

Strategic Outsourcing And Offshoring - Key Success Factors And Failures

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ABSTRACT: Outsourcing is currently poised at the edge of the new paradigm. Despite the pros and cons, the fact remains conspicuous, loud and unchanged. Business Process Outsourcing and Offshoring is the mantra of employment, the buzz of the present, and the promise of future. Outsourcing has emerged as a critical component of management strategy as the global supply chain of information and expertise that stretches from North to South. The world is changing and the next ten years is likely to be different from what was practiced over the past decade. In the new era, there is a realization that change, adaptability, and flexibility will determine the strategic path for organizations and control the firm's skills and resources for increased competitiveness. The advent of the information and high-tech economy has resulted in the expansion of the various sectors and redefined notions of time, space, distances, boundaries, and borders on the global stage. This paper tries to discuss the BPO industry in Fiji which is creating new growth opportunities and a widespread impression in the country.

KEYWORDS: Business Process Outsourcing, Offshoring, Strategy, Technology, Human Capital

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I. INTRODUCTION

Outsourcing emerged with a new wave of globalization marked by high volumes of trade, capital flows, rapid rates of growth and industrialization. It is part of everyday business life for many companies with lower wages and decreased regulation that makes outsourcing appealing to companies trying to cut costs while maintaining quality and services at the same time. Outsourcing uses outside specialized skills and resource service providers to perform many of the critical tasks, yet noncore activities. If the company lacks expertise in a particular area, an outsourced company may be the answer to enhance those areas the company requires. According to leading economist Greg Mankiw, the labor market works under the same forces as the goods market, with the underlying implication that the higher the number of tasks, the better the efficiency under trade gains. More tasks can be offshored at different stages of the overall corporate process with the technological progress. According to Peter Drucker "Do what you do best and outsource the rest." The slogan was an internationally recognized business tagline and was used to advocate outsourcing as a viable business strategy. History says that Peter Drucker began explaining the concept of "Outsourcing" as early as 1989 in his Wall Street Journal article entitled "Sell the Mailroom." Vertical disintegration is especially evident in international trade. According to a report of the World Trade Organization (1998), the production of a particular "American" car. Thirty percent of the value goes to Korea for assembly, 17.5% to Japan for components and advanced technology, 7.5% to Germany for design, 4% to Taiwan and Singapore for minor parts, 2.5% to the UK for advertising and marketing services, and 1.5% to Ireland and Barbados for data processing. Leaving only 37% of the production value in the United States.

Cost Differentials

The bigger the company, the more employees it can outsource and the higher the savings will be. However, companies still incur costs to supervise and to train the employees, and these costs may escalate over time. Many companies outsource their customer service hotline to less developed countries to save on labor costs. For example, they can hire someone in India at a fraction of the price as compared to the United States (Renu, 2010).

Quality Control

Companies can set quality standards for work performed by foreign employees however barriers like language and culture poses a threat to quality control. Products made overseas can be flawed with inferior raw materials.

Public Image

Industries that move jobs overseas can portray themselves as bringing much-needed jobs and aid to impoverished countries. Fewer regulations and protocols in other countries can make it less expensive for foreign factories to operate offshore.

Expand Capabilities

Some companies turn to outsourcing because they cannot find the skills or equipment they need to produce their product or service locally. Hence outsourcing allows the product to reach the market sooner.

II. OBJECTIVES

- To analyze the current outsourcing and offshoring trends and patterns;
- To understand the impact of outsourcing and offshoring on home and host economies;
- To understand the reasons for failures of outsourcing; and
- Provide facts details and statistics for BPOs in Fiji

Scope

We live in an age of outsourcing and offshoring. It is a brilliant business concept, yet it has much controversy attached to it. With the high rate of failure of outsourcing and offshoring several organizations remain skeptical of the transformation. Fiji has tremendous potential for outsourcing and customer-oriented services hence we need to capitalize on the rapid increase in BPO interest and activity. Fiji has been positioned as an attractive location for BPO operations hence this article highlights some critical success factors and failures.

III. METHODOLOGY

This research study employed secondary source data to address all research objectives in depth. Various articles from different writers are used to analyze and understand the cost and benefits of outsourcing and offshoring. The rationale for using exploratory research design since the outsourcing industry in Fiji is relatively new and not much data was available on the subject which would have fulfilled the research objectives.

