Basic Principles the Philosophy of Outsourcing

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Abstract

This study aims to examine one of the usual business strategies of the outsourcing concept. Will actually mention the incentives that lead a firm to implement outsourcing strategy and will address also with the disadvantages of this strategy. The study examines the way that a firm will be able to obtain the best possible results by giving a sector of its operation to an external collaborator and creating competitive advantage to its operating field and the (5) phases that this procedure follows.

1. What is Outsourcing

Outsourcing is not a new concept in the modern business environment. A large number of day-to-day operations are currently being outsourced. Many of these operations are crucial, while others are of lesser importance. However, they all contribute to the proper functioning of the enterprise. Many firms, both in Greece and abroad, opt for outsourcing their operations to external vendors (Banerjee & Williams, 2009).

However, the outsourcing of operations in sectors that could provide a competitive advantage to small, medium and larger enterprises is a completely new method that has emerged in recent years. The need to develop information and communication technologies in order to increase performance within a competitive environment has lead to the development of various IT and computer departments within firms (Kang, 2009).

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It should not go unmentioned that rapid technological developments have had a significant effect on the international business sector. However, recent research suggests that outsourcing is constantly expanding among small and medium enterprises, due to two main reasons:

The first reason relates to the extended use of the Internet and its development by large enterprises in combination with the use of mass media (Mohr, Sengupta & Slater, 2009). By creating a substantial presence in the Internet, small and medium enterprises are treated by clients on an equal footing with large enterprises. Therefore, outsourcing the creation of these solutions to specialised vendors is an absolute priority.

The second reason relates to the reduced staff of small and medium enterprises, which often lacks the necessary specialisation. Usually, workers in a small or medium enterprise or even the entrepreneur himself cannot undertake the operations of a specialised department. This task is carried out randomly and according to the availability of human resources, taking account of the issues of time and knowledge. This organisational structure often puts an obstacle to highly-specialised operations. At this point, the enterprise seeks to cooperate with other enterprises that are fully specialised in the field.

In addition to the above reasons, there are many other factors that favour the use of outsourcing processes. The introduction of outsourcing practices into the Greek market is a fundamental “tool” for enterprises, which however has not risen to enormous proportions in our days.

It should be noted that according to its general definition, outsourcing is the performance of specific operations by enterprises, which involve assigning specific tasks to a specific external vendor in order to provide predefined services (Baloh, Jha & Awazu, 2008).

It could be argued in relation to the definitions of the concept of outsourcing that this method is nothing but a key “tool” for running an enterprise (Baloh, Jha & Awazu, 2008). This process also encompasses services which, until a few years ago, were considered to be traditionally incorporated into the internal operations of each firm. These may be accounting, human resources management, supply chain management and IT services (Marinagi et al., 2014).

2. The Process Of Outsourcing

Outsourcing is the process of creating and managing a contractual relationship with an external vendor for the supply of skills that used to be provided by the firm’s internal services in the past (Momme, 2001).

Despite the impressive number of studies focusing on the process of outsourcing, only a few models reflect the actual phases and present the overall structure of the outsourcing process. The critical issue at hand is how to divide the process into distinct phases in order to understand its structure and appreciate value generation (Kutsikos & Sakas, 2014).

Many efforts have been made towards this direction. Some indicative examples are: (Greaver, 1999), proposed the division of the outsourcing process into seven stages. Three years later, (Momme, 2002) presented a structure of six phases, whereas Sara Cullen and Willcocks Leslie (2003) elaborated a circular process of eight stages. (Franceschini et al., 2003) proposed a very limited structure of 3 phases based on the principles of total quality management. (Click & Duening, 2005) used a model comprising five phases, while (Mclvor, 2005) introduced a structure of six phases in order to analyse the outsourcing process.

Taking account of all previous categorisations and analysing in depth all the sub-activities involved in the process of outsourcing, (Perunovic, 2005) (Perunovic, 2006) (Perunovic, 2007) proposed a general division of the outsourcing process into five phases, whereas (Sakas et al, 2014) propose a simulation-based approach to assessing risks and benefits.

3. Outsourcing in five phases

In particular, the researcher proposes the phases of Preparation, Vendor Selection, Transition, Relationship Management and Reconsideration. Each phase contains a significant number of individual sub-activities, whereas phases are involved in the outsourcing process in the order presented above. Each of the phases must answer a series...
of questions, bearing in mind the complexity of the outsourcing process and considering the necessity of careful management throughout its duration.

3.1. Preparation Phase

According to the categorisation of Perunovic (2006;2007), the Preparation phase poses certain questions which must be answered by a firm before starting the outsourcing process. These questions relate to the reasons for being involved in this process, the expected benefits, as well as the general philosophy behind the firm’s decision to be involved in this process (Heywood, 2001; Shepherd, 1999).

The most important aspect of this phase of outsourcing is that the firm should explore all alternative strategies using specialised analysis and decision-making models in respect of outsourcing. The questions to be answered by the organisation in relation to outsourcing at this stage are: “If?”, “What?” and “How?”.

3.2. Vendor Selection Phase

The second phase relates to Vendor Selection. This is a critical step as the selected Vendor will be a close associate of the firm for a considerable period of time, during which the two parties will be forced to cooperate and support each other in good and bad times (Perunovic & Christoffersen, 2005).

