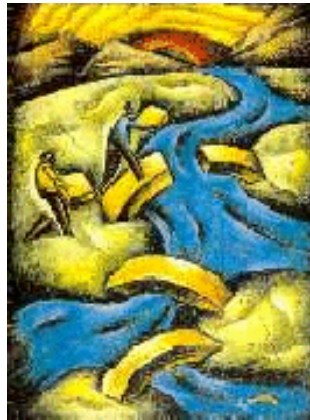


Outsourcing

Years Later - New Mindset

Prof. Dr. Hans-Erich Mueller
Berlin School of Economics
hemfhw@fhw-berlin.de



Outsourcing Colloquium ITTM/TFH
Chair Prof. Dr. Nicolas Sokinanos
Berlin 2003

Outsourcing: years later

- **Outsourcing**, make or buy, procurement et al.: What's new?
- **1990**: Kodak trailblazed IT outsourcing
- Buying a **commodity** or a **strategic** decision?
- More than IT: **Core business!**
- **Performance! Excellence! But how:**
 - Cost?
 - Value?
 - Value, flexibility, quality?
 - Now? In Future?
- **New mindset:** from cost control to managing for flexibility and quality
- What's on the **agenda?**
 - New mindset in **IT outsourcing**
 - A broader picture: **new strategies, new structures**
 - **Deconstruction** of the value chain
 - Cases: from **cars to experiences**
 - Managing **change**
- It's a **colloquium!**

NEW MINDSET IN IT-OUTSOURCING

IT Outsourcing: Expectations are High

Figure 1: Level of agreement with the statement 'There is substantial business value available from outsourcing'

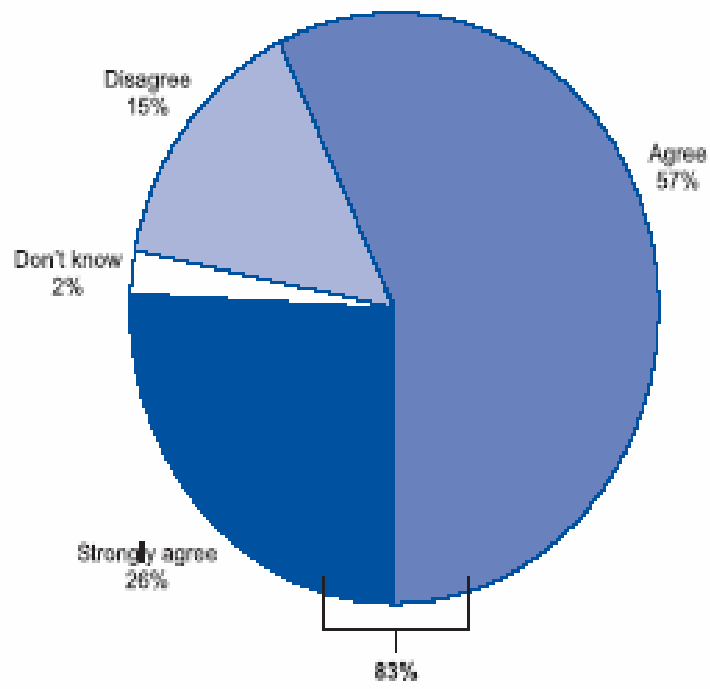
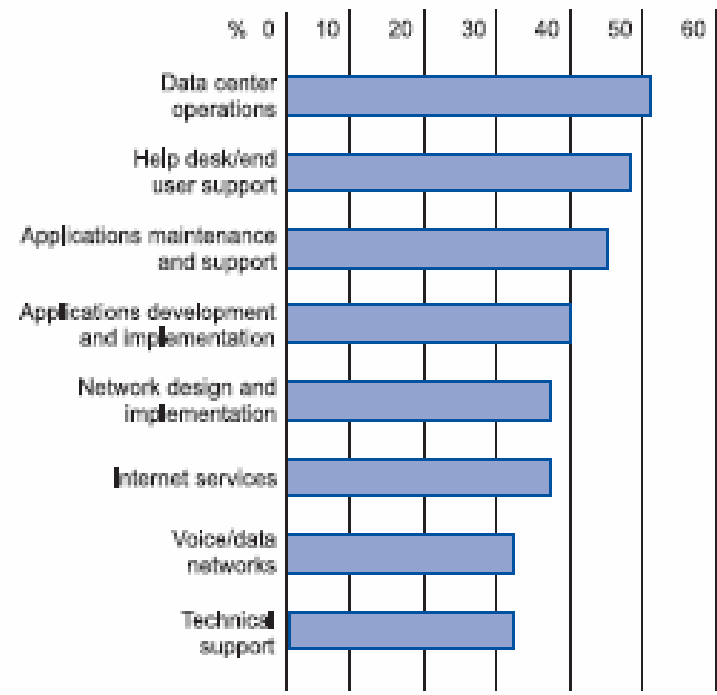


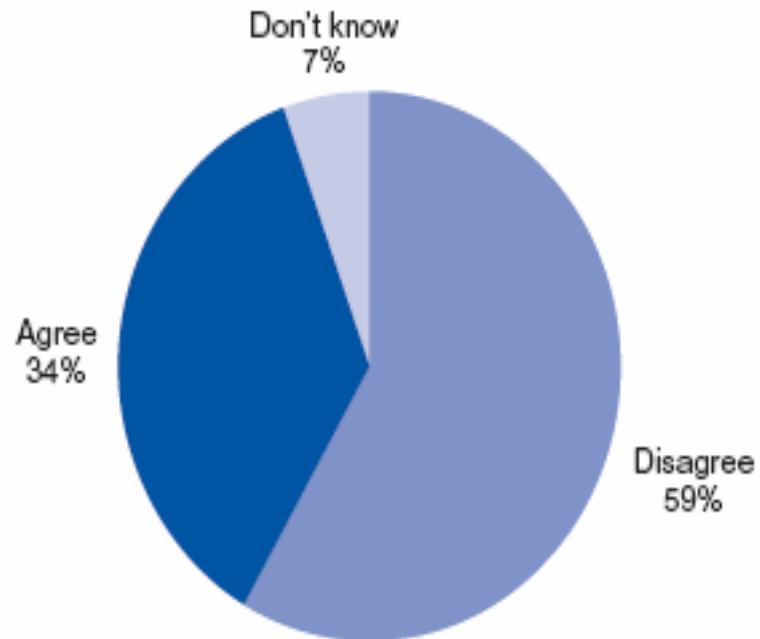
Figure 2: Services which are a priority for future outsourcing (% of respondents)



Much to Question on IT Outsourcing

Survey question:

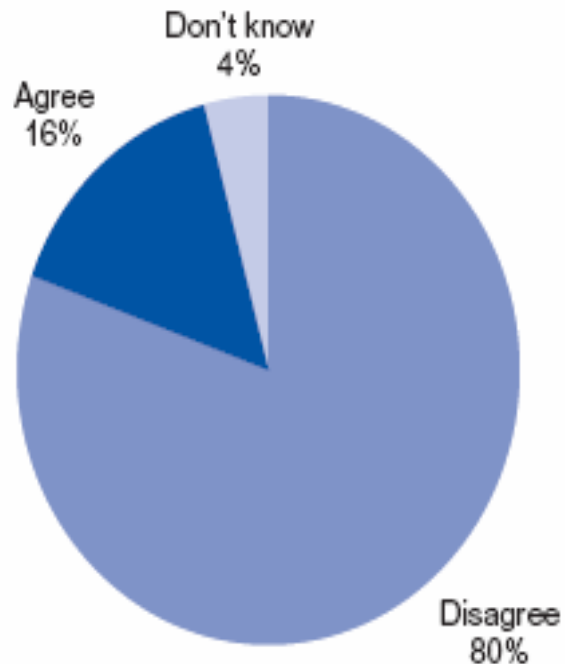
Do you agree that companies are good at realizing the value of outsourcing?



