

Paradoxes in Outsourcing

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Paradox

‘a statement or proposition which, despite sound reasoning from acceptable premises, leads to a conclusion that seems logically unacceptable or self-contradictory’

Source: Dictionary.com

What common statements we
have become accustomed to
in outsourcing?

1. Common Statements about ‘Value’ in Outsourcing

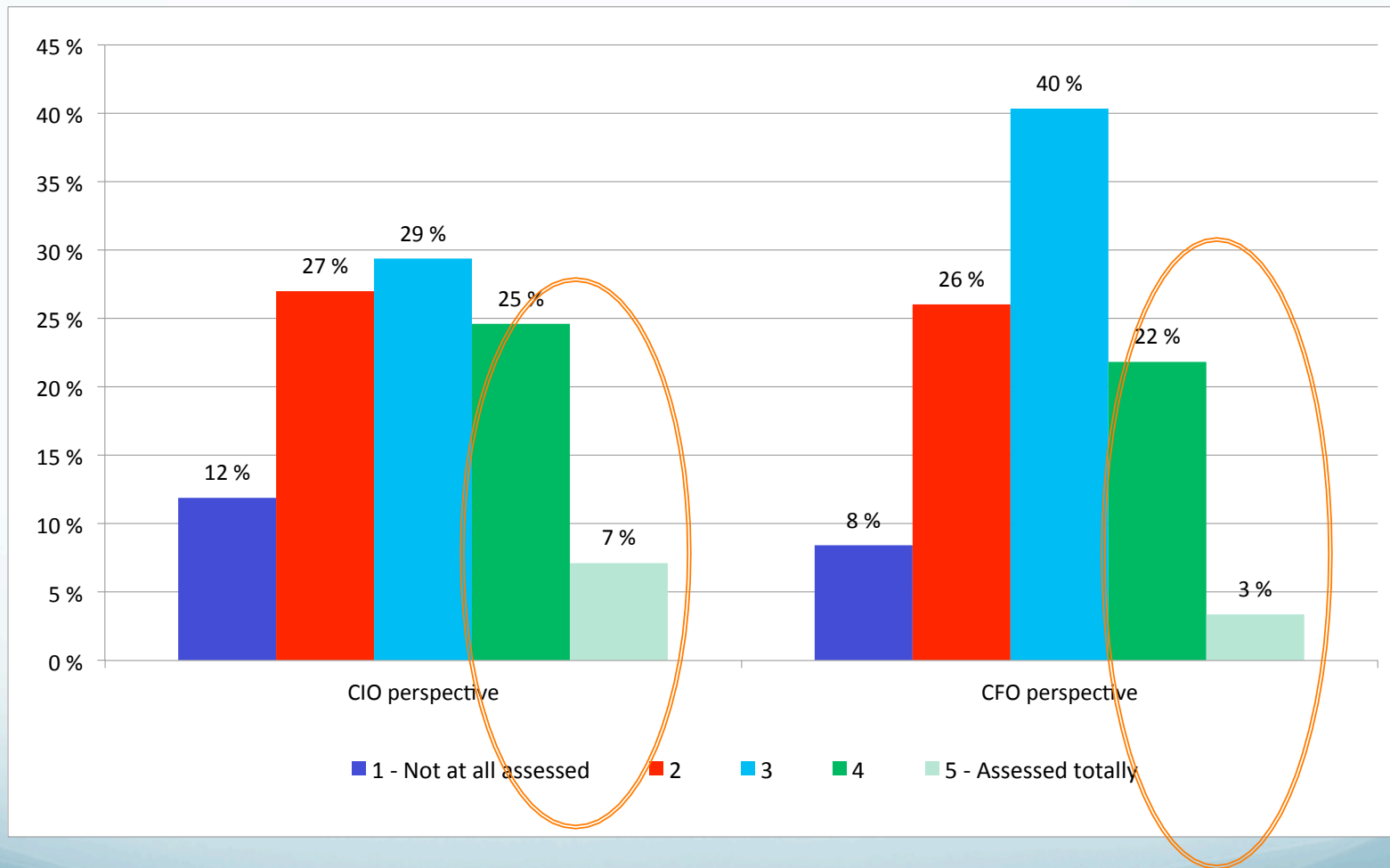
‘we outsource because we are looking for value delivered by our suppliers’

‘There has to be value beyond cost savings in outsourcing’

We surveyed 150 executives
from large firms in Western
Europe.

