

Analysis of techniques and tools for the decision making of Outsourcing

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Abstract

Given the importance of the phenomenon of IS outsourcing in the business world and of IT, it is interesting to make an analysis of what is known or not about this phenomenon. Currently companies use outsourcing for any department, even for the IS/IT area. Companies like Microsoft or AWS (Amazon) are specializing in external servers that other companies can use, even in providing specialized IT services.

For this reason, it is interesting to analyze how companies use tools to control and analyze the outsourcing process or the problems that may arise.

Below there is an analysis of the impact in the cost, value and service quality by tools and techniques such as SLA, SERVQUAL and BPO that can be quite useful for the day-to-day outsourcing processes.

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Glossary

Information Systems=IS

Information Technologies=IT

Service Level Agreements=SLA

Business Process Outsourcing=BPO

Chief Information Officer=CIO

Value Chain=VC

Key Performance Indicators=KPI

Human Resources=HR

Return of Investment=ROI

Introduction

Nowadays, if companies had to have one or more specialists for each technology they have, they would have to have highly trained people who are regularly updated in knowledge, because the advancement of technologies is speedy and this is costly (Pelosi & Junction, 2020).

However, when hiring an outsourcing provider, there are outsourcing companies with low costs, but ultimately what must ensure is the quality of services (Bengtsson, von Haartman, & Dabhilkar, 2009). Companies cannot leave some services, externally if there are not agreements, and if there is no control over these because objectives will not happen and will not generate value for the organisation. **See figure 1.**

The main outsourcing tools or services that improve efficiency in the company are operational ones, that is, those that generate value within the organisation (Deloitte, 2018). The knowledge that the company has with the clients is the value that the company generate, that is why in everything related to the operational is where the most outstanding value that outsourcing provides (Deloitte, 2018). Also, the outsourcing services provided by companies provide a significant contribution to businesses. These platforms allow optimising time and resources for organisations (Rolstadås, Henriksen, & O'Sullivan, 2012). Also, companies should understand the analysis of decision making for outsourcing. **See figures 2 and 3.**

SLAs, Quality of Service and BPO impact in the cost-saving, service quality and value-added

SLAs to establish the level of service expected

Based on the outsourcing process below, there is an example of how SLA involves the cost-saving, service quality and value-added in some of the steps of the outsourcing process. **See figure 3**

In the process of outsourcing the company is going to negotiate a contract (Hirschheim, Heinzl, & Dibbern, 2009). Whether the supplier is not selected, negotiations or plans must begin on the final conditions of the service and specify the

clauses of the pre-contract, always taking into account the SLAs agreed beforehand (Babu, Raman, & Samuel, 2019). **See figure 4**

An essential element of any outsourcing relationship is the establishment, monitoring and compliance with SLAs. The SLAs will constitute the basis for the accurate monitoring of the outsourcing quality process (Babu, Raman, & Samuel, 2019). Later on, the SLAs are going to implement, clear and detail as possible without any doubt about the parameters that will be measuring. The main aspects to consider when drafting the SLAs and a brief description of each one of them are on. **See figure 5**

The parameters of the SLA must be quantifiable and easily measurable (Babu, Raman, & Samuel, 2019). It is necessary to have complete knowledge of the company's current and future needs. These parameters must be collected by contract and systematically reviewed with a frequency that is pre-determined and negotiated with each supplier (Babu, Raman, & Samuel, 2019). For example, ITIL focuses on three SLA options: Service bases, Customer-based and Multi-level SLA.

The SLA as a tool

Although SLAs allow formalising agreements about the price, also the level of service and outsource everything to replicate what always was internally from the business (Babu, Raman, & Samuel, 2019). It is necessary to be clear about what the organisation's services are and what conditions they must meet, in order to know what the company needs from the suppliers.

The company needs to define a management system that ensures the correct creation, activation, monitoring and auditing of SLAs (Wieder, Butler, Theilmann, & Yahyapour, 2011). Follow-up through meetings, documentation and direct involvement of the team responsible during the transition, the content of the SLA must monitor, and the necessary measures to take for ensuring the continuity of rights and obligations of third parties (Wieder, Butler, Theilmann, & Yahyapour, 2011).

The main idea is to minimise the cost, while maximising ROI for example, with a low price per working hour for a certain number of hours the supplier will try to minimise its level of risk and transferring it to the company (Wieder, Butler, Theilmann, & Yahyapour, 2011). These types of schemes generally do not add value to a business relationship, since the risk is not equitably shared between the customer and the supplier (Wieder, Butler, Theilmann, & Yahyapour, 2011).