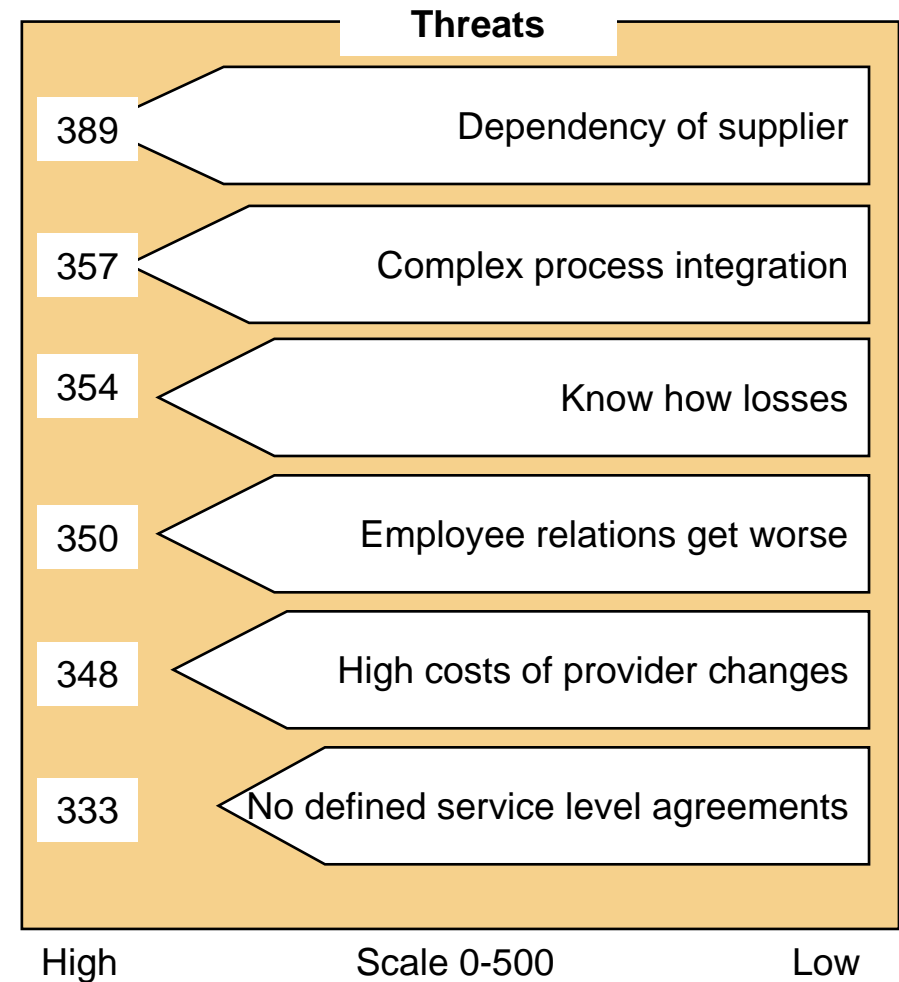
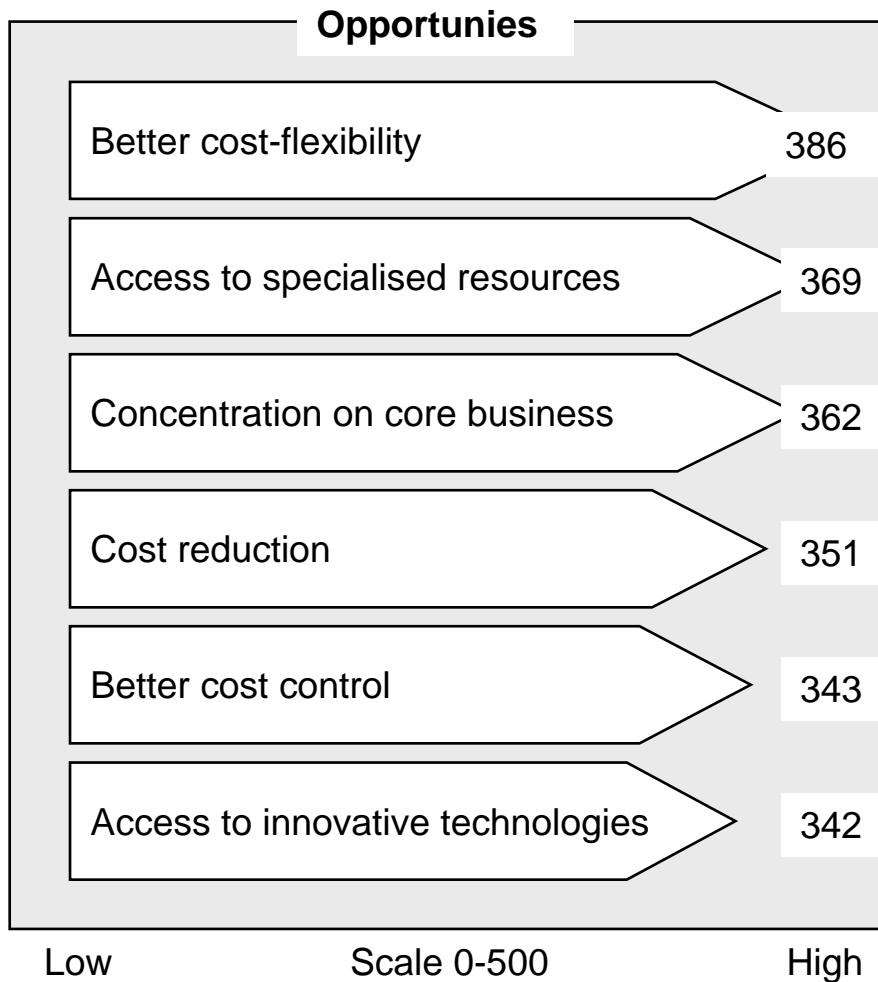
Survey question:

The problems in outsourcing relationships are mainly the responsibility of the supplier

80% of responding organizations admitted that suppliers were not mainly responsible for the problems in outsourcing relationships



IT Outsourcing: Opportunities and Threats Still Remain



Source: Accenture/Fink 2003(200 Unternehmen in Deutschland, Österreich und der Schweiz.

Challenge: Leading Laterally in Company Outsourcing

- **Strategic thinking.** Within the outsourcing framework, managers must understand whether and how to outsource in ways that improve competitive advantage.*)
- **Deal making.** Outsource process managers must broker deals in two directions simultaneously - securing the right services from external providers and ensuring their use by internal managers.
- **Partnership governing.** After identifying areas suitable for outsourcing through strategic assessment and upon clinching a deal, effectively overseeing the relationship is essential.
- **Managing change.** Forcefully spearheading change is critical because companies are certain to encounter employee resistance.

*) „Once you`ve outsourced something to some big IT company you can write it off as a source of competitive advantage.“ (Gary Hamel)

