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Outsourcing in Ireland: a Literature Review, Survey and Case Study Perspective

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OUTSOURCING IN IRELAND
A literature review, survey and case study perspective

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ABSTRACT:

Outsourcing, or offshoring as it is now known, has been around for many decades. In the beginning it was only the very peripheral activities that were blue-collar (lower skilled) work outsourced, but this is now all changing with the outsourcing of white-collar jobs. Historically outsourcing was used when organisation could not perform to world-class excellence in all sectors of the organisation due to incompetence of staff and/or management, lack of capacity, financial pressures, and/or technological pressures.

The research currently underway is initially focusing on a literature review of current outsourcing applications in the market place and what impact outsourcing has on business performance. This paper will present the findings of the initial literature review. It will also discuss the methodology being followed to explore the Irish Industrial Sector.

INTRODUCTION

Supply chain management (SCM) in a traditional sense only connected those companies directly before and after them in the supply chain (i.e. only to those they were buying from and those they were selling to). This was all well and good maybe ten or twenty years ago, but now it is outdated as the world has become more and more globalised and the costs of transport and telecommunications have fallen drastically. Nowadays, companies are going towards the concept of international supply chain management (ISCM) where "companies connect to participants of a value chain in an efficient network of relationships and transactions that can ultimately reduce costs, improve customer service, develop efficiency within the organisation, and ultimately create barriers to entry for competing organisations" (Phillips-Connolly et al., 2004).

Outsourcing although it maybe widely known does not have a universal definition. Experts adapt definitions to suit the research they are doing. For the purpose of this research outsourcing will be descibed as: "The giving to a third party provider, a service or function that used to be done in-house".

Outsourcing can be applied to most functions and services within an organisation, but what an individual company outsources depends on the core competencies[1], core activities[2] and critical functions within the organisation. In fact, outsourced jobs should have no face-to-face customer servicing requirement, high information content, a work process that is telecommutable and Internet enabled, and finally a high wage differential with a similar occupation in the destination company.

Ireland, as with other Western European manufacturing countries, is currently experiencing a change in the way that companies operate. Increasingly firms that traditionally manufactured their own products are outsourcing production, and instead focusing on the companys' core competency. Thus, the use of outsourcing is becoming more important, and is growing significantly in a range of industries, including electronics, pharmaceutical, medical devices, automotive, and food and beverage production. Consequently, organisations need to focus on areas where they have or can gain a competitive advantage and strengths that will enable them to

[1] "The central things organisations do well" (Oates, 1998).
[2] "Things that are central to what organisations do" (Oates, 1998).

participate successfully in an advancing global marketplace. No longer are proximity to market, organisational design, and sales and marketing strategies used to get in front of the competition (competition between companies), companies are now looking for new ways in which to gain competitive advantage. Outsourcing is one of them.

Currently there are two main types of outsourcing in use: total outsourcing, and selective outsourcing. Total outsourcing is where companies outsource all the activities within the selected function or service within the company. Selective outsourcing on the other hand can be done in four separate and distinct ways. The first is outsourcing on the individual level. It involves moving specific positions out of the organisation, for example the management of a poorly performing function or service. The second type is outsourcing on the functional level. Process level is the next type of selective outsourcing. Finally, outsourcing on the component level, this involves outsourcing component parts or sub assemblies to providers to be made.

METHODOLOGY

After identification of the research questions, a research hypothesis and corresponding objectives were formed, the outsourcing literature was consulted to get an overall viewpoint of what is happening in the outsourcing market today and where the gaps lie. Then, following consultation with many books and journals it was decided to proceed with a questionnaire followed by three in-depth case studies. The questionnaire was chosen because they are an inexpensive way of gathering data from a potentially large number of respondents. An effective questionnaire is carefully constructed to provide valid and reliable information at a reasonable cost. In addition, the case study approach was chosen because there a number of different factors including financial, and non-financial considerations to be taken into account and these could not be studied effectively except as they interact and function within the organisation themselves.

The goal of the study is to find out what actually happens in Irish companies when they outsource, do they get the expected benefits, what methodology do they use, what percentage of companies succeed, and what is the actual impact on business performance. Then, from the results obtained to build a model of best practises for SME's and larger companies when they go down the route of outsourcing.

BUSINESS PERFORMANCE

Performance measurement systems vary widely from company to company and from sector to sector. They "enable an organization to plan, measure, and control its performance and helps ensure that sales and marketing initiatives, operating practises, IT resources, business decision, and people's activities are aligned with business strategies to achieve desired business results and create share holder value" (ACIPA, 2001).

They are used by organizations to motivate managers and employees to perform specific activities. As well as monitoring whether the defined activities are being performed effectively and efficiently, and evaluate whether the defined activities are consistent with their strategies. According to AICPA (2001), "organizations view their business performance measurement systems more as a tool to measure business results and provide feedback on operations and individual performances than as tools to execute strategies and drive longer-term competitive advantage and sustainable shareholder values".

According to McCormack and Johnson (2001), there are three ways to measure business performance. These are process measures, which include the definition of activities and variables as part of the work procedures themselves, operational measures, which define the specific characteristics, features, values and attributes of each product or service. Finally, outcome measures, which measure the impact of the process on the customer, specifically on what the customer does with the product or service.

