

# Growth Through Outsourcing

Your recent home DIY efforts have ended in disaster. Reluctantly you concede you do not have the necessary skills or equipment to finish the job and must call in a professional...sound familiar?

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This everyday activity illustrates the essence of outsourcing – a realisation that external expertise is required or can be acquired to complete work normally performed internally within a company, which will be of benefit to that company.

Outsourcing grew from the view that if companies could just concentrate on excelling what they did best – their core operations – and leave the other parts of their business to companies with expertise in that area, then logically they could improve

their competitiveness and their overall performance. This view gained further prominence in reaction to the explosive effects of globalisation coupled with the opening up and deregulation of markets, which left organisations in increasingly turbulent environments. At the same time customer demand led to intensified competition, where the only sustainable advantage was an organisation's ability to compete better. These market conditions meant organisations found it increasingly difficult to exist

in isolation and to follow independent competitive strategies. More and more organisations started to work in collaboration.

Companies now routinely outsource payroll processing, accounting, IT, distribution, and many other important functions because they need to watch their expenses or as a result of a strategic alliance.

Trust is a potential barrier to overcome, especially if the outsource company is not personally known to the host company. Trust is likely

to be earned by outsource vendors by demonstrating competence and acting fairly, but this requires an element of confidence in the first place in order to agree to outsource.

However, the use of social networks, such as Facebook, Twitter and LinkedIn, has meant businesses can gain the acceptance (and potentially trust) of people within their network without having met them.

These forms of social media are increasingly becoming

## The decision to outsource can be balanced against the following advantages and disadvantages:

### ADVANTAGES

#### Resources not available internally

Outsourcing can build capability and provide companies access to resources they otherwise do not have. This is especially true for companies expanding into new geographical areas or utilising new technology.

#### Reduce and control operating costs

Outsourcing can leverage the economies of scales of the outsource company making it cheaper to outsource activities and thus reduce operating costs and increase competitive advantage.

#### Gain access to expert capabilities

As it is their core competence, outsource providers have the expertise, technology, and people that you may not have.

#### Free internal resources for other purposes

Helps a company focus its resources on core activities, to enhance customer satisfaction and increase competitive advantage.

#### Greater efficiencies

Can result in dramatic improvements in cost, quality, service and speed.

#### Make capital funds available

Can reduce the need to invest capital, which is not core to the business.

#### Share risks

Outsourcing providers make investments on behalf of many clients, thus the risk of investment is spread among many, reducing the risk born by a single client company.

### DISADVANTAGES

#### Loss of managerial control

When a function is outsourced the management and control of that function moves to the outsource company.

#### Hidden costs

Any activity which lies outside the agreed outsource contract or service level agreement will attract additional charges. You may also incur potential legal fees of a lawyer to review outsource contracts.

#### Information security and confidentiality

Any confidential information transmitted to an outsourcing company runs the risk it may be compromised. How will the outsourcing company protect your information – are they liable if an incident occurs.

#### Quality problems

How will you monitor the quality and performance of the outsource company and will they produce the required quality for your customers.

#### Is the outsource company financially robust?

If the outsourcing company went bankrupt, what impact would it have on your business?

#### Bad publicity and social responsibility

If the outsource company is involved in any immoral activities or actions how would this impact customer perceptions of your company.

the means for small businesses to reach out and establish trust based relationships with their outsourcing partners.

### Supplier Selection

When thinking about potential outsource companies to partner with, it might be helpful to consider the following attributes and outsource criteria:

- The contract terms and service level agreement
- References/reputation of the outsource company
- How much extra value will the outsource company add?
- What is their commitment to quality?
- What is the price of the outsource service?
- What is the scope of the outsource company's resources – is it scalable?
- Cultural match – do they share your company values?
- Do you have an existing relationship?


- What is the outsource company location?

### Managing the Relationship

To effectively manage an outsource project you need to make sure you know who it is – from within your company – who is responsible for the relationship, and what their

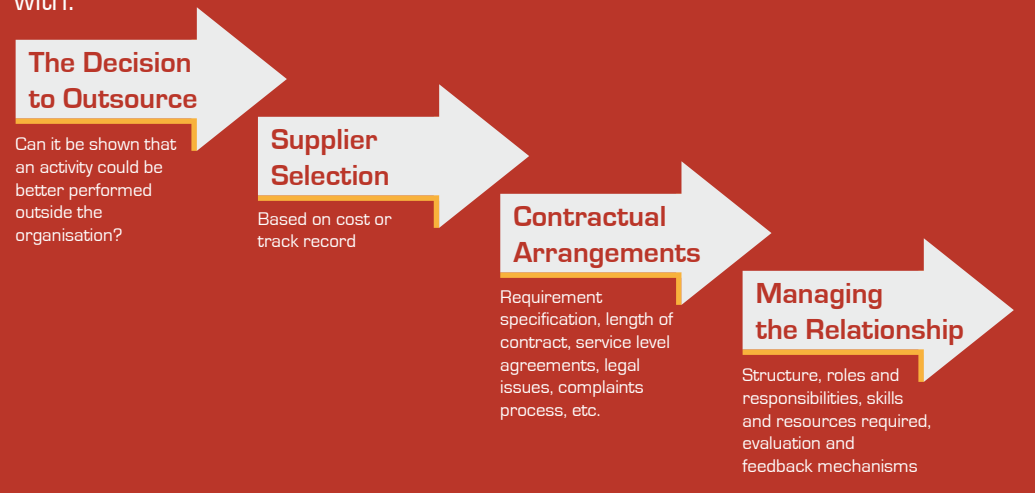
responsibilities are. It is good practice to establish routines of daily or weekly review calls to monitor performance and possibly provide incentives, depending on the type of outsource project.

In the quest to help companies enhance their competitive advantage

outsourcing can be a compelling decision to take, but it needs to be looked upon as an organisational competence, and like any other competences it requires learning and understanding. 

### What to Consider?

When thinking about outsourcing for your company it may help to consider the following steps to ensure you end up with a framework you are happy with.



For further information on Growing your Business through Outsourcing contact:

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