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OUTSOURCING – AN IRISH PERSEPECTIVE

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Abstract
This paper investigates three case studies with regards their outsourcing initiatives from an Irish perspective, the benefits and problems they encountered, the contracts they have constructed, and where they have outsourced and the reasons behind them. The research took place over a period of two years, and the information for the case studies was gleaned from a number of sources including: published papers about the companies, the company websites, annual financial reports, the questionnaire they filled out, and interviews with key decision making personnel in the company. Follow up interviews were conducted where it was felt they were required. Key findings were that: it is very important to have the outsourcing initiative driven from the top down, and it is imperative to construct a contract that promotes a relationship based on mutual trust and respect, the use of Ireland for outsourcing, and the benefits and problem companies have experienced.
Keywords: Outsourcing, Case Studies, Ireland

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Literature Review
SCM is concerned with the total management of the supply chain. The overall objectives of SCM are to: optimise total supply chain costs and investment, and deliver appropriate levels of customer service in targeted market segments (Sweeney, 2003). SCM provides the end customer with the right product at the right time, priced at the right level, in the right quantity and quality. Also, the ability to satisfy customer demands while responding to relentless competitive pressure requires creative and often complex approaches to managing a companys' supply chain (Trent and Monczka, 2003).
Growing international competition has forced manufacturers in many industries to guarantee fast and reliable deliveries of an increasing variety of high quality products. This has resulted in placing pressure on established companies in the industrialised nations, and to create opportunities for the new companies, and the nations which have taken the path to industry more recently. In order to survive companies are outsourcing significant parts of their organisations to cut costs, and bring in companies with best in class technology, and knowledge to their organisations. Cutting edge technology and knowledge are now recognised as competitive weapons but are expensive to acquire and successful results are often elusive when implemented internally and changes the nature of competition in ways companies do not expect.
Ireland, as with other Western European manufacturing countries, is currently experiencing a change in the way that customers and suppliers relate. Manufacturing has become increasingly demand driven since the late 1970's, where the customer specifies their need and suppliers do their best to deliver a satisfactory solution. Increasingly firms that traditionally manufactured their own products are outsourcing production, and instead focusing on the companys' core competency. Thus, the use of outsourcing is becoming more important, and is growing significantly in a range of industries, including, electronics, pharmaceutical, medical devices, automotive, and food and beverage production. Consequently, organisations need to focus on areas where they have or can gain a competitive advantage and strengths that will enable them to participate successfully in an advancing global marketplace.
Traditionally outsourcing is an abbreviation for "outside resource using" (Arnold, 2000). Currently, in the simplest of forms, outsourcing takes place when an organisation transfers the ownership of service or function that used to be done in-house to a supplier. The degree of transfer of control is the defining characteristic of outsourcing. It permits organisations to enhance effectiveness by focusing on their core competencies, while using specialist suppliers, and as result they should have better performance.

However, outsourcing is not simple or easy to create, develop, and support, it can have both positive and negative effects on key areas of the supply chain (Mason et al., 2002). There are many implementation problems and the failure rate is often to be as high as 70 percent (Zineldin and Bredenlow, 2003). In addition, it can adversely affect employees. And, many transitions have been unsuccessful (Logan, 2000).
In order to find out what is happening in Ireland with regards outsourcing at the present time a survey was conducted with the Top 1,000 companies in Ireland (The Irish Times), and here a 14 percent response rate was recorded. In order to find deeper information and get more concrete results, three companies were chosen from the companies that participated in the survey. They were chosen under the basis of seven criteria: sector, e-mail or postal survey, company size, business performance rating, overall rating of outsourcing, if they are considering outsourcing again, and when the company was set up.

