DECIDING TO OUTSOURCE: AN INDUSTRY-UNIVERSITY COLLABORATION TO TEACH OUTSOURCING TO MANAGEMENT STUDENTS

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The call for new methods of teaching that allow students to become active participants rather than passive learners has been suggested by a number of scholars (Franz, 1998; Mundell & Pennarola, 1999; O’Banion, 1997; Pearce, 1999; Pfeffer & Sutton, 1999; Rynes & Trank, 1999; Vince, 1996). One method that has been suggested to increase the effectiveness of business education is to increase interactions with industry in an effort to give students a more "real-world" view of what they face as they leave college campuses to pursue careers in industry. Many professions provide such opportunities in the forms of internships or practice including medicine, nursing, education, social work, criminal justice, counseling, and numerous other occupations. Trade occupations are well regarded for providing this "hands-on" experience before employees receive the credentials to perform the work unsupervised. However, internships for business students are seldom required for graduation. This situation effectively sends students into the workplace and positions of responsibility with little application experience. Students themselves report a preference for understanding how theories work and prefer an increased opportunity for experiential learning (Matuszek & Management Seminar, 2000) in preparation for careers in industry.

This paper describes a collaborative effort between a southeastern university and a corporate partner to introduce management students to outsourcing. Outsourcing is a corporate strategy to subcontract non-core functions in an effort to streamline operations. The definition of outsourcing provided by the corporate partner follows: "Outsourcing is the practice of assigning work to outside providers or vendors to handle non-core tasks or services formerly handled in-house, for a specified time period and at a specified price and service level" (Petrush, 1999). The exercise described here let students move through the ten-month process of deciding whether or not to outsource. The exercise was supported by documents provided by the corporate partner. At the end of the outsourcing exercise, students were asked to make a decision based on the information provided by the company and group decision-making processes were analyzed through further class discussion.

WHAT IS OUTSOURCING?
Outsourcing is a system of specialties that allows individuals as well as companies to work where they can add the most value. This, in turn, boosts the economy in several ways: employment and the associated tax revenues increase, some of the time saved results in greater work productivity, and some of the time saved is used for stress management in the form of leisure activities. Outsourcing buys time and other resources that can be invested elsewhere to bring about competitive advantage (Sheth & Sisodia, 1999). Some organizational functions that are commonly outsourced include internal auditing, transportation, information systems, certain human resource functions, and engineering.

THE IMPORTANCE OF LEARNING OUTSOURCING
Outsourcing is a strategy that is, quite literally, changing the landscape and scope of companies. Outsourcing occurs on a continuum ranging from sub-contracting a small portion of a job to a local vendor to a complex joint venture between multinational corporations. Outsourcing allows an organization to focus on core activities by replacing non-core workers with vendors who can enhance quality and cost-effectiveness for specific functions. Outsourcing is currently a "hot" topic in the popular press with references to outsourcing appearing more than 1000 times in newspaper publications within a six-month period in the year 2000 (Lexis-Nexis retrieval, Nov. 8, 2000). As downsizing and globalization become common industrial initiatives, outsourcing becomes increasingly important for restructuring organizations.

However, outsourcing is not a new strategy. There is a long history in the United States of subcontracting work that provides a broad base of experience with this process (Cant & Jeynes, 1998). Nonetheless, current management texts provide relatively little mention of managing outsourcing initiatives. Frequently, the text information concerning outsourcing is a definition and a note that there are certain conditions that make outsourcing appropriate. Much of the information in the research literature is prescriptive in nature, imparting rules for building a "smart" outsourcing process or cautioning readers to be wary of the pitfalls of outsourcing inappropriately. Very little of the information addresses issues specific to making an outsourcing decision or managing an outsourcing initiative.

Outsourcing is more than a simple make or buy decision. Rather, outsourcing helps to define the identity of the organization by allowing the organization to focus on its core competencies. As suggested by Williamson (1981) and Williamson and Ouchi (1982), transactions costs can be used at this level to determine when outsourcing (as a make or buy decision) is appropriate by establishing efficient boundaries. That is, the market is assumed to be efficient and to minimize both produc-
tion costs and transaction costs while maximizing efficiency. Williamson and Ouchi (1982) contend that economic analysis of transaction costs should include types of contracting, cost implications, and hard orsoft constraints. Modes of contracting should then be matched with types of transactions.

