# eBook Sample

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# Outsourcing

Introduction to Outsourcing

How to Select the Outsourcing Team

Criteria for Choosing the right Outsourcers

Problems and Difficulties in Outsourcing

# 1-Introduction to Outsourcing

**What is Outsourcing**

Every company has some tasks to be done on day to day basis. The companies usually look to save cost and resources and to accomplish this they usually turn to outsourcing companies to get cheap and timely services. *Outsourcing* is getting any task, job or operation done by third party for a specified amount of time. Usually, these third parties do it more efficiently and in a very swift manner. These functions can be performed on-site or off-site.

It should be noted that outsourcing is often confused with off-shoring which is totally a different concept.

**Types of Outsourcing**

Various functions of a business can be outsourced. Depending on business functions, outsourcing can be classified as:

- BPO: Business process outsourcing is the outsourcing of specific business task. This has two categories; back office outsourcing and front office outsourcing.
- ITO: This is information technology outsourcing, and in it, the IT function of a business is given to an external third party.
- KPO: Knowledge process outsourcing, this involves outsourcing the task involving advance and analytical research skills.

**Why do Businesses Outsource**

The reason why a company would outsource depends on various scenarios and situations. A few reasons include;

- **Cost saving**: Outsourcing may result in economies of scale and cheap labor. The business may be able to get the task done in low rates.
- **Core competencies**: Outsourcing lets you focus on core competencies. Moreover, it also allows you to enjoy variable capacity benefits.
- **Scarcity of resource**: The business maybe compelled to outsource because of lack of necessary resources.
- **Efficiency:** When outsourcing a particular task the team hired for the job is usually comprises of those experts in that field. As a result, a better work is done and efficiency is enhanced.
- **Innovation:** Outsourcing allows mixing up with external experts, which allows flow of information and learning, and this result in innovative solutions.
- **Possible tax benefit**
- **Enhanced management control**
- **Availability of surplus labor**

**Disadvantages of Outsourcing**

While companies enjoy huge benefits derived from outsourcing, there are many things they have to compromise on:

- **Extra charges**: The outsourcing team may charge you extra money for every small task too.
- **Limited control**: You don't have much control on the task you have outsourced; you depend totally on the external team and this may lead to deviating from your main objective. Goal congruence may be lost.
- **Loss of confidential information:** Although a professional team has its code of conduct, you lose your confidential internal information when you hire an external third party and give it complete access.
- **Lack of project management:** Sometimes, when there is a conflict of interests, the result is lost management control.

# 2-How to Select the Outsourcing Team

It is very important that you have strong internal controls before opting for outsourcing options. If you do not have strong management and well defined objectives, your outsourcing is sure to fail. Before taking the decision, evaluate your internal controls;

- Organization: Your internal team should be clearly and properly organized.
- Risks and rewards: Evaluate what risks are involved against what benefits you can derive from the decision.
- Objectives: Your business needs, objectives and goals, both short term and long term, should be clearly defined. There must be no confusion in them.
- Alternatives: Look for better alternatives, if there can be any.
- Reason for outsourcing: You should be very clear about why do you want to outsource, what are you looking for and what are your needs in this regard.
- Agreement: Make sure to develop a proper outsourcing agreement that clearly defines everything and covers all the aspects.

**Selecting the Outsourcing Team**

A professional way of selecting the right team is as follows;

**Establishing a top managerial committee**

This committee should consist of executives and managers from top management level. They should plan the decision and decide how things will proceed. Moreover, this committee should also monitor the search for outsourcing team and the criteria set in this regard along with the over all process.

**Team of experts**

A team of experts should be engaged to guide you in finding the right outsourcing team. This team can be experts from outside business or current employees. Regardless of, whether they are external members or internal, they should be independent experts specializing in outsourcing. The team should comprise of experts from IT who can develop and transfer your systems according to your needs. Furthermore, an attorney should also be present in the team.

### Internal resources identification

This decision is the critical one. When you outsource, you give your internal information access to a third party. Before proceeding, you should identify what internal data will be revealed and what resources will be provided to the outsourcing team. This decision is very vital, because if you keep too much information to yourself, the outsourcing might not be successful.

### Internal controls and system structure

Before hiring an external third party, you should ensure that your internal controls are strong enough. Highlight your strengths and rectify any weaknesses in system or controls. Developing a strategic plan is crucial, as outsourcing lasts for seven to ten years usually. In regard to this, identify what up-gradations are required in both hardware and software systems. Understand your Cost Structure and forecast any future costs as well.

### Understand your own objectives

You need to understand what benefits you desire to derive from the outsourcing venture; what your objectives are, and why you would want to outsource?