The contract that specifies a low price per working hour for a certain number of hours is a typical case of the tactics of suppliers to win a sale without risking too much, since although financially they are talking about a fixed price (Babu, Raman, & Samuel, 2019). Also, companies set a variable price as they realise that if the supplier cannot deliver on time, then the company will have to pay them more to finish the job (Babu, Raman, & Samuel, 2019). For example, the relationship becomes stable when, going from internal business projects distributed over time to a continuous outsourced service that will improve its performance over time. **See figure 6**

The company will define the penalties for non-compliance based on the direct impact that will have on the business, and not on what the provider considers appropriate according to the price of the contracted service (Wieder, Butler, Theilmann, & Yahyapour, 2011). It should emphasise that the work as clients of an IT service is not to define the technical solution to the problem but to specify the business requirement and evaluate the capacity of the providers. (Wieder, Butler, Theilmann, & Yahyapour, 2011). The supplier's job is to quantify their own risk and process maturity, offer a solution within the limits of the requirements and ensure to implement the solution (Babu, Raman, & Samuel, 2019).

SLAs are categorically useful and indispensable, but they must be carefully and appropriately defined. A well-defined, transparent and genuinely "agreed upon" SLA will result in a successful customer-supplier relationship. (Babu, Raman, & Samuel, 2019) Service levels, in conjunction with the penalties, will lead to the appropriate behaviour of the service provider. The company should measure what reflects a value and define the right amount of service levels.

Business and technical awareness, the CIO figure for SLAs

Among requirements of cost, technical, organisational, and value type can highlight, an operational manager for the service should also be selected. The main person responsible for selecting the solution adopted is the head of the department (Colisto, 2012). A CIO Regardless of whether the outsourcing was partial or total, the main activities of the CIO in an outsourcing process are planning and ensuring the correct distribution of resources and also controlling that the services provided by the supplier are consistent with the signed contract (Colisto, 2012).

In this sense, the CIO should be the main responsible for keeping up to date with the evolution of IT, to assess whether the supplier has the necessary updates and resources to provide the agreed service and propose (Colisto, 2012), if necessary, the innovations that an internal IT department would propose.

Analysis of the quality of service by using SERVQUAL

Therefore, excellent companies must measure their performance from competitors to avoid gaps in the service, as well as from the best companies that use similar production or administrative processes, establishing what the client perceives regarding their products and services and whether they are satisfied or not. (Parasuraman, Zeithaml, & Berry, 1988) **See figure 7**

The companies that focus on customer satisfaction are those that have operationally defined the quality in the primary operations (Bitner, Zeithaml, & Gremler, 2010). Due to the importance of customer satisfaction for companies, SERVQUAL it is one of the primary sources of information for the company to know the level of satisfaction of its customers, locate areas of opportunity and propose or implement improvements to have satisfied customers (Bitner, Zeithaml, & Gremler, 2010).

If companies carry out any outsourcing activity, it is a good reason to analyse the quality service to be at the forefront with other companies and retain clients. (Parasuraman, Zeithaml, & Berry, 1988) The company must be sure of the perfection in the quality of the services and products offered by the company that performs the outsourcing. Customer service is an essential factor in the field of organisations in the same way it can be a problem for them since if it does not carry out in the right way, it could produce lose of benefits in the organization. (Herdiyanti, Adityaputri, & Astuti, 2017).

The SERVQUAL Service Quality model allows for scores on perception and expectations regarding each service characteristic evaluated (Herdiyanti, Adityaputri, & Astuti, 2017). The difference between perception and expectations will indicate quality deficits when the expectation score exceeds the perception score and indicates the line to follow to improve the quality of service (Bitner, Zeithaml, & Gremler, 2010). Fundamentally, it consists of reducing certain deficiencies. This type of analysis is impressive so that the company can understand if there are

deficiencies in the services provided by the outsourcing company (Herdiyanti, Adityaputri, & Astuti, 2017).

For example, if the outsourcing company does not understand the needs and expectations that the company has, it will be challenging to meet the client's expectations, this, in turn, will have an impact on the company's sales. (Herdiyanti, Adityaputri, & Astuti, 2017) Another deficiency may be subject to the company's quality standards and may not be perceived as its own by the outsourcing company. Another deficiency is how the service should be and how the outsourcing company is providing the service. (Bitner, Zeithaml, & Gremler, 2010) The outsourcing company can understand the quality specifications, but the end customer will not be adequately serviced if the rules and procedures are not followed.