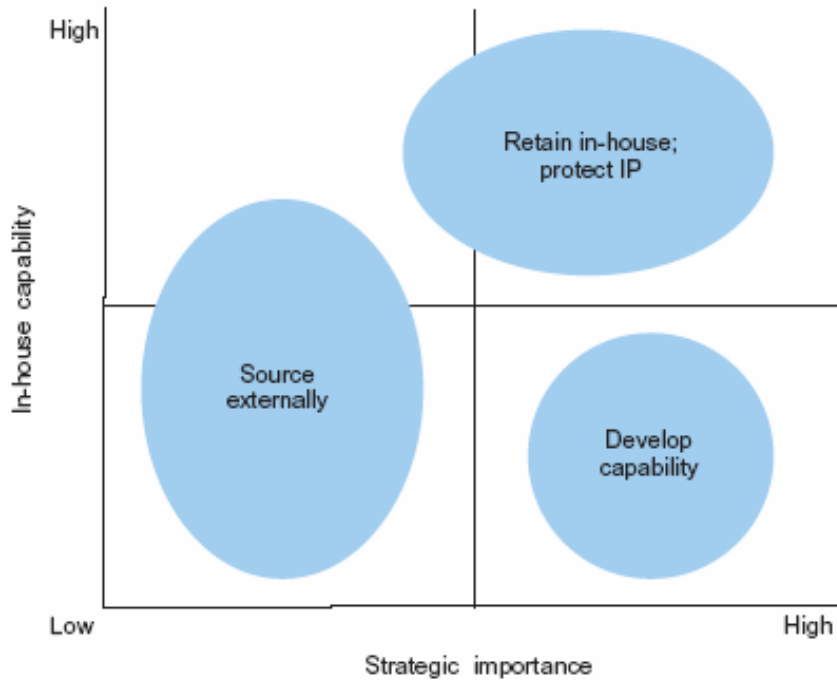
A BROADER PICTURE: NEW STRATEGIES, NEW STRUCTURES

Marc Chagall

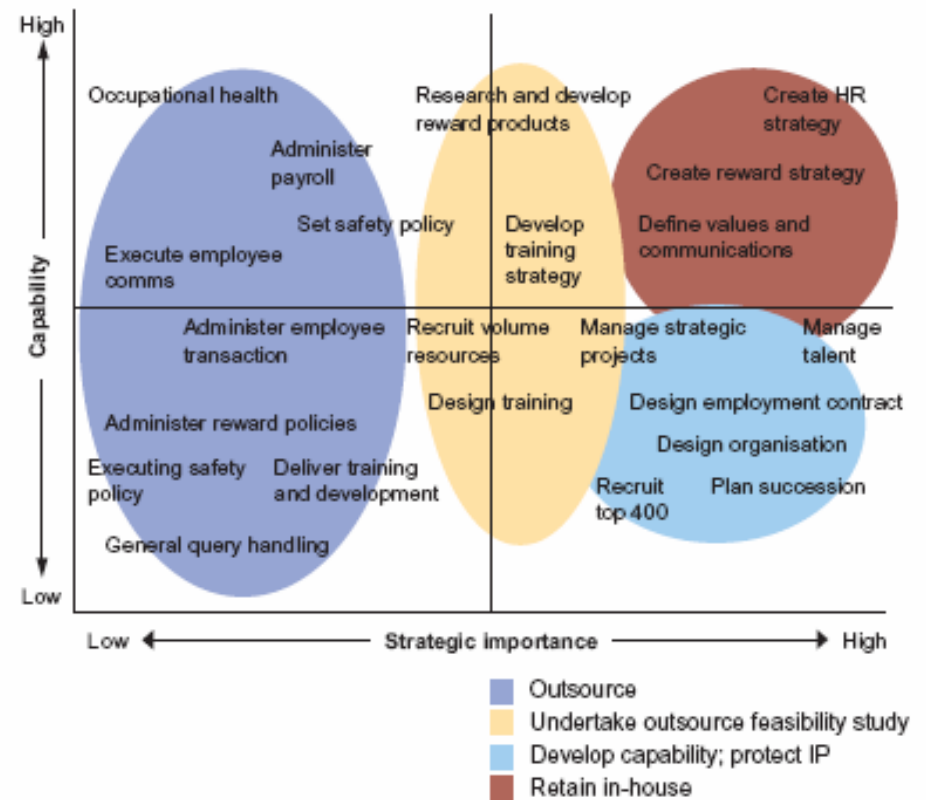
Hans-Erich Mueller

Understand Options for Sourcing

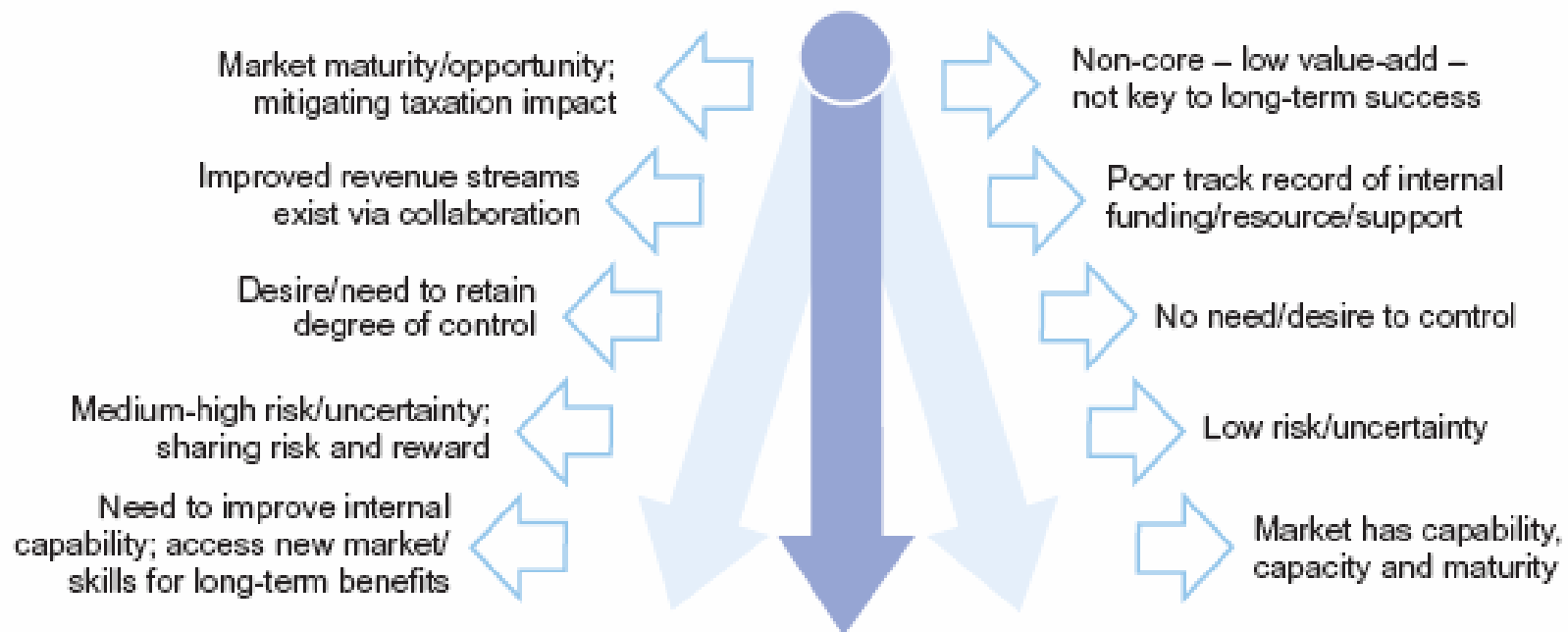
Sourcing assessment



Sourcing strategy for an HR department



Determining Sourcing Options: It's More than Buy

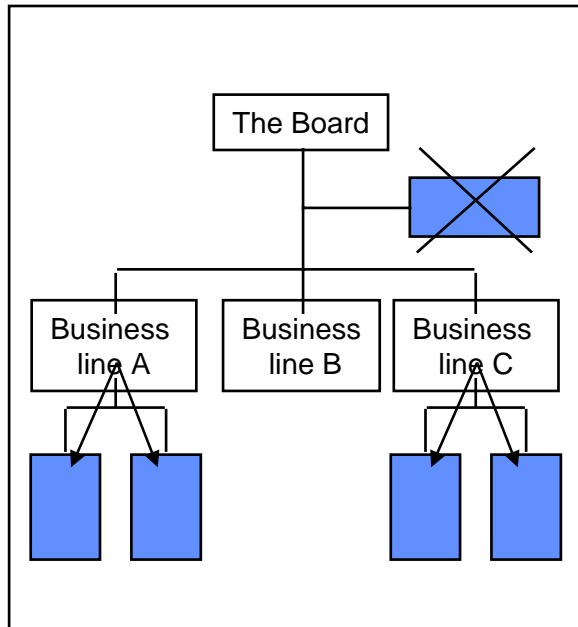


In-house			Collaborate			Outsource	
Core value-add	Under-utilization	Commercial opportunity	JV	Alliance	Partnership	Managed	Full commodity



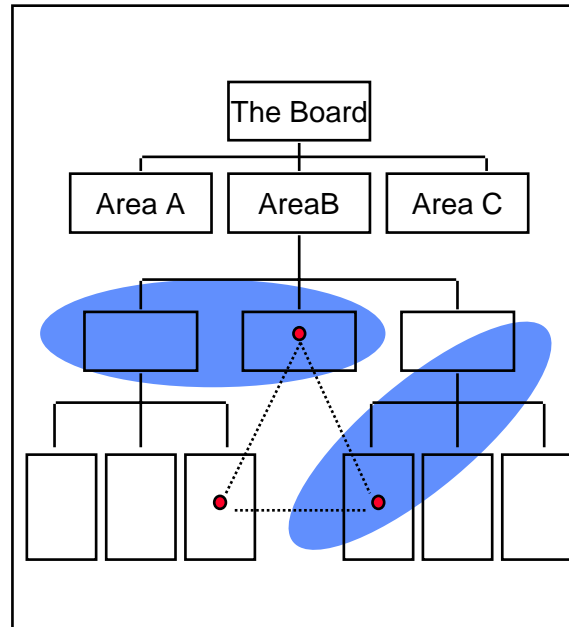
Outsourcing: one of Six Instruments of new Organisational Structures (1)

More decentralisation and business-segmentation



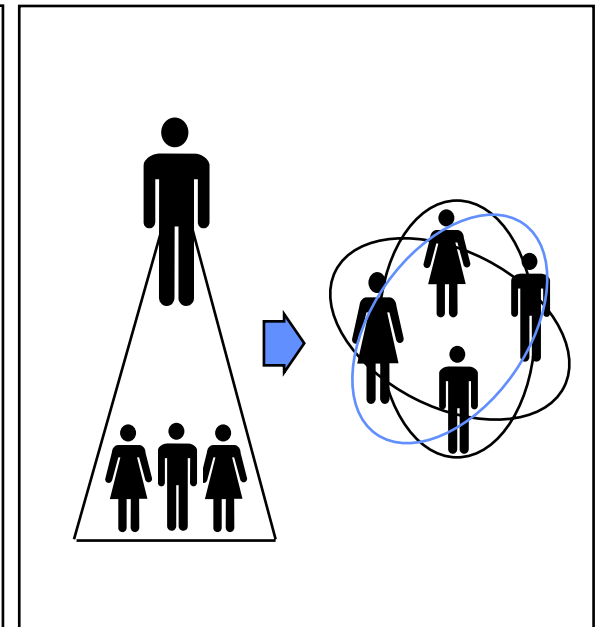
Complexity versus autonomy costs?

