

## Outsourcing Is An Enterprise Management Strategy In The Face Of Globalization And Budding Competition

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### Abstract

The Globalised era has created competitive scenario in the global labour market. All companies have been striving hard to reduce cost, increasing quality and efficiency. The customer has choice of several products and services from national and international organizations. Therefore, every company has been keen on efficiency, quality and cost to satisfy the customers, therefore several companies have been following outsourcing of some of their human resource activities.

**Keywords:** Service provider, Competitive advantages, Quality and efficiency.

### INTRODUCTION

Business Process Outsourcing (BPO) is the management of one or more specific business processes or functions, e.g. procurement, finance, accounts, human resources, asset or property management by a third party. Outsourcing of a data center provides back office support to a number of business functions, thereby providing a service is shared by several, often unrelated business functions<sup>1</sup>. It is the act of transferring some of organisations recurring internal activities and decision rights to outside providers as set forth in a contract<sup>2</sup>. Outsourcing is the process of identifying the most suitable expert third party service provider administration and provision of the service in question<sup>3</sup>. It is defined simply

as the movement of business processes from inside the organizations to an external service provider<sup>4</sup>.

### Need for the study:

The review of literature reveals that several studies were conducted all over globe on Business Processes Outsourcing from different perspectives. Their focus was on different components of Outsourcing or all aspects of BPO. Research on strategic BPO is scant in India and abroad. As it is an important area of research, this study has been taken up to throw some light on the strategic outsourcing in companies.

BPO companies is growing fast and operating globally. It is true that the companies are “thinking globally”. The role of companies has been increasing from time to time in creating employment and generating income. As the BPO companies need to manage people for competitive advantages over several companies, this study is carried out to study the important aspects of BPO business.

Cite this article as: Dr.S.T.Naidu & M.Joga Rao, “Outsourcing Is An Enterprise Management Strategy In The Face Of Globalization And Budding Competition”, International Journal & Magazine of Engineering, Technology, Management and Research, Volume 4 Issue 12, 2017, Page 229-236.

## The Objectives of the Study:

The main objectives of the study are:

- To examine the outsourcing; Business process outsourcing/ management of the companies;
- To review research and literature on Business Processes Outsourcing and Human Resources implications;
- To study the perceptions of employees and customers on business process outsourcing;
- To offer suggestions for effective business process management of the organization.

Business process Outsourcing means contracting of operations and business and responsibilities of business function to a third-party company or service provider. A contract is an agreement between two or more parties usually venter between supplier<sup>5</sup>. Outsourcing is a management strategy by which an organization outsources major, non-core functions to specialized, efficient service providers. Companies have always hired special contractors for particular types of work, or to stabilize peaks and valleys in their workloads<sup>6</sup>.

Outsourcing is an enterprise management strategy in the face of globalization and growing competition. In the literal sense outsourcing denotes utilization of external resources. It occurs when the execution of tasks, functions and processes hitherto fulfilled in-house is commissioned to an external provider specialising in a given area on the basis of long-term co-operation<sup>7</sup>. Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. Outsourcing has been described as the assignation of services from one company to another (an activity as old as the first firms). It is essentially a division of labour.

The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources. Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider<sup>8</sup>. Outsourcing is defined as moving a business function performed inside of an organization to a third-party business function provider. This means that a service or production that was accomplished inside an organization is now accomplished by another organization that is mandated to be a part of the same organization<sup>9</sup>.

Business process outsourcing (BPO) is a natural evolution of the provision of services through outsourcing. Business process outsourcing is generally understood as more than just buying inputs from a vendor, or buying non-core services from a provider. Rather, BPO outsourcing involves the transfer of a significant amount of management control; a degree of two-way information exchange, coordination and trust are involved<sup>10</sup>. Outsourcing can be defined as turning over all or part of an organizational activity to an outside vendor. In the services industry, outsourcing was traditionally restricted to basic support activities<sup>11</sup>.

Business process outsourcing (BPO) is the leveraging of technology vendors to provide and manage a company's critical and/or non-critical enterprise applications. Through the business transformation process of service-oriented transformation, which leverages the technologies and standards of service-oriented architecture, companies can increasingly

leverage third party companies that act as business service providers. Business process outsourcing can use off-shore resources, but is not required. Business process outsourcing (BPO) is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service<sup>12</sup>.