BPO as a technique to improve the value of the company

The BPO can outsource non-strategic or non-core processes, including operational tasks and technological functions. (Li & Meissner, 2008) Some of the processes and sources of value see that some companies currently outsource belong to the areas of:

- Finance and accounting
- HR
- IT Infrastructure (**See figure 8**)
 - Customer relationship management, such as customer service, call centre or management of campaigns, promotions, also service desk.
 - Outsourcing of distributed systems: includes advice, implementation and management of platforms, technological renovation - inventory and renewal of equipment -, centralised help desk, management and administration of servers and implementation of tools and procedures.
 - Outsourcing of process centres: this covers the operation and exploitation of systems, database management, system monitoring, reporting, technical systems support, user support (help desk), physical and logical security, and back-up and business recovery services.
 - Network outsourcing: includes the management of network infrastructures and the integration of data, voice and video management.

The BPO contract guarantees an adequate level of service while allowing flexibility. (Li & Meissner, 2008)

BPO model to reduce cost and improve the business

Companies could decide to outsource in house, or off house. **See figure 9.** Through the BPO model, companies seek the execution of a complete business process with greater efficiency at a lower cost, thus achieving benefits such as the variation of fixed costs, access to the latest technology, taking advantage of economies of scale derived from sharing resources, leveraging complementary internal capabilities with those of external partners, and benefiting from the operational excellence of other companies. (Li & Meissner, 2008) Also, from the use of lower labour costs from other countries. (Pate, 2017)

Reducing costs allows improving the efficiency of operations, by being able to delegate to a third party the necessary investments to keep standard applications such as cloud services or databases up to date, which are subject to continuous updates. (Li & Meissner, 2008). For example in the VC of the business. **See figures 10 and 11.** This BPO converts a high fixed cost into a variable one, as some companies make agreements with their suppliers in which they pay for work done, such as the number of claims handled, number databases supported, the volume of turnover, etcetera. (Li & Meissner, 2008)

The company should standardise the processes and eliminate all possible inefficiencies. (Li & Meissner, 2008) Using performance indicators (e.g. KPIs) for those processes that outsource is equally essential, as it is these indicators that will allow the success to evaluate the model —also, the use of SLA for the agreements of the service of the outsourcing company.

The company must avoid the loss of internal knowledge, even in the case of non-core processes, produced by the dissociation of the day-to-day running of the processes. (Deloitte, 2014) For avoiding the loss of knowledge, work will be doing following the company policies to ensure that this information does not fall into oblivion, causing a loss of control over the processes and creating a dependency on the supplier that can mean a loss of autonomy in decision-making. (Li & Meissner, 2008)

The business will not see too many costs associated with functionality because the outsourcing company must have experience from the technical and functional point

of view for those processes transferred. (Li & Meissner, 2008). It will be necessary to develop additional capacities to guarantee the proper functioning of the model that ensures the maintenance of knowledge about those outsourced processes through communication plans between company and supplier, as well as the obtaining of synergies and economies of scale by the supplier, derived from the sharing of resources with multiple clients. (Li & Meissner, 2008)

The business should offer extensive knowledge of business processes, know the inputs and outputs of a process, as well as its operational side, and understand how that process impacts other areas and the company's global business. (Li & Meissner, 2008) The business must also make changes of processes to eliminate inefficiencies and standardise them, as well as supporting the outsourcing company in all the needs arising from an organisational change. (Li & Meissner, 2008) For example, understanding the gaps in the service of the outsourcing processes by using a SERVQUAL analysis.