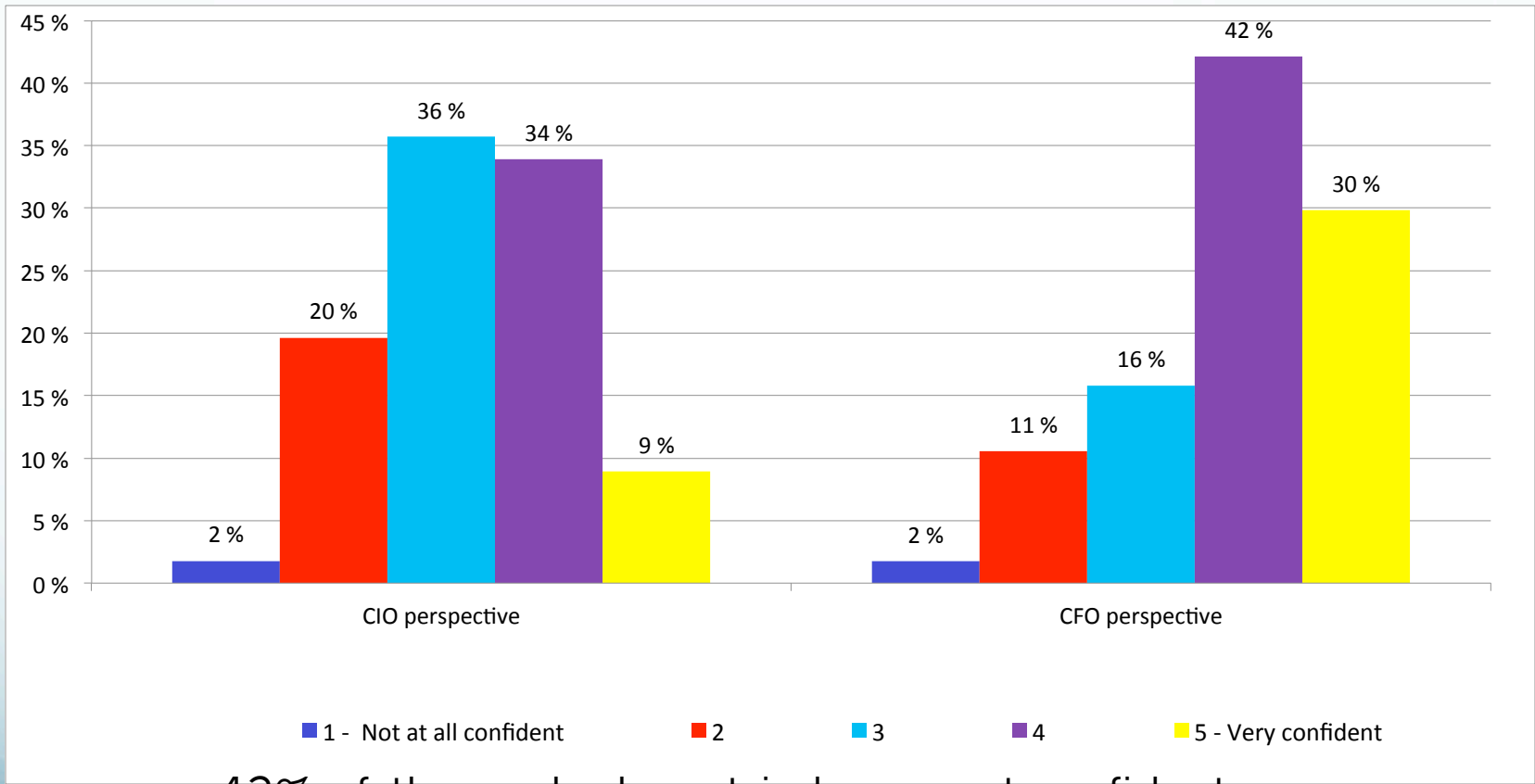
Here is what they say about
value in outsourcing.

Can value from outsourcing be assessed beyond cost saving?