As outsourcing changes the landscape of our organization, managers will need skills that facilitate lateral relationships rather than skills that focus on vertical relationships. The preponderance of management education currently involves the student in learning processes focused on the management of vertical relationships. Working within an outsourcing initiative means that managers will have to forge relationships with people other than superiors and subordinates. A specific set of skills is needed to cope with increasing numbers of lateral relationships (Useem & Harder, 2000). Useem and Harder (2000) specify four skill sets which will be necessary to the outsourcing manager: (1) Strategic thinking – the ability to decide how outsourcing will benefit the company and provide competitive advantage, (2) Deal making – the ability to find common ground between vendors and internal customers who are likely to have very different agendas, (3) Partnership governing – the ability to work closely with the partner to enhance quality and financial gain for both partners, and (4) Managing change – the ability to help individuals and the organization make the transition even when met with extreme resistance. This model indicates that managers will be called upon to become ever more sophisticated, incorporating a complex skill set that includes negotiation, conflict resolution, liaison, use of different power bases, and cognitive reasoning in non-traditional ways. The idea of learning new directions as managers is echoed by Luthans and Hodgetts (1999) who believe that the key to change is learning. The borderless, international economy needs managers who can conceptually grasp the opportunities and threats presented by such a complex environment.

ADVANTAGES AND DISADVANTAGES OF OUTSOURCING

Outsourcing provides several advantages for organizations. One advantage is that economies of scale are effectively being used to lower taxes, transportation costs, insurance costs, and labor costs. Total operating costs can be lowered considerably through "smart" outsourcing. A second advantage is that proponents of outsourcing believe performance improvements gained through specialization and expertise are a primary advantage gained by outsourcing. Simultaneously, improved organizational performance provides a third advantage through focus on core competencies. A fourth potential benefit is staffing flexibility gained through downsizing and expedient use of vendors, because vendors often possess state of the art equipment and materials. Technology improvements are taking place at incredible rates, and outsourcers may find a market in providing the most up-to-date equipment and software for providing services and products. A fifth advantage is that risks may be shared or reduced through outsourcing (Cant & Jeynes, 1998; Deavers, 1997). Finally, outsourcing allows even small companies to buy expertise in times of low unemployment (Grice & Mims, 1999; Weinberg, 1998), thus improving the competitive opportunities for many small companies.

There are several disadvantages of outsourcing which future managers need to know. One disadvantage is that dissatisfaction with operations may be the result of poor managers, and outsourcing may not be an appropriate answer to organizational or personnel problems. A manager who has problems managing operations before outsourcing may not be any more prepared to manage a vendor who is providing services. A second disadvantage is that weak management may lead to conflict and dissatisfaction with vendors. Transferring weak employees to the vendor still results in weak employees working for your organization. New employees retained to fulfill the outsourced function are still new employees and frequently present no initial advantage. A third disadvantage is that outsourcing may provide a quick fix that eliminates many creative people from the company and may send a message that devalues an important component of the business. Cost is almost surely not the single most important consideration when making an outsourcing decision. An overreliance on cost-based decisions may result in the sacrifice of competencies that will be needed in the future. A final disadvantage is that a vendor with outdated skills provides no advantage to the customer; therefore, it is a manager’s responsibility to ensure that vendor skills are current and provide the expected advantage. Other possible disadvantages include a lack of organizational learning, loss of innovation, technical non-feasibility, and lack of clear focus (Earl, 1996). Thus, outsourcing may solve problems in the short term but lead to more critical problems in the future.

OUTSOURCING IN THE CLASSROOM

The students’ introduction to outsourcing as a special topic in management began by having the instructor’s classroom duties outsourced to an industry expert. In this case, the corporate executive could provide expertise that was not otherwise available to either the students or the instructor. For example, the corporate partner in this learning experience was given special permission by the corporation to share proprietary documents with the students as illustrations for the exercise. This exercise took place during two 75-minute classes.

