

Does Outsourcing make Organisations more Effective; or Efficient?

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CMS advises organisations on opportunities to increase effectiveness & efficiencies.

Getting it right

First we need to agree on the difference between effectiveness and efficiency.

A very simple way that I use to distinguish between the two is the following:

- Being **effective** means producing powerful effects. Effectiveness is thus a measure of quality – customer satisfaction if you would – getting what you want; whilst

- Being **efficient** means producing results with little wasted effort. Efficiency is thus a measure of productivity –getting what you want at the time, place and cost which are optimal.

If convinced that Outsourcing is an option to increase either of both of these concepts, we would probably consider it more favourably. That is possibly why it is attractive for all of us to outsource the processing of fuel, electricity, water and banking services to specialised organisations.

What are the "other things" which may be considered on a similar basis?

Outsourcing in Perspective

In the late 1900's the terminology "outsourcing" was primarily used by the corporate giants: Ford, 3M and IBM to name but a few. In practice however, most of us were doing it already.

Outsourcing allows organisations to get the job done effectively and through its impact on reduced overhead expenditures, increased speed, flexibility and quick response times, it improves organisational efficiencies. Yes, even at the household level!

Globally, companies spend more than \$1 trillion a year on outsourcing - a figure which is growing by 20

percent annually. But this is perhaps the wrong way of looking at it – we should rather think in terms of companies saving \$10 trillion a year and continuously managing expenditures down by around 20% of this amount.

So in essence, companies realise business benefits through outsourcing, but how and where is it measured?

- **Reduced Cost of Ownership**

By the time you factor in all the overhead costs on an employee's package (Cost to Company PLUS Office Space, Support Personnel, Computer Technology, Training and Office Services), a R100000 a year salaried employee can easily cost a company upwards of R150000.

In a similar sense, a R10000 PC can cost up to R500 pm to support using internal resources. Efficient?

- **Increased speed and flexibility**

As a proof in point in terms of effectiveness: Microsoft had sold more than 500,000 of the popular X-Box video-game consoles within the first 10 days. But hold on - the company had never owned or operated a single factory or manufacturing facility! How did they do it?

Microsoft is in the sales and marketing business, not the manufacturing business. Instead of investing in factories and plants, it outsourced the manufacturing to a company which specializes in bringing new products and technologies to market.

Smaller firms are increasingly embracing outsourcing as a means to leverage costs and remain competitive. In fact most of them were able to survive the weak economic times in this way.

What are opportunities to consider for outsourcing?

There are literally hundreds of opportunities to consider: some used on a daily basis such as banking services, risk protection; and some of the following:

- **Payroll Outsourcing**

Payroll Outsourcing is making use of external service providers: in this way it is possible to reduce total cost of ownership by up to 95% and service level agreement based performance effectiveness of very close to 100%.

- **Financial Accounting & Transaction Processing**

From a full time Accounting Department, complete with Chartered Accountants and Bookkeepers, we at CMS have created a single point of access interface with a large accounting firm, 1500km from our offices. Impact: Reduction in direct costs: 95%; Effectiveness gained: immeasurably quick and accurate results. Not having to sort through millions of pieces of data: Priceless!

- **Information Technology Services**

From Technical Support to Software as a Service Solutions are currently available. Consider the impact of Google on an organisations ability to conduct effective and efficient research.

The list is endless and includes specialised services such as strategic sourcing, procurement services, supply chain logistics, to name but a few.

Consideration

Outsourcing is not about reducing people, it is a way of reducing waste. From all the studies which we have conducted over the past few years, we have come to the conclusion that it is always beneficial in terms of increasing effectiveness and efficiencies.

There are some pitfalls and risks to consider but that would be addressed in another article.

Someone said: *"Outsourcing is about sticking to what you do best and outsourcing the rest."*

