Outsourcing Services:
Fulfillment or Failure?

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INTRODUCTION

Outsourcing Pros and Cons

Outsourcing has been hailed as of one of the best ways to cut costs and enable a firm to concentrate on its core competencies, however, as many as 25% of outsourcing deals fail within the first year (MacInnis, 2003). With the current logistical and supply chain disruptions, many outsourcing partnering are increasingly under the microscope. The actual numbers of failures are astounding, even though most failures go unreported for quite some time because companies do not want to admit their mistakes. This is unfortunate as contrasting these failures with more successful outsourcing efforts can yield useful best practices (Barthelemy & Adsit, 2003; Smith, 2022a). A classic example of potential success and failure is the microchip shortage that the U.S. and much of the world is currently experiencing. Intel and Apple, to name a few, decided 30+ years ago to export the source of microchip processor manufacture to South Korea and Taiwan, in particular, as part of the lean manufacturing and total quality management (TQM) that Toyota pioneering during that time. It was thought that the advance designing would stay in the U.S., manufacture in Asia, and now, with China the primary consumer of microchips for electronic consumer goods, it has become a strategic concern. Manufacturing of these products are essential for military, as well as domestic production, of electronically sophisticated products and has placed the U.S. and its allies at a disadvantage if control of these products is outside U.S.' control. Hence, a long-term strategic focus and perspective should be taken to determine the success or failure of outsourcing.

Despite firms' best efforts to keep outsourcing mishaps under wraps, many have been identified and studied. The first and foremost reason cited for the failures is the lack of realistic expectations. Many times, an activity will be outsourced that has been a problem area for the firm in the past (Smith, 2020b, Van Weele & Van Raaij, 2005; Viswanathan, et al., 2007; Wong & Eyers, 2011). For example, Blake Hanna of Accenture, a Toronto-based outsourcing company, recommended that firms straighten out their messes before outsourcing, as it is important to understand the current level of performance to properly assess another's management of it (MacInnis, 2003). These unrealistic expectations can be avoided by taking proper steps when thinking of outsourcing. Barthelemy (2003), specified as follows:

1. Outsourcing activities that should not be outsourced
2. Selecting the wrong vendor
3. Writing a poor contract
4. Overlooking personnel issues
5. Losing control over the outsourced activity
6. Overlooking the hidden costs of outsourcing
7. Failing to plan an exit strategy

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As firms continue to explore outsourcing, the practice of offshore outsourcing has become a focus among global businesses. Firms generally want to take advantage of expertise in matters outside their core competencies; no matter what country this may place them. This idea of placing plants or offices in other countries is especially attractive for firms for both the potential to cut in-house costs as well as the opportunity to ingratiate itself with the local inhabitants (Brito & Botter, 2012). Unfortunately, the failure rate of offshore outsourcing is 50% (Recipe for Offshore, 2004). David Foote, co-founder of Foote Partners and a long-time IT analyst and consultant, purports that the biggest culprit of these failures are the transition challenges; the inability to navigate difficult organizational and cultural barriers (Recipe for Offshore, 2004). Furthermore, Foote also believes that one of the worst mistakes that a company can make is to treat all outsourcing deals alike (Recipe for Offshore, 2004).

Purpose

As firms continue into the potential for global recession with high inflation rates and supply chain disruptions associated with the Covid-19 pandemic (Hanson, 2020; Patel, et al., (2020), the prognosis remains high for rates of failure regarding offshore outsourcing. NeoIT, a San Ramon firm that manages offshore operations, predicts a failure rate of 40% for specific to offshore outsourcing. Other predictions cite the total failure rate to be as high as 70% (Zineldin & Bredenlow, 2003). This chapter will identify several key outsourced services and the failures that have resulted. More specifically, since total purchases (outsourced) spend is estimated at 33% for service related activities such as legal, accounting, information technology (IT), advertising and related activities (Ellram et al, 2004; Smith & Krivacek, 2019). It is from these ‘high-outsource spend’ areas that this chapter takes its formation in discovering relationships, failures, and remedies. In doing so, it is hoped that efforts to further identify an algorithm that may serve as a guide to prevent or decrease the incidence of such failures can, at least, be made at the conceptual level (Daim, et al., 2010). This chapter inspects some of the historical and current trends in outsourcing services. As with any conceptual research, the ultimate future is unknown, with many uncertainties that cannot be accounted for. This chapter looks at the academic and practitioner-based literature, couple with the geopolitical and supply chain disruptions that have resulted in the current economic environment of high inflation and investor volatility/uncertainty. If any that the information is this chapter hopes to uncover is that the traditional wisdom associated with outsourcing, especially offshoring, are current under attack.

BACKGROUND

Marketing/Advertising

Advertising has been outsourced, it seems, since the concept of doing so came into existence. Ad agencies lining up to give their presentations in hopes of winning the chance to invent the most effective tag lines in order to make a product a household name has been played out repeatedly in movies and television. In essence, it is the purchase of ideas. In modern times, the practice of marketing those ideas have also become big business – too big for some companies. With the invention of websites, marketing and advertising have evolved to a point that most any type of consumer can be reached and often tracked (Adjei, et al., 2010; Chavez, et al., 2016).

Along with the success of web advertising and e-commerce, however, have also come new pitfalls (Harn, et al., 2006; Hashim, et al., 2009; Izquierdo-Yusta & Schultz, 2011; Jain & D'lima, 2018). Updating websites with new information is an unyielding task and one that many firms fail to realize up front. It is one thing to contract out the creating of a website to be used for e-commerce; it is another thing to realize that websites are not a one-time deal. Upgrades to maintain current products, pricing, and sales are constant, as is the security issues to protect the firm and its' customers. Failing to see the ramifications of these continuing needs for service have left many firms saddled with unforeseen costs. Angela Kapp, VP of Estee Lauder's companies, figures she has recouped 50 percent of her online marketing budget by taking site update duties in-house (Warner, 1998).

It has been acknowledged that the services supply chain is something of an enigma, with no clear management model (Ellram, et al, 2004; Bhamu, et al., 2013; Brito & Botter, 2012; Bulcsu, 2011; Cao &, Schniederjans, 2004; Carvalho, et al., 2012). However, when you specifically hone in on the marketing industry, the duty of a purchaser is not to be envied. As Sharma (1999), marketing procurement specialist for Creative Contracts Strategy & Negotiation (CCS&N), wrote:

The marketing industry covers all activities related to sales, brand building and advertising, and you could find yourself buying consultancy, telemarketing, design, print, or anything else you need to reach your target audience…in addition, the advertising supply chain is long and complex...the purchaser's skill lies in managing an agency's costs, time and quality.