To begin the exercise in making an outsourcing decision, students were introduced to a corporate executive who had been directly involved in an outsourcing initiative. This individual was a manager in an information systems (IS) department that had completed a feasibility study for outsourcing primary and peripheral information systems functions. This was particularly interesting for the students because this executive was in a position to directly impact the outsourcing decision. Part of the original decision he and his team were directed to make involved whether or not his particular position would be outsourced, forcing a family as well as a career move for him. Immediately students were moved into the “real world” of corporate processes as the decision to let someone with such a vested interest help to make such a significant decision for a $3 billion corporation.

Students were familiarized with the theory surrounding outsourcing as it applied to information systems. A foundation for decision making was developed by presenting outsourcing theory (noted above), advantages and disadvantages of outsourcing (noted above), and the importance to the organization with
respect to absolute dollars to be spent or saved. In this instance, students were surprised that dollars were not the primary determining factor, because costs between outsourcing and keeping the functions in house were relatively equal for the projected five-year plan. Rather, the decision to outsource was contingent on other criteria including vendor expertise and ability to provide adequate support, vendor marketing presentation, perceptions of "fit" between the vendor and corporation, and corporate potential for successfully implementing a full IS function.

Some of the materials provided by the corporation included actual proposals from vendors, actual internal corporate letters from the organization requesting outsourcing proposals, corporate documents from internal as well as vendor meetings, internal corporate memos and successful vendor proposals. While access to some of the materials was restricted because of their proprietary nature, students were able to assess the depth and breadth of preparation that was necessary simply to be invited to bid on the outsourcing contract. Further, they could assess the level of preparation and cost that was associated with the most successful vendor proposal, including special documentation to top corporate managers (the "C" guys) and a visit by a vendor team consisting of nineteen vendor employees including executives. As "consultants" to the project, each student received a notebook of actual corporate materials (including models, timelines, decision-making matrices, and memos) to help guide them through the process of making the outsourcing decision.

Students were pulled through a process that had actually taken ten months, a special project team of executives, eleven vendor companies, and large expenditures on the part of the corporation and vendors to arrive at a decision. Students were given the opportunity to eliminate vendors and decide which "hurdles" to outsourcing had been crossed. Students were introduced to several concepts including service level agreements, individual "ownership" of a process, vendor selection criteria, requests for proposals, nondisclosure agreements, due diligence, and insourcing. Finally, students were challenged to make a decision based on the plethora of information and explanation provided by the corporation and to justify the decision by giving consideration to their background materials and using their newly found expertise. Their decision was compared to the decision made by the corporation and differences in outcomes were discussed at length in class. The final portion of the exercise guided students through understanding how economic, technical, political, and social forces interact to result in a single decision by a group of people who do not necessarily agree on a single outcome.

CONCLUSION

The university-corporate collaboration provided several advantages for students, instructor, and the corporate partner. Students built a competitive advantage by developing a stronger framework for understanding the political, economic, technological, and sociological implications of an outsourcing initiative. They were subject to proprietary information concerning managing an outsourced function and the nature of the relationships that a manager must develop to effectively accomplish such a task. Furthermore, they were able to put an approximate price tag on implementing the outsourcing decision as well as a price tag for simply answering the question, "Should we outsource?" Simply answering the question cost vendors and the corporate customer (combined) approximately $3 million. The instructor was able to increase productivity through the use of expert information; students were engaged in the classes and reported increased learning on this special topic. Subsequent discussions with students and additional testing corroborated this report. The corporate partner was able to meet talented students and conduct onsite interviews among students for positions that required special talents. The corporation also provided a summer internship to a university student. The corporate-university alliance was a unique educational experience that built a win-win-win circumstance for everyone involved. The positive outcomes from this experiential exercise strongly suggest the importance of building relationships with corporate partners to improve the level of preparation for business students moving into an extremely competitive marketplace.

REFERENCES


