

Chapter 20

Evaluating UK Intra– National Outsourcing to North Staffordshire

Anthony S. Atkins
Staffordshire University, UK

Bernadette Sharp
Staffordshire University, UK

Lyn Atkins
Staffordshire University, UK

ABSTRACT

Outsourcing is a widespread practice in the modern global economy, with decisions motivated by expectation of various advantages of which cost reduction is often the primary factor. Recent trends have been towards Business Process Outsourcing (BPO) and offshore outsourcing, and more recently Knowledge Process Outsourcing (KPO) has emerged as an established area of the market. Despite the potential attractions, there are a range of risks associated with outsourcing, and these are demonstrated by the substantial number of arrangements that fail to meet expectations. For example, Glick (2004) cites research by Gartner that indicated £4bn was wasted on poorly managed contracts by European businesses in the previous year. This highlights the business significance of outsourcing decisions and shows that the impact of major outsourcing decisions is likely to be strategic in that the competitive position of a company is influenced by the outcomes. The argument for use of a systematic decision support system to assist with outsourcing decisions is persuasive. The Holistic Approach Business, Information, Organisation (HABIO) Framework offers a holistic approach which takes account of interrelated strategies and complex considerations that may vary according to the circumstances and priorities of the decision-maker. It also facilitates monitoring decisions over the life of the outsourcing arrangements, thereby supporting timely anticipation and response to significant changes in the economic, political, or social environment. The HABIO model could be used in consideration of intra-national outsourcing decisions to areas such as North Staffordshire where decline in industries traditionally associated with the locality created needs and opportunities for regeneration.

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INTRODUCTION

In order to be successful in today's global markets, companies and organisations must pursue strategies that enable them to maintain a competitive advantage over their rivals. Various strategies can be used to support differentiation but cost reduction is, perhaps, the most obvious. Cost reduction has often been a powerful driver towards decisions on outsourcing, which is a widespread practice in our modern global economy. Indeed one of the main drivers for offshore outsourcing has been lower labour costs. Predictions from Forrester Research Inc. indicated that over 3 million white-collar jobs will move from the U.S. to low-cost countries by 2015 (Engardio et al., 2003). Examples of outsourced activities are found in both the private and public sectors and in both manufacturing and service industries. A 2004 report suggested that outsourcing already accounted for one third of IT spending globally and was a growing market (Cap Gemini, 2004).

There are numerous definitions of outsourcing; for example, Linder (2004) described it as "purchasing on-going services from an outside company that a company currently provides, or most organisations normally provide, for themselves." Lei and Hitt (1995) defined outsourcing as "reliance on external sources for manufacturing components and other value-adding activities." Outsourcing can take place intra-nationally, within the country of the parent company, or it can involve moving the outsourced activity internationally, often referred to as offshore outsourcing.

Recent trends in outsourcing projects have often involved offshore outsourcing or Business Process Outsourcing (BPO). The growth of low-cost communications and the Internet are supportive of offshore outsourcing to developing economies. The GAO Study (2004) cites improvements in global telecommunications, the falling costs of data transmission, and growing infrastructure in developing countries. The attraction of lower labour costs has resulted in many UK companies

outsourcing to countries in Asia and Eastern Europe. The UK has not been alone in taking opportunities for cost reduction; this is shown in the prediction that by 2015, 3.3 million U.S. jobs will be outsourced overseas (Mangan, 2004). Falk and Wolfmayr (2005) recognise the debate around the impact on employment in the 15 EU countries from trade with low-wage economies, also that growth in international outsourcing and competition from imports are often blamed for a falling demand for labour in European manufacturing. With respect to BPO it has been suggested that outsourcing is now seen as a service where total, defined business processes are given to expert service providers who manage the process and ensure the total integration between outsourced business processes and in-house processes (Kruse & Berry, 2004). However, BPO has usually involved outsourcing of defined business processes that are non-core to the parent company, rather than its core activities. In *The Economist* (2008), it is noted that the concept of core competence was introduced into management literature in 1990 by Prahalad and Hamel. In summary, some of the key features of core competence are the collective learning in the organisation, which grows as it is applied and shared, and includes not only skills associated with technology and production, but also communication and commitment to working across organisational boundaries. It was also noted that this drive to identify core competencies and thereby activities that a parent organisation was uniquely well qualified to carry out itself coincided with the time of growing popularity of outsourcing.

Looking ahead and commenting on developments in Knowledge Process Outsourcing (KPO), Druce (2009) indicates that KPO represents the next stage in the evolution of the outsourcing market. KPO differs from BPO in that KPO implies outsourcing of core business functions that demand high levels of specialist knowledge and expertise.

It is reasonable to expect that as developments in outsourcing move into areas of core function,

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