



# Management Guru: Journal of Management Research

Vol.IV | Issue No. 12 | January 2017 | Thane



Uttari Bharat Sabha's

## RAMANAND ARYA D.A.V COLLEGE

Bhandup (E), Mumbai- 400042

(NAAC: 'A' Grade with CGPA 3.19)



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### National Conference

On

### NEW HORIZONS IN BUSINESS & MANAGEMENT-

### A WAY OF OPPORTUNITIES FOR BUSINESS INNOVATIONS



Dated:- 28<sup>th</sup> Jan, 2017  
Organised by Department of Commerce

National Conference on

**"New Horizons In Business & Management  
-A Gateway of Opportunities for Business Innovations"**  
(Proceedings)

28<sup>th</sup> January, 2017

Organised by Department of Commerce

RAMANAND ARYA D.A.V. COLLEGE Bhandup (E) Mumbai 400042  
28<sup>th</sup> January, 2017

Chief Editor: Principal, Dr. Ajay M. Bhamare

Publisher :

**Sharayu Prakashan**

B-7/501, Vijay Park, Kasarvadavali,  
Ghodbunder Road, Thane (West) 400615.

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Cover Design : Mrs. Swati Pawar



**Published, Owned and Printed by:**

Mrs. Sharayu, Chandrashekhar Ashtikar  
Printed at, Shree Ganesh Enterprises, A-111,  
Amargian Ind. Estate, Opp. S.T. Workshop,  
Khopat, Thane (W) 400601

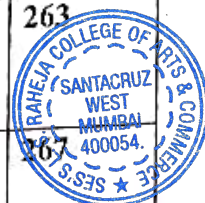
ISSN 2319-2429

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## Outsourcing-Sucess Creiterion

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### Introduction-

India is leading the outsourcing revolution. The position is challenged in time but the country has a strong lead with attributes such as the widespread use of English, population size and world-beating expertise in quality. When one observes some basic drivers that fuel changing world and make outsourcing an attractive proposition for business leaders across the world.

The basic drivers for outsourcing are

1. Government policy and political simulation
2. Globalisation and the knowledge economy
3. Technology
4. Corporate strategy

World is becoming a smaller place and this trend is allowing the idea of off-shore outsourcing to gradually adopted as a normal business tool. There are hundreds of ways in which technology is now driving change in corporate life. Outsourcing is being enabled by the surge in global connectivity and the opportunities are unlimited.

As outsourcing has become an increasingly standard business practice in the last decade, it has created a new set of and challenges for the organisation. These risks, if not managed effectively can lead to value leakage and adversely impact an organisation's financial performance, operating model integrity and reputation. According to Dave Zechin, a retired partner from Deloitte, outsourcing initiative, whether for finance, IT, compliance, operations or other areas, often fail to meet expectations due to inadequate risk identification and mitigation early in the outsourcing project analysis.

### Objectives of the study-

1. To identify the risks in Outsourcing.
2. To summarise the success criterion for outsourcing business.

### Key words-

Outsourcing, design matrix, KPI,

### Nature of Outsourcing-

Outsourcing gives you access to profession Charles Handley, a writer and former professor at the London school published his Shamrock theory in the Age of unreason. This is Irish National emblem. It was used by him to describe three groups of people within an organisation.

1. Core workers for essential and managerial tasks.
2. Contract employees for non essential work.
3. Flexible workers, temporary, part-time and occasional labour.

Handy described how companies would employ an essential core team, around which they could hire contracted expertise for specific time bound projects. In addition, there would be the flexible labour needed for maintenance, sorting the mail and cleaning the office.



In business process outsourcing, the outsourcing is of the entire process or service. Common outsourcing processes are payroll, tax management, insurance claims, human resources and contract centers. Outsourcing is just another way of getting the job done. The contracting or subcontracting of non-core activities to free up cash, personnel, time and facilities for activities in which a company holds competitive advantage is termed as outsourcing. For example, Human Resource outsourcing is when a company gets an outsource party to perform some or all human resource functions. Areas of outsourcing HR can be identified as

1. Recruitment
2. Training
3. Payroll and compensation
4. Leave and Attendance
5. Back office administration
6. Employee communication
7. Statutory compliances
8. Data analysis

#### **Risks in outsourcing-**

While offshore outsourcing is associated with several benefits, these ventures also pose many risks. The perceived risk of outsourcing acts as a big inhibitor for BPO.

Some of the risks include

##### **a) Loss of control-**

Companies perceive the risk of losing control over the operations of their processes. Also if the trained employees in the vendor firm leave the job, the buyer may be at the risk.

##### **b) Financial instabilities of the vendor –**

If the vendor becomes financially unstable for some years, the buyer will have to search for a new vendor, the operations being at risk, if he does not search new vendor fast.

##### **c) Data security-**

Another factor that could threaten the outsourcing could be the risk of exposing confidential information to the third party. Whether it is HR, payroll, logistics or recruitment services, the company chances on leaking of information. Besides an inappropriate partnership could bring in problems of stretched delivery dates, sub standard output quality and other problematic issues that could have easily controlled and regularise in an in-house frame work. Confidential data to the customer may be prone to theft if the vendor firm does not have stringent security policy.

##### **d) Loss of expertise-**

Customers may lose the expertise and knowledge of carrying out services processes in time.

##### **e) Competition-**

Another dilemma faced by the companies that outsource manufacturing and designing overseas to reverse engineering when production of goods and knowledge shifted to another country in time it is not difficult for foreign country to so figure how the design and manufacture of own brand locally.

