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OUTSOURCING

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The term *outsourcing* today designates a process of partial or complete externalization of functions inherent to a structured organization that relies on various trades and occupations to fulfil its mission. The recourse to outsourcing is governed by microeconomic precepts and involves procurement outside its organizational framework of goods and services deemed intermediary or instrumental to the organization's purposes as an alternative to their direct production within the organizational structure.

The notion of outsourcing first emerged in late 20th century business management theory. It refers to decisions and practices that partially or fully transfer traditional or new activities to an outside part that otherwise would be handled internally. Candidates for outsourcing include basic management operations (such as partial or full responsibility for human resources, financial, IT, or materials management), the supply of intermediate goods or services necessary for the production of outputs, or even full responsibility for a product or service that management decides to produce or provide through outside contractors.

Within this operational framework, the client retains contracting authority, but a legal entity with a separate structure becomes the operator. Relations between the principals are governed by an agreed-on contractual framework (e.g., interfirm agreement, subcontracting agreement, franchise concession) that includes specifications, estimates, or detailed plans (architectural or organizational) drawn up by the prime contractor, and often identical to those previously used within the contracting organization to fulfil task requirements or achieve desired outcomes.

Organizations operating under private law today mainly use this type of partnership for essential administrative tasks they consider low-yield, such as payroll and benefits administration, information and communications technology maintenance, current accounting, and recurring logistical management. Management of these essential activities is considered repetitious and is often burdensome, labour-intensive, and potentially expensive due to the fast pace of change in the specialized fields involved. Managing them has never been considered necessary for financial and competitive success. Firms generally begin by partially outsourcing these basic functions, but the inherent logic of the approach eventually leads them to contract out all related business processes.

In a relatively short time, this process came to be seen as a strategic (and emancipatory) management tool for many small and medium-sized businesses. Many companies, idealizing lean structure, now see such outsourcing as a necessary precondition for any rational expansion.

While this was occurring in smaller businesses, big business developed a notion of outsourcing that zeroed in on chains of production underlying the main components of their corporate activities. Their vast and complex production and distribution structures—and even their end-customer transaction and after-sales service activities—have been fertile ground for experimentation. With the globalization of market economies and instrumental innovations from the information and communications technology revolutions, outsourcing has increasingly been associated with “offshoring,” the real results and future of which have scarcely begun to be measured.

Outsourcing has come to be seen as a profitable alternative to the more costly option of total or speciality-specific vertical integration that had been pursued by large corporations to attain full maturity in the postwar period. Incorporated into corporate specialized processes, it has rapidly gained a following because of the efficiency gains it may offer along with, ultimately, qualitative value added. A turning point was reached in the early 1990s when IBM outsourced its actual manufacturing facilities. Marking a clear break with traditional orthodoxy, this meant that corporate upper management was now ready to consider outsourcing even operations historically considered its central trade and purpose—to offshore both facilities and activities.

Main benefits sought

A review of the outsourcing experience shows that companies that offload the management of certain tasks instrumental or subordinate to their corporate structure (known as specialized or cost-based outsourcing), generally improve their short-term overall operational conditions and sometimes their productivity.

Businesses may thus more easily concentrate on their distinct purpose and competencies. The liberating effect generated by outsourcing creates a situation in which useful internal restructuring might be used to more closely focus on core business. Resources can also be devoted to activities with the potential to boost strategic thinking and innovation, thus enhancing flexibility, operations, and quality control within the operations businesses is now free to concentrate on.

Main drawbacks

Paradoxically, the very separation sought after by this management paradigm leads to its main drawback. High levels of outsourcing affect an organization’s core operations, reducing its access to key information that otherwise would circulate within the organizational structure. The result may be a weakening of the ability to immediately detect and respond quickly to adverse dynamics or developments that might hurt the organization.

Only when an organization takes direct transactional responsibility can it grasp the meaning and potential of those subtle, low-intensity signals that come in from both internal and external clienteles. Not addressing these signals can lead to destabilizing situations that a direct managerial framework would under normal circumstances be able to effectively contain.

Likewise businesses no longer have an incentive to acquire their own skills for addressing problems in these fields and tend to become dependent on the readings and interpretations of their external suppliers. They may in short order even lose the ability to properly assess their own needs and evaluate a supplier’s ability to meet them. Moreover, organizations that decide to repatriate outsourced activities must allow for a transitional period (often years) before the can regain an acceptable performance level in the area in question.

Realistically then, outsourcing is not without risks and cannot be seen as a miracle recipe for cost reduction without effort. The outsourcing formula requires rigorous management. Most experts (Pesquieux and Bounafous-Boucher, 2006; Le Ray, 2010) recommend that organizations interested in using this method proceed according to the following two steps:

Step 1

- Define the activities that must be carried out internally and decide which can or must be conducted outside the organizational structure.
- Put in place a tendering process.
- Compare bids received.

Once the organization has conducted a meticulous analysis of the activities involved and skills required and is convinced of the value of proceeding, it must rigorously compare the existing operational model with the desired one in order to justify the decision on economic grounds. At this point, processes must be comprehensively charted so that existing operations are fully documented and measured along with any other business processes likely to be impacted by outsourcing.

Step 2

- Select the subcontractor.
- Negotiate contracts and prices.
- Manage the transition of activities.
- Maintain the appropriate client–contractor relationship

Solutions available on the expanding subcontracting market are generally numerous. The eventual choice will depend on the strategic importance of the operation for the outsourcing entity, the complexity of the operation, and the nature of the desired relationship with the operator. Here particular attention must be paid to contractual issues if a healthy and effective long-term relationship is to be assured.

Any contract must at a minimum include the level of service expected, performance metrics, the responsibilities of each party, and the method and frequency of reporting. Outsourcing is not a one-off effort. Once established, the relationship must be maintained, and even managed remotely through application of the requisite intraorganizational competencies. Doing things in-house requires certain skills, but having them done for you involves another skill set that managers ignore at their peril.

Public sector outsourcing more complex

In the public sector, outsourcing on an appropriate scale may also be considered, depending on the sector or type of organization involved. Optimal conditions are however more difficult to obtain - as is always the case when innovative concepts or practices deemed effective in the market economy are borrowed by the public sector.

The strict principles governing public management and its outputs (rights and responsibilities of the citizens involved, unconditional guarantee of reliability and predictability of public operations and goods, openness, transparency, responsibility and accountability of political leaders and public officials) mean that mandatory standards must be imposed for managing both the basic internal operations of public organizations as well as the production and provision of the public goods and services the public is entitled to.

The imperatives for government action in modern democratic societies make it highly inadvisable both for would-be "operators" inexperienced in public service ethics and for public administrators insufficiently familiar with the techniques of partial subcontracting to yield to the temptation of a cookie cutter approach, despite recurring pressure brought to bear by short-sighted ideologues wedded to their private sector models.

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