The outsourcing company should also guarantee economic capacity in order to ensure the availability of technical/human resources to implement the model and the capacity to react to any eventuality. (Willcocks, Lacity, & Sauer, 2017)

BPO contract to meet business, economic and technological objectives

The BPO contracts have a fixed term and are annually review to make any necessary adjustments. (Willcocks, Lacity, & Sauer, 2017)

If for both contractual parts, it is a minor operation, their relationship will be based solely on cost. (Willcocks, Lacity, & Sauer, 2017). If, however, it is a strategically important transaction for the customer and not so crucial for the supplier, because the customer does not represent high added value, the supplier must submit a detailed contract guaranteeing certain service levels in a SLA. (del-Río-Ortega, Gutiérrez, Durán, Resinas, & Ruiz-Cortés) However, if for the supplier, it is an essential operation because it allows him to obtain new capacity, while for the customer it does not, the contract will be based on cost and knowledge transfer. (del-Río-Ortega, Gutiérrez, Durán, Resinas, & Ruiz-Cortés)

Finally, if for both of them it is an essential operation because it offers them added value, a strategic alliance will be sought, based on mutual trust, working under a partner relationship rather than a customer-supplier one. (Willcocks, Lacity, & Sauer,

2017) It is crucial that there are no service gaps for the user and that the supplier meets the expectations that the company has agreed.

It is also essential that the contract includes a careful analysis of the company's business processes in terms of economic, business and technological objectives, also the standardisation of specifications by creating a bidding platform, cost analysis, including the costs of the outsourcing itself plus those produced by inadequate service provision, as well as future scenarios. (Willcocks, Lacity, & Sauer, 2017).

The outsourcing of poorly defined processes will only lead to chaos. It is necessary to know the company's long-term strategy to provide value in the future transformation of the organisation, define service compliance levels, measuring them, through key service level indicators or KPI, and specifying the penalties in the event of non-compliance, establish the service measurement procedures as clearly as possible and dedicate an internal team to their monitoring. (Akkermans, Oppen, Wynstra, & Voss, 2019)

Conclusion

Outsourcing has some benefits and risk that must be studied carefully in each case

See Figure 12

Outsourcing requires continuous analysis and review. Decisions must be taken as a result of a strategic plan and must be aligned with the rest of the business plan. IS/IT must count on an extra effort to achieve adequate use of these changing resources.

It is essential to be clear about the barrier between the company's core business and its services. Employees and internal managers must carry out strategic decision-making.

Finally, it is important to note that the service is subject to significant changes all the time. For this reason, at the time of applying any outsourcing tool, the current status of each critical success factor must be identified in order to qualify it properly. A vital contribution to the efficiency and profitability of the business cost is estimating a reduction in technology costs that can be achieved with the outsourcing service.

