ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(5): 509-510
www.allresearchjournal.com
Received: 08-03-2016
Accepted: 09-04-2016

Dr. Manoj Phutela
Associate Professor,
Gopichand Arya Mahila College, Abohar, Punjab, India.

Correspondence
Dr. Manoj Phutela
Associate Professor,
Gopichand Arya Mahila College, Abohar, Punjab, India.

Strategic outsourcing for the growth of global market

Dr. Manoj Phutela

Abstract
Companies often treat outsourcing as de facto solution, without careful evaluation and understanding the true strategic rationals for pursuing it. Outsourcing brings in companies business significant structural changes, which require a cohesive master plan, i.e. a strategic outsourcing plan. If a company starts outsourcing initiative, steps for success are: knowledge, planning, sourcing and execution. The success is primarily dependent on explicit planning and identification of all possible opportunities. Strategic outsourcing plan must be done from the perspective that it will help to grow business instead of focusing only on cost cutting, leaving out from consideration long term business implications. Company's business strategy should be aligned with outsourcing strategy and outsourcing strategy execution should stay in sync with near and long term business growth goals. The biggest mistake that companies are making when approaching an outsourcing solution is missing linkage to business strategy. Strategic Outsourcing Plan built without the context of business strategy can produce, at best, only tactical result and can take a company entirely to the wrong direction, allowing functions to be outsourced in ways that actually hurt the company. Before entering into an outsourcing engagement and before starting the plan, company should have certain processes to compare actual performance against plans. Concrete measurements, data history help to indicate processes weaknesses and opportunities for improvement, thus giving direct input to strategic outsourcing plan. Different duration business and outsourcing plans are defined as: long term, near term, short term and tactical. Each plan has its own business owners, activities to be performed, methods and tools to be used and documents created. Both strategic plans: business and outsourcing, should be performed in parallel in order to achieve maximum benefit.

Keywords: Outsourcing, strategic outsourcing plan, strategic business plan, corporate strategy, measurements system, planning process.

1. Introduction
The growth of the global outsourcing market in the past few years has been phenomenal, and all indications are that the pace will continue unabated for years to come.
Outsourcing has been around for a long time, but much of the action until the late 1990s was focused on informational technology (IT) outsourcing. The goal then was often largely restricted to achieving operational efficiencies. The past four to five years, however, have witnessed the rapid growth in Business process Outsourcing, to areas such as manufacturing and product design. With Business Process Outsourcing, the goal is typically longer-term and focuses on the realization of overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns.
This article is divided into two parts. In Part I, we explain the essence of strategic outsourcing; in Part II, we examine a methodology for linking outsourcing to business strategy.

2. The essence of strategic outsourcing
In a typical outsourcing arrangement, the people, the facilities, the equipment and the technology (the Factors of Production) are also transferred to the service provider, which then uses the Factors of Production to provide the services back to the organization. The people are often transferred to the service provider, but this is not always the case.

An outsourcing arrangement can be either "tactical" or "strategic." An outsourcing is tactical when it is driven by a desire to solve a practical problem. For example, a company may find that its payroll clerk is not able to process payroll changes, cheques, tax returns and make the required accounting entries on time. The company concludes that although the payroll clerk is competent, there is too much work for a single person. The company outsources the payroll process (including the clerk), and ends up with all of the payroll work done on time and at a lower cost. As a result, it achieves a net gain in operational efficiency. Similarly, if an organization outsources its IT infrastructure so it can save five to 10 per cent on the cost of operating that function, the outsourcing is purely tactical.

"Strategic" outsourcing, on the other hand, is not driven by a problem-solving mentality. Instead, it is structured so that it is aligned with the company's long-term strategies. The changes that organizations expect from strategic outsourcing vary and can include anything from

3. Objectives

a) Achieving a gain in competitive advantage,
b) Spending more time on those activities that are truly central to the success of the organization,
c) Repositioning the organization in the marketplace, or
d) Achieving a dramatic increase in share price

4. Review of Bygone Studies

It may include any combination of the foregoing, and others. The common denominator of strategic outsourcing is that the organization is externally focused. It embarks on the outsourcing with a view to achieving concrete results in the marketplace. While the focus is external, the strategic focal point of the organization may evolve during the course of the outsourcing relationship. For that reason, it is important to build-in the required degree of flexibility in the contractual documents so the parties can realign the strategic intent for the benefit of the organization that is outsourcing. A properly structured governance model will help make the appropriate adjustments.

The accepted wisdom is that organizations should not outsource activities that are "core" to their business that is, those activities that are tied up in the organization's identity- and that only "non-core" activities should be outsourced. Distinguishing core from non-core is not always easy, however. The notion of "shared-core" business activities illustrates the point. The concept captures the grey zone between core and non-core activities and was conceived as a tool to help decision-makers relinquish "ownership" of business activities that otherwise might have been classified as core, but which have had a history of underperforming internally.

5. Linking outsourcing to business strategy

Outsourcing has been around for a long time, but it is only in the most recent past that it has become known by that name. A classic example is Coca-Cola. By the late 1890s, Coca-Cola had already established itself as a highly successful soft drink company, but the firm was looking to extend its business across new markets. Although bottling was then considered an emerging source of competitive advantage, Coca-Cola decided that it did not have the capital, the time or the expertise to produce its own bottles. Production methods for bottles at the time were primitive, the result inconsistent, and quality control was a significant concern. Coca-Cola chose to license a group of independent bottlers to whom it sold its syrup while imposing strict quality controls. In the next several decades, Cola-Cola was able to achieve its key strategic business objectives, including vastly expanding its market and protecting its good name. By outsourcing the non-core business function of bottling its products, Coca-Cola was able to focus on its core business objectives (such as maintaining high product quality, protecting its brand and growing market share).

In "Linking Outsourcing to Business Strategy," Insinga and Werle sketch out a methodology to assist organizations in aligning outsourcing to business strategy. The methodology helps organizations conduct a systematic review of their internal business activities by establishing a consistent strategic basis for the decision-making process.

6. Finding of Study

Companies primarily outsource to reduce certain costs — such as peripheral or "non-core" business expenses, high taxes, high energy costs, excessive government regulation/mandates, and production and/or labor costs. The incentive to outsource may be greater in term of:

1. To reduce and control operating costs
2. To improve quality
3. To change company focus
4. To acquire capabilities
5. To reduce cycle time
6. To gain flexibility

7. Conclusion

That outsourcing can be strategic is not in doubt, but there must first be a recognition of the strategic value that outsourcing can generate. As Insinga and Werle note, a real risk is in losing the strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's operations. "At this level," they point out, "the dominant success metric of outsourcing becomes lower cost, period. As such, the stage is set for classic sub-optimization at its worst." To avoid losing sight of the strategic intent, therefore, it is important to institutionalize a robust decision-making process during the course of the outsourcing relationship that hard-wires the operations to the strategic.

8. References

1. Jump up^ Nishiguchi, Toshihiro. Strategic Industrial Sourcing (New York: Oxford University) ISBN 0-19-507109-3, 1994.
2. Jump up^ Payne, Joe and Dorn, William. Managing Indirect Spend: Enhancing Profitability through Strategic Sourcing (John Wiley & Sons, Inc.) ISBN 978-0-470-88688-5, 2012.
3. Jump up^ Vitasek, Kate. Vested Outsourcing: Five Rules that will Transform Outsourcing (New York: Palgrave Macmillan) ISBN 978-1-137-29719-8, 2012.