep the dollar up. This collusion is preventing the exchange rates finding a more equitable level, making Chinese imports and oil more expensive to the rest of the world, automatically reducing consumption.

Outsourcing, and in particular, off-shoring carries a heavy political risk as a consequence of the artificial circumstances created by this collusion.





What goes wrong?

Outsourcing holds out the hope of creating and sustaining a competitive advantage. Despite this, and according to a CIO Magazine survey, some 47% of outsourcing projects are cancelled due to poor performance.

Given the apparent huge advantages what goes wrong?

Outsourcing should be regarded as a partnership. There are regulatory, governance, intellectual property and global economic issues to consider.

Stories of child labour, unsafe working practices, stolen bank details or even use of prison labour do great damage to Western brands. Equally the fashion for off-shoring has created shortages of resources in popular destination economies.

The single biggest cause of failure is a lack of detailed knowledge of the process.

Sadly the experts in the process are the people who stand to lose their jobs. If you are not good at managing your people, they may not be over eager to help you understand how your processes work in real life.

Of course, if you are good at managing your people you may find that source of competitive advantage is already available in your organisation.

Realistically though, it is economically necessary to take advantage of politically created windfalls.

The final point is to beware of outsourcing your unique selling proposition. Following the herd to outsource today's fashionable process may leave you with a vital piece missing for the future.





MOTIVATION MATTERS LIMITED

VISION

Inspiring good management, and thus achievement, within organizations will improve employee attitudes, engagement and job satisfaction to create stronger companies with more productive people.

More productive companies build competitive advantage creating a sustainable business with safe growth, healthy profits, secure well paid jobs and contribute to the well-being of the UK.

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