From the data reviewed, it was evident that the main reasons organisations used business performance measurements were among others to measure business results, manage operations and to support decision-making. Fig 1. illustrates the leading performance measures as found by AICPA, and as can be seen they contain a mixture of financial and non-financial measures. From the literature it has been found that companies (both large and small) find that a mixture of financial and non-financial performance measures are preferable to those that use one or the other because of the nature of outsourcing. The use of non-financial performance measures are particularly important because people are the main things affected by the decision to outsource and because people contain all the knowledge in the company and are vital to the company's success it is important to find out if they are satisfied. Without the necessary knowledge, an organisation cannot successfully compete (Philips-Connolly, 2004).

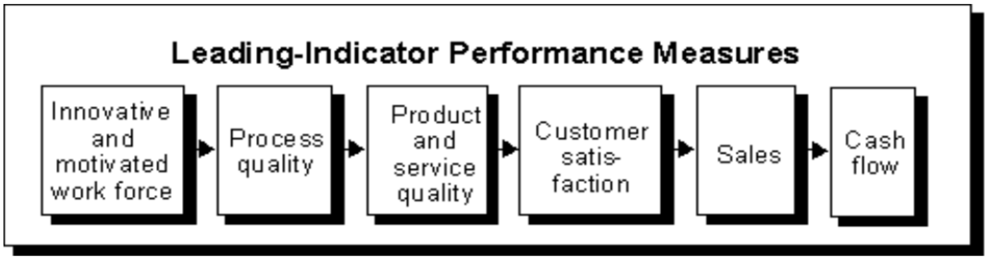

Fig. 1: Leading Performance Measures
[Source: http://www.aicpa.org/assurance/about/newsvc/perf.htm]

Business performance measures are also critical to understanding new ventures and small business success or failure. However, according to Hourihane and Davis (2004) there does not seem to be an accepted measure of SME (small to medium sized enterprises) performance similar to those that are used for large firms. Hence, they are not used as often so finding information about small companies is very difficult.

IMPACT OF OUTSOURCING ON BUSINESS PERFOMANCE

An outsourcing project can have both positive and negative impacts on a business performance. The outcome ultimately depends on the way the company goes about the outsourcing project and what support the project receives from top-level management. Furthermore, the phase the company is at in the outsourcing project can have a direct impact on business performance. For example, in the "honeymoon period" (i.e. just before or just after signing the contract) the benefits reported by companies are not actual but projected benefits, which could lead the company into many problems if they do not consider this (Barthelemy, 2004)

If the outsourcing project goes well, outsourcing can help improve business performance by enabling a company to focus on its core competency and getting back to what it does best. Another reason is that by transferring non-core activities to a specialised vendor, it can help to reduce the cost, and ultimately improve the performance of the activity (Barthèlemy, 2003). In addition, as the function or service is outsourced to a “best in class” provider, there may be greater flexibility in the systems. Under certain conditions, it can also save the company money, and reduce risk. As a result, companies can become more profitable and more competitive. Kletzer (2004) goes as far as saying outsourcing “brings real, solid benefits to the economy”. Savings have been cited from between twenty and fifty percent per outsourced job (Clinton, H.R. (2004), Hoffman, T. (2003)). Furthermore, the Outsourcing Institute highlighted the fact that companies can gain a nine percent cost saving, and a fifteen percent increase in capacity and quality, on average, through outsourcing. This is compounded by Barthelemy (2003) where he found that companies that had outsourced were able to double their operational incomes before tax while the revenues remained stable. It can also help outsourcers to obtain technical capabilities that it would not have been able to provide on its own (Kletzer, 2004) and thus help firms take advantage of the best outside vendors and restructure estranged departments that are reluctant to change (Barthelemy, 2004).

On the other hand, if the outsourcing project goes wrong, the costs of the project could spiral out of control and if the company terminates the project they could end up in severe debt with nothing to show for it. They could lose control of the service or function they outsourced leaving them to just take what the outsourcer gives them. Torres, Vu, and Marcos (2003) found some disadvantages to outsourcing in Southeast Asia, China, India, and Russia. For example, wages in some parts have risen by up to fifteen percent and these increases have lead to decreases in wages in other sectors of the economy. In addition, the high growth in outsourcing has created a shortage of highly skilled workers – predicted to be a 20% excess demand over available labour supply by 2008. Russia is failing to provide the high levels of skilled workers because of the gradual deterioration of their higher education because of insufficient funds. This could lead to companies having to pull out of these parts and bring it back in house as they could not sustain the increasing costs, thus having a negative affect on the company's business performance.

Furthermore, if outsourcing is used in the "guise" of strategy to attempt to rectify larger ills where the underlying problems emerge and the root causes remain unsolved is detrimental to the performance of the business after "go-live" and can be harmful to the productivity of the enterprise and the lives of the people involved (Cramm, 2004).

CONCLUSIONS

Outsourcing plays a major part in the strategic decision making of a company and it should not be ignored and can play a vital role in the performance of a company, whether it is positive or negative depends on the methodology and the support the company gets from top-level management. To be successful and to gain the most benefits companies must be prepared to put the time in to make the project work, otherwise it will end up in failure.

NEXT STEPS

The presented work is a work in progress. The next step is to send out the questionnaire to find out the actual realties Irish companies are having when they outsource. E-mail and postal questionnaires are to be used to improve responses from participants. It is hoped that initial results from the survey will be available for presentation at the conference in September.

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