

Paul Strassmann 2005-2006 Public Lecture Series: Monday, March 6, 2006
Johnson Center Cinema, George Mason University Fairfax Campus, 7:30PM
Public Reception in Cinema Foyer at 6:30PM

Is Outsourcing Profitable?



The history of U.S. industrial firms for the last 20 years can be characterized by an increasing dependency on outsourcing to suppliers, subcontractors or even to customers. This phenomenon has been explained on the assumption that specialists, or lower cost vendors, could deliver contributions to the cost of goods at a discount. Proponents of outsourcing were also relying on information technologies to lower the administrative as well as coordination costs to manage the increased complexity in all transactions. However, despite the logic that would favor outsourcing, little evidence has been produced to support outsourcing as a general industrial policy.

In this lecture Prof. Strassmann will show results of his studies over the last ten years which have demonstrated that outsourcing does not consistently deliver lower costs and increased profitability. This lecture will be illustrated by the record of General Motors who have increased the amounts of outsourcing from 58.8% in 1986 to 75% in 2004 while experiencing a steady degradation in profitability as well as a severe decline in its Knowledge Capital per employee. While the number of General Motors employees was declining, the ratio of transaction costs to value-added was rising which raises the question whether GM's outsourcing of I.T. was effective.

The presence of the perverse effects of outsourcing have been now detected for a large number of U.S. industrial firms. Prof. Strassmann has concluded that the key in making decisions about achieving cost reductions through outsourcing is to also consider the effects on the consequential gains or losses in a firm's Knowledge Capital. His findings will be supported by financial data from over 500 U.S. industrial firms.

Professor Strassmann, former Acting Chief Information Officer (CIO) of the National Aeronautics and Space Administration (NASA); former Director of Defense Information, Office of the Secretary of Defense; and retired Vice President of the Xerox Corporation will present his third lecture of the 2005-2006 series. The Strassmann lectures are free and open to the public.

Distinguished Professor of Information Sciences Paul Strassmann has written numerous books and articles on information management including *The Business Value of Computers* (1990) and *The Squandered Computer* (1997). Professor Strassmann is delivering four annual lectures on current issues in information management. His research and writing focuses on the growing scope and complexity of information-intensive organizations and the establishment of empowered CIOs. Professor Strassmann created the Information Value-Added and Information Productivity formulas behind the October 2005 Baseline 500 rankings of the companies that manage information best.

Directions to the Fairfax Campus (4400 University Drive, Fairfax, VA 22030), visitor parking information and campus maps can be found on the Mason Web Site (www.gmu.edu).