As many other service industries have found, the firms that have failed in outsourcing marketing and advertising did not keep close enough tabs on outsourced activities. The purchaser needs to become part of the process and guide the outsourcing agencies to keep them on track. The trick is to do so in a manner that controls yet is not controlling. It is well documented that heavily outsourced services such as advertising have had little directives from purchasing even though they make up about 33% of total purchasing spend (Ellram et al, 2004). The contract negotiations need to become more insistent on timelines and expectations of both the outsourcing agency and the initiating firm. In the past, many marketing managers have cringed at the thought of including purchasers in the process of contracting with ad agencies because they feel the purchaser can bring no value to the table. This is proving to be a shortsighted view with many conflicts being averted by the simple upfront involvement of the purchaser's expertise in providing documentation with an Enterprise Resource Planning ERP environment (Chiarini, et al., 2018; Dharamdass & Fernando, 2018; Franceschini & Mastrogiacomo, 2018).

A major financial bottom-line is that marketing and, hence, advertising, is an activity that is constantly under pressure to remain competitive. This situation puts many marketing managers into "the ends justifies the means" mode of operation, the byproduct of which becomes smart decisions superceded by quick ones. Ultimately this formula leads to eventual leaks in the supply chain. These leaks, if left unattended, have the propensity to grow themselves into financial disasters. Thus, the ultimate reason for outsourcing is to become economically efficient, yet leaks in the supply chain can be thought of as paying more than expected for the contracted services and/or receiving less than expected for the contracted price (Ellram et al, 2004). Obviously, there needs to be a process in place for choosing suppliers, a.k.a. agencies, based on specific criteria agreed upon by not only the marketing managers but those in charge of the spending as well. However, even the best strategy plan has trouble dealing with the recent global tensions as countries are becoming more like political adversaries than merely competitors.

INTERNATIONAL OUTSOURCING/OFFSHORING

Over the past two decades, a huge number of academic and practitioner research publications have focused on single sourcing, multiple sourcing, network sourcing, concurrent sourcing, strategic sourcing, and outsourcing. However, in spite of the widespread use of global sourcing and interest in various sourcing agreements, global sourcing has received minimal scholarly focus. The literature on global outsourcing and formulates several propositions suggesting how global outsourcing influences an organization's performance and management decisions. The advancement of technology and increased business competition has facilitated, and impelled organizations to spread out their markets globally (Yavas, et al., 2011). Some of the most thriving companies often manufacture their products in Europe, U.S., and Asia and sell them globally. As one of this drift, international outsourcing has quickly taken place as a precondition for organizations contending in the current market. International outsourcing refers to the combination and harmonization of procurement prerequisites throughout global business units, seeking same products, methods, technologies, and providers. This procurement approach has broadened companies supply series to an international level.

Young et al. (2009) have applied the traditional techniques and models in their scholarly work concerning the various reasons for offshore outsourcing by companies. The authors apply the landed cost models to show that managers resolve for offshore outsourcing decisions due to cost and not revenue considerations. Young et al. (2009) have maintained that in order for supply chains to become a superior device for competitive advantage, received costs must be counterbalanced by the value gained from outsourcing, and that costs should be separated on the basis of how they have been sustained during reporting. To gain common knowledge of landed expenditure, they conducted a series of interviews to build up case studies that recognized the aspects that seemed to be essential to the import processes. The scope of duties of these respondents comprised international trade observance, supply management, importation, and operations management (Fumi, et al., 2013; Idris, et al., 2013; Ketikidis, et al., 2013). The case study by Young et al. (2009) involved 6 dissimilar cases with respect to the company, industry alliance, and ways of decision-making. Even though the study concentrated on firms importing products to America, the models seemed to have worldwide pertinence due to the collectivity of their cost classifications. A hybrid-site evaluation of the information obtained from the case study indicates that a six element offshore outsourcing resolution support model includes a landed expenditure as its initial five elements. In a nutshell, the article presents a five-element evaluation model and illustrates how this model can be used using a case study at the leading U.S. companies from various business settings. The framework does not only identify the primary landed cost items, but also recommends a means of computing each of the cost units. The computation section of the structure can be easily applied on spreadsheets and provides elasticity to contain an evaluation of several shipping options and sensitivity analysis. The authors also maintain the same argument that most companies' decisions in international sourcing are influenced by the most cost-efficient shipping mode and the overall expenditure spent on procuring from overseas nations. They have employed empirical study and analysis to categorize and analyze logistics expenditures and their effect in various companies.

Young et al. (2009) have clearly stated the problem of their research article in the abstract, which is the absence of sufficient landed cost models applied in procuring products, raw materials, and components of assembly from international sources. Attributable to the expansion of global business, it has become useful to locate those sources where the issue of the landed expenditure is not expressed. While earlier researchers made efforts to analyze the best ways of locating and negotiating with overseas sources in addition to reducing shipment and clearance costs, they did not recommend any stipulation for rolling up these expenditures into a useful decision support tool. They separated the cost of global delivery into various classifications, but failed to set up a holistic analysis of landed expenditure administration. Yavas and Leon (2011) dealt with incorporated cost classifications and the way they influence profitability, but also disregarded the need to consolidate all expenditures related to international outsourcing decisions.

The problem addressed by Young et al. (2009) in global business sourcing is the lack of a satisfactory all-inclusive landed expenditure model that could direct companies intending to operate in overseas sourcing. One of the significant obstacles to total expenditure analysis according to the authors was the intricacy of suboptimal behavior resulting from financial planning processes that are separated by division, business units, and other business aspects within the company. Most companies perceived the total cost of tenure as being similar to landed cost. However, the overall ownership expenditure is different from the landed costs as the authors later explained. Where overall ownership expenditure is meant to imply the expenditure during the time the asset is possessed, landed cost is perceived to embrace only that expenditure concerned with procuring items and finally placing them in the customer or end user's hands. Young et al. (2009) articulated that landed cost is fixed within the trading period of overall costs of ownership, but deliberate evaluation in this paper implies that it may not be available with adequate facts to instigate useful decisions. The problem stated and analyzed by the authors has a significant impact on various strategic choices of operations management, such as inventory administration and administrative operating cost management.