In the era of Total Quality Management every organization has been functioning on quality internal activities and organizational efficiency. Service becomes a powerful competitive weapon, and indeed in some cases, it is the only form of differentiation. The challenge of any service operation is to bring together various facets of the business. Although in reality the content of a service may be largely invisible to the customer, the perception of service delivery is influenced disproportionately by the manner of the treatment at the point of contact. It is widely believed that service is difficult to manage because it is intangible. Service activity contains a considerable proportion of very tangible activities which are therefore, capable of specification and measurement.<sup>13</sup>

There are a large number of reasons and drivers behind the outsourcing process and why a company should consider outsourcing one or several functions. Outsourcing creates opportunities for positive synergy by bringing the core competences of two companies together. In addition, globalization has also been a strong factor behind outsourcing.

Modern business theories suggest that most activities that are not part of a company's core competence should be outsourced. The issue of competitive advantage is the core to the field of strategic management. The concept of core competence was developed in the management field. Companies must continually monitor their position relative to their core

competences, and those of their competitors, as the value of their competences can be eroded by time and competition. Companies constantly benchmark, validate, and test their core competences. They need to continually invest in their competences to effectively compete in changing business environments<sup>14</sup>.

Outsourcing is not a new concept in fact; most companies are not sufficiently vertically integrated to undertake all their business and manufacturing functions. The new phenomenon of outsourcing refers to the recent dramatic growth of outsourcing of services, particularly of IT services and business process services as opposed to the outsourcing of manufacturing processes. The function or process can be performed within the same company (also referred to as a subsidiary, captive or shared service division) or can be performed by another firm. When the process is undertaken by another firm, referred to as a third party, the function or process is both Offshored and outsource<sup>15</sup>.

While HR outsourcing among government organizations is significantly less common than in the private sector, the rationale for outsourcing is not very different. There are three basic financial drivers behind HR outsourcing of an organization<sup>16</sup>.

The present day world is witnessing a rapid change from an industrial to a knowledge-based economy. In the knowledge economy, there is knowledge intensity where efficient production relies on information and know-how. Outsourcing of business processes lead to cost reduction of 80-90%, improved access to new technology and allowed a firm to focus on core competency. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all



underlying expectations in offshoring high-end processes to low wage destinations. The outsourcing firm focuses on broader business issues, or maintains a clearer strategic focus, while operational details are assumed by an outside expert.

Human Resource Practitioners in organisations are required to take the task of providing quality and speedy Human Resource Management services at a reduced cost. This is consistent with the position of that Human Resource outsourcing connote letting out Human Resource Management activities that would otherwise be performed in-house. Thus, most of these Human Resource Management services can be provided internally through capacity building<sup>17</sup>. The transaction cost approach to the theory of the firm hypothesizes that firms are organizational innovations born out of the costs involved in market transacting in order to reduce those costs. This concept of remotely executing tasks was the genesis of business process outsourcing defined as “the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected process/processes, based upon defined and measurable performance metrics”<sup>18</sup>.

The outsourcing process is a complex structure consisting of numerous activities and sub activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process. It is a common knowledge that each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. From its occurrence, the outsourcing has been approached by different theories.<sup>19</sup>

Outsourcing is a management strategy by which an organization outsources major, non-core functions to specialized, efficient service providers. Companies have always hired special contractors for particular types of work, or to stabilize peaks and valleys in their workloads. Companies are always partnered with and formed long-term relationships with firms whose capabilities complement their own. In addition, companies have always contracted for shared access to resources that were beyond their individual reach – whether it be buildings, technology or people. However the difference with simply subcontracting and outsourcing is that outsourcing involves the wholesale restructuring of the corporation around core competencies and outside relationships<sup>20</sup>.