Only 32% CIOs and 25% of CFOs think this can be done....

Of those who have tried: How confident are you in this quantification?



43% of those who have tried were not confident
CIOs – 58% not confident

What CIOs eventually say about value in outsourcing

*‘That is the problem.
You know what it costs but you don't really know
what the value is.’*

(CIO of a large European firm)

2. Common Statements about Offshoring Work

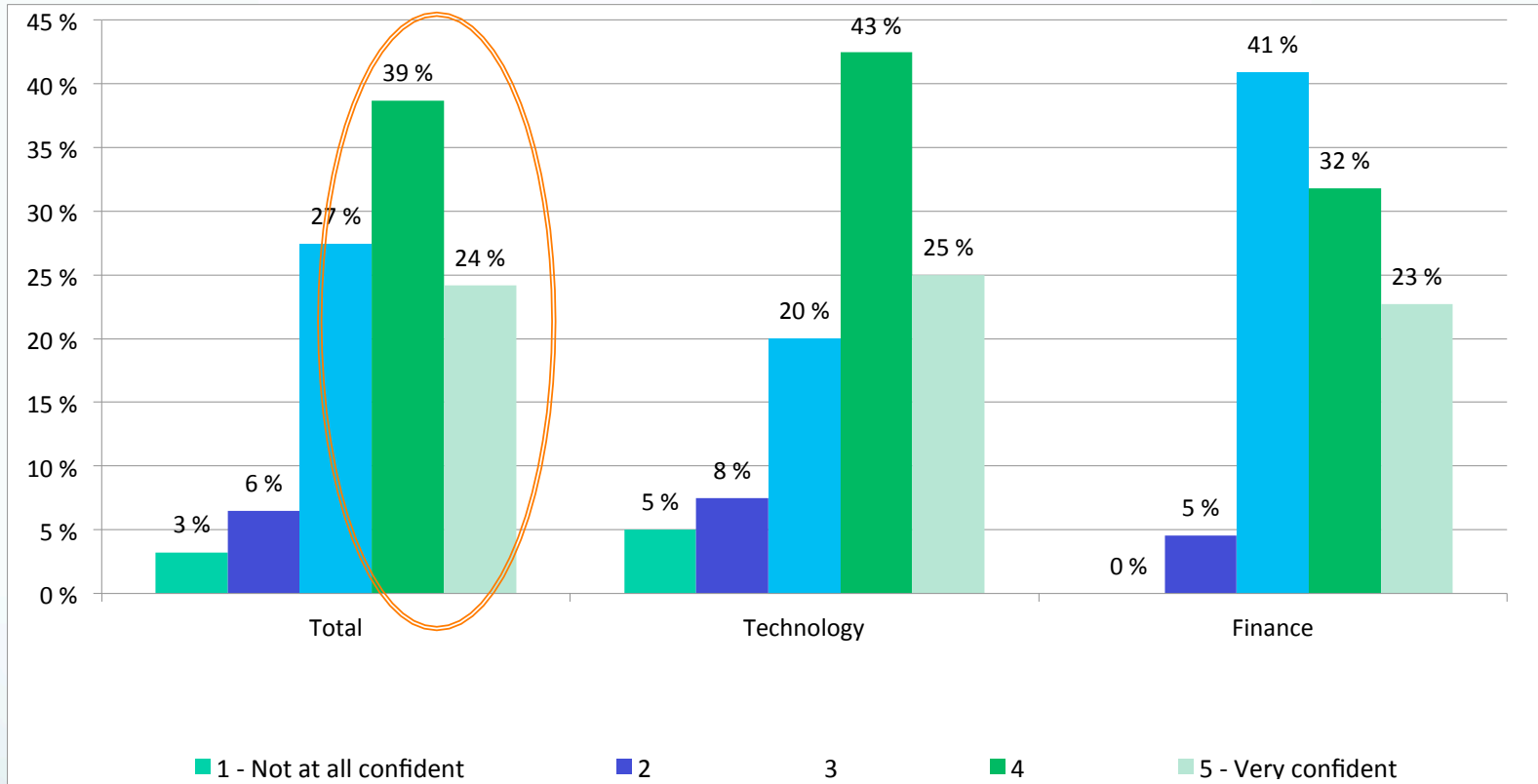
‘Offshoring work allows us to compete’

‘Where is offshore? Offshore is every-where!’