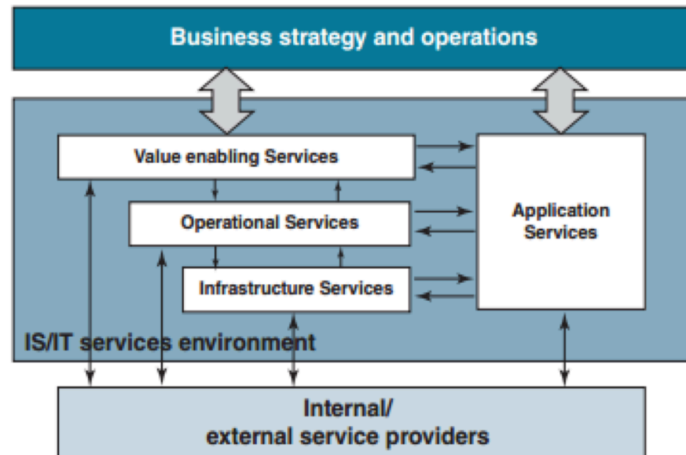
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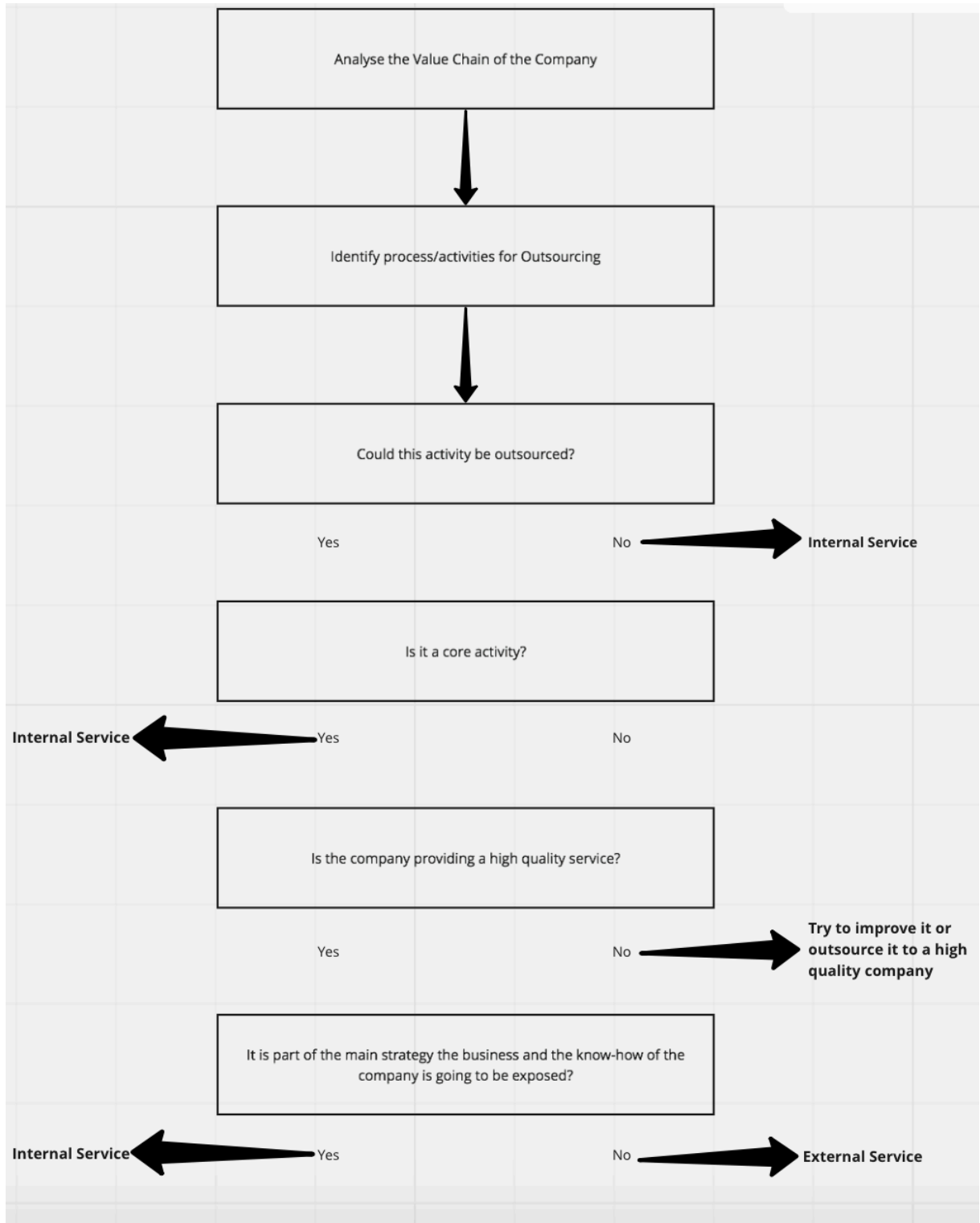
Appendix

Figure 1 Relationship between four IS/IT service categories and business operations



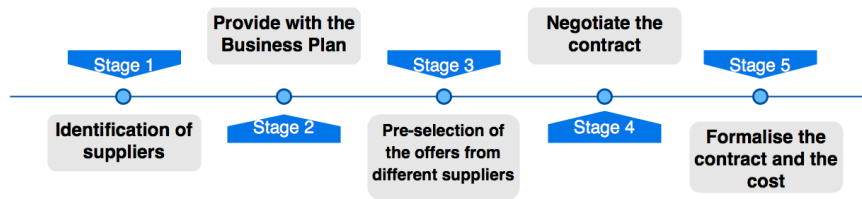
(Peppard & Ward, N/C)

Figure 2 Analysis of steps pre-outsourcing decision making



Own work based on (McIvor, 2000)

Figure 3 Outsourcing process



(Deloitte, 2013)

Figure 4 Level of services

Low-criticality support services

- They are the quintessential candidates for outsourcing.
- They provide, maintain and update the systems and technical support.
- They are not critical, since they do not stop the normal activity of the business in the event of an incident.
- They are necessary for all technical and business applications to function at full capacity.
- In their outsourcing, the company must maintain control of the way things are done, but the cost becomes a very relevant element in the choice of supplier.

Highly critical support services

- They are necessary for the normal operation of the business.
- Failures in these services can stop the daily activity, but they do not provide differential value.
- Contingency plans are essential and must be a fundamental part of the service agreement.
- The service itself can be outsourced; the knowledge of the key parameters of its monitoring and control must remain within the company.