Flexible and team-oriented structures take the place of traditional organizations



A balanced way of flexible response?

More co-operative managing concepts; empowerment

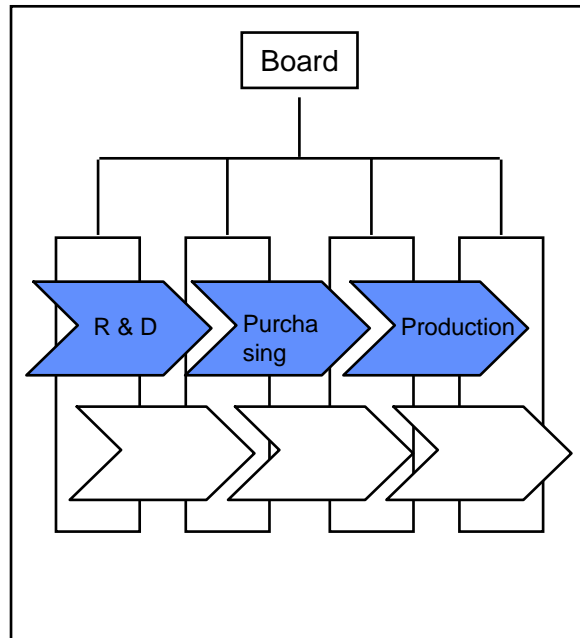


The affected become participants?

➡ Demands are often not recognised and managed

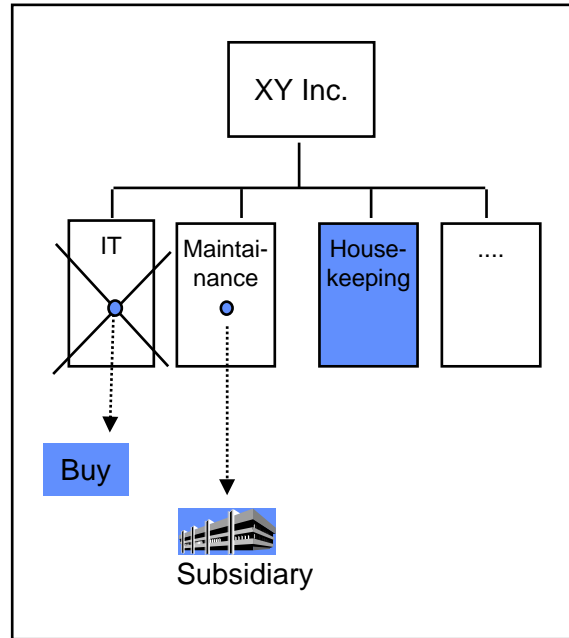
Outsourcing: one of Six Instruments of new Organisational Structures (2)

Business process first



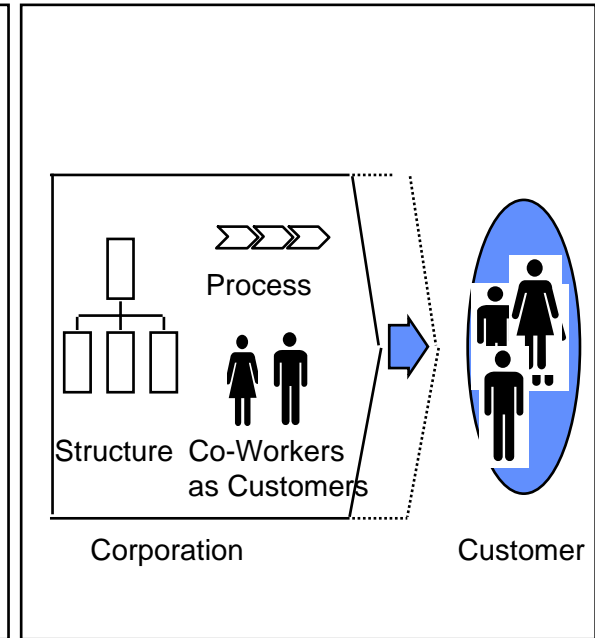
Reengineering = Back to Taylor?

Outsourcing



Core competencies or hollowed out?

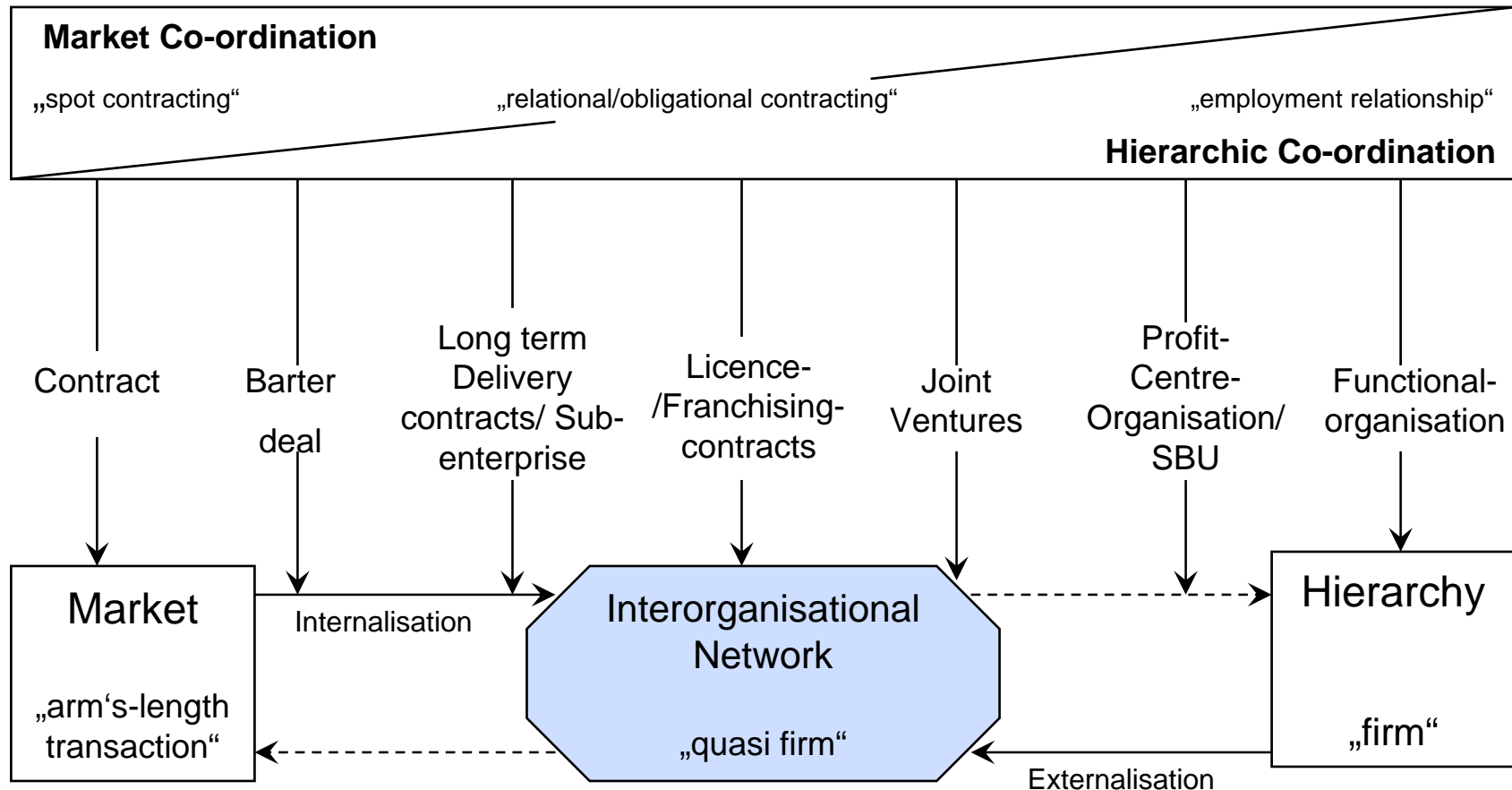
Customer Orientation



Cooperation or conflict?

