

Outsourcing: Those Cheap Bastards

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Outsourcing is spoken of as a great evil: Jobs are being shipped to far-away lands where the same work can be done for a fraction of the cost. Jobs we covet are moving pronto from renaissance locales like Cupertino to places like Sykes, North Dakota—you betcha. And from Sykes to Hà Nội. I derive two lessons from the practice of outsourcing: one is bad news, and the other is great good news. First the bad news.

Executives are outsourcing software design and development because we aren't performing up to our salaries. Perhaps we have special skills and talents, but these are not seen as providing enough value. A rational company trying to improve and maintain its core competencies does that at home—it keeps these assets close to its center. If software development is not being improved and maintained at home, then it must not be a core competency. And if something is not a competency, then well, it must be an incompetency. With an average software project failure rate of 30% (almost 70% for large projects), and with our spectacular failures during the dotcom (*don't come?*) era (

the Zieglers [founders of ZoZa.com] scrapped all that when they found that the technology ruined the shopping experience because it took too long to download. "The medium is far more rigid than we imagined," says Mel [Ziegler]

), we got what we deserved. Maybe being too narrowly focused in technology is our problem. Here's what Daniel H. Pink said in a recent issue of Harvard Business Review:

Getting into Harvard Business School is a cinch. At least that's what several hundred people must have thought last year after they applied to the graduate program of the UCLA Department of Art—and didn't get in. While Harvard's MBA program admitted about 10% of its applicants, UCLA's fine arts graduate school admitted only 3%. Why? An arts degree is now perhaps the hottest credential in the world of business.

Check out that tail-end credential after my name, sucka.

We need to be able to do things you can't find for cheap in Sykes and Hà Nội. As long as we have programming languages and practices that are 80% drudge work, executives will pay labor wages for laborious work.

Now the good news. What gets outsourced are the non-core competencies. Last time I checked, management is not a core competency of any business aside from management consultants etc. Customers place just about no value on what the CEO and top executives know and do. Here is what Mark Jaffe of the Bloomberg News wrote at the end of 2003:

The average pay for chief executive officers at 200 of the largest U.S. companies held steady in 2003 at about \$11.3 million, while fees paid to corporate directors jumped as much as 15 percent. . . .

Top executives' average salary rose as much as 5 percent to \$1.2 million and cash bonuses increased as much as 15 percent to \$2.2 million. . . .

Let's look at a technology company at random. Adobe's CEO, Bruce Chizen, made \$900,000 in salary and \$942,000 in bonuses last year. Here is how Adobe creates value:

Adobe helps people and businesses communicate better through its world-leading digital imaging, design, and document technology platforms for consumers, creative professionals, and enterprises.

Chizen is a sales and marketing guy. I'm pretty sure he doesn't dream up new technologies or design products at Adobe. He seems like a charming guy, but in China, CEOs are paid 23 times less than in the US, so Adobe could outsource their CEO job—a job that creates no value whatsoever—and pay about \$80,000 a year.

Technical entrepreneurs can take advantage of this. Instead of eventually hiring an expensive CEO who golfs with the VCs, giving up a big chunk of the company and having to listen to mulligan stories at staff meetings, a software founder could hire an eager beaver "management team" in China at a fraction—1/23 to be precise—of the cost, retaining creative and technical control of the core competencies and having great dim sum at board meetings.