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## Outsource only what you can afford to give up

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Much like the dogma of presidential campaign promises is the management rhetoric that promises a magic bullet to reduce costs, increase productivity, achieve dynamic growth and increased profitability -- all the while freeing up time to concentrate on the "important issues" (not to mention the golf course).

Some call it "outsourcing."

While there is always the hope of discovering new management techniques, there is never anything new, only the harsh reality of rehashing old ideas in new packages.

It is difficult enough to pick up a business magazine or attend a meeting and not have people talking about, proposing or implementing outsourcing, which has quickly become the Atkins diet of management reduction. There are those who would have us believe that if we hire "experts" (them) to do our job, then our job will be easier. Of course, any job is easier if we don't have to do it. But the job of management is to manage.

### Why outsource?

Managers are constantly reminded they are not in the computer processing business and should therefore outsource that process to those who are. We are also told government regulations in personnel are so complicated that payroll and employee benefits are distractions from the "real job" of the company, so "human resources" should be outsourced.

Remember the last time this outsourcing mania reared its head, and recall there were those who even recommended totally outsourcing employees and "leasing" them from another company that specialized in employee relations.

Other areas perceived to benefit from being outsourced are customer service (to the growing number of call centers in India), product fulfillment, distribution, marketing and manufacturing. If taken to the extreme, it would be possible to outsource every company activity so that executives would be left to do what many of them do best: nothing. But even that can be outsourced, by hiring management consultants to do the thinking and planning. The irony of outsourcing is the number of companies that have become large and profitable by offering to do the jobs

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companies should be doing for themselves.

### **Beware 'anti-selection'**

While you may conclude the writer has a bias against outsourcing, in fact there is a time and place for it. The point is not to accept one simple solution to management challenges. Outsourcing can be an effective tool, but it is hardly nirvana.

Managers should be skeptics, yet cognizant of the fundamental rule: The management of a company must always control those functions that are critical to the company's success or failure. We call this avoiding "anti-selection," which means if you give someone else the power to "anti-select" against the best interests of your company, eventually they will.

A company's future mandates that you never relinquish control of three critical functions: product development, distribution and customer service. It's OK to outsource janitorial services, parking lot management and printing. If they go bad, you may be irritated, but you are not out of business. But if customer service or distribution go bad, you go down.

Information technology processing is a shining example of a company function that is tempting to outsource. Why? It is expensive, confusing, mystifying and frustrating. IT activities chew up an inordinate chunk of the operating budget, require large numbers of employees (none of whom you can communicate with) and have an insatiable appetite for continuing capital investment.

The temptation of the outsourcing pitch is always the same: "Let us relieve you of the IT (or whatever) function. We are the leading experts in the field. We can reduce your costs, improve output, manage the geeks and eliminate the need for capital investment. Best of all: You don't even need to be involved."

The logic proffered by the provider can be persuasive. Since they specialize in IT processing, they have more expertise than you ever could afford. Since they have 10 clients instead of one, expenses can be lower. And the technology available is always state of the art.

But while this may be true, it comes with a different kind of cost. When you give up control of critical functions such as IT (as frustrating as they can be to deal with), you give up control of the oxygen system of the modern company. Your IT function may be expensive and difficult to manage, but it's yours to manage. When you outsource IT, you may reduce short-term costs, but the real cost is loss of control over a function that can make or break your company.

What happens if you outsource IT, get rid of all your machines and employees, and then the outsource company goes out of business, is sold or simply does not perform as promised? Will you sue them while you are in the process of going out of business?

Such a calamity might not happen. But it could, and you'd have no control over the impact.

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When I was hired as CEO of a large company that had significant performance problems, I learned that management had violated the fundamental rule by outsourcing control of product, distribution and administration. But they kept parking lot management, printing and IT in house.

Initially, by offering products developed by other companies, distribution controlled by another group and administration and customer service provided by yet other companies, management was able to reduce costs, increase production and appear to be profitable. However, when the products provided by the outsourcers turned bad, the distribution was diverted. And those providing customer service didn't deliver.

The company nearly failed. By outsourcing activities critical to its success, management had effectively given up control of the company's future.

By recapturing control of product development, establishing a distribution system controlled by the company and recovering the ability to issue and administer its own business (a goal that was accomplished by acquiring the outsource firm), the company turned around and became a star performer.

The decision to outsource is very simple. The key is to look long-term, not short-term, and then calculate the impact on the company if something goes wrong -- because it will.

If the function is not critical to the long-term success of the company and you can survive the worst that can happen with outsourcing, then it should be given strong consideration.

If that is not the case, then walk away.

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