

Outsourcing

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Outsourcing

- In business practices outsourcing has become very common all over the world
- There is a great variety of functions of organisations that are today outsourced
- The functions may include:
 - ❑ Software development
 - ❑ Research and Development

Outsourcing

- Marketing
- HR administration
- Finance and accounting, etc
- Healthcare organisations also outsource many of their clinical and non-clinical services, such as:²
 - Diagnostic services
 - Linen and laundry services

Outsourcing

- Dietary services
- Housekeeping services
- Security services
- Ambulance services, and so on
- **Management of outsourcing needs knowledge, skill and experience**
 - In absence of these, organisations may fail badly in their effort to outsource service es.¹

Outsourcing

- **Meaning of Outsourcing**
 - ❑ “Outsourcing” is made up of two words: ‘out’ and ‘sourcing’
 - ❑ ‘Sourcing’ implies some kind of delegation to another person with responsibilities and decision making rights
 - ❑ This is a phenomenon seen in all organisations where managers are constantly delegating many of their less important tasks
 - ❑ This frees a manager to concentrate on more important and critical tasks

Outsourcing

- ❑ Managers are costly
- ❑ If the tasks transferred to someone else can be executed by a lower level persons efficiently and who is less costly to the organisation, then it makes economic sense
- The same phenomenon is also occurring at the organisation level
 - ❑ It is not possible for all organisations to be totally self-sufficient
 - ❑ Organisations also do not have unlimited resources
 - Though the want is unlimited

Outsourcing

- ❑ Therefore, organisation must source the work to others who can do it better at a lesser cost
- ❑ Sourcing is usually done with an external entity (outside agency)
 - Therefore this transfer of function becomes outsourcing
- There are three components involved in outsourcing
- These are: the client, the vendor and the project (work or function)

Outsourcing

- The organisation transferring is the client, the organisation that executes the work is the vendor and the scope of the work is detailed in a project
- Why outsourcing is needed?
 - There are two groups of driving needs for outsourcing
 - Financial
 - Strategic

Outsourcing

- In earlier days, cost of operations were the main motivating factor for outsourcing
 - Advanced countries were outsourcing to some South-East Asian countries some work which are done at a much less cost than in the client countries
 - Examples of such work includes:
 - Garment production
 - Manufacturing work

Outsourcing

- **Strategically driven outsourcing depends on:**
 - ❑ Capability
 - ❑ Competency
- **The objective in these type of outsourcing are:**
 - ❑ Benefit from the knowledge, expertise, process and capabilities available with the outside agencies
 - ❑ When these are captured, own operational efficiency and quality of output improves
 - ❑ Also competitive and strategic advantages can be obtained

Outsourcing

- Factors that organisations consider for outsourcing decision. These are:
 - Benefit from access to knowledge
 - No organisation is self sufficient
 - For the consideration of opportunity cost, it is unwise to own every resources. Skill, knowledge and technology
 - Available resources can be better utilised for other better use
 - Many times external agencies are better in providing these

Outsourcing

□ Cost saving

- This is usually considered as the main reason for outsourcing
- Cost saving can be achieved in several ways
 - First, by transition to variable cost model from fixed cost model
- In the fixed cost model, one owns all the resources and pays for their acquisition, upkeep and maintenance
- These costs are incurred irrespective of the fact whether the resources are used or not