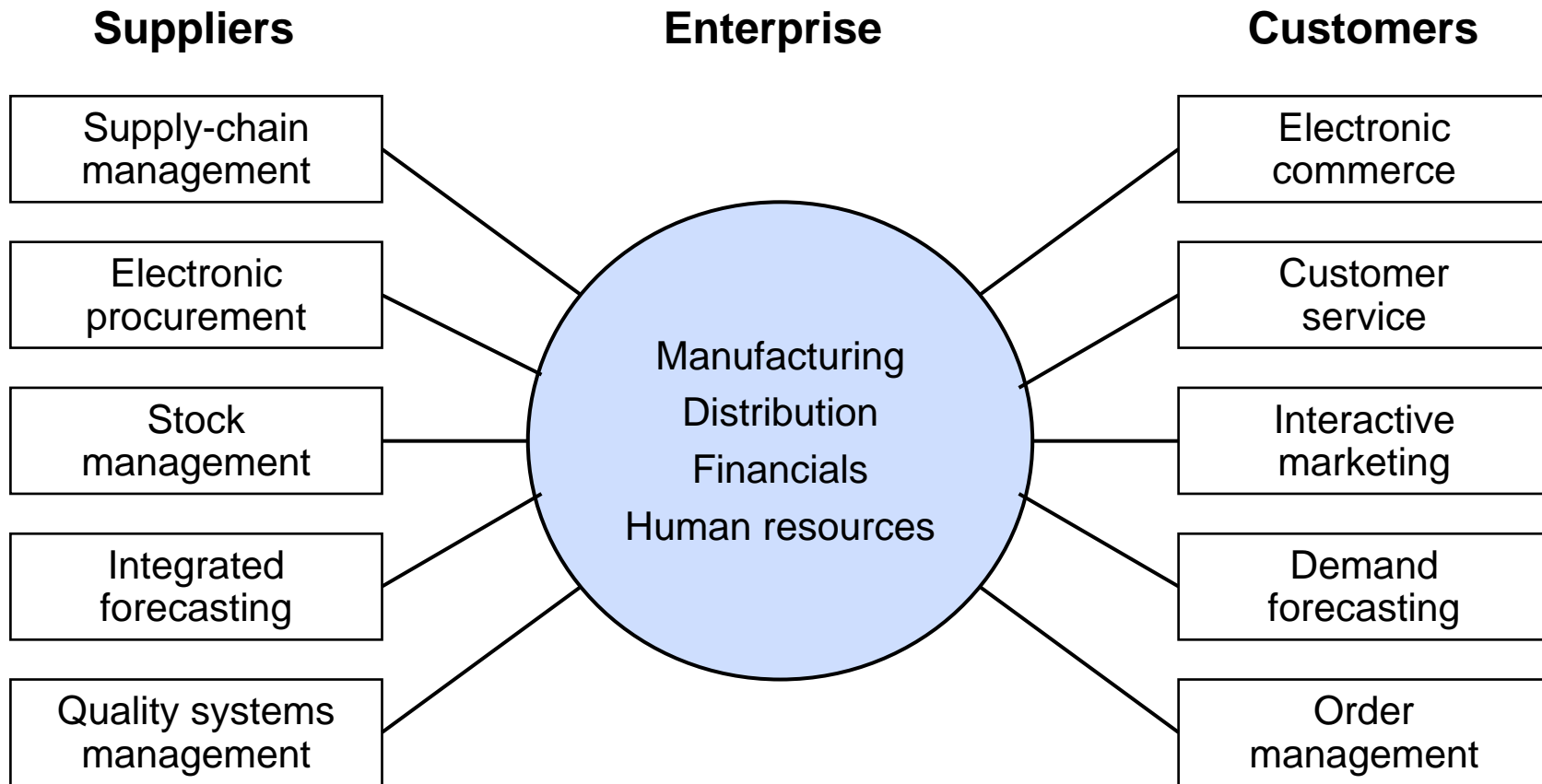
➔ More focus on good implementation than on creating new strategies. No “one best” but a balanced way.

Between Markets and Hierarchies: Growing Importance of Networks




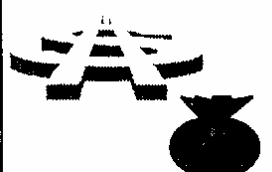

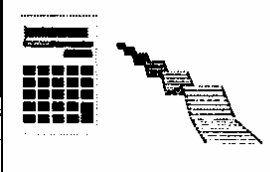

➔ Towards the virtual corporation?

Connectivity by Internet



➔ Infrastructure of the Extended Enterprise is Growing

Shared Services: e-Technologies Promote Reorganization

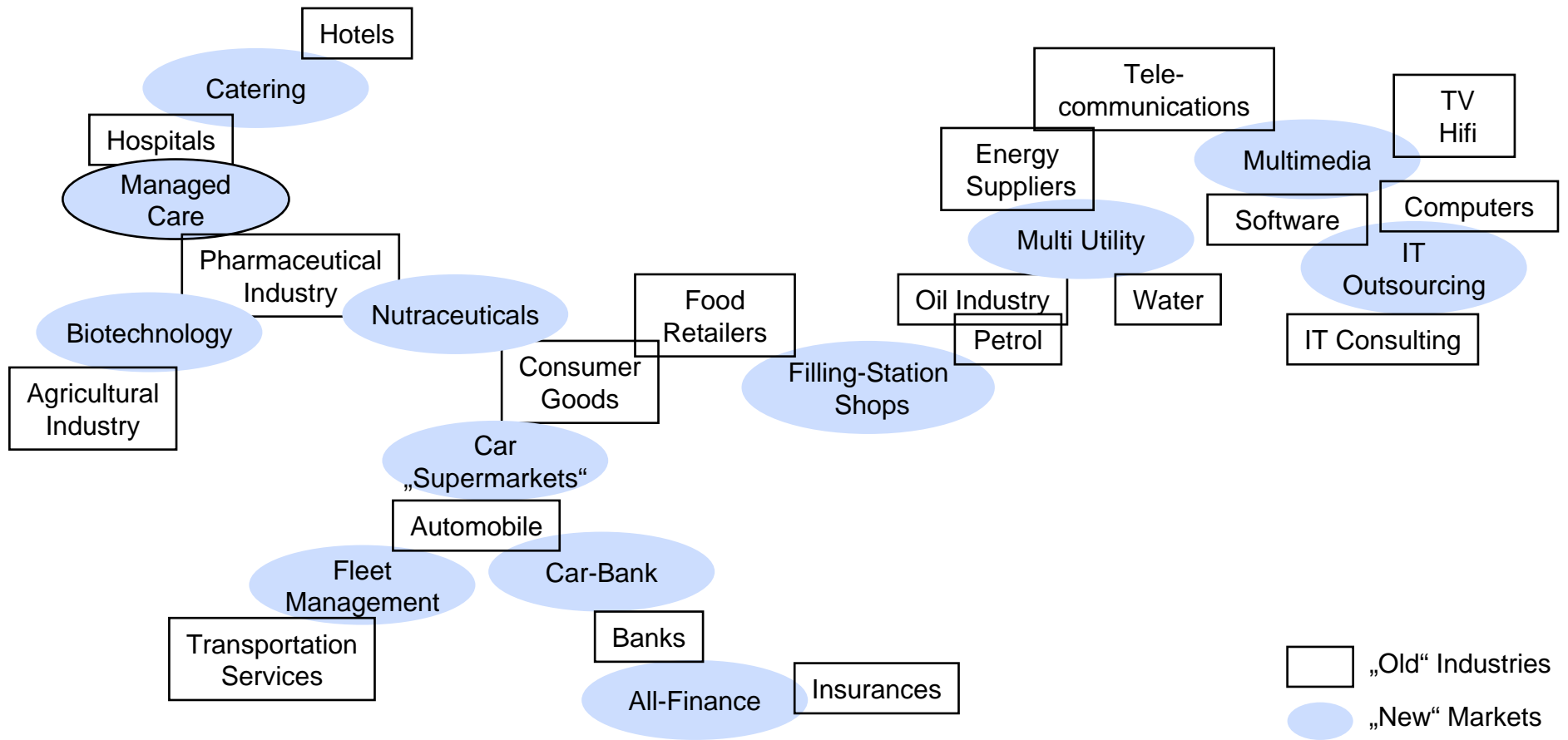
 <p>Order to Cash</p>	 <p>Procurement to Payment</p>	 <p>Hire to Retire</p>	 <p>Accounting to Reporting</p>	 <p>Other</p>
<ul style="list-style-type: none"> ■ Telemarketing ■ Telesales ■ Order Entry ■ Billing ■ A/R Accounting ■ Cash Receipts ■ Customer Service ■ Working Capital ■ Cash & Treasury Management ■ Foreign Exchange Management and Reporting 	<ul style="list-style-type: none"> ■ Strategic Vendor Management ■ Procurement ■ Inventory ■ Contract Administration ■ Fixed Assets ■ Accounts Payable ■ Advertising Control ■ Travel Management 	<ul style="list-style-type: none"> ■ Human Resources ■ T & E ■ Payroll ■ Benefits Administration ■ Claims & Insurance Administration 	<ul style="list-style-type: none"> ■ General Ledger ■ General Accounting ■ Consolidations ■ Management Reporting ■ Intercompany ■ Financial Reporting ■ Tax Compliance 	<ul style="list-style-type: none"> ■ Fleet Management ■ Facilities ■ Tax Planning ■ Internal Audit ■ ABC Costing ■ ABM Management