We surveyed 200 executives
from large firms in the UK and
USA.

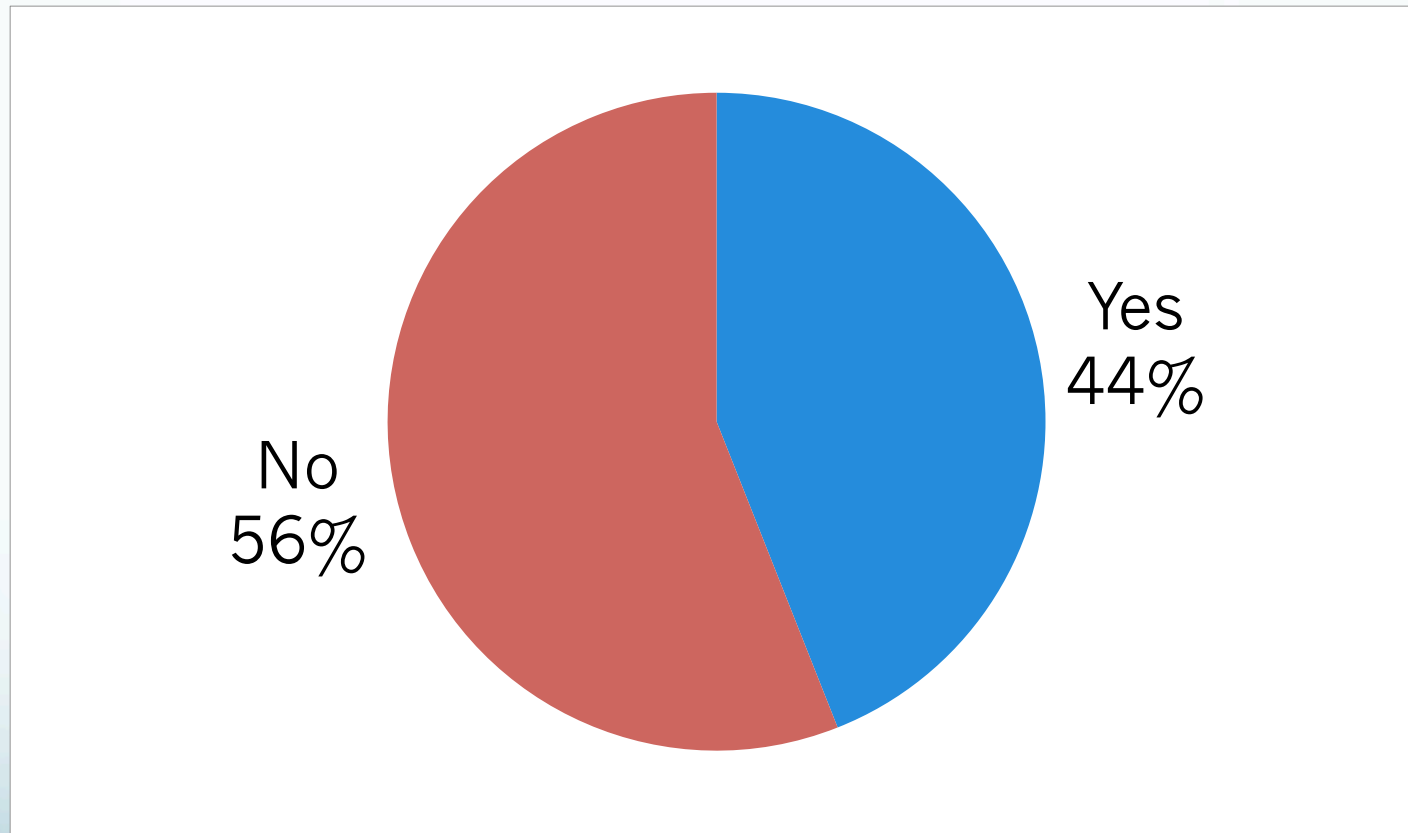
Here is what they think about
offshoring