The application of foreign sources implies that the customer and the supplier are alienated by a long distance, which implies extended lead times particularly with regard to shipment time. Customs authorization procedures may also extend the lead-time, for instance, during the 9/11 attack where the risk of terrorism raised the inspection of cargo arriving in the United States market. Extended lead times imply that bigger inventory may be required to maintain projected demand during that period. Moreover, extended shipment periods also imply greater inconsistency of lead times resulting in a rise in safety stocks. A five-week shipment period versus a two-day local transport time has the consequence of adding almost a month to stock holding costs, not forgetting the opportunity cost of funds invested, obsolescence, and pilferage. The landed cost model of Young et al. (2009) advocates for an active tradeoff, which entails changing to a cheap mode of shipment and incurring extra stock costs, by engaging a close supplier to lessen lead-time and procurement expenditures. In addition, the model recommends varying terms whereby the supplier possesses the products to the port of destination but may charge higher amount.

Decision science is significant in all companies' decision making, especially those engaging in the global outsourcing. It can help in trouble resolution at the top levels of management and boost operations at the production level. The management can recognize the right problem and use the appropriate approach to make a reasonable solution, and apply decision science apparatus and methods (Rajeev, et al., 2013; Senthilmurugan, et al., 2018; Varaprasad, et al., 2013). Young et al. (2009) adequately understood the importance of decision science in their research and applied a decision support model to evaluate the applicability and effectiveness of the landed costs by various case firms. This decision support model considers all the significant variables needed for coming up with a knowledgeable decision to develop a foreign source. The model as demonstrated considers much of the data needed, by evaluating the price, shipment, customs procedure, inventory, administrative overheads, and risk proportions for each firm. Because of using the decision support models, the researchers were successful in evaluating the various case firms in the study and made satisfactory conclusion.

Yavas, et al. (2011) applied the multiple criteria decision-making method, such as optimization methods, ranking techniques, and group decision techniques, by applying expert opinion in discussing the outcomes of the conceptual model. Expert panel discussions were held together with the representatives of the case organizations to analyze the conceptual model and point out both the positives and negative elements about it (Zeng & Rossetti, 2003). The panel of experts praised the analysis of the researchers terming them as crucial for arriving at well-versed decisions. The model will assist to eliminate the blame game rampant in most organizations due to some executives making ill-informed outsourcing decisions without the evidence of the one that exactly made them. The model assists firms to make outsourcing decisions using a cross-functional panel of members that comprises representatives from all departments in the company: accounting, tax, logistics, and finance.

In many instances, variables were too complex to find the best possible solution in a reasonable time-frame. The expert decision systems questioned the capability of the model to attain reasonable estimates for inventory and administrative operating costs. These estimates were extremely combined to be adequately obtained as separate expenses by most companies, and thus any approach to do so was considered as best estimates. Therefore, this is a key component of the assumptions put forward by researchers in their study. Additionally, the landed cost model was not dynamic which made it incapable of precisely calculating the inventory costs which are influenced by shipment time and lead time, a deliberation that is outside the purview of most companies. For the outcomes of the research to be accurate, they have to be discounted since they are incoherent with the purchase price variance values occasionally presented to the top executive. These aspects tend to increase the inconsistency and validity of the research findings unless these issues are included in the assumptions' section of the research (Zeng & Rossetti, 2003).

Yavas, et al. (2011) began with the evaluation of integration approaches in the literature. The authors relied on the literature and formulated their own theoretical framework, which they used to examine the components of outsourcing decisions in the case organizations and analysis of their data. Young et al. (2009) conducted interviews with six major companies that imported a variety of products into the U.S. to create a fairly comprehensive case study. The information on each case organization was collected in five primary levels using non-structured and focus interviews. The range of duties of the respondents encompassed international business compliance, procurement, import, and operations administration. In some case, occasion's one executive stood for multiple operational areas, but in some, multiple respondents entered for only one company. The forms of companies interrogated comprised associates, prospective associates considering membership, and non-affiliates of the benchmarking association. These companies exemplified some of the oldest importers of products into the United States. The researchers analyzed the case studies to determine general themes that related to all importers and whether any resultant theoretical model could have the broadest likely application and importance (Mills, et al., 2004).

Taxonomy of elements present in the rising widespread structures of the landed cost models was constructed from the case studies. These variables were accumulated into modules and scrutinized with the assistance of an expert panel comprising members in charge of import duties at major importing companies. The research methods used are adequate as they gather qualitative information that satisfactorily supports the findings of the research. Even though the study concentrated on firms importing products to America, the models seemed to have worldwide applicability due to the collectivity of their cost classifications. The applications of interview techniques assisted in collecting adequate information needed to make an informed decision about the applicability and effectiveness of the landed cost models in the case organizations. This information was also adequate to rank the case organizations and generate a conceptual model that was analyzed by the experts to determine the positive and negative aspects of the landed cost model in international outsourcing. The research methods that used the application of expert decision support systems were successful in highlighting most of the variables that should be integrated in useful landed cost models, but are not naturally found (Mills, et al., 2004).

However, the application of interview technique as the principal method of gathering information from big multinational companies may be unsuitable and ineffective. This is because the executives representing these organizations may tend to be biased and give positive information about their companies and departments to avoid looking stupid. They may want to make their companies appear superior and informed about international sourcing. Interviews also have the limitation of the researchers developing a premature judgment about an organization or a member, which distorts the credibility of information collected. The engagement of an expert panel was commendable to fine-tune the issues that the research team may have overlooked; expert opinion made the research findings and discussions scientific, and improved their acceptability (Mills, et al., 2004). However, the use of expert opinion expert as a method of evaluating and appraising the research outcomes may make the research seem scientific, and recommendations on the applicability of the landed cost model appear expensive. Expert opinion may complicate the landed cost model to appear used by multinationals only and not meant for small growing companies.