DECONSTRUCTION OF THE VALUE CHAIN

Frank Gehry, Museum Bilbao

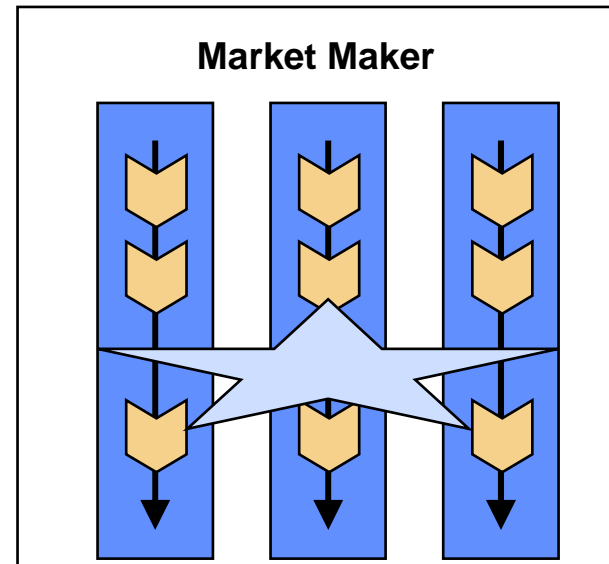
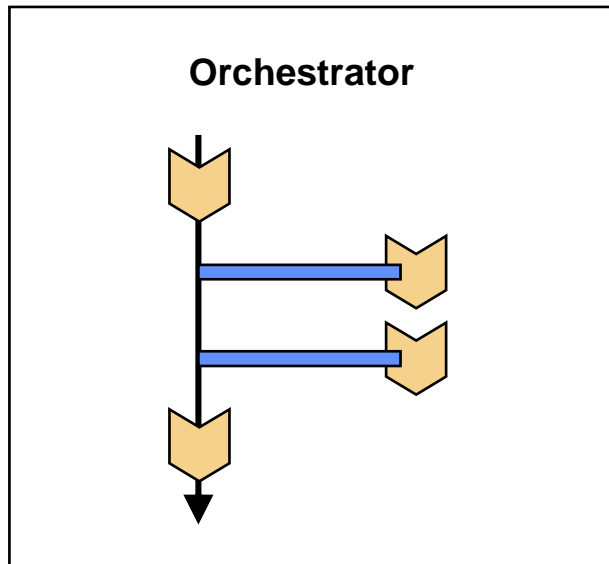
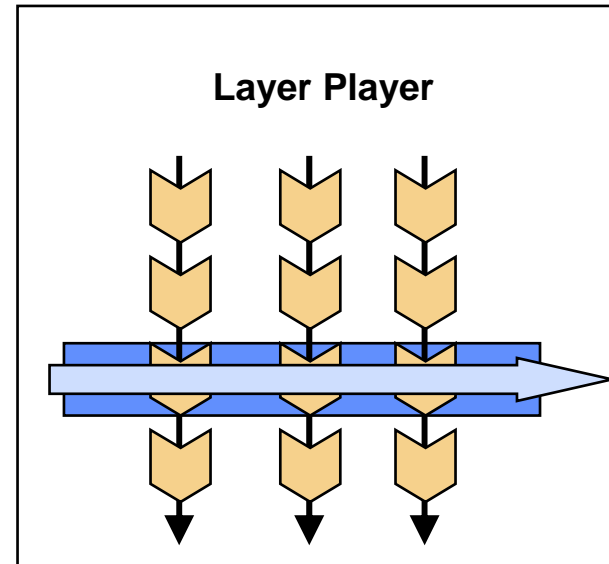
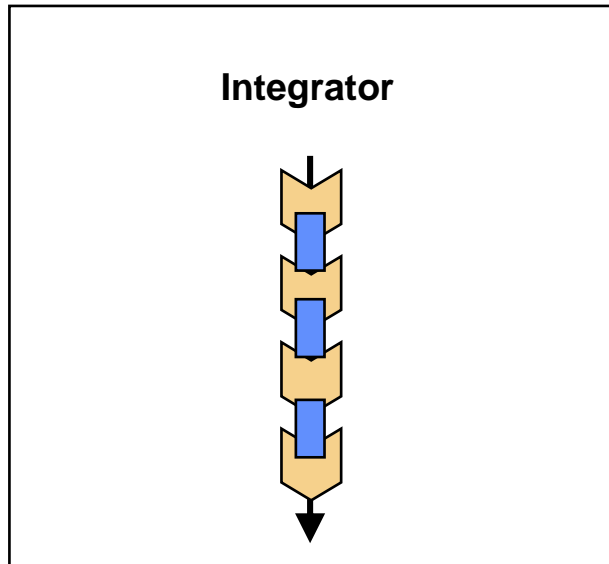
Hans-Erich Mueller

Business Migration - Traditional Borders of Industry become Blurred



➔ Layer-Players, Integrators and more: New strategies, new structures

Understand New Value Architectures



Source: Heuskel, 1999

Create value in the borderless enterprise

	Speed	Flexibility	Integration	Innovation	Total Score
Vertical Boundary 1 2 3 4 5 	Most decisions are made on the spot by those closest to the work. 1 2 3 4 5 	Managers at all levels routinely take on front-line responsibilities as well as broad strategic assignments. 1 2 3 4 5 	Key problems are tackled by multilevel teams, whose members operate with little regard to formal rank in the organization. 1 2 3 4 5 	New ideas are screened and decided on without fancy presentations and multiple rounds of approvals. 1 2 3 4 5 	_____
Horizontal Boundary 1 2 3 4 5 	New products or services are getting to market at an increasingly fast pace. 1 2 3 4 5 	Resources quickly, frequently, and effortlessly shift between functional "centers of expertise" and operating units. 1 2 3 4 5 	Routine work gets done through end-to-end process teams; other work is handled by project teams drawn from shared "centers of experience." 1 2 3 4 5 	Ad hoc teams representing various stakeholders spontaneously form to explore new ideas. 1 2 3 4 5 	_____
External Boundary 1 2 3 4 5 	Customer requests, complaints, and needs are anticipated and responded to in "real time." 1 2 3 4 5 	Strategic resources and key managers are often "on loan" to customers and supplies. 1 2 3 4 5 	Supplier and customer reps are key players in teams tackling strategic initiatives. 1 2 3 4 5 	Suppliers and customers are regular and prolific contributors of new product and process ideas. 1 2 3 4 5 	_____
Geographic Boundary 1 2 3 4 5 	Best practices are disseminated and leveraged quickly across country operations. 1 2 3 4 5 	Business leaders rotate regularly between country operations. 1 2 3 4 5 	There are standard product platforms, common practices, and shared "centers of experience" across countries. 1 2 3 4 5 	New product ideas are evaluated for practicality OR feasibility OR ... beyond the country in which they emerged. 1 2 3 4 5 	_____

