

Chapter 22: Adapt the Organisation

Outsourcing will force your organisation to change the way it does business. At a strategic level, you are seeking to improve the way you work, regardless of the specific objectives around cost savings and quality improvement.

At the very least, it will encourage people to sit up and think about the best way to achieve a result, whether that means a great service or a faultless product. You must consider how to introduce the concept of partnership with a third party as beneficial for the everyone, so the company can adjust to the new style of operation.

In her book, *The Company of the Future*, Frances Cairncross asks the question: "What should a company look like? In the early years of the past century, the Ford Motor Company thought that a wise company should own every stage of its entire production chain. It even bought a rubber plantation to ensure that it owned a source of the raw material for making tyres, and fleets to ship its materials across the Great Lakes. But go back three centuries earlier, to the first joint-stock companies of all, and you find a quite different sort of creature: a bunch of people banding together for a single project - a perilous trading voyage to the East Indies, say - and disbanding when the task is done."¹

Organisations don't work that way anymore. Organisations are now built on knowledge. Management thinker Charles Handy once said: "The new formula for success, and for effectiveness, is $I^3 = AV$, where I stands for Intelligence, Information and Ideas, and AV means Added Value in cash or in kind."² I have already looked at the drivers underlying outsourcing in this book, but it is an important point to remember. Outsourcing is not a business fashion; it is a tool that can be used to improve the knowledge within your company.

Outsourcing needs to be at the heart of strategic planning, at the very core of your company. Once you have made the journey and set up your first outsourcing arrangement, you need the right structure to be able to monitor and control the partnership.

In their book, *Inside Outsourcing*, Charles L. Gay and James Essinger comment: "Once the deal is signed and the outsourcing initiative is under way, there is an enormous temptation to breathe a sigh of relief and, rather optimistically perhaps, 'go back to normal'."³ Life is never that easy.

Outsourcing as Corporate Strategy

The acceleration of business, management and decision-making processes may feel like a new phenomenon; something brought on by the introduction of the Internet. Just look at the words of thinker and futurist Alvin Toffler: "Today, organisational lines are changing so frequently that a three-month old table is often regarded as an historic artefact, something like the Dead Sea Scrolls. Organisations now change their internal shape with a frequency - and sometimes a rashness - that makes the head swim."⁴

Toffler wrote this in 1970, yet it could be extracted from a present-day newspaper or management textbook. It is predicted, that by 2025, the average length of time a company resides on the S&P 500 index will be no more than 10 years, compared to 20 years today. In their book, *Creative Destruction*, Richard Foster and Sarah Kaplan comment: "The pace of change is accelerating. Survival alone, as we have seen, is no guarantee of performance. Based on the historical record, even those companies that do survive to the year 2025 will likely underperform the markets."⁵

It was Joseph Schumpeter who coined the term 'creative destruction' in his work on the economics of capitalism. Much like Karl Marx, he believed that for an economic system to progress, the destruction of the former state is essential. Kiran Karnik once even described the entire IT industry in India as a constant process of creative destruction.⁶

You will not need to destroy your organisation, in order for it to rise like a phoenix with outsourcing wings. However, you will need to think for long time about what it is that your company does well. What are the core competencies of your organisation?

In their classic management text, *Competing for the Future*, Gary Hamel and C.K. Prahalad said: "A core competence is a tapestry, woven from the threads of distinct skills and technologies. A car company could hire the best engineers and technologists, and lavish billions on R&D, and still not produce the best engines."⁷

According to Hamel and Prahalad, companies need a different type of employee for a world in which outsourcing and partnership is common: "What is required are generalists, not just narrow specialists. Experts who are sympathetic to other disciplines, and who can overcome the parochial perspectives of their specific technical or functional background, are rare." Jack Welch, former CEO of GE makes the point clear when he argues that "hierarchy is an organisation with its face toward the CEO and its ass toward the customer."⁸

With this in mind, what kind of organisation might your present one become? There are many models for outsourcing and you may end up in one of several places. Richard Finn, Managing Director of Penna Change Consulting comments: "Remember that a lot of outsourcing learning has come from IT. There is a continuum with outsourcing at one end and partnership at the other. The style of outsourcing is a really critical strategic issue. Straight outsourcing is surrounded by SLAs, we want you to deliver service x for n years. Many people are realising that they need to think more strategically about the degree to which they can specify a