Such research efforts tend to build on the theory of the landed-cost models instead of testing the said theory. The research in a personal opinion failed to give convincing reasons and advantages on how the application of an all-encompassing landed cost model is a useful decision support tool, and the practical benefits that a firm can get in applying the model in international outsourcing. The researchers have instead attempted to hide behind the opinions of experts to portray the applicability and significance of the landed-cost model. As a result, the research appears to be an expert opinion, and has lost the initial meaning of determining how organizations can use the landed cost models to benefit from international sourcing. The application of an inclusive landed cost models as effective decision tools is not common among many companies. This is due to several factors, such as lack of the required information in many companies; the model requires a detailed analysis of statistics in order to arrive at a decision, which demands time that is unavailable, and most company arrangements hamper the application of such models (Lin & Zhou, 2011).

Many companies may not be adequately sophisticated to acknowledge that administration costs are significant to the entire sourcing decision. It is also vital to mention that the research relies on several assumptions and contains a few limitations. These limitations indicate that there are possible chances of advancing the research in the future. Many researchers used a small number of companies in their interview in addition to the members who took part in the expert panel discussion. This research comprised organizations with reputable international supply chains complexity taking part in numerous import activities and standing for a range of industries. Researchers have outlined some of the matters to be further researched through surveys of additional companies participating in foreign sourcing business (Gavronski, et al., 2012). A rational stride would be to organize a survey where most importers will stand for a wide variety of additional organizations to give feedback by answering questionnaires with questions covering the decision tools used when making foreign procurement decisions. The subject matter of the landed-cost model is becoming more compelling because numerous firms from an extensive range of industries are currently taking part in international outsourcing, regardless of their size and level of operations. As the business world conditions change, for example, extended lead times because of the limited shipment space and the effect of rising energy expenditure on shipment, importers are prone to restructuring their landed costs on shipment more frequently. The choices that they are making to proceed to craft in the near future should rely on a reasonable, well-backed appraisal that comprises numerous cost elements of the supply chain (Ahsan, et al., 2010). The many-sided modulse developed by this research characterizes an approach in which the theory of landed cost may be additionally expanded (Park & Min, 2013; Rajapakshe, et al., 2013).

INFORMATION TECHNOLOGY SERVICES

Business Process Outsourcing (BPO) is a relatively recent evolution of taking on non-strategic services from an external vendor that has a specialty. Companies taking on a BPO have experienced as much as 25% annual lower costs for general services (Hodges, 2005; Smith, 2022b). As more companies have gone to BPO there has evolved a strong market for service providers. With the rising costs in IT, firms have taken on vendors that guaranteed cost reductions of up 60% (Hodges, 2005), however, successful outsourcing is not assured, especially not in the IT arena (Mateen & More, 2013; Nobari, et al., 2018). BPO service providers make their money through economies of scale. They specialize in areas such as technical support or programming where they can focus equipment, resources and training to keep skills high and costs low. Many service providers target customers with high-transaction businesses (Hodges, 2005) and, as such, industry's that are ripe for outsourcing, include: financial enterprises, companies with large repetitive call center services, and software development organizations, that are heavy with human resources housed on development teams. Research has shown that company's that outsource focus on the following areas: IT infrastructure (34%), application development and support (26%) and call center (18%) (MacInnis, 2003).

Traditionally, outsourcing in IT has meant moving technology business support over seas or offshoring (Sparks, 2010; Zickuhr & Smith, 2012; Zhao & Lv, 2009; Ziliani, 2006). Countries such as India, China, Russia and Hungary have taken over jobs previous provided by American-educated IT and customer service professionals and, as such, have effectively reduced corporate costs in the range of 60 to 80% opening the eyes of many U.S. executives. Thus, programmers in India making US$6 per hour have repeatedly replaced U.S. computer programmers making significantly over US$40 to 200 per hour. Businesses by droves are attaining quality IT services at lower costs by moving services overseas. In the last few years companies such as Prudential, Dell, Merrill Lynch, J.P. Morgan and Mellon Financial (which will be discussed in more detail below) have outsourced IT positions in search of higher profits.

However, offshoring organizations have recently shown this is not the true panacea that it was once believed to be. More than 50% of offshore outsourcing fails or does not meet stated performance objectives (Recipe for offshore, 2004). Offshoring and its huge cost savings can present risks, the most obvious of which are geopolitical in nature. Also offshoring firms are faced with country factors like culture, infrastructure, labor pools, language and economic changes in interest rates and inflation. Companies report failures in these arrangements characterized by work not getting done with the quality or timeliness expected and then punctuated with surprise costs. Important and common reasons given for offshoring arrangement failure include transitional challenges from within the firm along with its inability to navigate difficult organizational and cultural barriers (Power & Rahman, 2001; Rajapakshe, et al., 2013; Rathbun, 2007; Schumacher, et al., 2007). The discussion below covers a range of failed IT Services that have been outsourced overseas including: Group 1 Software's software development, Dell's technical support, and Mellon Financials' trust technology systems.

Group 1 Software, a division of Pitney Bowes based in Lanham Maryland, specializes in making customer communications software. The company was forced to pull the plug on two of four offshore application development projects due to breaches in both quality and communications with its offshore partner. "Either in the design phase they just didn't get it or the code they delivered was just not up to our standards," said Vice President Tim King (Ferranti, 2004). Using an agency located in India, a major barrier when their programmers could not grasp or understand the project's functional specifications. The source code presented did not pass the stringent requirements of Group 1's IT Management. Fortunately, there was a rigorous project methodology and approval process whereby only US$100,000 had been spent on the project before having to pull the plug on the project (Ferranti, 2004).

Of the successful projects, perhaps communications were paramount. Management of Group 1 held more personal face-to-face meetings. During meetings, clarified and re-emphasized project goals and expectations along with an agreement of how communications would take place (Ferranti, 2004). In so doing, perhaps the Indian project team was more focused and attentive to its' needs. Dell Corporation, the storied maker of consumer and business-related computer hardware and pioneer of the mass customization business process, realized that outsourcing call center technical support operations overseas would reduce overhead and dramatically improve revenue. However, after an onslaught of complaints from business customers, Dell stopped using a technical support center in India. U.S. business customers complained terribly that the Indian technical-support representatives were difficult to communicate with because of thick accents and lengthy scripted responses. With Dell's customer base composed of 85% commercial and 15% consumer, Dell opted to cancel its commercial contract in Bangalore, India and "in-sourced" commercial support. However, Dell will continue to use the India-based call center for consumer technical support.

