

OUT SOURCING

THE DEFINITIVE VIEW,
APPLICATIONS, AND
IMPLICATIONS

NICHOLAS C. BURKHOLDER



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To the individual worker, the ultimate resource

And

*O. Craig Burkholder, John F. Burkholder, and Paul J. Burkholder,
three exceptional workers whom I admire greatly
and from whom I have learned much*

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Introduction

Outsourcing is one of the oldest hot business ideas. It was used the first time a carpenter paid someone else to cut down a tree for wood. The first significant organizational outsourcing was for the most brutal of work: waging war. Carl von Clausewitz, the early-nineteenth-century military strategist, noted in *On War* that as gold replaced strategic obligations “armies were turned into mercenaries.” Outsourcing, whether in the form of call centers or soldiers of fortune, is simply a classic economic principle—division of labor—taken to its logical conclusion: a virtual assembly line in a global factory. The benefits, then, are obvious; a business that reduces operating costs and increases efficiency can lower prices for its consumers and increase investment, which, in turn, creates new, often higher-paying jobs.

There is nothing novel about outsourcing. Indeed, management experts have been proclaiming the benefits of outsourcing for decades. In 1990, organization expert Charles Handy introduced his idea of a trifoliate “Shamrock Organization”: (1) a small permanent core of management and technical employees, (2) a flexible labor force of part-time and temporary workers, and (3) independent contractors and outside suppliers who are brought in as needed for special and reoccurring projects. Handy recommended that all nonessential work should be contracted out—or outsourced—to workers who specialize in that particular task.

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The same year, management guru Tom Peters predicted that we would all become companies of one with cell phones and fax machines in our cars outsourcing work to each other. The Internet has accelerated and expanded the workplace that Handy and Peters spoke of. It has also fundamentally changed the ways in which we can work.

In today's globalized economy, it is impossible not to outsource. As Tom Friedman says, the world is flat and we are all working in the same factory. Every organization outsources; the only question is how effectively. The venerable publisher of this book outsourced the typesetting and printing of this book (in order, we hope, to sell the book at a price low enough to entice potential buyers). Thousands of contractors are available to provide services for virtually every function. Even unions participate. Utilities and other organizations outsource most electrical power work to contractors who in turn outsource to the International Brotherhood of Electrical Workers (IBEW). The IBEW selects, constantly trains, and manages a workforce of highly skilled linemen for this very technical and dangerous work.

And yet, to say that outsourcing is ubiquitous and inevitable is not the same as saying it is desirable or virtuous. CEOs are concerned about public perception of any outsourcing decision, particularly offshoring. CFOs are concerned about costs and risk management. And just about everyone else is concerned about their jobs. Like reengineering, outsourcing can devastate the lives of thousands of workers. There are also implications for the people and communities to which work is outsourced. All of these considerations are part of the complete outsourcing equation.

Organizations outsource for a myriad of reasons. Some say they outsource to other countries because the United States' litigious culture creates unbearable compliance costs. For example,

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The Wall Street Journal recently reported that some Indian outsourcing companies are seeing business rise more than 50 percent per year because of costs related to Sarbanes-Oxley.¹ Also, some businesses seek to reduce other high employment costs, such as wages, benefits, and unemployment insurance. General Motors says that outsourcing can help it control health-care costs, the top priority of its chairman. Other CFOs have told us that they will look to offshore higher-paying positions if the compensation ceiling for Social Security contributions is raised.

Although many businesses seek lower costs, some also seek better workers. It is no secret that American students lag behind their Asian peers in math and science. Many businesses outsource simply because the work force in India or China may be better educated, more motivated, and cheaper to boot. For a business manager, this seems an easy decision.

The financial markets also exert a very powerful influence. Staffing.org contacted more than 100 organizations that announced layoffs after the dot-com bubble burst. The use of contractors and contingent workers actually increased in most of these organizations, yet Wall Street invariably considered the layoffs a positive indicator. It is also clear that the analysts favor organizations that outsource.

Organizations also outsource out of fear of falling behind. In *The Witch Doctors* (Three Rivers Press, 1998) John Micklethwait and Adrian Wooldridge write of executives who flock to one management theory after another in an eternal quest for the latest and best practice. Buzzwords echo in boardrooms around the globe without any consideration of validity. As Daniel

¹Eric Bellman, "Tracking the Numbers/Outside Audit: One More Cost of Sarbanes-Oxley; Outsourcing to India," *Wall Street Journal*, July 14, 2005, C1.

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Drezner explains in “Outsourcing the Boogeyman” (foreign affairs.org, May/June 2004), “Much of the perceived boom in outsourcing stems from companies’ eagerness to latch onto the latest management trends. . . . Many will partially reverse course once the hidden costs of offshore outsourcing become apparent.” Not surprisingly, some theories actually prove to be deleterious to organization performance. For example, the reengineering craze actually wreaked havoc on organizations and individuals. Outsourcing, then, must be judged on its own merits rather than being viewed as a miracle cure for a company’s ills.

One of the best-selling books on outsourcing is Peter Bendor-Samuel’s *Turning Lead into Gold* (Executive Excellence Publishing, 2000). The title comes from the ultimate goal of alchemy, the medieval pseudoscientific forerunner of chemistry. But just as nothing turns lead into gold, outsourcing is not a magic shortcut to unlimited profits. The decision to outsource, like any business decision, must be rational and calculated, based on empirical evidence and not just the latest fad.

Staffing.org, a nonprofit that fosters the use of measurement to make the best decisions about people and work, has been collecting recruiting performance data since 1999. Its analysis of almost 3,000 U.S.-based organizations clearly indicates that there is no correlation between performance and whether the recruiting function is internal or outsourced.

When we originally conceived this book, our intention was to provide a definitive study of outsourcing. That role now seems academic. Instead we’re offering practical perspectives and solutions for a very changed world; a world in which work can be instantly and seamlessly moved around the globe, a world in which past Employment Management Association president and Monsanto vice president John Kitson says the very nature

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of work has changed: “It’s not about loyalty, relationships, or even a commitment toward common goals. It’s about getting the job done.”

We’re also committed to taking Albert Einstein’s advice that “Everything should be made as simple as possible, but not simpler.” To that end we have shared the best information on outsourcing and summarized our most important findings in the case studies of Chapter 3, Imperatives. These case studies on subjects as varied as today’s small business and the health care industry follow to illustrate the points found in Chapter 3. This will give a broader perspective on just how involved outsourcing is in our everyday lives.