Outsourcing Services:
Fulfillment or Failure?

O

Alan D. Smith
Robert Morris University, USA

INTRODUCTION

Outsourcing Pros and Cons

Outsourcing has been hailed as of one of the best ways to cut costs and enable a firm to concentrate on its core competencies, however, as many as 25% of outsourcing deals fail within the first year (MacInnis, 2003). With the current logistical and supply chain disruptions, many outsourcing partnering are increasingly under the microscope. The actual numbers of failures are astounding, even though most failures go unreported for quite some time because companies do not want to admit their mistakes. This is unfortunate as contrasting these failures with more successful outsourcing efforts can yield useful best practices (Barthelemy & Adsit, 2003; Smith, 2022a). A classic example of potential success and failure is the microchip shortage that the U.S. and much of the world is currently experiencing. Intel and Apple, to name a few, decided 30+ years ago to export the source of microchip processor manufacture to South Korea and Taiwan, in particular, as part of the lean manufacturing and total quality management (TQM) that Toyota pioneering during that time. It was thought that the advance designing would stay in the U.S., manufacture in Asia, and now, with China the primary consumer of microchips for electronic consumer goods, it has become a strategic concern. Manufacturing of these products are essential for military, as well as domestic production, of electronically sophisticated products and has placed the U.S. and its allies at a disadvantage if control of these products is outside U.S.' control. Hence, a long-term strategic focus and perspective should be taken to determine the success or failure of outsourcing.

Despite firms' best efforts to keep outsourcing mishaps under wraps, many have been identified and studied. The first and foremost reason cited for the failures is the lack of realistic expectations. Many times, an activity will be outsourced that has been a problem area for the firm in the past (Smith, 2020b, Van Weele & Van Raaij, 2005; Viswanathan, et al., 2007; Wong & Eyers, 2011). For example, Blake Hanna of Accenture, a Toronto-based outsourcing company, recommended that firms straighten out their messes before outsourcing, as it is important to understand the current level of performance to properly assess another's management of it (MacInnis, 2003). These unrealistic expectations can be avoided by taking proper steps when thinking of outsourcing. Barthelemy (2003), specified as follows:

1. Outsourcing activities that should not be outsourced
2. Selecting the wrong vendor
3. Writing a poor contract
4. Overlooking personnel issues
5. Losing control over the outsourced activity
6. Overlooking the hidden costs of outsourcing
7. Failing to plan an exit strategy

DOI: 10.4018/978-1-6684-7366-5.ch031

As firms continue to explore outsourcing, the practice of offshore outsourcing has become a focus among global businesses. Firms generally want to take advantage of expertise in matters outside their core competencies; no matter what country this may place them. This idea of placing plants or offices in other countries is especially attractive for firms for both the potential to cut in-house costs as well as the opportunity to ingratiate itself with the local inhabitants (Brito & Botter, 2012). Unfortunately, the failure rate of offshore outsourcing is 50% (Recipe for Offshore, 2004). David Foote, co-founder of Foote Partners and a long-time IT analyst and consultant, purports that the biggest culprit of these failures are the transition challenges; the inability to navigate difficult organizational and cultural barriers (Recipe for Offshore, 2004). Furthermore, Foote also believes that one of the worst mistakes that a company can make is to treat all outsourcing deals alike (Recipe for Offshore, 2004).

Purpose

As firms continue into the potential for global recession with high inflation rates and supply chain disruptions associated with the Covid-19 pandemic (Hanson, 2020; Patel, et al., (2020), the prognosis remains high for rates of failure regarding offshore outsourcing. NeoIT, a San Ramon firm that manages offshore operations, predicts a failure rate of 40% for specific to offshore outsourcing. Other predictions cite the total failure rate to be as high as 70% (Zineldin & Bredenlow, 2003). This chapter will identify several key outsourced services and the failures that have resulted. More specifically, since total purchases (outsourced) spend is estimated at 33% for service related activities such as legal, accounting, information technology (IT), advertising and related activities (Ellram et al, 2004; Smith & Krivacek, 2019). It is from these 'high-outsource spend' areas that this chapter takes its formation in discovering relationships, failures, and remedies. In doing so, it is hoped that efforts to further identify an algorithm that may serve as a guide to prevent or decrease the incidence of such failures can, at least, be made at the conceptual level (Daim, et al., 2010). This chapter inspects some of the historical and current trends in outsourcing services. As with any conceptual research, the ultimate future is unknown, with many uncertainties that cannot be accounted for. This chapter looks at the academic and practitioner-based literature, couple with the geopolitical and supply chain disruptions that have resulted in the current economic environment of high inflation and investor volatility/uncertainty. If any that the information is this chapter hopes to uncover is that the traditional wisdom associated with outsourcing, especially offshoring, are current under attack.

BACKGROUND

Marketing/Advertising

Advertising has been outsourced, it seems, since the concept of doing so came into existence. Ad agencies lining up to give their presentations in hopes of winning the chance to invent the most effective tag lines in order to make a product a household name has been played out repeatedly in movies and television. In essence, it is the purchase of ideas. In modern times, the practice of marketing those ideas have also become big business – too big for some companies. With the invention of websites, marketing and advertising have evolved to a point that most any type of consumer can be reached and often tracked (Adjei, et al., 2010; Chavez, et al., 2016).

Related Content