Case Studies Analysis

Company A is an award winning, and cutting edge technological innovator in structured Cable Systems in the manufacturing sector and set up in the 1980's and is a medium sized company. The mother company is located in the United States of America.
The core competency of the business is "Technological innovation in Structured Cabling Systems", and provides high performance connectivity solutions for voice, data, video, and building management applications in both wired and wireless enterprise networks. The company definition of outsourcing is "taking non-core manufacturing or service activities to a specialist organisation to reduce cost, limit investment, or alleviate risk".
They have been involved in six outsourcing projects. The latest function they outsourced was manufacturing. For this they are involved with total outsourcing, with 100 percent of the manufacturing outsourced.
Company B is a manufacturing and recruiting company. In addition, they are an outsourcer as well as an outsourcing supplier. They were set up in the early 1990's, and are a medium sized company. The core competency of the business is "subcontract manufacturing – internal or external, and contract labour services". They carry out a range of manufacturing activities principally for the engineering, electronics, and healthcare sectors. They also provide contract and recruitment services for companies. The company definition of outsourcing is "activities previously carried out internally which are now outsourced from independent suppliers".
They have been involved in over ten outsourcing projects. The latest function they outsourced was manufacturing. For this, they were involved in selective outsourcing – process level with 50 – 69 percent of the process outsourced. They started on this post January 2004, and are currently post-implementation. And for this less than 30 percent of their employees were affected.
Company C is part of a much larger organisation based in the USA. In Ireland, they have a turnover of €100 million, and they were set up in the 1970's, and is a large company. They are a manufacturing company which is used in multiple end users, but primarily in loose fill things like pillows. They have about 75 different products which range from the blow fill industry to the carpet industry. In Ireland, they make approximately 80,000 tonnes of fibre a year. The core competence of the company is "manufacture of polyester fibre". Their key markets are UK, and Germany.
Company C has been involved in four outsourcing projects. Company definition of outsourcing: "Taking a key activity and giving the responsibility to manage this activity to an outside company". The latest function they have outsourced was the re-outsourcing of the logistics function. For this they have been involved in total outsourcing with 100 percent of the function outsourced.

Drivers and Reasons they Outsourced

It was found that for Company A, B, and C that the Managing Director in all three cases played a vital role in the outsourcing initiative, they promoted the projects and ensured they succeed promoting the well know fact that outsourcing initiatives should be driven from the top down.
Company A and B were both involved with manufacturing outsourcing, and their main reasons for outsourcing were costs goals. In addition, Company A outsourced to stay ahead of the curve, as the price of labour in Ireland in 1995 when they first outsourced was increasing, and even with the lowest labour costs in the country their costs were still 2.5 times higher than those offered in Eastern Europe. Whereas, Company B was having difficulties with their customer base, and outsourced to keep their existing customers loyal to them, and to also get new customers.
However, Company C was involved with logistics outsourcing they claim the two most important things are: service to the customer, and then cost, they will spend any amount of money getting the product to the customer as and when they need it. They also recognised that they had to become masters of

their own destiny, as huge amount of competition for their business was coming in from the Far East, China, and Taiwan. They also recognised that they had no logistics expertise in-house, and as a result they really did not know what was a fair price for their logistics operation, and they knew that the only people who knew the real costs were the shipping companies, and outsourcing, they estimated they could save in the region of €3 million per year (their logistics budget was €13 million).

Preparation

Company A looked into set-up costs, transportation costs, cost of accommodation, training costs, cultural issues, and the costs of backfilling people in Ireland. What is more, they also did in depth company research - they benchmarked their own company against best in class, and looked at the cost of doing it in house before ever embarking on the outsourcing venture. In addition, they sought the advice of companies that had outsourced to Eastern Europe in order to learn from their experiences and, they also looked into government issues starting off. Furthermore, when they moved to Eastern Europe, they took many steps in order to overcome some of the problems they envisaged they would encounter. For example, they took a lot of people (including supervisors) from the outsourcing supplier to their factory in Ireland to train them. The Czech employees sat along beside the Irish workers, for a couple of weeks and trained them up in Company A's techniques, and they way they worked.

Company B also did a lot of preparation in order to make the outsourcing a success. They looked into some of the hidden costs of outsourcing. They looked into the set-up costs, overheads, the cost of training new staff, and the cost of vendor contracting. In addition, they benchmarked their company against the best in class, checked the cost of doing the service/function in-house, and furthermore, they did a thorough financial examination of the company. However, they mainly looked into transport costs. They have found out that if you find the right company with the correct competency, you will minimise set-up costs. Furthermore, the looked into the market to what opportunities were out there, these were mainly driven by the sales role. In addition, they looked at the skills set that were available.

Company C on the other hand found that there was two ways of doing preparation for the outsourcing venture:

1. Hiring consultants, and then go down a very formal way of doing the outsourcing initiative. They will highlight all the pitfalls, all the work you have got to do, and they will tell you all the contingencies plans they have come up with. But they cost quite a lot of money, consultants are usually a minimum of €1,000 per day and they consultancy company will normally send two or three, and before the project is finished you could have four or five consultants working on it. By the time the bill is calculated it will come to a couple of hundred thousand euro.
2. By doing it in house using their own people

They decided to do it in-house even though the company had very little experience of outsourcing. This was because logistics was an activity the supply chain manager (who was leading the project) knew a lot about. He had worked in logistics for over 20 years, and gained a lot of experience in shipping, and logistics. So from that perspective although they did not have any experience of outsourcing, they had a lot of experience of the decisions that had to be taken to ensure that it would work. They never even considered them as the company claims that the project did not need them. In addition, the cost of the consultants was a barrier to using them. They did in-depth company research, and looked into what they called the main hidden costs of outsourcing – overheads, contract management, cost of transition period, and the costs of layoffs. In addition, they went into the marketplace and looked at all the shipping companies in Ireland that they reckoned were relevant to what they wanted to do, and they had a look at what they had to offer.