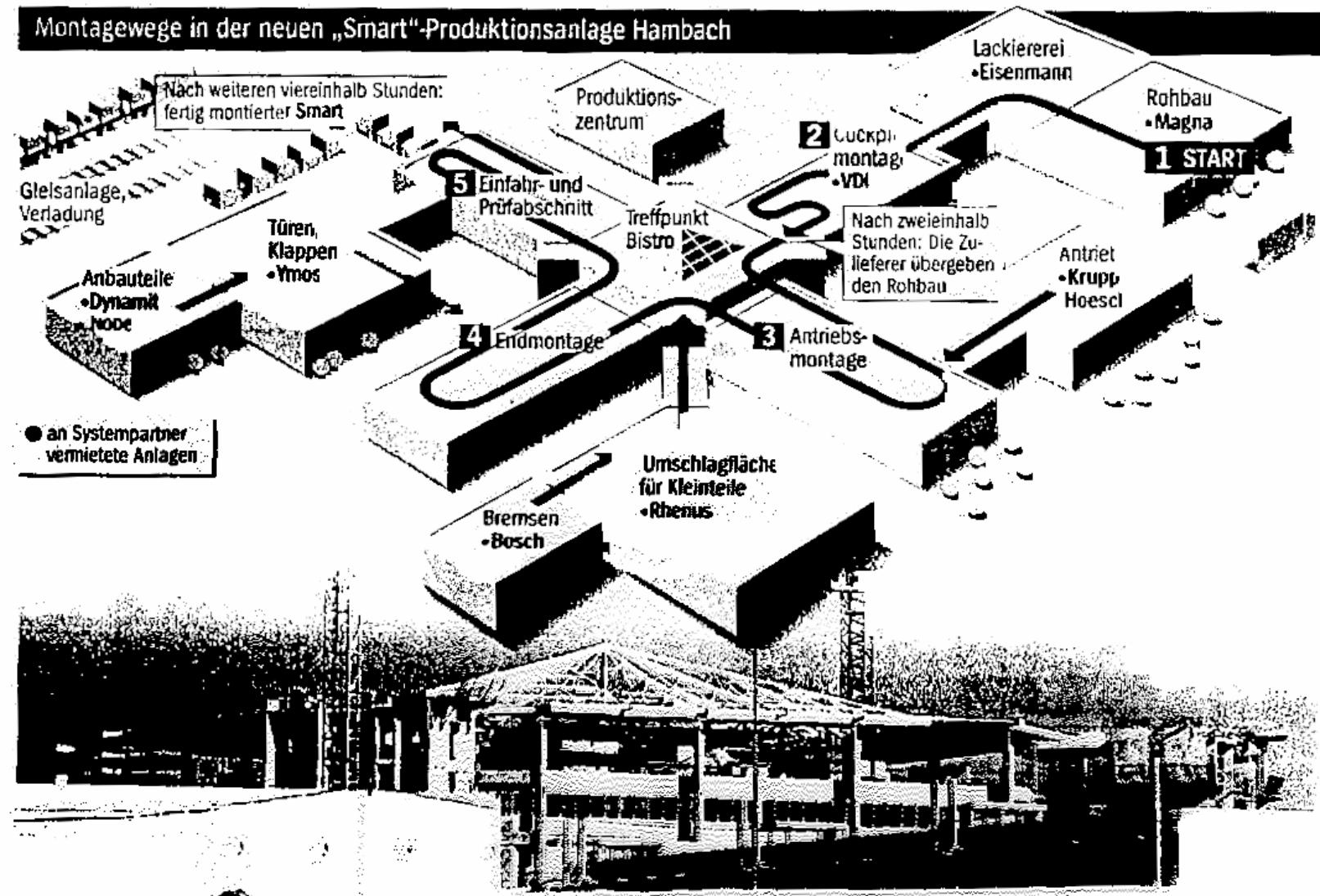
Total Score _____

CASE: FROM CARS TO EXPERIENCES

Andy Warhol, Benz Racing

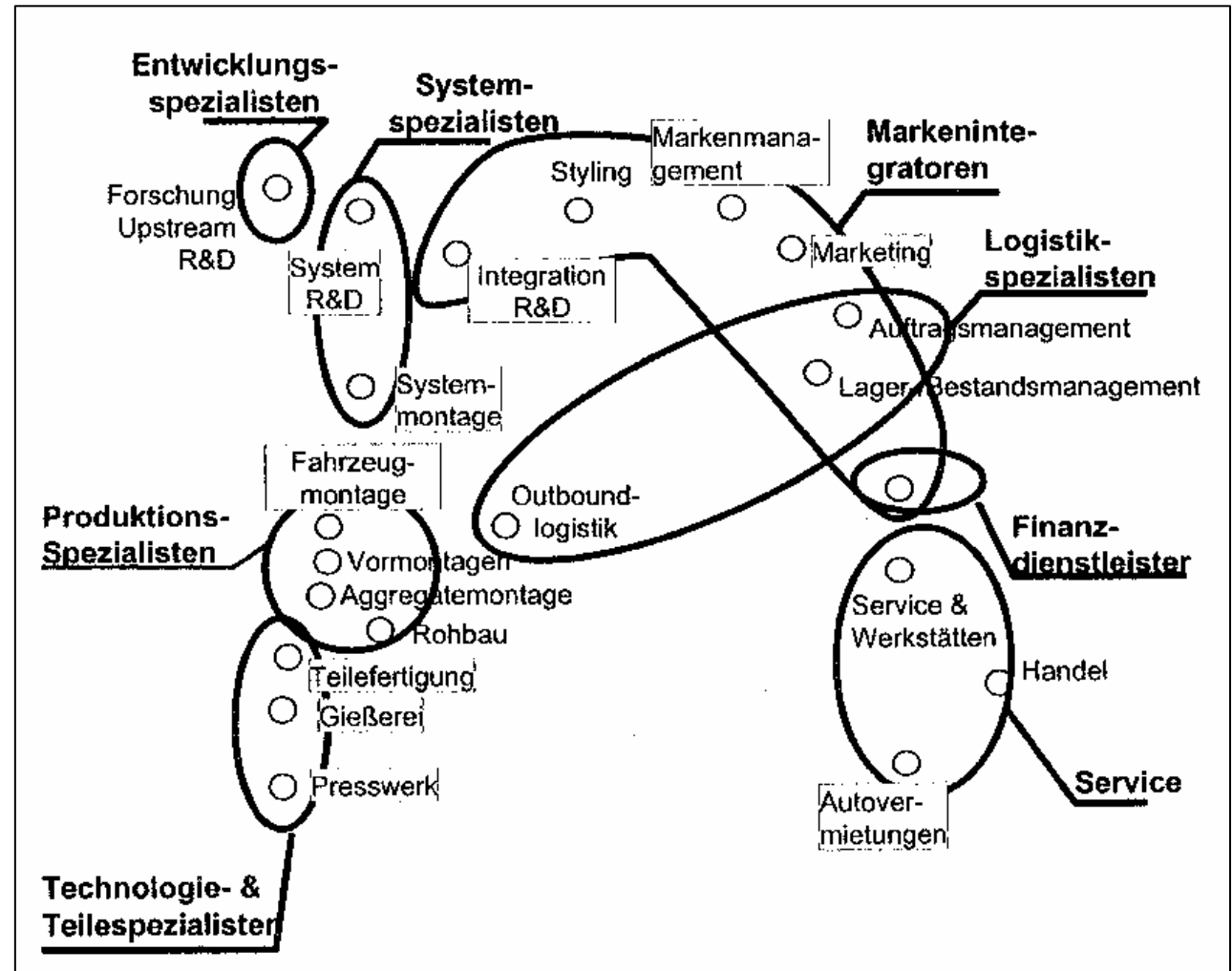
Hans-Erich Mueller

The SMART Experience: Is it a car? It's Shop in Shop Manufacturing



OEM's are loosing Value in Car Industry against Specialists

- Higher mobility of capital
- Risk preference differs
- Decling transactions costs
- Economies of Scale



But Insourcing at Audi: „We will produce also small series more inhouse.“ (CEO Köhn, FAZ 11.9.2003)