Mellon Financial, located in Pittsburgh, turned to a vendor located in India for management of technical systems in its Trust department. With extreme competition in the financial services industry Mellon opted to look at streamlining costs where there may have been room to do so. IT and its high price tag became a good target. By "offshoring" the programming and data base administration ("DBA") functions in the profitable Trust department, Mellon intended on saving millions of dollars. Since laying off over one hundred mid level programmers, Mellon has encountered a continuing flow of problems that has forced it to dramatically revamp its offshoring relationship.

What was intended to be high-end DBA positions sent to India has since turned in to low-end technology chores. Mellon's outsourced Indian programmers have been asked to work in the U.S. under Mellon supervision for improved quality and performance. The DBA's in India have become computer operators watching the Trust department's print jobs running on Pittsburgh mainframe computers and notifying employees at the Pittsburgh headquarters of outages. Other functions assigned to the DBA's include menial tasks of applying labels to compact discs to be sent to Mellon customers. The DBA's were unable to communicate and understand Mellon's headquarters staff while additionally having difficulty grasping Mellon's complex data architecture. Major communication and cultural issues along with a 10-12-hour time difference turned what was once thought to be a glorious cost-savings move into a sizable embarrassment for Mellon's management. Because of poor training, communications, and time lag the complicated programming tasks have returned to the states. A portion of the Indian COBOL programmers deemed strong enough to code and follow instructions, have been moved domestically to Mellon's subsidiary in Boston MA. Mellon supervisors in Boston can better manage the Indian programmers by emphasizing expectations and controlling quality and production. These physical moves prove Mellon's disappointment with the quality and training of its offshoring partners.

Transportation and Logistics Services

In the early 1990s FedEx and Laura Ashley, an English home décor retailer, formed an alliance in which FedEx was to handle all of Laura Ashley's logistical needs such as warehousing and shipping. This arrangement was to last for 10 years and was initially successful but problems soon surfaced and after 4 years into the agreement the alliance was dissolved. Upon examination of the situation it appears that both companies had different expectations of each other, which lead to the dissolution of the alliance.

This is just one of many examples of logistical and transportation outsourcing failures which Zineldin and Bredenlow (2003) estimated the failure rate to be as high as 70% even though the number of Fortune 500 firms using logistical outsourcing in some capacity is estimated to be 60% (Lambert, 1999). Estimates have significantly rose to higher levels pre-Covid-19 impacts (Patel, et al., 2020).

Logistics, by definition, involves shipping, warehousing, and inventory management. Companies find it is easier and less expensive to outsource these activities to a third party rather than handle it in-house. The two companies in this outsource arrangement join forces with the goals of improving efficiency, boosting profitability, and bettering customer service. Many times, though, one of the involved companies has unrealistic expectations of the other and this leads to the downfall of the arrangement. The benefits from logistics and transportation outsourcing have the potential to be significant but care needs to be taken to ensure a lasting partnership.

Many reasons exist for logistical and transportation outsourcing failures such as the loss of direct control over logistical activities, uncertainties about the service level to be provided, and questions concerning the true cost of outsourcing (Lambert, 1999). Research for this chapter shows, however, it is mainly a lack of understanding, a communication break, between the parties about the job to be done. Logan (2000) and Smith and Krivacek (2019) gave several reasons an outsourcing partnership can fail and the discussion to follow will attempt to illuminate these. For a successful partnership to exist certain components of the agreement must be present such as job planning. If both parties involved do not do enough long-term planning failures can result, thus, parties will need to meet regularly to ensure they are on the same page.

An important component to a successful logistical outsourcing partnership is joint operating control. Lambert (1999) describes this component as "performance measures are jointly developed and that each party may make changes to the others system without prior approval." A sign of a strong partnership with joint operating control is it will be hard to tell where one organization ends and the other starts.

One of the most important components is communications; balanced, two-way, multilevel communications (Noble, 2010). Research supports the conclusion that a major reason outsourcing partnerships fail is for lack of communication. The involved parties need to meet regularly to discuss issues and potential problems. Transparency within the supply chain partnerships and externally with customers is a necessity. As many organizations have regrettably learned keeping secrets from one party can kill a partnership; communication must always remain open.

It is important that the parties involved must should be willing to share the risks and rewards. Each party involved must be willing to take a "short-term hit" for the good of the partnership; an unwillingness to do so can lead to a failure in the long-term viability and sustainability of the arrangement. A lack of trust and commitment can lead to a failure of the outsourcing partnership. The parties involved must be able to trust that each other is totally committed to the good of the arrangement (Aghdaie, et al., 2011; Allaway, et al., 2006; Basu & Nair, 2012). Returning to the example of FedEx and Laura Ashley, it appears that both parties may not have the proper levels of communication and, furthermore, did not fully understand each other's goals for the partnership.

It is important to note that both parties must remember that what they see as contributing to their individual competitive advantage may ultimately detract from their partner's advantage. When an organization chooses to customize a service for a customer they must analyze whether that new service will be advantageous to their partner. This speaks to another problem with the FedEx-Laura Ashley partnership whereby Laura Ashley added product lines and services but expanded their own retail stores rather than ship though FedEx. This strategy caused a conflict as the increased sales volume in retail stores subsequently decreased the amount being shipped via FedEx, therefore, the arrangement ceased to meet FedEx's expectations.

Historically, the failure rate of logistics and transportation outsourcing ventures is quite high; sources cite figures close to 70% (Zineldin & Bredenlow, 2003). Each member entering the venture must take special care of one another to ensure a lasting and profitable partnership. The involved parties must fully understand each other's expectations within the bounds of the relationship. They must perform careful job planning; create shared, joint operating control; maintain open lines of communication; share in the risks/rewards; be cognizant of the ripple effects brought on by strategic and tactical actions, and possibly most important, create and sustain trust. If FedEx and Laura Ashley paid closer attention to these components of a strong partnership the alliance they formed in the early 1990's may still be profitable today.

Human Resource/Accounting/Legal Services

One may think that the human resource (HR) function is the most common service in a company to be outsourced. Seeing how it encompasses a broad array of topics such as benefits, pensions, staffing, data entry and maintenance, one would logically assume that this is a company's largest portion of its outsourced endeavors. However, outsourcing of the accounting and legal functions is becoming more and more popular as companies feel the squeeze to focus on only core business needs. This pressure results in sometimes-hasty decisions, which in turn result in failed outsource arrangements often times costing companies more in the long run (Kumar, et al., 2011; Landwehr, et al., 2013; Li, et al., 2019). What should companies do when outsourcing these functions? What are some prominent causes of outsourcing failure? What lessons can be learned from these failed attempts?

