Outsourcing
Years Later - New Mindset

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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**!

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NEW MINDSET IN IT-OUTSOURCING

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IT Outsourcing: Expectations are High

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

- Agree 57%
- Strongly agree 26%
- Disagree 15%
- Don’t know 2%

83%

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

- Data center operations
- Help desk/end user support
- Applications maintenance and support
- Applications development and implementation
- Network design and implementation
- Internet services
- Voice/data networks
- Technical support

Source: PA Consulting 2003 (Global survey of 116 organizations)
Much to Question on IT Outsourcing

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

- Agree: 34%
- Disagree: 59%
- Don't know: 7%

Survey question:
The problems in outsourcing relationships are mainly the responsibility of the supplier

- Agree: 16%
- Don't know: 4%
- Disagree: 80%

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

Source: PA Consulting 2003 (Global survey of 116 organizations); Skapinker 2003  
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IT Outsourcing: Opportunities and Threats Still Remain

Opportunities

- Better cost-flexibility
- Access to specialised resources
- Concentration on core business
- Cost reduction
- Better cost control
- Access to innovative technologies

Threats

- Dependency of supplier
- Complex process integration
- Know how losses
- Employee relations get worse
- High costs of provider changes
- No defined service level agreements

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)

Source: Useem / Harder 2000
A BROADER PICTURE: NEW STRATEGIES, NEW STRUCTURES

Marc Chagall

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Understand Options for Sourcing

**Sourcing assessment**

- Source externally
- Develop capability
- Retain in-house; protect IP

**Sourcing strategy for an HR department**

Source: PA Consulting 2003b

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Determining Sourcing Options: It’s More than Buy

Source: PA Consulting 2003 (Global survey of 116 organizations)
Outsourcing: one of Six Instruments of new Organisational Structures (1)

More decentralisation and business-segmentation

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

More co-operative managing concepts; empowerment

Complexity versus autonomy costs?

A balanced way of flexible response?

The affected become participants?

Demands are often not recognised and managed

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

- Business process first
- Outsourcing
- Customer Orientation

Reengineering = Back to Taylor?
Core competencies or hollowed out?
Cooperation or conflict?

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

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Between Markets and Hierarchies: Growing Importance of Networks

- **Market Co-ordination**
  - "spot contracting"
  - "relational/obligational contracting"
  - "employment relationship"

- **Hierarchic Co-ordination**
  - Contract
  - Barter deal
  - Long term Delivery contracts/ Sub-enterprise
  - Licence-/Franchising-contracts
  - Joint Ventures
  - Profit-Centre-Organisation/ SBU
  - Functional-organisation

- **Market**
  - "arm's-length transaction"

- **Hierarchy**
  - "firm"

- **Interorganisational Network**
  - "quasi firm"

- Internalisation
- Externalisation

- Towards the virtual corporation?

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Connectivity by Internet

Suppliers
- Supply-chain management
- Electronic procurement
- Stock management
- Integrated forecasting
- Quality systems management

Enterprise
- Manufacturing
- Distribution
- Financials
- Human resources

Customers
- Electronic commerce
- Customer service
- Interactive marketing
- Demand forecasting
- Order management

Infrastructure of the Extended Enterprise is Growing

Source: Cambridge Technology Partners cit. in Economist 1999, June 26 th

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Shared Services: e-Technologies Promote Reorganization

Order to Cash
- Telemarketing
- Telesales
- Order Entry
- Billing
- A/R Accounting
- Cash Receipts
- Customer Service
- Working Capital
- Cash & Treasury Management
- Foreign Exchange Management and Reporting

Procurement to Payment
- Strategic Vendor Management
- Procurement
- Inventory
- Contract Administration
- Fixed Assets
- Accounts Payable
- Advertising Control
- Travel Management

Hire to Retire
- Human Resources
- T & E
- Payroll
- Benefits Administration
- Claims & Insurance Administration

Accounting to Reporting
- General Ledger
- General Accounting
- Consolidations
- Management Reporting
- Intercompany
- Financial Reporting
- Tax Compliance

Other
- Fleet Management
- Facilities
- Tax Planning
- Internal Audit
- ABC Costing
- ABM Management

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DECONSTRUCTION OF THE VALUE CHAIN

Frank Gehry, Museum Bilbao

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Business Migration - Traditional Borders of Industry become Blurred

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

Source: Heuskel 1999

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Understand New Value Architectures

Integrator

Layer Player

Orchestrator

Market Maker

Source: Heuskel, 1999

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### Create value in the borderless enterprise

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

Source: Askenas 1999

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CASE: FROM CARS TO EXPERIENCES

Andy Warhol, Benz Racing

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The SMART Experience: Is it a car? It’s Shop in Shop Manufacturing
OEM’s are losing 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)

Source: Küspert 2000

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New (Electronic) Technologies will emerge....
MANAGING CHANGE

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

Thee Step Process to Changing Behaviour

- Unfreezing
- Moving
- Refreezing

Successful Methods
- Empathy and Support
- Communication
- Participation and Involvement

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 meaningful: the affected have to become participants


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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

\[
\begin{align*}
-500 \text{ Mio DM} & \quad \text{for Assets} \\
-500 \text{ Mio DM} & \quad \text{for Personnel} \\
+500 \text{ Mio} & \quad \text{from Revenues}
\end{align*}
\]

As a package

- 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”?

Source: Müller/Prangenberg 1997; Sokianos 1996
An alternative? „For every complex problem, there is a solution that is simple, neat, and wrong.“

*Source: Essayist Henry Louis Mencken (1880 - 1956)  

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Literature

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- Sokianos, N., Personalpolitik, Wiesbaden 1996.