

MODELS OF OUTSOURCING FOR INDIAN ORGANIZATIONS

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Abstract

Outsourcing contracts having been part and parcel of human civilization since time immemorial. Today we frequently turn to professionals for major plumbing, air conditioner or car repairs, domestic chores, education for children, transport, etc. While it has been practiced at the family and social level for a long time, for business organizations to it is one of the long-standing practices continuing to date.

Organizations today find themselves at major crossroads with the need to choose strategic long-term decisions about choosing their outsourcing model for various business needs. This article is a guide to the working managers to understand their outsourcing needs and also plan for the same.

Keywords: *Mapping Outsourcing, Mapping, Risk Tolerance, Workforce, Augmentation.*

Introduction

Outsourcing is a contract between two persons or organizations where one provides and the other receives some product or service at a contracted price. Economists refer to this process of turning to those who can produce a product or service at a lower marginal cost as “comparative advantage,” and consider it a key ingredient to an efficient and productive economy.

There have been many attempts in the past to put a restraint on outsourcing in the name of fair labor practices, social justice, and equity in India, and also protecting jobs in most advanced countries, but, outsourcing has managed to survive all such attempts.

Today not only private but even governmental agencies and departments have almost completely outsourced their administrative activities such as cleaning, maintenance, transport, surveillance, security, legal services, etc. intending to eliminate unnecessary administrative costs in extending welfare measures and retaining focus on planning and rolling out schemes alone. Businesses have long understood the futility of getting themselves tied to routine non-value-adding activities such as bookkeeping, payroll processing, or janitorial services which does nothing but keep on adding flab that becomes difficult to shed. Outsourcing also helps business organizations to tide over difficult organizational challenges and also for extending timely response for increasing business commitments where their resources fall short.

Outsourcing Enablers

Spurt in outsourcing contracts in our domestic business environment particularly in large organization have been outsourcing one of their key functions, sales and distribution to distributors/dealers/C&F agents, the same has not been considered as outsourcing, though that is what it essentially is. Organizations, in the past, have thought of outsourcing only for their non-core administrative functions but of late increasingly we come across examples where businesses have acquired operational leverage by successfully outsourcing even their core functions. This has led to a significant services sector. The central philosophy which has been behind growth in outsourcing of core functions has been the realization that even core processes are made of a large number of discrete subsystems, most of which are low value-adding processes and hence can be outsourced to be executed at the lowest possible cost without much value destruction.

Coupled with the above enabling factors is the ever-growing need for businesses to remain ahead of the competition and focus on their customer deliverables and relationships alone. As opposed to the short-term and medium-term outsourcing perspective practiced earlier, today businesses and organizations are known to take a long-term view on outsourcing to keep themselves nimble & agile, and also, increase their focus on evolving product and service deliverables to maintain its lead over the competition.

Mapping Outsourcing Need

There are several reasons why an organization may need to outsource. For managers planning to outsource their business process, it is very important to map out these needs otherwise there are

chances that the outsourcing model the organization will adopt will be either sub-optimal or more than what is required.

Outsourcing needs can be grouped into the following basic categories –

- Augmentation of Human Resources for cyclic fluctuations
- Cost and Efficiency Savings
- Capability building
- Need for agility and nimbleness

Choosing an Outsourcing Structure

Three basic outsourcing structures are predominantly used by organizations to cut operational costs, maintain operational efficiency and enhance the quality of business deliverables. These are augmenting workforce, out-tasking, project-based outsourcing.

The decision to follow one or more of the above depends on the following two basic considerations –

Strategic Needs: Each organization needs to know what is the strategic need of its processes and how much of it can be outsourced to strategic partners. There are instances where an organization is over secretive about its business processes and indicators and will not like to share them with an outsourcing partner. For example in the cut-throat competition within the technology industry (gadgets, IT hardware, software, etc.) even though most of the manufacturing process is outsourced the company exclusively handles most of the activities leading to the development of new products and technologies as there is a distinct advantage in being the first to launch a new technology or a product.

Risk Tolerance: What is the risk involved in outsourcing decisions and to what extent the same can be safely tolerated by the organization is another very important determinant of any outsourcing decision. Typically in an environment where an organization cannot afford any disruption in any of its basic processes outsourcing is avoided. The cost of disruption to the company is much higher cost than what one could gain as damages from the outsourced partner. For example, a steel industry can today easily think of outsourcing its rolling and value-adding processes downstream, but, planning for outsourcing its input on the upstream is much difficult

due to strong linkages on account of 24x7 operations and difficulties inherent in controlling chemistry for desired metallic properties. Further, the managing agencies in this type of contract model are very costly which is a competitive market that can become prohibitive.

Workforce Augmentation

This is the most basic of all outsourcing models. One simply adds labor contracts to increase the job output while retaining full control of all resources. In addition to being the most basic setup, this has the least risk among all the outsourcing models. One may use this to expand current capacity to serve short-term immediate business needs.

Out Tasking

If one can identify skill or capability gaps within the company's various processes, one may consider out-tasking. This setup transfers jobs to the contractor to execute jobs that could be done in-house. In this type of outsourcing model, the outsourced partner shares a higher degree of responsibility for maintaining the job output and quality of service. Examples of out-tasking contracts are software deployment and integration, transportation, stock keeping units, a value-adding process in the steel industry, etc.

Project-Based Outsourcing

These types of contract models are adopted for turnkey projects where one cannot comprehensively define, design, and execute the tasks. As such, the best solution for your company is to outsource the whole project. In this setup, the outsourced partner has all the necessary competencies and capabilities to complete a project. Mostly day to day monitoring may not be necessitated but the focus of the contract is on handling over final deliverable once the contract project is over. This can be as short as a one-time engagement. Examples of this type of outsourcing model are small and big project contracts.

Developing an Outsourcing Plan

The goal of outsourcing is to provide the company with more profitable margins. One should first look at one's cost structures; study the available outsourcing options, and decide which to apply based on one's strategic priority and risk tolerance. It is very important to develop a comprehensive understanding of one's comforts and areas of difficulties for deciding what to perform in-house and what tasks, processes, or projects to outsource.

In case one is planning to outsource a task or process previously performed in-house it is advisable, to begin with, staff augmentation and gradually move towards more complex outsourcing models to minimize the risk of major disruption in business deliverables.

A major challenge in such situations is the development of the competencies of outsourced manpower which is easier said than done. Further, it is very important to work on the desired relationship with the outsourced partner and steer it towards the direction one is comfortable with. If one perceives them as a long-term business partner, then it is more meaningful to enter into a mature outsourcing model giving them too a long-term strategic focus. It is quite natural that the outsourcing partner will not like to make major investments unless assured of long-term business. Business strategies change over some time as the company grows. It is therefore very important not to have an outsourcing strategy for a very long period as it may impede rather than furthering the growth of the business. One should always be on the lookout for a business process that is suited for present need and provide necessary cost and efficiency leverages for business development.

Conclusion

It may be concluded that the ultimate objective of the company can be achieved by setting the margin. Since cost always plays a major role in manufacturing or providing services. Long term investment strategy is always preferable for outsourcing. Outsourcing partner will never prefer long term business with major investment without assurance.

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