Where they Outsourced

Although, Company A, and Company B are involved with manufacturing outsourcing, the products they outsource are vastly different. Company A outsources, high volume, labour intensive items, unlike Company B that was involved with low volume, low labour, high cost items, so it followed that their strategies followed would be quite different. Company A during the mid -1990's moved their products to the West of Ireland (ref. Fig. 1) where they worked closely with Ùdaras na Gaeltachta to take advantage of the lower costs they were offering, and when the advantage they had over there ran out they then moved to Poland to take advantage of the lower labour costs. After that, they moved their business to the Czech Republic. This was because industry wide people were saying that the Czech Republic was the place to go.

Fig. 1: Movement of Manufacturing

Company B on the other hand decided to outsource in Ireland, as they felt there was no point looking anywhere else. They claim the volume was low, and there was a very fast turnaround, with short lead times which only a local supply could satisfy. However, given that the cost of the product was quite high, they further claimed that the price of labour in Ireland did not impact greatly on the price of the product. The situation in Company B was that the skill set internally was not sufficient internally, and as they are a low cost operation and they are quite tight on their overheads, if they cannot produce products in Ireland nobody can. They further claim that to keep manufacturing in Ireland that companies need to start getting more automated, thus cutting out on the labour costs.
Company C like Company B decided to outsource in Ireland also, as they felt the first port of call was to look locally, and if they did not find a candidate or company that they felt would not be successful in doing what they wanted here in Ireland at the end of their research, they would have then looked next to the UK, and again if there were not successful there they would go to central Europe and so on. They found a supplier here and as a result, they feel that they best place to keep these types of things is locally because they are dealing with local ports, local shipping etc. So, even if you tender it internationally and choose a foreign company who are experts in logistics, they still have got to talk to EUCON in Ireland, and do the deal with them in Ireland, hence, they are not going to get away with the Irish side of it anyway which make up approximately 30 percent of the total logistics.

Contract Analysis
For the outsourcing of manufacturing, Company A signed a contract for between one and five years. This is because the company normally want to sign contracts for as short a period as possible, hence, it does not want to tie itself into long-term contracts because if something else competitive did come up they would be able to get out of the contract easily. The company speculates that in the future they will be looking at three year cycles, and hence, long-term contracts are a non-starter. In addition, having short contracts, gives the contract partner a lot of notice also. Furthermore, a short term contract has many benefits including, the fact it puts pressure on you to continually review, and continually communicate on what the current state of the business is.
One of the main considerations in the design of their outsourcing contract was to try and drive different behaviours throughout the contract construction. They had learnt from mistakes made in the past, and were trying to alleviate them in future contracts. For example, while working in Ireland, they used to pre-issue all material to their outsourcing partners, and any issues with scrap, non-productivity, shrinkage etc. came back to them, because they were duty bound to stock check it and, this also put a huge onus and responsibility on the company. It discouraged behaviours on the outsourcing partners to manage their own materials. Therefore, to overcome this, and to make the outsourcing supplier more responsible, they now sell the material to the outsourcing partner, and they buy back a product. This results in the supplier managing the material themselves, and it ensures that all the appropriate controls, and behaviours are in place to reduce shrinkage etc.
Company B as an outsourcer, they signed a contract for between one-and-five years, they did this because they look for minimum contract term, and if they could get commitment from the supplier within the pricing structure that they could meet for the time span of the product then they would give the contract.
They have get out clauses built into the contract. This means that they do not have to proceed to the end of the contract if the terms of the initial contract are not being met in terms of delivery, and supply on time, but you can be flexible with that. But, the contract can be changed, and there will be an