##### **f) Ethical controversies-**

Ethical controversies around in outsourcing are done by first world countries with high standard of environmental practices. There is also lack of regular audits.

##### **g) Outsourcing strategy risk-**

Outsourcing strategy is the process of determining whether or not to outsource? And if so, what to outsource? It can arise due to lack of risk analysis and risk assessment planning.

##### **h) Outsourcing selection risk-**



Outsourcing selection is the process of finding and evaluating potential outsourcing partners. This can arise due to lack of proper internal skills set to effectively manage the selection process.

#### **ii) Outsourcing implementation risk-**

Outsourcing implementation is whether the relationship between outsourcing partners is defined and established. Implementation planning with respect to timing of transition to service provider and demands in organisation can reduce the risk.

#### **iii) Outsourcing management risk-**

Outsourcing management is the monitoring and evaluation of the ongoing relationship. The company can reduce the risk by improving internal communication.

#### **iv) Risk of hidden cost-**

Although outsourcing most of the time is cost-effective, at times there is a hidden cost involved in the contract.

#### **Measuring Success of Outsourcing-**

Success is hard to define and is applicable to outsourcing business also. With an outsourcing programme, success is something that needs to be understood in more defined terms. This is essential for both the client and supplier to have an appreciation of what works and what does not. The company should think about end result rather than the process because the company is already doing that function itself. Measuring whether the outsourcing programme really works needs some metrics and expected results.

The following are the five areas that need a special consideration for measuring success of Outsourcing.

#### **1. Getting the right people in the right place-**

A key success factor is the use of onsite manager, if the person does not have every strong management capabilities in the right mindset then there can be a problem. The manager not only manages the project in the normal sense of controlling budget deliverables and project teams but also they act as mentors and business advisors. The Indian team (local service team) should learn the process as they speak to the business teams on daily basis. In other words, the end users meet the outsourcing team.

#### **2. Design metrics for results-**

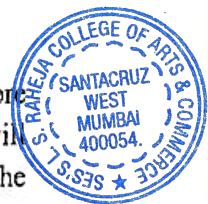
Thinking what you want to achieve by outsourcing over the long term period is also equally important. The outputs of some processes are clearly understood and are readily quantifiable. In other words, thinking about structuring the metrics to measure the value added created for business is more important than how the process is delivered. The company should consider about results from the entire programme before defining how it will measure the service.

#### **3. Design KPIs (Key Performance Indicators) for the future-**

Good key performance indicators are the most important factor in the success of an offshore transaction. KPIs can be very objective or highly subjective. While the basic framework of KPIs will be defined by outsourcing supplier or captive center manager, it is essential to think further into the future. KPIs will live beyond the transition process as it is important from the point of view of customer perspective.

#### **4. Relationship Building-**

Outsourcing is not just procurement. It is a long term relationship between partner firms. The information needs to be open and documented for an outsourcing relationship to really work well. TCS aims to start building client relationship right from the first meeting. The team should ensure that the outsourcing service level must at least match the existing service level. It must be possible to



reduce cost while retaining that service level. It should be possible to increase service level.

#### 5. Bench mark the services-

Human resource department have long used benchmarking to determine of people are being paid the right salary for the job they perform. It is becoming more common for clients to demand that their outsourced service and its price be benchmarked against what can be offered elsewhere. Benchmarking has altered company's thinking on several matters such as how it provides customer service and what it that customer wants. The company may be happy with the supplier but it should not stop looking into the marketplace.

The other suggestions to minimise the risk and guarantying success are as follows.

#### 6. Quality management system-

The success of good service provider depends on how efficiently it caters the need of a client. The client may have certain vulnerabilities, hence service provider must address satisfactorily. It includes vulnerability deficient service, financial vulnerability, and information vulnerability, technological and operational. Service provider's quality management system can effectively address the vulnerability issues. Systematic approach for recruitment can ensure the quality of manpower for the targeted assignment and focused training can ensure required skill development. Periodic evaluation of the performance and monitoring the skill of the staff by higher management can ensure the quality of service provided. Periodic review of the process, development of necessary documentation and human resource expertise to monitor the quality of services rendered by an outsourcing company

#### 7. Checking outsource expertise-

The organisation also requires an examination of the provider's expertise in all above areas. The experts of the service provider need to be checked properly so that company gets proper services. Given the rapidly changing demographics at the workplace, combined with unique needs of any client has outsource providers should have a system of improving the expertise so that they can meet client needs.

8. Selecting the functions with greatest competitive advantage.

9. Clearly defining the goals and objectives before starting outsourcing processes.

10. Understanding human relations and employment law requirements.

11. Synchronizing deliverables. If there is no right partner for outsourcing, some of the common problem areas include stretching delivery time frames, sub-standard quality etc.

#### Conclusion-

It is always disappointing to read stories of outsourcing gone bad. Majority of these circumstances are avoidable if the company and the provider work in union to minimise the risk. Customer satisfaction needs to be improved and making outsourcing company a core company will foster a good relationship between companies and the outsourcing provider. There are number of basic policies that need to be adopted during outsourcings strategy, contract creation, outsourcing implementation and outsourcing management. Treating the vendor as company's partner is equally important. The policies should ensure that the supplier's services and price is comparable to other industry players. Such policies can have strong influence on the overall success of outsourcing programme.

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RNI Registration No. MAHENG/2012/4795

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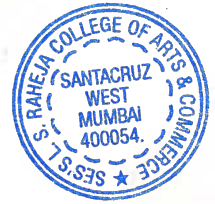
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ISSN 2319-2429