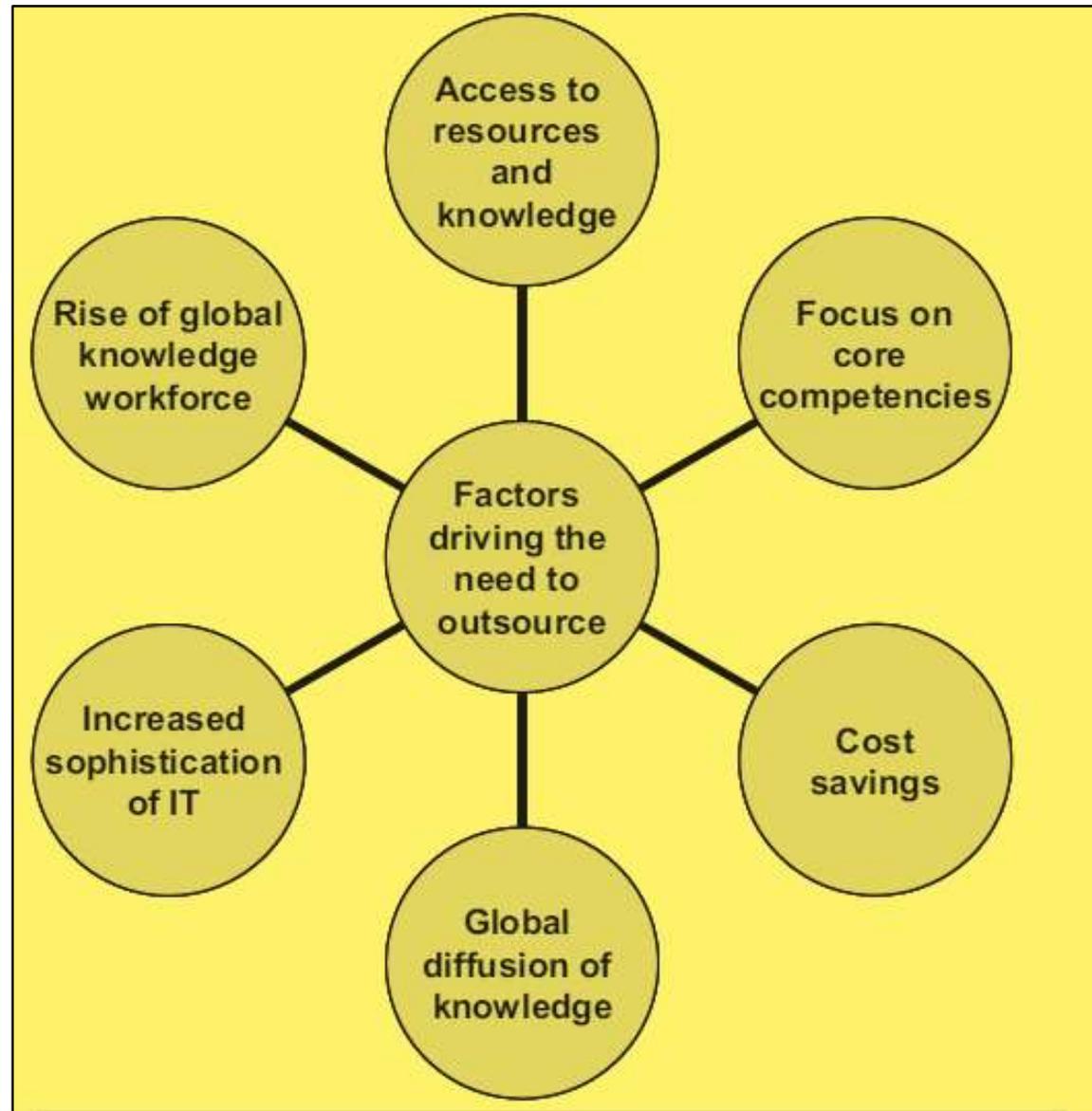
Outsourcing

- In variable cost model, only when the resources are used, fees to be paid for
 - Example: Owning a car vis-a-vis using an app cab when required
- Secondly,
 - Cost saving may come from the company doing the outsourced work
 - Example: It outsourcing to developing countries
 - In the developing countries, cost of labour is low

Outsourcing

- Thirdly,
 - Other cost saving comes from lower tax
- Focus on core competencies
 - Outsourcing involves transfer of work as well as transfer of decision rights
 - When decision rights are transferred, the high-end resources for making decision of the client is spared
 - Thus the client organisation can focus on their core competencies

Factors Driving the needs to outsource



Outsourcing

- **Factors driving global outsourcing efforts**
 - Offshoring of business functions relocates labour intensive functions to a remote location such as India, Ireland or the Philippines
 - This is possible due to two factors:
 - First, improvement in telecommunication technology and associated costs
 - Second, the revolution brought about by PC in computerization and digitization
 - Information can now be transmitted fast over a long distance without any loss of quality

Outsourcing

- Another factor that has contributed to the increase of global outsourcing is sophistication of collaborative technology solutions
 - These are
 - Telephone
 - Video conferencing
 - E-mail
 - Web-conferencing
 - Instant messaging