Cullen and Willcocks (2003) highlight that completing a significant part of the preparation phase and setting the stage for operation outsourcing is an important prerequisite for every firm, prior to entering the selection procedure. This will allow the firm to proceed with the outsourcing process when the most appropriate vendor is identified.

After making this preparation, the organisation must announce its intention to find a Vendor and collect the offers of tenderers, which may be evaluated using a series of criteria as laid down in numerous studies (Greaver, 1999; Heywood, 2001; Cullen & Willcocks, 2003). The question to be answered at this phase by the firm is: “To whom?”

3.3. Transition phase

After completing the selection procedure and signing the contracts, the organisation enters the next phase of the outsourcing process, namely Transition. During the Transition phase all the operations scheduled in the previous two phases are starting to be implemented. Its aim is to guarantee the smooth productive and functional transition from the previous situation to the scheduled operations (Cullen and Willcocks, 2003; Melvor, 2010).

A series of questions must be addressed and resolved during the transition phase, such as maintaining contact among internal and external operations, the redeployment and adjustment of human resources, as well as the reorganisation of the overall productive activity (Greaver, 1999).

Another sensitive issue relates to the management of workers who will either have to be moved to the vendor’s premises or lose their job (Ordanini & Silvestri, 2008; Miozzo & Grimshaw, 2011; Picard & Wildasin, 2011).

3.4. Relationship Management Phase

The next phase is relationship management. Some researchers (Barthelemy, 2003) call it the “soft” approach to outsourcing, as opposed to contract management. On the other hand, other researchers (Perunovic, 2006) are of the opinion that Relationship Management is far more difficult and complex than contract management.

The success of the relationship between the organisation and the vendor is largely determined by the way in which this relationship is managed at the business level (Marinagi et al., 2014). According to Melvor (2005), the strength of the relationship is determined by four main factor categories.

3.5. Reconsideration phase

Reconsideration is the last phase of the outsourcing process. Reconsideration takes place when the outsourcing process is nearing its end. Apart from its scheduled time of expiry, a contract may also be terminated earlier for
reasons such as: changes in the ownership structure of the organisation or of the vendor, mutual interest, insolvency of a party, breach or violation of certain contract terms by at least one of the two parties (Cullen and Willcocks, 2003).

Whatever the time or cause for terminating a contract, the organisation must consider whether it has drawn benefits from this particular relationship, whether it will benefit from its continuation in the future, as well as which are the elements that should be maintained or changed in the same or in a similar outsourcing contract.

The key options of the organisation are: repeating the outsourcing process with the same vendor; repeating the process with another vendor; or transferring these operations into the internal structure of the enterprise. The question faced by the organisation’s administration at this point is: “Now what?”

4. Advantages Of Outsourcing

When it opts for outsourcing specific services or products, the enterprise expects to obtain certain advantages (Grant R.M, 2005), one of which is cost-efficiency. The reason for the existence of enterprises that undertake to perform operations on behalf of an organisation/firm is that they have the necessary know-how and that they are able to handle large volumes of operations; therefore, achieving better economic conditions for the shipping company.

By means of outsourcing, companies manage to liberate their administration from certain operations, limiting its responsibilities only to the control of external vendors and allowing it, therefore, to focus on more fundamental operations, which can bring a competitive advantage to the organisation.

The advantages of the outsourcing process relate to the fact that the executives of these companies are able to move behind the production line. One of the most important features of the outsourcing agreement is securing an employment relationship with the human resources of the contracted enterprises (Banerjee & Williams, 2009).

In like manner, selecting a successful and tested partner for an outsourcing process is a very positive element in order to increase performance within the enterprise. All the difficulties and procedural malfunctions may be addressed on the basis of security and mutual trust between the parties, leading to profits for both enterprises.

The literature on the subject focuses on a specific advantage related to the implementation of the outsourcing process, i.e. risk dispersion. Any unexpected decline or change in the market where the organisation operates is borne by both parties.

5. Risks related to the outsourcing process

Modern outsourcing processes focus on a more systematic and continuous support, as well as on the reorganisation of company departments, regardless of their field of operation. Many are those who disapprove or are sceptic towards this new method, including both executives and workers. Their main fears relate to the lack of control and the fear of dependency generated by the outsourcing agreement (Balogh, Jha & Awazu, 2008; Sakas, Vlachos, Nasiopoulos, 2014).

In several occasions, dependency from an external vendor may lead to an impasse in cases where the cooperation has to be discontinued (Aron, 2002). This gap will not be caused by the nature of the operation itself but by staff-members who have been accustomed to outsourcing a specific service to external vendors and cannot work otherwise.

Another risk involved in the outsourcing process is the possibility that the products or services provided by the vendor sacrifice quality for the sake of profit (Doig, Ritter, Speckhals & Woolson D., 2001). It should be noted that, in many cases, the two parties may have conflicting interests, as the external vendor aims to maximise its benefits and increase its profitability.

In the future, scholars investigating the determinants of the successful outsourcing process should also consider the impact of other variables both at the individual level such as work motivation (Trivellas, 2011) and at the organizational level, such as culture (Trivellas, Reklitis & Santouridis, 2006), strategy (Reklitis & Trivellas, 2002; Trivellas, Reklitis & Konstantopoulos, 2007), R & D operations, (Trivellas, 2012), and leadership style (Trivellas & Drimuissis, 2013; Trivellas & Reklitis, 2014). In all cases, making the right decision remains a key challenge (Sakas & Kutsikos, 2014) and it should be an important field of research in the coming years.
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