IV. LITERATURE REVIEW

One outsources because he can get the best talent in a highly specialized area and not have to carry them on the payroll. While installing a new computer system, you may have one IT personnel and outsource beyond that. The significant benefit is it is a contracted price and a predictable cost. For those that outsourced to an offshore provider realized even further cost reductions. However, in many cases, the degradation of the quality of service, language, accent, cultural, etc. has been an unheld cause of loss of business. Therefore the original outsourcing return on investment has been completely overturned (Simon, 2010). According to (Kevan 2009) the success in offshore BPO is based on a combination of cost savings, quality of offered services and strategic issues in India and is specific to business context and will change over time. As for (Lampel 2008) successful offshoring must begin with an understanding of the market and the competitive pressures. As firms in most developed countries, e.g., the US, Canada, and Japan continue to face enormous challenges to sustain competitive advantage, outsourcing to emerging markets is becoming an increasingly important source of business renewal and corporate revolution (Javalgi 2009). There is limited outsourcing research on the managerial challenges in BPO relationships, the performance implications of BPO or the drivers of such performance (Rouse and Corbitt 2006; Whitaker et al. 2006). In an age of information-intensive firms, products, and services (Glazer 1999), business processes may be described as a series of interrelated information processing activities that exchange, manipulate or transform input information to create value. For multinationals, global outsourcing is viewed as a means of reducing the impact of foreign currency fluctuations (Shapiro (1996).

The 1st wave of Global Outsourcing

- ✚ Led by the US, closely followed by the UK
- ✚ Corporations initially looked for cost reductions
- ✚ Management and development limited to tools and bandwidth

- ✚ New finance vehicles
- ✚ Free flow of capital
- ✚ Typical 10-year deals

The 2nd wave of Global Outsourcing

- ✚ Move to Western Europe
- ✚ Individual country agreements
- ✚ The rise of call centers
- ✚ World Trade Organization rules changed, allowing increases in ITO/BPO
- ✚ Extension of EU (Poland, Czech Republic, Hungary)

The 3rd wave of Global Outsourcing

- ✚ Integration of EU tax breaks in Ireland, Slovenia, soon to add Bulgaria and Romania
- ✚ Created additional direct competition with India, China, and other offshore destinations
- ✚ Improved centralized control and bandwidth
- ✚ Changing nature of contracts
- ✚ Improved Customer Relationship Management (CRM)

Source: The Economic Times 2005, Forrester Research 2007, KPMG 2006

Why is Fiji selected over other Outsourcing/Offshoring Destination?

- ✚ Native English speaking workforce, easily understood by clients in New Zealand, Australia, USA, Canada and the United Kingdom
- ✚ Fiji boasts a vibrant expat community, which adds to its value proposition as Fijian, Hindi, Spanish, French, Italian, Dutch, German, Swiss-German, Portuguese and Tamil to name a few, are offered in Fiji
- ✚ A labor market with young and qualified personnel for these tasks and positive international perceptions of the Pacific region, which lends itself to call centers and customer service tasks
- ✚ A competitive internet infrastructure, which is now rapidly improving regarding speed, quality, and cost
- ✚ A strong political support
- ✚ Wage levels comparable to international norms
- ✚ Renowned for friendly customer service
- ✚ Compelling cost advantage

Table 1. Advantages and Disadvantages of Outsourcing

Benefits of Outsourcing	Disadvantages/Risks of Outsourcing
✚ Cost reduction	✚ Social cost in term of job losses
✚ Focus on customer relationship	✚ Loss of control and Security issues
✚ Increase in Operating Cash Flow	✚ Cultural issues
✚ Access to global talent	✚ Increase lead time in the supply chain
✚ Bringing value to the Global Sources	✚ Possible creation of competitors
✚ Proximity to Markets	✚ Knowledge of vendor
✚ Focus on customer relationship	
✚ Access to new Technology	

Source: Field Interview

Economic and Social Impact of Outsourcing

Positive Economic Impact of Outsourcing

Economists approach the topic by looking at the long-term economic effect and enthusiasts of offshore outsourcing are in support of free trade. Their primary claim is that international outsourcing has potential long-term economic benefits. They believe that offshore outsourcing lowers costs and encourages competitiveness (Rajan and Wei, 2004). The cost reductions from this process lower product prices and the increased demand and profit derived from this process are used for employee benefits as workers produce more per hour, thereby driving up real wages. The vast amount of relatively high-quality jobs created in the host countries, through offshoring provide the countries with substantial economic benefits. They build a stronger economic base, increase domestic consumption and therefore foster imports from developed nations. Garner 2004, emphasized that offshore outsourcing benefit the economy as a whole. He stated that outsourcing has helped to drive down costs of high-tech goods and sped up the adoption of new technologies. Outsourcing helps companies to concentrate on the core business areas, access world-class technology at lower rates, the skilled workforce at affordable prices, and competitive advantages.