Confidence in offshoring work

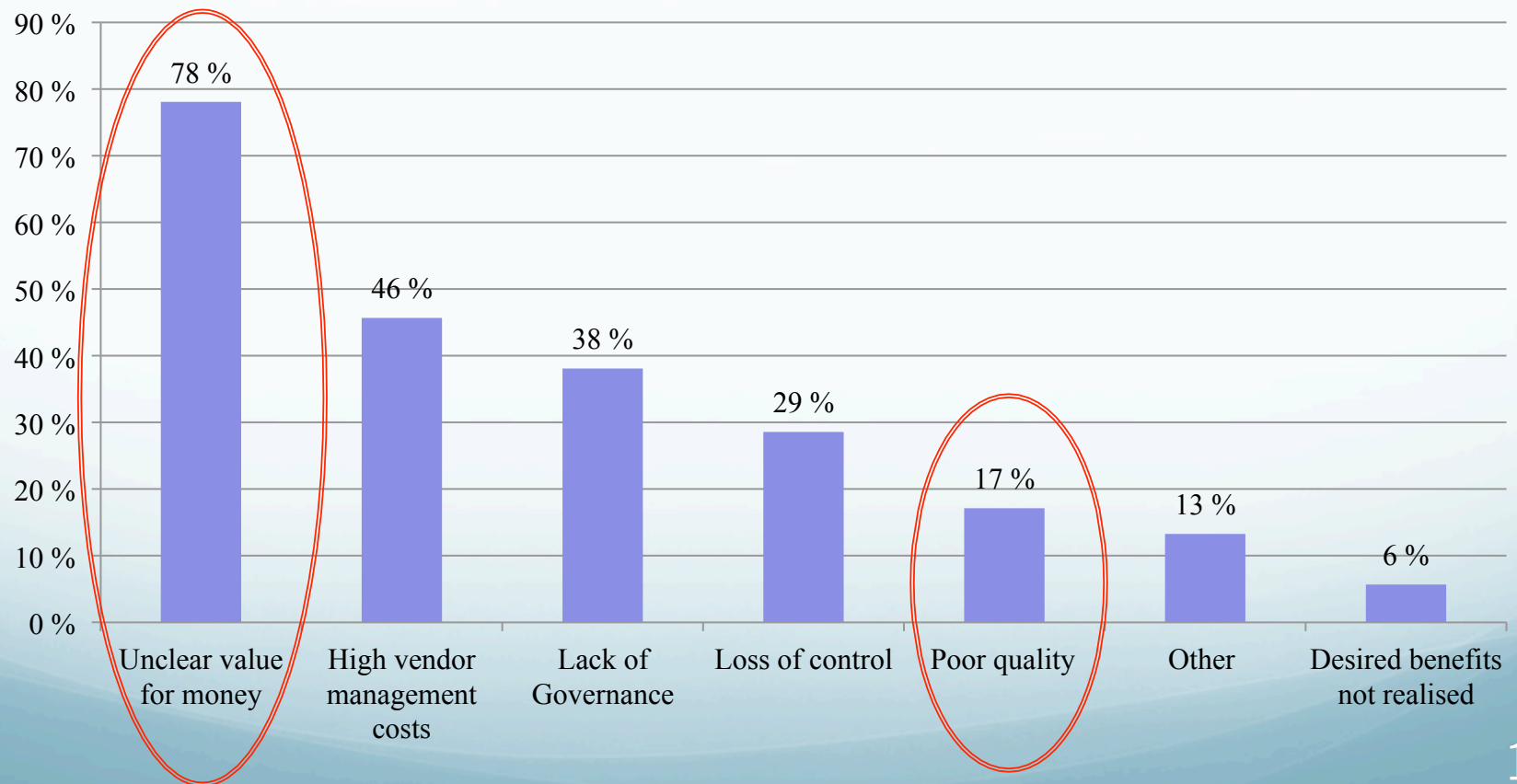


63% of CIOs and CFOs have confidence in offshoring work...