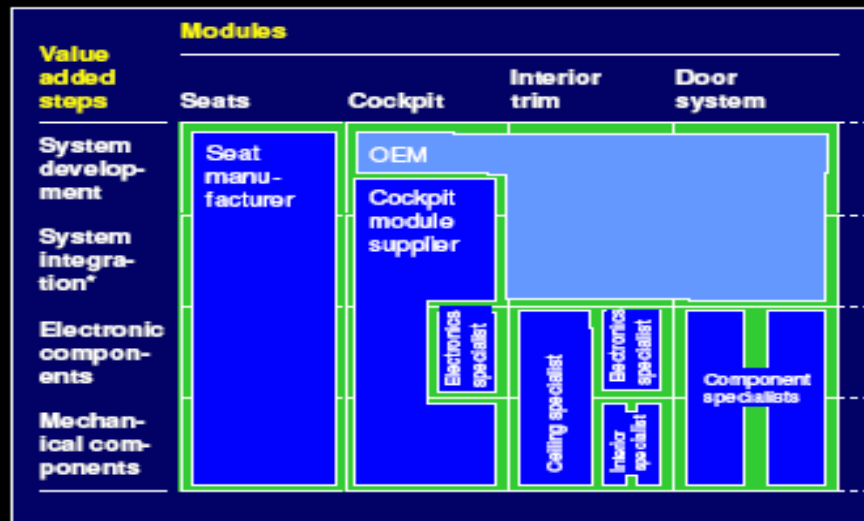
New (Electronic) Technologies will emerge....

1 ... WHICH WILL DRIVE CHANGES IN THE VALUE CHAIN ARCHITECTURE

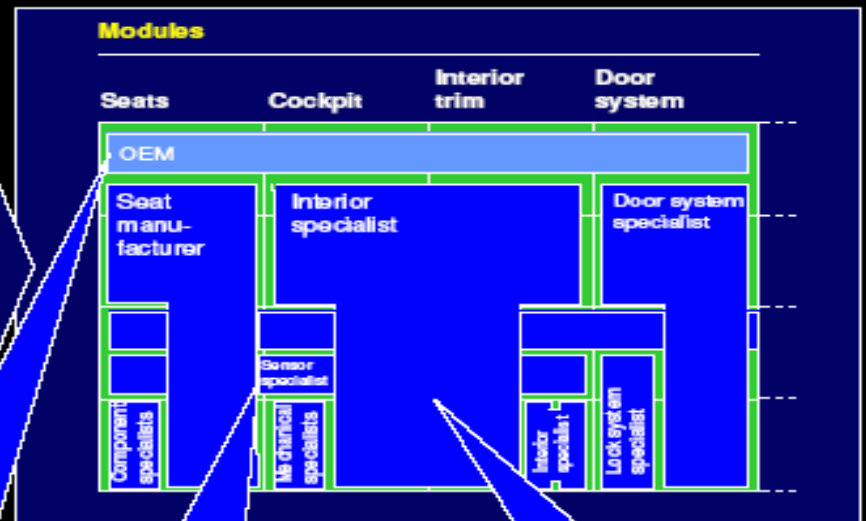
INTERIORS EXAMPLE

Supplier
 OEM

Value chain architecture today



Best practice value chain architecture 2015



In the long-run, OEM role becomes one of high level interior system developer and integrator

Specialists develop for sensing systems, like occupant recognition

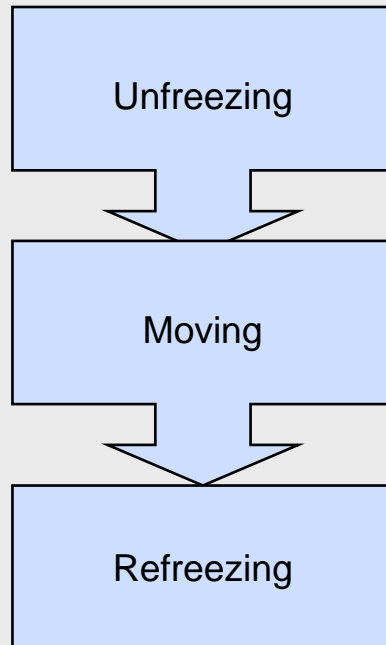
Interior specialists develop capabilities in both cockpit and trim, and electronics and mechanical integration

* Assembly, interface management, testing, and warranty

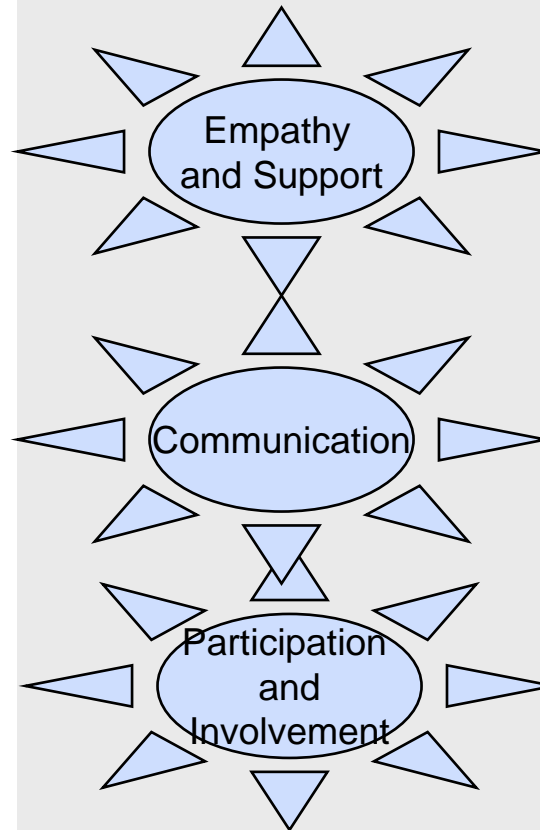
MANAGING CHANGE

Focus on Change: Kurt Lewin's Theory of Overcoming Fear of the Unknown:

Thee Step Process to Changing Behaviour



Successful Methods



Steps to Transform Organizations

- Establish a sense of urgency
- Form a powerful guiding coalition
- Create a vision
- Communicate the vision
- Empower others to act on that vision
- Plan for and create short-term wins
- Consolidate improvements, produce still more change
- Institutionalize new approaches

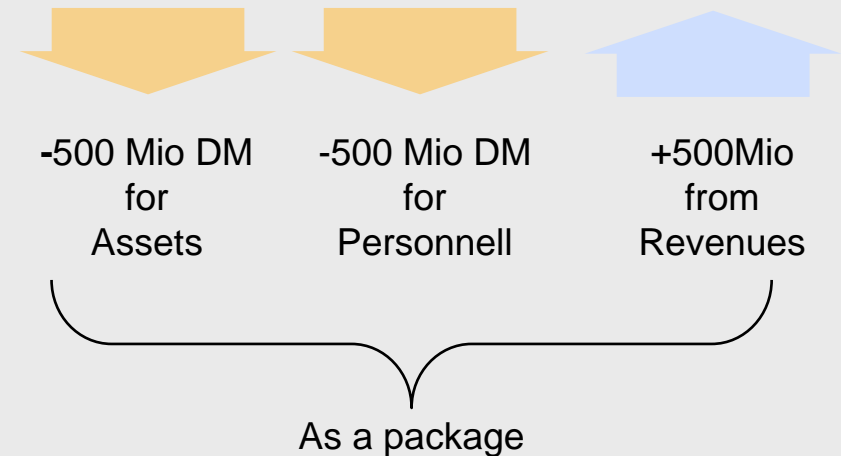
➔ Successful Change is meaning: the affected have to become participants

Elements of Change

- **Reinvent Strategy and Structures**
- **Deal with Fears:**
 - Unfreezing - Moving - Refreezing (Lewin's Law)
 - Let the affected participate
- **Deal with Interest and Power:**
 - Bargaining and Partnership between Owners, Management and Employees Representatives
 - Case: Management of Change at Lufthansa
- **Develop Chances:**
 - More empowerment and trust
 - Costs-Reduction for people and assets
 - New Revenues
- **Relationship-Management**
 - To customers: Marketing
 - To suppliers: Sourcing
 - To employees: HRM and Works Councils
- **Combine Change and Participation**
- **Search for Best Practice**

Case: Management of Change at Lufthansa

- Turn-around-strategies



- Plus participation of the affected (Works Councils, Town-Meetings etc.)
- Plus a collective agreement framework
- But regard global/local strategies

➔ Towards a “New Employment Contract”?

An alternative? „For every complex problem, there is a solution that is simple, neat, and wrong.“

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