Services that provide a competitive advantage but are low or moderate criticality

- They are intimately linked to the key competences of the business and enhance them and give greater value to the company through increased business or efficiency/quality, at the present time or in the future.
- The outsourcing of these services must preserve these advantages and, if possible, increase the key competences.
- Careful selection of the part of the service to be outsourced and a meticulous choice of supplier.
- It will be necessary to have a supplier who can be described more as a "partner" than as a simple supplier with whom one has more or less distant business relations.

Critical and high value-added services

- They are the least suitable for outsourcing.
- Subcontract when it is necessary to supplement internal know-how with external contributions.
- Company will be extraordinarily meticulous in the choice of supplier.
- The cost takes second place.
- In accordance with this classification, the bases on which the relationship with suppliers should be based must be determined, establishing not only the service levels, but also the frequency of follow-up meetings, reports to be delivered and possible possibilities for renegotiating the agreement.

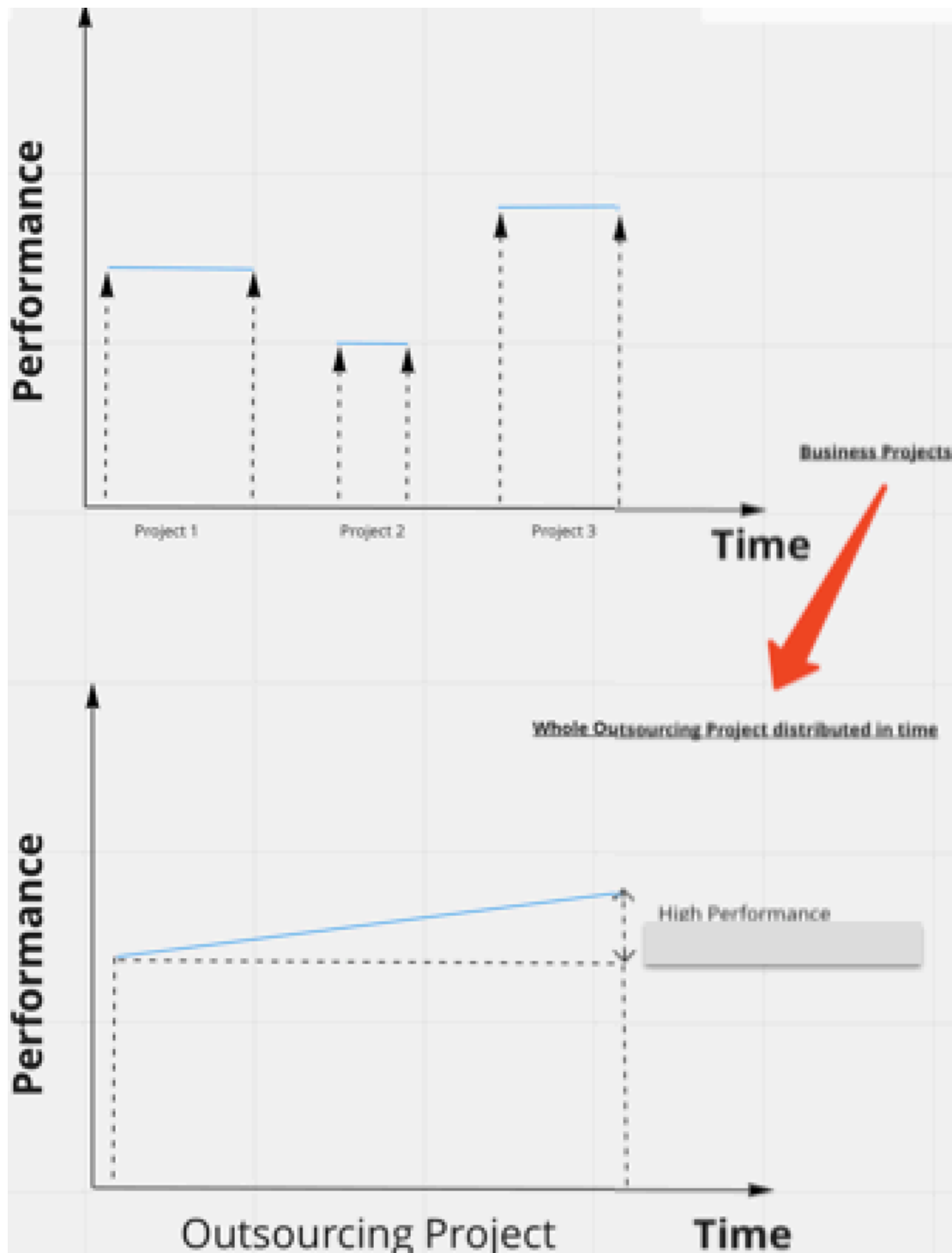
(Peppard & Ward, N/C)