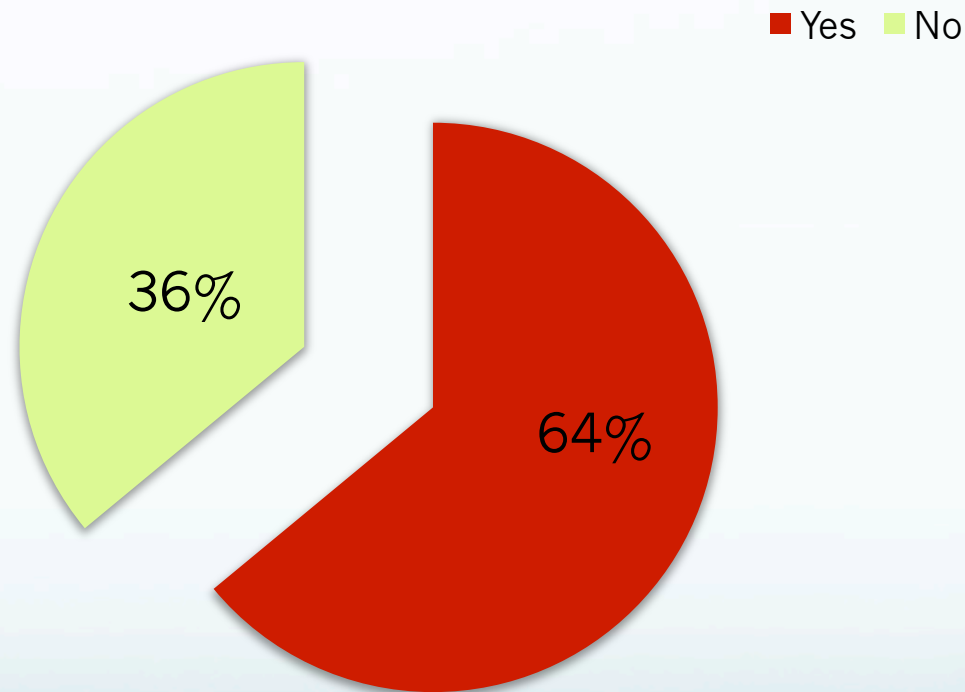
Have you ever brought offshored functions back in-house?



What is the primary cause of re-shoring work?



Back-sourcing of operations will be a feature of our future sourcing strategy



3. Common Statements about Innovation in Outsourcing

‘we want our suppliers to innovate for us’

‘innovation must be a key component in any deal’

‘we have to be flexible with our suppliers in order to accommodate innovation in outsourcing’