An HR manager does not have to look very far to find some of these mistakes as high-profile disasters abound including JPMorgan Chase & Co.'s mid-contract termination of their $5 billion outsourcing relationship with IBM (Durfee, 2004); Dow Chemical Co.'s cancellation of their contract with EDS (Durfee, 2004); WorldCom's troubles at Andersen Consulting (Wilson, 2002); and EDS's ongoing struggles with their contract with the U.S. Navy (Durfee, 2004). There are also lesser known failures such as the Canadian Department of Public Works and Government Services firing of Andersen Consulting for a client system that would have administered pay and pension benefits for their active and retired participants (Hamilton, 1998). Towers Perrin has lost several high-profile clients such as Johnson & Johnson, Qwest, and, most recently, Alcoa due to poor evaluation of outsource expectations. Volatility in the outsourcing industry is also a concern as evidenced by Mellon Human Resource Investor Solutions absorption and dissolution of Buck Consultants all within a three-year span. Additionally, failure rates for outsourcing in general are ominous ranging from 25 to 50 percent depending upon the study (Durfee, 2004).

Mistakes such as rushing into a project in order to simply save money, not taking the proper preparation time, blindly imitating competitors, not being vendor selective, not analyzing staffing and technology needs, shifting too many functions at the same time, and, possibly most important, failure to identify controls and audit requirements. One way to eliminate some of the mistakes is to first analyze these main root causes.

Remedies to these identified source causes may be management involvement through cost analysis better preparing a manager to handle situations, as will analyzing a firm's needs not merely looking at what the competition is doing to save money. It is anticipated that such moves will eliminate potential failure. Another remedy option that may bear fruit is recognizing that bundling of services to one vendor is not always the right answer as multiple vendors can provide checks and balances. Additionally, another way to eliminate these errors is the integration of tight audit functions, which the Sarbanes-Oxley legislation now makes a requirement. Companies to be more aware of each and every process – even at the vendor level. External auditing firms and even internal auditors now review process flows and procedures to ensure that the vendor is doing what they are contracted to do in a safe and secure manner. Additionally, pre-qualification audits (Brown, 1998) are another way to analyze if a deal is worthwhile. This focus on key internal controls and record keeping processes that can help eliminate errors down the road. Brown suggested that:

In essence, pre-qualification audits are a proactive control measure, whereby the purchaser, not the contractor, calls the shots. It is much more preferable role than that of a 'reacting victim,' who must somehow force a contracting party into litigation or conduct an expensive post-project contract audit to recover monies due the organization because of noncompliance.

Brown goes on to state pre-qualification audits will serve as a deterrent to any outsourcer with poor controls or low commitment, thus, enabling both parties to benefit. The company can ensure themselves quality and the vendor can be sure they have a client who is willing to comply with all standard auditing needs.

The HR/Accounting/Legal functions in companies rely heavily on data. If there is bad data in company records, the vendors will obviously have trouble in serving the customer. Many companies refuse to pay for data cleanup, citing cost constraints; however, many times the up-front cost to clean up the data will result in not only long run cost savings in research time but also immediate customer satisfaction during the transaction. Along the same lines, many times a company is looking to hand off a broken process in the HR department with no plan to fix it. Passing off a bad process often results in the new vendor picking up the bad habits. Bob Pryor, CEO of Capgemini Energy, a Texas-based joint venture, comments, "I've seen companies say, 'We hate our process and our systems,' but their fundamental proposition is to do it cheaper. Employees think they've got someone to fix the problems. But when they don't see a fix – in fact, the process may be worse in some areas – you take real hits to consumer satisfaction" (Durfee, 2004). Managers may also think they are improving the process by outsourcing but many times outsourcing increases complexity because the in-house experts no longer exist. Subsequently, the manager faces the challenge of managing a project and activity of an outside entity without the internal expertise to draw upon.

Accounting and credit/collections functions include accounts payable/receivable, payment processing, and payroll. This area has seen, and is still seeing, strong growth despite what management cites as failures in the accounting industry, examples such as Andersen Consulting and WorldCom. Many of these accounting outsourcing failures can be attributed to payroll or account managers worrying about maintaining control of their accounts and customer relationships while also preserving their own positions (Lynn, 2002). This reluctance to let go can be a deadly combination, as the vendor needs the freedom to do their job without micromanagement from the corporation. After all, the reason one hires a vendor is their expertise. Managers systematically need to embrace change and process improvement.

Outsourcing legal duties is the latest trend as a number of U.S. companies including members of the Fortune 500 and some of the country's largest law firms are now embracing the idea of outsourcing routine legal work to India, South Korea, Australia, and other locales with far lower labor costs (Crawford, 2004). Crawford stated that General Electric has taken the idea of legal service outsourcing a step further, and quite possibly the furthest of any company by setting up a subsidiary company in India that employs about thirty lawyers. The trouble with outsourcing this function, however, and main reason for its failure, is the U.S. government regulation of the legal system. Anyone not registered to practice law in the U.S. cannot perform many duties. Firms are recognizing that while they see small cost savings in the outsourced paralegal and clerk duties, they are recognizing that these savings are minimal compared with what they can actually outsource. Adding in the implementation costs, firms are finding it prudent to carefully analyze the services, savings, regulations, and costs before moving on an outsourcing decision.

With these types of sensitive functions dealing with data, finances, and legal aspects of a company, many firms are now scrutinizing how to keep costs low, protect their interests and eliminate failed ventures. Certainly, lawsuits and unhappy customers cannot produce positive results for either side of an outsourcing deal. Having seen failures over the last decade, management has learned they cannot take a laissez faire attitude with each process needing daily management involvement. Companies now must hire/retain the best process managers after the outsource implementation is complete and sometimes even keep a small staff to answer day-to-day issues. Having a staff of specialists can alleviate the pressure of an outsource relationship on both the vendor and manager. Completely outsourcing a staff in the HR/Accounting/Legal department can cause loss of internal knowledge and severely impair the effectiveness of the company in the marketplace.