understanding with the supplier. After this, they would sit down initially, and thrash it out with the supplier. The last thing you want to do is let them down, and vice versa. You cannot burn your bridges, because you never know when you might need them again.
For Company C the period of the logistics contract was dictated by how long they had identified for the outsourcing supplier to settle down, and what would seem a reasonable period of time for them to operate from both the outsourcer, and the outsourcing supplier side, and also by certain legislation, and conditions. They decided on a period of three years, as they felt one year would have been too short, they would only have been getting their feet under the table, and getting into the logistics function. Two years, would also have been too short, in so far as a lot of the initiatives they had identified would have only started to bear fruit, and they would only have started working well.
However, like Company B termination clauses were included. They revolve around delivery performance, cost performance, and the team performance that they have in the factory and they are quite precise.
For Company A, B, and C minor or no penalty clauses were included in the contract, but they could have been put in, but a lot of the contract was based on trust, and a working relationship. They steered particularly away from penalty clauses as they did not want it to be too rigid. They wanted scope within the contract. They felt that if they started putting penalty clauses in all over the place the working relationship, and the meaning of the contract would have deteriorated from a close working relationship to the letter of the law. And overall they feel that by not using penalty clauses, they feel they have a better working relationship with their suppliers as they would have had.

Benefits and Problems
The company received many benefits as a result of the careful planning, and choices they made as a result of the outsourcing initiative. Table 1 shows the top five benefits the company experienced as a result of the outsourcing venture:

1	Lower Prices
2	Greater Flexibility
3	Risk Manufacturing Increased
4	Company more Profitable
5	Better Customer Service

Table 1: Top 5 Benefits of Outsourcing – Company A

Like benefits, the Company A experienced some problems, but because of the preparation the company went through, these were not very pronounced. The main ones were: loss of knowledge, loss of experience, and the company outsourced its core competency. But these, did not have too much of an impact. Other minor problems included: customer services issues initially due to getting things up and running, shortage of stock due to transcription errors (this problem was rectified by retrospectively going back and reimbursing the suppliers), and excise and duty problems. Furthermore, the culture within the company changed as a result of the outsourcing. There were negatives from a people based perspective, and a training perspective.
However, even though there were no penalty clauses, and they outsourced in Ireland, Company B still got many benefits. Table 2 shows the top four benefits the company experienced as a result of the outsourcing venture:

1	Wider Selection of Products
2	Better Quality Services
3	Company More Profitable
4	Better Customer Service

Table 2: Top 4 Benefits of Outsourcing – Company B

But, as with benefits, the company experienced some problems. Table 3 shows the main problems that were experienced, but depending on who you are talking to in the company the problems change.

1	Loss of Knowledge	None
2	Loss of Experience	

Table 3: Problems with Outsourcing – Company B

But apart from these there was not too many. The main ones that were encompassed were associated with set-up problems. They found they were not being able to fulfil the initial plans as set out in the contract.
Company C also received many benefits as a result of the careful planning, and choices they made as a result of the outsourcing initiative. Table 4 shows the top five benefits the company experienced as a result of the outsourcing venture:

1	Lower Prices
2	Greater Flexibility
3	Closer Proximity to Markets
4	Service Levels Increased
5	Better Customer Satisfaction

Table 4: Top 5 Benefits of Outsourcing – Company C

When asked in the survey about problems in the outsourcing initiative Company C said they had no problems. When pressed on this the supply chain manager said that this was because they thought about it quite a lot. They looked at the people they had, the knowledge they had within the company, and how they would integrate the new team with the old team. It was here that they found a few minor issues – one person within Company C just could not get on with the outsourcing supplier. In addition, there were a few set up issues, and a few with the supplier they had pre-outsourcing. They could see very quickly that they were going to lose a lot of business.

Conclusions

From the literature it was found that it was very important that the outsourcing decision was top down driven, so the correct amount of effort would go into the initiative so that it would be successful. Therefore it was important that the study participants who filled in the survey had the right experience and the right level of knowledge.
In addition, according to Zineldin and Bredenlow (2003), although a long tem relationship does not guarantee success, it is imperative that the relationship between the outsourcer and the outsourcing supplier is based on mutual trust and respect, and preferentially a partnership. All three companies that participated in the case studies understood the importance of these relationships, and accordingly took this on board when they were constructing their contracts
From the survey it was found that many companies did not have an adequate definition of outsourcing with many of them having a very limited definition, therefore, it was no surprise when the study participants were asked about what type of outsourcing they were involved in that many of them just did not know. In order to further investigate this, and to find out if companies out there did understand the difference between the two main types of outsourcing – total, and selective outsourcing the three companies in the case studies were asked could they give a definition of total and selective outsourcing. From this it was found that only one of all the people interview could off the top of his head could tell what the difference was, and at a push a few of the others would lean towards what it meant, but overall many of them just plainly did not know the difference.

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