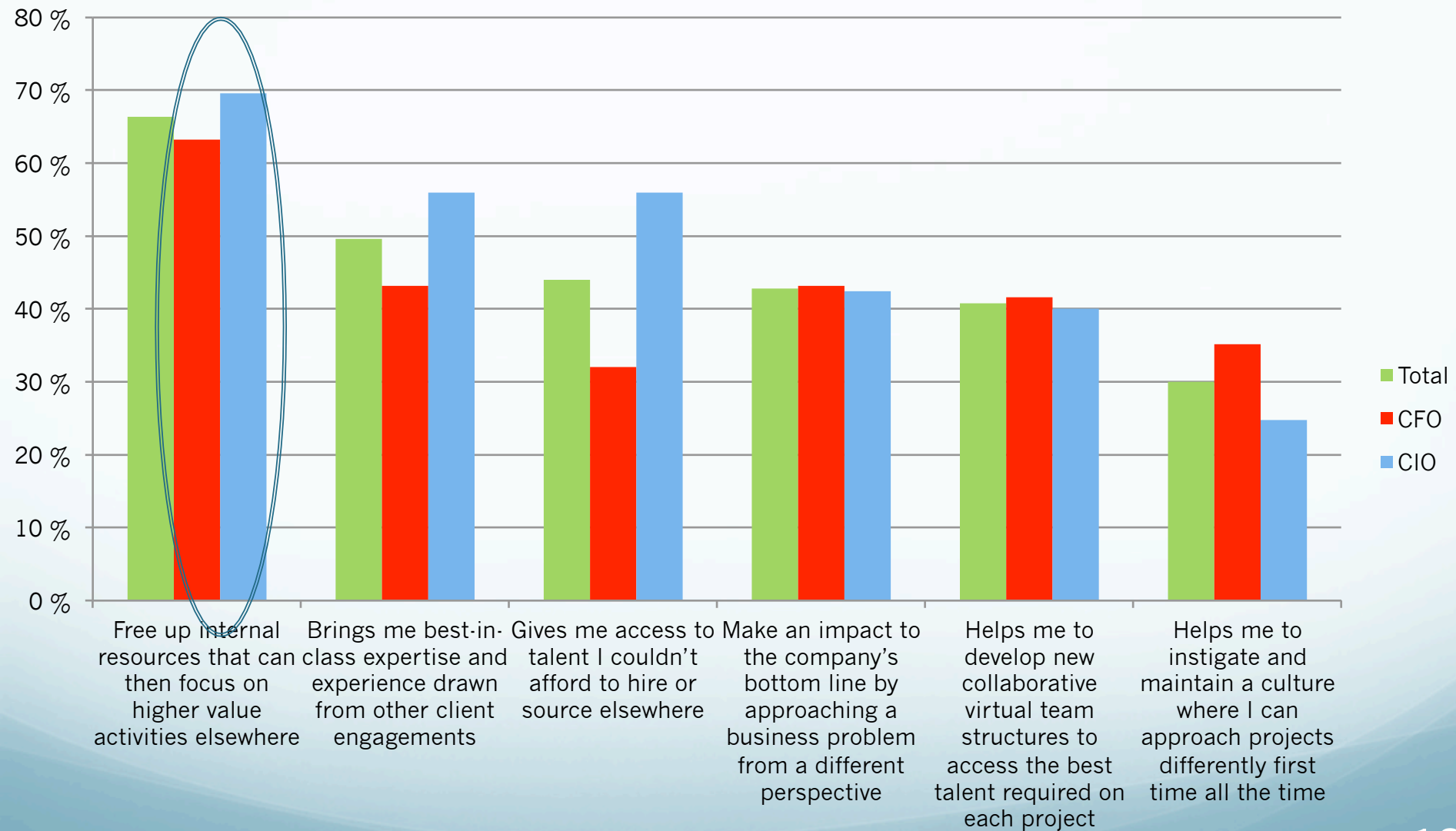
We surveyed 200 executives in USA, UK and Nordic countries about Innovation in Outsourcing.

Here is what they think.

How important is **innovation** as a selection criteria when selecting an outsourcing partner?

	Total	CFO	CIO
1 - Not at all important	9 %	14 %	4 %
2	12 %	17 %	6 %
3	26 %	21 %	30 %
4	39 %	33 %	46 %
5 - Very important	14 %	15 %	14 %

How can a supplier help you become more innovative?



Do you believe the innovation you have achieved through your outsourced business arrangements contributes to the financial performance of your organisation?

	Total	CFO	CIO
Yes	70 %	67 %	72 %
No	12 %	10 %	13 %
Don't know	18 %	22 %	15 %

How useful would the ability to measure the level of innovation within your organisation be?

	Total	CFO	CIO
1 - not at all useful	10 %	18 %	3 %
2	11 %	16 %	6 %
3	21 %	18 %	24 %
4	40 %	31 %	48 %
5 - very useful	18 %	18 %	18 %

Do you measure the innovation that your outsourcing provider delivers?

	Total	CFO	CIO
Yes	35 %	30 %	40 %
No	61 %	66 %	55 %
Don't know	4 %	3 %	5 %

Does your outsourcing contract allow flexibility of payment if supplier is able to reduce your costs through innovation?

	Total	CFO	CIO
Yes	43 %	37 %	49 %
No	37 %	41 %	34 %
Don't know	20 %	22 %	18 %

Would you be willing to pay rates higher than standard if your outsourcing partner could deliver proven innovation on a regular basis?

	Total	CFO	CIO
Yes	47 %	39 %	54 %
No	36 %	40 %	31 %
Don't know	18 %	21 %	14 %

Where Paradoxes in Outsourcing Come From?

1st explanation: Misalignment Syndrome

Misalignment between the firm's strategy
(and vision) and its operations.

Where Paradoxes in Outsourcing Come From?

2nd Explanation: Cheating

Statements to the press do not represent what executives really think and want.