Negative Economic Impact of Outsourcing

The major concern about offshore outsourcing is the loss of local jobs. When jobs continue to be transferred to foreign countries, there will be any no jobs left at home. Jobs lost to outsourcing are likely to be permanent (Garner, 2004). Lower wages is another concern people have about offshore outsourcing. People feel they have to compete with workers in other countries who are willing to work for lower wages. Another concern about offshore outsourcing is the unequal distributional effects of trade (Poole, 2004). The belief is that the rich get richer, as domestic consumers do not see the benefits of outsourcing reflected in the prices of goods and services. Another noteworthy concern is the declining standard of living. This issue is related with the concern about lower wages. The growing trade deficit in goods and services is also a significant concern of offshore outsourcing.

Positive Social Impact of Outsourcing

Outsourcing has a positive effect on productivity. By relocating some jobs to other less expensive parts of the world can easily save costs, save the company, save most people's jobs, keep prices down and offer excellent services. On the host country, any job created increases new money flows into the national economy, and spent on local goods and service.

Negative Social Impact of Outsourcing

Layoff causes major moral problems and leads to dissatisfaction and work slow down. Moreover, offshore outsourcing causes workforce to have less opportunity for learning because of knowledge transfer. Unemployment hurts poverty, happiness, family life, crime, drug, and alcohol use and the prospects of children of unemployed people. Moreover, the lives of children are severely affected by unemployment. Furthermore, with the increasing rise of offshore outsourcing firms will become hollow, mere virtual organizations with little responsibility to the home country. Offshore outsourcing raises the question of quality since most products are outsourced to countries with an apparent history of substandard or inferior goods, thereby raising questions about quality.

Positive Economic Impact of Service Offshoring:

Offshoring in the services sector has a positive economic impact. Offshoring service work attracts foreign direct investment (FDI) in the host countries. A long-term view of offshoring services promotes a healthy and stable world economy, particularly in emerging markets.

Negative Economic Impact of Service Offshoring

Offshoring in the services sector has been critiqued as being responsible for the weak rate of job creation during the current economic recovery. These critics are concerned that exporting the local knowledge base to other countries could weaken the leadership in technology and innovation, impacts the national security as well as the economic competitiveness. According to competitive advantage, theory suggests that nations and businesses should pursue policies that create high-quality goods to sell at high prices. The exportation of knowledge outside the country that would be engaged in meaningful productivity in the economy compromises the strategy and may lead to the loss of competitiveness.

What Causes Outsourcing Failures

One question that hounds the vendors and clients of outsourcing is how to mitigate the risk of failure.

1. No strategic objective

Do you outsource to ensure you have access to niche skills, best practices to improve the quality of service or increase functional flexibility? Saving is an end outcome of outsourcing, not the primary reason. Hence there must be a clear goal for outsourcing. While cost reduction is a valid purpose, it should not be the only one. When cost reduction becomes the primary objective, the outsourcer is often driven to select the cheapest provider regardless of capability or resources.

2. Unclear requirements/expectations

When a company outsources, it must be clear about the process, tools, talent, SLAs, timelines, testing, outcomes, ownership, IP, and commercials. When expectations from both partners are not clear, there are cost escalations, delays and the quality of work delivered are poor. Everyone is investing precious time in getting it right rather than considering it as just another tick mark in his or her checklist. Instead, the need to define tasks set benchmarks and insist on processes, tools, and talent. Decide and agree on the right measurement metrics. Furnishing the provider/ clients with a clear understanding of the business drivers. Sharing of the plans and roadmaps is the very foundation of a successful outsourcing partnership.

3. Poor transition

Requirements and processes are often moved thousands of miles away from where they were initially carried out. Bridging the distance means the transition process should be rugged and accurate. The part of quality in transition cannot be over exaggerated. Migration is a complex process that requires thorough scrutiny of the technologies, infrastructure and managerial skills required to sustain in the offshore/outsourced location. The poor transition can result in cost escalations, delays in outsourcing implementations and reduced customer satisfaction. The poor transition can be the cause of outsourcing failure.