# 3-Criteria for Choosing the Right Outsourcers

Outsourcing is not just about handing over a major task to someone who claims he can perform it efficiently. There must be some established criteria to judge the competencies of the outsourcers. Here are a few things you can keep in mind when hiring an external team;

### Qualification

The team you are hiring should consist of people qualified in the relevant field of work. Educated individuals come up with innovative solutions and handle the scenario in the best possible manner.

### Experience matters

Qualification alone can not be a determining criterion. You can not hire a team of inexperienced fresh graduates who do not know anything about outsourcing, team work or the task in practical scenario. Outsourcing is something hard to manage, so it is crucial that outsourcers are experienced enough. With experience, outsourcers will be able to understand your needs and market quickly.

### Team player

When hiring a team, you must determine if the team understands how to work in groups. Check how they interact with each other and how good are their communication level and learning curve. The team should have constructive and positive energy as a team.

### Enthusiasm and diligence

Along with just the right amount of enthusiasm, diligence also matters. A team which is ready and eager to work is worth hiring. See if the members are eager to work and detail oriented. Moreover, they should also understand that they ought to work towards the goal of mutual benefit for both the team and its client.

**Code of conduct and professional ethics**

When you are to share your internal key information with an external third party you must ensure that it will not abuse it. The team should have code of conduct and professional ethics to which it abides by.

**Quality is more important than quantity**

A huge team may appear as if it can do work more efficiently but this isn't necessarily true. Rather, a compact team is much more focused and dedicated. Everyone knows his/her tasks very clearly and is directed towards working efficiently.

**Reliability**

Ask the outsourcers for how long have they been in business and what type of clients have they dealt with, how many offices and employees they have got and so on. You must find out if the team can be trusted and is credible.

## Recommendations and reviews

Rather than selecting outsourcers independently, you can take recommendations and reviews of businesses in the same industry as yours. This will help you evaluate how reliable and efficient a particular outsourcing team is.

**Terms and conditions**

Once you have selected a team, you should talk to them about their terms and conditions and issues like costs, data security and delivery time. You should have all terms and conditions in writing.

# Problems and Difficulties in Outsourcing

Outsourcing is a unique venture and no matter how good it is planned, there are a few problems that do arise once the contract has been signed. Some of the issues with outsourcing have been discussed below.

**Post contract work**

Even after clearly defining the terms, conditions, rights and limitations, once the process begins the initial problem is of cooperation between client and the outsourcing team. Both find it hard to work together in the practical scenario. As a result, many services are not performed and many decisions are left unnoticed. Both the outsourcer and the client get frustrated and employees get confused. Consequently, there are delays in work.

**Poor contract understanding**

Contract is signed at top managerial level and after the work begins, the staff and employees strive hard to understand the terms and limitations. Moreover, some client staff members may also get emotionally charged against the outsourcing decision. Everyone strives to understand the process and tries to cope up with everything, but the poor mutual understanding of the contract and the essence of it leads to confusions and problems.

**Lack of support from senior client members**

Often senior client managers opt out of the outsourcing arrangements and detach themselves from the whole process. As a result, they provide little or no support to the external team working for them. This resistance to the outsourcing venture results in business process deterioration. Moreover, this also has a far reaching disadvantage; the senior managers do not prepare themselves for the changes that the outsourcing team brings.

**Uncertainties for existing employees**

Not all members of the client staff are happy about outsourcing. This makes them uncertain and they start looking for employment elsewhere. As a result, the client ends up losing some of the key employees.

**Sharing internal information**

Although the outsourcing team becomes a part of the client business, it happens only temporarily and sharing internal information makes the client business to lose its key information.

**Culture clash**

The new team hired may be entirely different in terms of organizational culture. They may have different norms in terms of speed, decision making, hierarchy and style. This may not allow the team to work in harmony with the client.

**Lack of goal congruence**

The outsourcing team has the main goal of earning a profit while the client has much comprehensive objectives regarding the business and even the task outsourced. Outsourcing team may not work keeping in mind client's goals and lack of short term as well as long term goal congruence can adversely affect the strategic direction of the client business.

**Team required managing outsourcing lacks competencies**

Client may retain a team of internal staff members to monitor the outsourcing as a whole but these members may not be competent enough. As a result, the outsourcing team gets a free hand in everything and may also abuse client resources.

**End user resistance**

Sometimes, the outsourcers are introduced in the business to bring about radical changes. The client likes to gain benefits quickly which require significant changes in technology, processes and behavior. These changes may be beneficial but the end user resistance and lack of compliance inhibit their success.

Outsourcing can be very helpful and beneficial if it is managed properly. It can result in constructive flow of information and learning at both ends. However, handling the outsourcing venture requires expertise and experience. If not handled properly, it can bring disaster and long term losses to the business.