The requirement for outsourced training is almost the same for all the companies. The outsourced training is mostly required by the internal employees, then the customers, then partners and in the end the suppliers<sup>21</sup>HR outsourcing ranges from simply transferring noncore activities such as payroll and benefits administration to external providers, to the outsourcing of recruitment, training and even HR strategic planning and HR managers are expected to be more flexible, responsive, and efficient than personnel managers of old, and to contribute to the strategic decisions of their organizations. In relationships between HR outsourcing and organizational performance in manufacturing companies outsourcing of certain HR activities has a positive impact on overall innovation within the company<sup>22</sup>.

The outsourcing goals and the analysis of the business activities in order to promote standardization and to identify those more adapted to be outsourced and/or delocalized.

The experiences show that one of the main causes of lack of know-how and core competencies is an inaccurate preventive analysis. The analysis should in fact support the selection of those activities that are not critical for the competitive advantage.<sup>23</sup>.

Today's organizations survive and compete based upon their competitive strengths. A business organization may increase its competitive strength through two routes, either by improving its existing operations or by creating value-additions in terms of delivery of the existing products and services, e.g., shorter delivery period, increased service availability timings, reduced errors in delivery process, etc. Those organizations that believe in this approach may be termed to follow 'Process Improvement' approach. However, such approach has significantly increased their reliance on the information systems<sup>24</sup>.

The new HRM perspective for the 21st century requires HRM to be strategic partners of the organization that coordinates all functions and supporting the strategies by attracting and retaining the essential qualified employees<sup>26</sup>. Human resource (HR) professionals administer these programs and can be generalists or specialists. Generalists have some knowledge about each HR function, while specialists are experts in one particular function such as recruitment, labor relations, or training. For successfully implementation of HRM activities, there must be an alignment of HRM processes and organisation's strategies<sup>27</sup>. The human resources are to be effectively utilised for organizational effectiveness, of human resources use. The activities like the recruitment of employees, development, strengthening of relations, mutual inspiring, implementation of correct working processes

and systems used by individuals or groups are to be managed well.<sup>28</sup>

The people managing activities, policies, and practices that firms can use to compete effectively now, and the many changing forces (e.g., new competitors, new technology, business restructuring, legal, and social concerns) that organizations need to understand and respond to in order to ensure they are positioned to compete effectively over the longer term<sup>29</sup>. Outsourcing is not a matter of finding a provider, and saying, "Here, do it"—then walking away<sup>30</sup>.

Over the past decades the role of the personnel department has been transformed from that of an administrator to more recently a critical component in the competitive success of the business. HRM is a way of implementing HR strategies, policies, and practices in organizations through a conscious and directed support of and/or with the full use of web technology- based channels<sup>31</sup>.

HR services are among the key elements in the enlarging outsourcing game. Recognizing the fact that senior management needs to get out of routine day-to-day processing work and focus instead on strategic planning, core competencies, customer satisfaction and decision making, a number of large companies, across globe have begun opting for outsourcing of their HR services. Some organizations believe the HR function is an integral business success factor, but others view HR as over-resourced, inefficient and thus vulnerable to the cost reduction possibilities of HRO<sup>32</sup>.

The growing importance of IT outsourcing and the increasing interest in the subject area might be seen as one reason why some companies decide to outsource some IT activities or whole

processes themselves now. But the main forces – or “drivers” as they are sometimes called – that lead to further outsourcing growth have not been explained yet. Hence, this section will provide a brief literature summary of the main drivers that force companies to reshape their current organizational structure by undergoing IT outsourcing<sup>33</sup>.

HRM can help firms improve organizational behavior in such areas as staff commitment, competency and flexibility, which in turn leads to improved staff performance. In order to develop a sound HRM system, the organization should have effective Human Resource Management practices. HRM practices refer to organizational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfillment of organizational goals. HRM practices may differ from one organization to another and from one country to another<sup>34</sup>.

HR managers in those countries should respond to labour shortages by stepping up effective HR policies in attracting and retaining valuable workforce as well as establishing excellent employer brand. As for the adoption of flexible employment patterns, HR professionals can utilize workforce by using variations in employment contract, in work content, in working hours, in working location, in work structures or in the working environment. Furthermore, one potential solution is to the incorporate contingent older workers into an integrated strategic human resource planning by new career management design<sup>35</sup>.

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