Inventory Management Services

There are many reasons to outsource your inventory management functions provided this is not one of the company's core competencies. When done correctly, inventory management outsourcing has the potential to provide tangible increased efficiencies such as faster delivery times, reduced inventory holdings, and increased time to focus on what makes the business successful. An improper application, however, can prove to be disastrous resulting in monetary losses and quite possibly bankruptcy. With such a large risk, however, comes the potential for just as large a reward making the 'gamble' of implementing an outsourced inventory management system an attractive one. The following diverse industry examples of the Nike Corporation, Hershey Foods and K-Mart provide real-time companies that tried to implement inventory control outsourcing yet because of some key mistakes success was limited.

The Nike Corporation, a global giant of shoes and other associated apparel, attempted to outsource their inventory management systems to a company known as I2 in order to try and free up time to focus on its successful product lines. I2 was put in charge of implementing the control process and delivery requirements for Nike's products. The details of exactly what happened were not as visible as the other examples found yet the end result was similar, a revenue loss of between US$80-100 million dollars for the first year of implementation of the new control system (Duvall, 2001). The implemented system was not operating properly and some shoes that were not selling well were overstocked in most locations while the top selling items were usually out of stock all together. Nike's management has said that they are confident the issues can be overcome but the initial loss was a large one and, for a smaller company, could have been the end of the organization (Duvall, 2001).

The Hershey Foods Corporation was similar to Nike in so much as it tried to have a third-party system manage its inventory and ensure that the products were available when needed for shipping. Hershey wanted to implement the new SAP software to manage its inventory requirements. This outsource desire occurred, however, in calendar year 1999 at the same time the company was trying to prevent any Y2K disasters. Hershey worried, along with every other consumer and corporation, that all their data would be lost when the year changed over to a double zero digit. Thus, it hurried the implementation of the system to speedily get it up and running quickly. This haste caused Hershey's basic order management and fulfillment processes to break down resulting in an inability to meet retailers' orders during peak seasons. This resulted in a loss of $150 million in lost sales for the year (Hershey's sweet, 2002).

The reasons behind Hershey's loss and its improperly outsourced system were more transparent in this case. The first reason for the downfall of the inventory management system was that Hershey rushed into the process not considering that it was a complicated process and deserved a significant amount of time and attention. The company worried about the Y2K switch and tried to have the arrangement up and running before the date changed. If Hershey would have slowed the process down and implemented the system properly it would have found no change occurring at the year 2000 and may not have incurred such a tremendous loss during this period.

Second, Hershey owned "piles" of non-entered data that were neglected in transmission and, thus, were not accounted for. True to its historic operating mode, the company would try and stockpile extra inventory in order to meet order requirements for their peak seasons. The electronic system needs to know where the entire product is at any given time in order to be effective. In this case, Halloween was the driving factor behind the misallocation of resources as the company had made a habit of stock pilling products in different areas of the company that were accustomed to holding inventory. Thus, these areas did not how to account for the inventory correctly in the new system leaving massive amounts of product being available physically but unable to be found by the system. Ultimately, this situation resulted in many stock outs.

Another issue that paved the way for Hershey's outsource failure was a lack of leadership and drive on behalf of management for the new arrangement (Hershey's sweet, 2002). It was suspected that the business and technology managers were working with different parts of the organization and working in different directions simultaneously towards the same goal. There was not a single point person that attempted to pull their efforts together in order to guide the creation of a system that would work for the entire organization. This error has since been corrected but with a little time, patience and perseverance may have never occurred in the first place. (Hershey's sweet, 2002)

K-Mart provides the final example regarding the failure of an outsourced system causing severe, if not irreparable, damage to an organization. The oft-repeated comparison is that of Wal-Mart and its superior logistics network. In contrast to the low-cost giant, K-Mart over the years has continually fallen behind, been a second adopter of technology, and hasn't used its processes to full advantage (How K-Mart fell, 2001). K-Mart's inventory control issues began early when it was late to institute computers at the checkouts or in its "back rooms" to help with purchase control. Thus, management did not know what was selling well and what should be removed from the shelves. Instead they stocked products that were undesirable while not shelving the one's that people were there to buy. Wal-Mart, however, was a first adopter of all of this technology while also being the first to implement computer-tracking systems for their sales and inventory. This scenario was backed by a large financial and management investment resulting in its recognition and reputation the world over for superior logistics capabilities and JIT inventory demand system.

K-Mart's situation worsened with management's decision to outsource actual inventory yet splitting it between two entities, one handling clothing with the other managing the remainder. These two vendors would not coordinate shipments between each other, nor were the systems integrated, causing issues when trying to forecast demand for products. K-Mart intervened but not until very late (almost 20 years after Wal-Mart already had a successful system in place). It was believed that the company had started to gain some footing in these areas but with its recent financial troubles, one has to wonder how much attention the company has paid to the data available (How K-Mart fell, 2001).

The lesson learned from K-Mart is similar to those of Hershey wherein if a company wants to outsource something as critical as its inventory it must give proper attention and resources in order to make such a move successful. Wal-Mart devoted time, energy, and money necessary to make all their stores technologically superior. It used the systems to track inventory, delete unpopular products while stocking the desirables. Such strategic moves provided an initial jump on K-Mart and has given it industry leadership. K-mart, on the other hand, consistently lags and loses market share, making the statement that inventory management should have been treated as something much more important than K-Mart made it out to be (How K-Mart fell, 2001).

Overall these retail service and/or manufacturing companies made similarly drastic and costly mistakes that could have been avoided. The key mistakes unfolded in these settings as the speed of implementation and the amount of resources allocated to the process. The inverse of these mistakes state that for this to be done correctly, and without any harm to the financial wherewithal of the company, inventory management outsourcing must be done slowly and treated with the importance that it deserves. As these examples articulate, those that have tried to do it too quickly or without the proper resource backing have found that their revenues were adversely affected and customers upset.

Along these lines, there are several factors that companies need to pay heed to when trying to implement the inventory control system. First, a company needs to closely control its vendors, service providers and customers. Second, firms should accomplish significant research to gain a more comprehensive understanding of what it is undertaking in this role. And third executive appreciation must be gained for ultimate success of such initiatives. A company that adheres to these mistakes and remedies, as delineated in this discussion, may find it possible to not only eliminate the repeat of the enormous losses incurred in the preceding examples but may also find the potential promise that such a strategy as inventory management outsourcing holds.