4. Rapidly changing needs of the client

When the client needs change, the provider is sometimes unable to change as quickly. A vendor who is not flexible and does not understand the client business environment can lead to the business failure.

5. Poor communication

Communicating frequently and clearly and sharing all business-related information is essential to keep the relationship healthy and therefore to improve the outcomes of outsourcing. Clients often feel that “communication” is a task for the vendor. When this happens, expect misalignment of missions and failure to follow. It is not what you say but what is understood that is important. This can arise from a variety of factors such as cultural differences, language capabilities, differences in industry terms and jargon, even technological limitations.

6. People factors

The vendor has difficulty retaining talent. This means that either the vendor will not have the team required to deliver the task as the teams have no sense of loyalty or purpose. Such teams will lose focus and disengage.

7. There is no concurrent change in workplace culture

Outsourcing is tightly linked to the shift in workplace culture. Very often, businesses outsource tasks, functions, and responsibilities that were previously done in-house. Getting rid of jobs does not help lower costs in any meaningful manner. Burdening the existing team with increasing and unreasonable performance targets and responsibilities guarantees lowered quality, inefficiencies, and attrition. The way out is to outsource. Outsourcing works best when it is led by strategic reasoning and is accompanied by a change in organizational culture or workplace structures.

8. Over-management/micromanagement

The vendor may often have excellent skills and capabilities, but outsourcers are naturally paranoid and tend to over manage or micromanage. This can become a real headache, and over a period the endurance level will erode.

The overarching reason for outsourcing failure is the lack of will in top management. Preventing failure depends on sensitive team managers who are both competent and determined to find business success in outsourcing.

Some Successful BPO's operating in Fiji

Mindpearl - Mindpearl started in 1999 as a confined contact center providing 24/7 customer support in multiple languages to the customers of a consortium of 11 European airlines headed by Swissair. In 2016 Mindpearl successfully diversified supporting many non-airline brands. Today Mindpearl provides contact center solutions for global names in the aviation, telecommunications, retail, debt recovery and weight management industries, offering multilingual services globally around the clock. Mindpearl has been operating from Fiji since 2009. Fiji offers a high-quality and cost-efficient English language alternative to offshore locations such as India and the Philippines. Mindpearl Fiji was awarded the Best Flexible Outsourcing Services at the 2015 Business Excellence Awards.

Recoveriescorp - Founded in 1991, as Mercantile Agency Pty Ltd and later evolved into one of the leading insurance and general recovery agents in Australia. Hosting 600 staff in Sydney, Melbourne, and Suva, they offer expertise in Federal, State and Local Government, Insurance, Banking and Finance, Telecommunications and Utilities sectors.

Packleader Pacific - Packleader Pacific is the Fijian face of Packleader Group and established Australian services company with a global outlook. Accommodating a 450 seat customer contact center in Fiji's capital Suva.

Greymouse Virtual Workforce - Founded in 2005. Greymouse Virtual Workforce is an Australian controlled HR provider supplying high quality, time-sensitive and cost-effective services through its offshoring facilities based in Suva, Fiji South Pacific, and Legazpi, in the Philippines. They maximize the strengths of both

countries, plus reduce outsourcing risks, giving the clients a massive head start. The business world is being compacted by economics, technology, demographics, and regulations. To win in today's world, companies must transform their way of thinking, working, and engagement with partners that help them achieve a global workforce.

V. CONCLUSION

Companies look to outsourcers to provide process efficiencies and economies of scale, as well as continued investment in the latest technology, which can be more efficiently cost-justified when spread across multiple organizations. While considering outsourcing destinations, infrastructure & quality talents are two essential decision-making factors together with culture and environmental scenario of the country. Outsourcing means establishing a bilateral relationship with a firm and undertaking specific investments so that it can produce goods or services that fit the firm's particular needs. The contract governs the bilateral relationship. In some cases, the legal document does not ensure the partners conduct the promised activities with the same care that the firm would use itself if it were to perform the tasks which is one of the drawbacks of outsourcing. Fiji has the potential to become a high-quality BPO and captive call center destination, what it lacks is global awareness. Fiji offers a unique selling proposition – The People. Fiji has been cited as an attractive location for BPO operation. The convenient timezone, world-class IT infrastructure, attractive investment incentive and vibrant and dynamic service driven workforce and a low-cost business environment have drawn much international interest. Outsourcing has moved from mere cost savings, which was the old primary factor for outsourcing, towards value addition or enabling companies to focus on core functions.

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