Types of Outsourcing

- There are various models of outsourcing
 - Each of these models have their own strengths and weaknesses
- Segmentation of Outsourcing efforts based on:
 - Location
 - On site or offsite
 - By depth level

Types of Outsourcing

- Individual, Functional or competency
- By nature of work
 - Process oriented or project oriented
- Outsourcing by location
 - These are on-site and off-site
 - In On-site, work is done at the clients premises and in Off-site, work is done at the vendors premises

Types of Outsourcing

- Off-site works can be onshore, near shore and offshore
 - ❑ Onshore is where work is done within the same country as the client
 - ❑ One of the benefits of onshore outsourcing is that there are much less number of cultural issues
 - ❑ Also, language barriers and time-zone differences are minimized
 - ❑ Sometimes due to country's regulation some sensitive works such as medical and financial cannot be outsourced to off-shore

Types of Outsourcing

- Near shore arrangement involves outsourcing to a neighbouring country
 - ❑ Advantages include: cheaper travel and communication costs, less cultural barriers and no major time difference
- Some work is outsourced (off shore) to country which is at a considerable distance from the client
 - ❑ Example: Software work outsourced to India from USA, UK, Canada and Australia
 - ❑ There are some important consideration that make offshoring of work very attractive

Types of Outsourcing

- Outsourcing by nature of work
 - Individual outsourcing
 - This involves outsourcing specific positions out of the organisation
 - Example: Competitive intelligence analyst, web designer or public relations personnel
 - This is a simplest form of outsourcing
 - Here the organisation is hiring a single staff function similar to hiring a full time consultant

Types of Outsourcing

- Organisations do this type of outsourcing when they need expertise in a niche area for a specific time period
- Functional outsourcing
 - This involves the outsourcing of an individual functional area
 - Example: outsourcing of accounts payable, purchasing, receiving, payroll

Types of Outsourcing

- **Competency outsourcing**
 - Involves outsourcing of activities that control how products and/or services flow through the organisation
 - Example:
 - Inbound logistics, technology development, human resource management
 - In this a fundamental requirement is a confidence and trust on the vendor's ability to deliver
 - Else there will be serious issues in terms of stoppages or other delivery issues

Types of Outsourcing

- **Outsourcing by nature of work**
 - **Process oriented** work involves outsourcing of a well-structured, standardised and documented process
 - **Example:**
 - Outsourcing of payroll function
 - **Project oriented** work involves outsourcing of unique and non-routine, unstructured, non-routine work
 - **Example**
 - Up gradation and redesign of a hospital facility

The Rewards (of outsourcing)

- **Improved Business Focus**
 - ❑ Outsourcing benefits companies to be able to focus their attention to core business activities
 - ❑ They can pay more attention to core skills and more pressing business issues
 - For example: branding, strategy, and planning
 - In a hospital which is a very dynamic area customer focus and patient centered care, quality and patient safety

Determining What to Outsource

- The success factor of an organisation are:
 - ❑ Cost, quality and productivity
 - ❑ In a hospital, patient centered care, ethics, building trust with clients, confidentiality, cost control and patient safety are of paramount importance
 - ❑ These are to be delivered by the owners themselves and cannot be outsourced

Determining What to Outsource

- A survey of many different experts in the field came out with three main factors:
 - ❑ 'You must identify and understand your values as they relate to your business
 - ❑ You must never outsource a problem function
 - ❑ If you are going to move a customer-facing service, you must involve your clients early'⁴

Skills Needed To Manage Outsourcing Efforts

- Some of the skills needed are:
 - Good decision making in high uncertainty environment
 - The complexity, risks and their impact on organisation is very high
 - This calls for decision making with incomplete information and needs foresight to plan ahead using scenarios
 - Need to reduce uncertainties associated with making decision
 - Marketing and positioning skill
 - Outsourcing may involve reorganisation of the enterprise
 - Sometimes this may affect the existing employees

Skills Needed To Manage Outsourcing Efforts

- ❑ Employees might have to come out of their comfort zone and may have to work under a different set of command and control
- ❑ Some employees may even have to lose their job
- ❑ All these will need to good marketing and selling skill
- ❑ The organisation has to convince the employees about the outsourcing need and ensure their acceptability and support
- ❑ Without marketing skill, the outsourcing effort may not be a win-win situation