CONCLUSION

In recent times, outsourcing has been hailed as of one of the best ways for a firm to cut costs and enable a more focused concentration on core competencies. As outsourcing has grown in acceptance and significance as both a strategic and tactical option it has trended from the manufacturing environs towards the service sector. This trend is significant especially in light of the fact that the service sector has grown in impact and influence domestically and globally over the last decades so much so that it accounted for historically 84% of the 2003 gross domestic product and US$1.6 trillion of the 2002 global service trade (Ellram et al, 2004). The importance of these figures cannot be understated particularly when failure rates of these outsourced arrangements are estimated to range anywhere from 25% (MacInnis, 2003) within the first year to 70% (Zineldin & Brendenlow, 2003) for offshoring (global) relationships.

So, based on the research and empirical evidence presented in this chapter, what the potential pitfalls associated with outsourcing, especially in a post-Covid-19 environment? There are many and they are not exclusive with outsource of services. Probably, the most important is total land-costs. What are the actual costs for the final mile in logistics costs. With all the supply chain disruption and geopolitical disruptions/conflicts, most firms are still trying to reduce their costs and maximizing profit to satisfy their investors. However, that strategy is very short slighted. As younger customers are voting with their dollars in more eco-friendly strategic initiatives and older, more conservative investors want to minimize uncertain and risk, long-term approaches may be more sustainable. As the issue with microchips have surfaced, much of that technology was outsourced to SE Asia to reduced costs, now with military and high-tech industries not have enough of these vitally important resources, unlimited outsourcing may have been a strategic error. In a global economy that is highly integrated, dissolving these supply chain connections are easier said than done. Investing in onsite talent and domestic sourcing takes many years of concerted effort and commitment at the national level that few politicians are willing to stake their political and economic careers on. Without a long-term strategy, a more reactionary approach to outsourcing will probably prevail.

Hence, this chapter identified several common failure traits within the 'high outsource spend' areas of marketing, IT, logistics, professional services, and inventory management. First and foremost, as identified in the prior discussion, the vast majority of the outsourced transactions within these activity areas are not conducted by formal supply chain manager or outsourcing professionals. Unfortunately, lacking a proactive situation, missed opportunities abound for improvements in efficiencies and control of the services supply chain; a situation that has neatly been coined by Ellram et al (2004) as 'value leakage.' Other commonalities such as a lack of shared expectations, poor contract formalization, undefined relational identity resulting in lost control and undeveloped trust, may collectively be better couched within the broad category of communications. As such, communications were deemed through this research to be critical in determining the degree of service outsource success or failure. The same is magnified even further when contemplating the cultural and language inhibitors a global offshoring relationship bears. Therefore, this value leakage will undoubtedly continue. At least, from an academic viewpoint, Covid-19, with the flu and RSV diseases resulting a potential triple threat for the upcoming winter season, the underlining assumptions of global outsourcing may true to be less stable than ever imagined.

FUTURE RESEARCH DIRECTIONS

The managerial implications of this chapter's conceptual analysis include making short-term adjustments to deal with the uncertainties associated with a Covid and post-Covid environments as well as making long term investments in technologies that will help managers achieve supply efficiency and sustainability in the long-term with their associated strategic outsourcing decisions. There will eventually be a post-Covid environment and much research needs to examine these new normal realities. Both practitioner and academic research initiatives will be need to unravel its mysteries.

As noted by classic works by Mintzberg (1994), there are distinguishing differences between strategic planning and strategic thinking. While many top managers have grown to view these terms as synonymous, Mintzberg contends that they represent very different ideas. He argues that strategic planning is really strategic programming, or the "articulation and elaboration of strategies, or visions, that already exist" (p. 107). Managers look at numbers and other hard data and try to put a tag on their current path, deeming it a strategic plan. Strategic thinking, meanwhile, involves gathering information from both hard and soft data (e.g., soft data being more qualitative in nature) in order to develop a vision for the future of the firm. Managers are most effective when they break away from the traditional practice of strategic planning and work to establish a true vision through strategic thinking.

Rather than simply throw away the task of planning, Mintzberg suggests that companies redefine and reorganize the job. A planner's duty has often been to analyze data and come up with the single best strategy for accomplishing a task. This has proven to be very difficult because part of this planning process requires an accurate prediction of future competitive environments. Competitive environments are increasingly dynamic, making accurate predictions unlikely even for moderately small amounts of time into the future. A static plan created around a prediction based on specific numerical evidence from the past leaves little room for flexibility if the true competitive environment should vary from the prediction. Given this, the author suggests that the firm replace the traditional plan with a vision. A vision encompasses the overall goals of the firm, helping to keep all employees on a guided path that is both focused and flexible. A plan is too rigid, given the specific controls and restrictions that are typically put into place during the plan's execution. By eliminating the formality of rules and rigid structure and replacing them with a solid vision, planners can provide the firm with a platform for creative thinking and intuition that is guided by an overall course of action leading toward the firm's goals.

Mintzberg gives excellent insight on how to reorganize the planning process. Rather than allow planners to solely create the "one correct path", planners should act as guides that help business line managers come up with a strategic path. Planners are most useful when they provide guidance from just outside the box of strategic planning. They should analyze data, observe business operations and think of new ways to view the company. They should then provide this information to those individuals that are fully submerged in the activities of the company (line managers) so they may create a strategic plan (or better, a strategic vision). Planners have been too focused on coming up with all the correct answers themselves, which has left the valuable experience of line managers out in the dust. A planner should instead be the person who "is left behind in the meeting, together with the chief executive, after everyone else has departed" and cleans up all of the meeting's ideas into a useful source of information (p. 112). Many ideas are thrown around in meetings, and good ideas are often lost in translation. It is the planner's job to make sure that valuable ideas are properly gathered and articulated throughout the company.

A simplistic remedy to this situation concerning strategic thinking and planning to the outsourcing problem is to think long term. A renewed focus on long-term sustainability then is sharpening the communication edge prior to and during the outsourcing relationship. Specifically, communications that are regular, routine, open, and transparent between the parties. This would translate ideally into expectations that are shared through formalized contract specifications and grounded in pre-relationship research; relationships that are established in trust and maintained by known boundaries of control; and management that is involved from the outset through the duration of the outsource arrangement. Adherence to such a simplistic and achievable, yet elusive, strategy set may just pull the realm of outsourced services from failure to fulfillment.

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