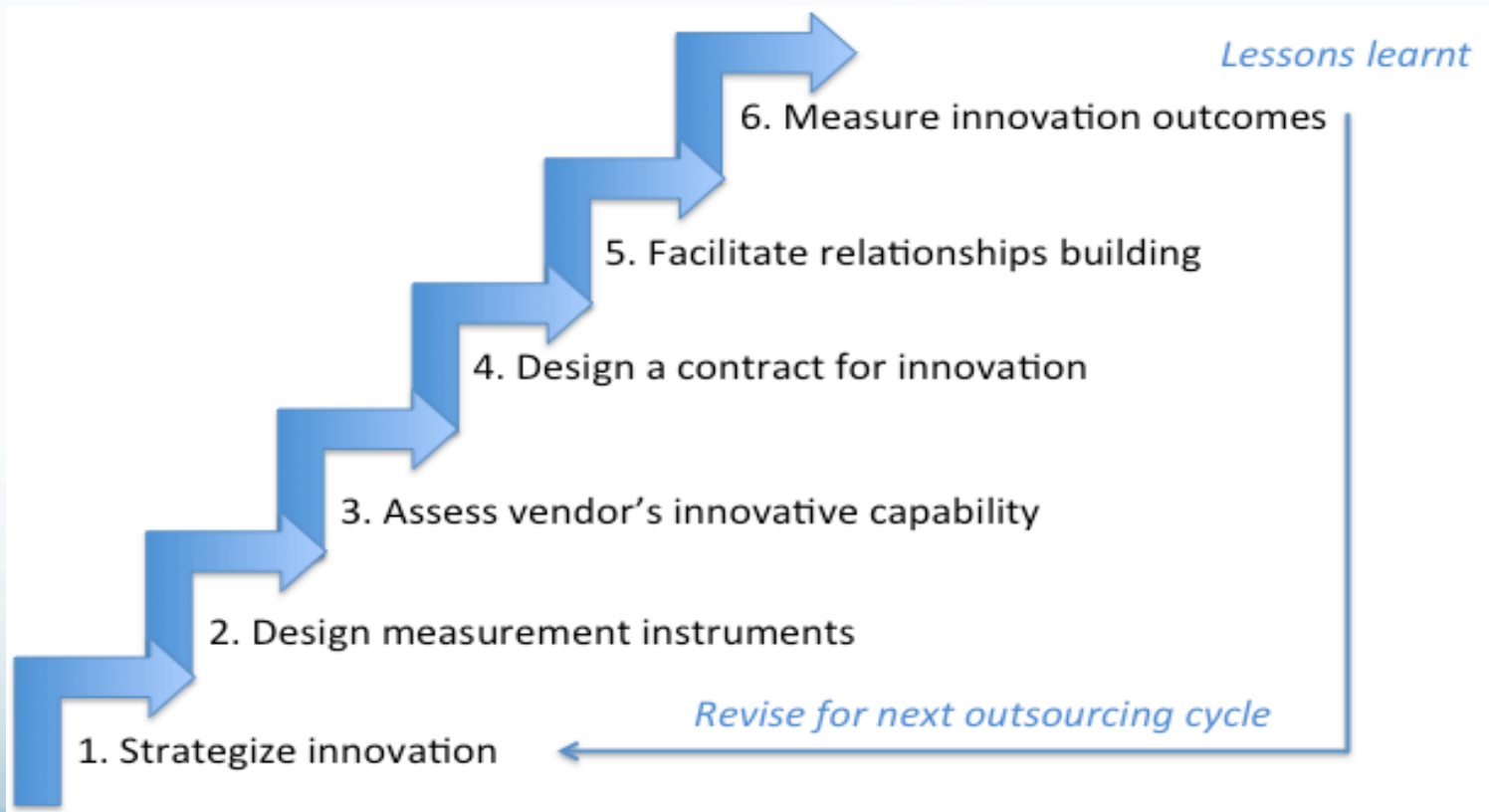
Or....

Surveys do not represent what executives truly think.
(do we really need another survey about outsourcing?)

In Conclusion (1)

- Alignment between firm's strategy and operations is key to success. Take 'Innovation in Outsourcing' as an example.

The Innovation Ladder in Outsourcing



Source: Oshri & Kotlarsky 2014

In Conclusion (2)

- Take survey results with a pinch of salt
- Do not make big statements to the press unless you mean them



Thank You