Skills Needed To Manage Outsourcing Efforts

- Negotiating and relationship-building skills
 - The outsourcing effort is much like what is said about genius
 - Outsourcing efforts are 5 percent inspiration and 95 percent perspiration
 - A large part of it comes from long and gruelling meetings with vendors
 - In these meetings the details of the outsourcing projects are ironed out and the contracts are specified
 - When the project is underway, one needs to put in large amount of effort to see that whatever was agreed upon is actually happening

Skills Needed To Manage Outsourcing Efforts

□ Knowledge-management skills

- Executives in outsourcing efforts have to deal with multiple sources of data, information, and knowledge
- Many perspectives are required to be considered
- Many of these perspectives may not be available with the executives
 - Managers need to learn about them
 - Some comes from the staff, some from vendors and some from studies of various materials in magazines, libraries, seminars and internet

Skills Needed To Manage Outsourcing Efforts

- ❑ So, there is a virtual deluge of information
- ❑ To process these information, one needs to have a vast knowledge about the organisation and its industry
 - This is necessary to articulate clearly the organisation's mission, its value statements, core competencies, interest of stakeholders and the growth path of the organisation
 - Also access to the counsel of a team of experts having deep domain knowledge is necessary
 - Their counsel needs to be followed for the outsourcing effort

Traps of Outsourcing

- It is commonly believed that outsourcing has several benefits, such as:
 - ❑ Cost reduction
 - ❑ Freeing the organisation to focus on core business processes
 - ❑ Improve services
 - ❑ Enhance skills
 - ❑ Reduce time to market, and
 - ❑ Increase overall competitive advantages
- These benefits can accrue to a well-planned, properly implemented and competently managed outsourcing initiative

Traps of Outsourcing

- Organisations cannot always realise the impact the outsourcing have on their people, processes, methods and tools
- There are some common errors that organisations sometimes make.
- Ten common traps are³
 1. Lack of management commitment
 2. Minimal knowledge of outsourcing methodologies
 3. Lack of an outsourcing communications plan
 4. Failure to recognize outsourcing business risks

Traps of Outsourcing

5. Failure to tap into external sources of knowledge
6. Not dedicating the best and brightest internal resources
7. Rushing through the initiative
8. Not appreciating cultural differences
9. Minimizing what it will take to make the vendor productive
10. Poor relationship management programs

Exit Management

- Outsourcing may fail
 - ❑ The contract should incorporate an exit provision
 - ❑ This will save time and money
 - ❑ These exit term clarify under what conditions the outsourcing contract can be terminated
 - ❑ It should also incorporate, benefits, compensation, assets,
 - ❑ The best time negotiate the exit clause is when the outsourcing contract is signed

Exit Management⁴

- It is not an easy proposition – experience and considerable thought is necessary
- Some Fundamental questions need to be answered:
 - ❑ Who can terminate the contract
 - ❑ When it can be terminated, and under what circumstances
 - ❑ Who owns what related to work completed, and how will this change?

Success Factors for Outsourcing

- Outsourcing initiatives are strategic business decision
- This should tailored to the need of the organisation
- One-size may not fit all organisations – it must be specifically tailored to the nee of the organisation
- The aspects that need considerations are:
 - Analysing
 - why the organisation is considering outsourcing

Success Factors for Outsourcing

- Carefully choosing the functions to be outsourced
- Paying proper attention to vendor selection
- Commitment and support of internal people
- Building a good knowledgeable, dedicated and expert team
- Communicate to the team

Success Factors for Outsourcing

- Quality
 - ❑ Outsourcing must have an agenda for quality monitoring at all stages
- Relationship – it is important to maintain a good vendor relationship
- Result Focus
- Leadership

Exit Management

- ❑ How will the transition of the work to the new vendor or back to in-house will be completed and by whom and when?
- ❑ How and by whom, will the service be delivered in the future?
- ❑ How much will this cost, and who will be responsible for payment?
- ❑ Addressing these questions during due diligence can give the organisation a huge advantage

Thank you

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