Figure 5 Parameters of SLAs

Parameters	Description
Values associated with each process of the service	- Assessment of the impact that a failure to comply could have on the process of the service as a whole.
Objective	- Value at which the service is considered to be impaired. Penalties are usually applied when this is exceeded.
Measurement tool (Adequate SLA Management Monitoring Tool)	- Support for the measurement of SLA results
Registration tool	- Support for collection of SLA results.
Minimum service level	- Minimum requirements in terms of service quality.
Measurement criteria	- Aspects to be considered for the accounting of SLA results
Penalty	- Specification of whether or not to define penalties associated with non-compliance with the service.
Calculation formula	- Operations to be carried out in order to obtain the penalty associated with non-compliance with the service.
Application criteria	- Period of measurement and application, in addition to other conditions to be taken into account for the application of penalties to the supplier.
Maximum level of penalty	- Maximum amount of the penalty charged to the supplier.
Discount	- Specification of whether or not a bonus associated with exceeding the expectations of the service is defined, with the consequent calculation formulas and application criteria.

(Rady, 2012)

Figure 6 Performance and time from business projects before VS outsourcing projects

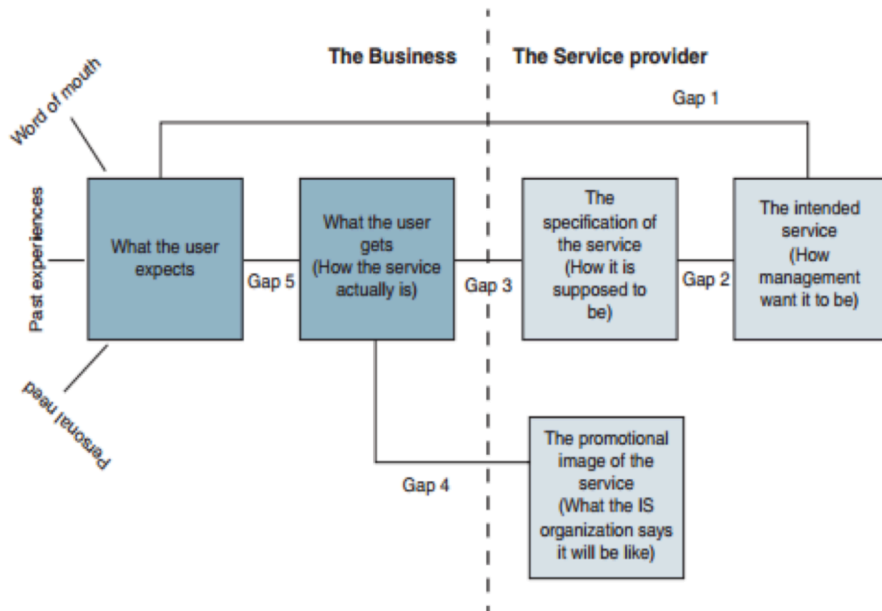


(Ronan, Paul, Anthony, & McKittrick, N/C)

The relationship service is stabilizing itself because the business is outsourcing projects as a whole continuous service and not in smaller independent units as

before. This could improve the performance by making projects continuous even if these are outsourced.

Figure7 Value Gap Analysis



(Parasuraman, Zeithaml, & Berry, 1988)

Figure 8 Sources of value from IS/IT services

	Utility	Benefit
Infrastructure services (capability)		<ul style="list-style-type: none"> • Scalability • Connectivity • Flexibility • Future proofing • Providing options for the future
Operational services		<ul style="list-style-type: none"> • Infrastructure maintained • Reduce possibility of outage • Optimize capacity • Configuration • Managing impact of technical changes
Application services	<ul style="list-style-type: none"> • Making job easier to do • Productivity increase • Provide support for roles and responsibilities 	<ul style="list-style-type: none"> • Enable business process changes • Cost reduction, speed of response and increased flexibility • Define strategy
Value-enabling services	<ul style="list-style-type: none"> • Comfort • Support in job • Solve problems • Defining opportunities 	<ul style="list-style-type: none"> • New ways of working • Problem resolution • Support specification of new applications • Avert problems • Reduce risk of security breach

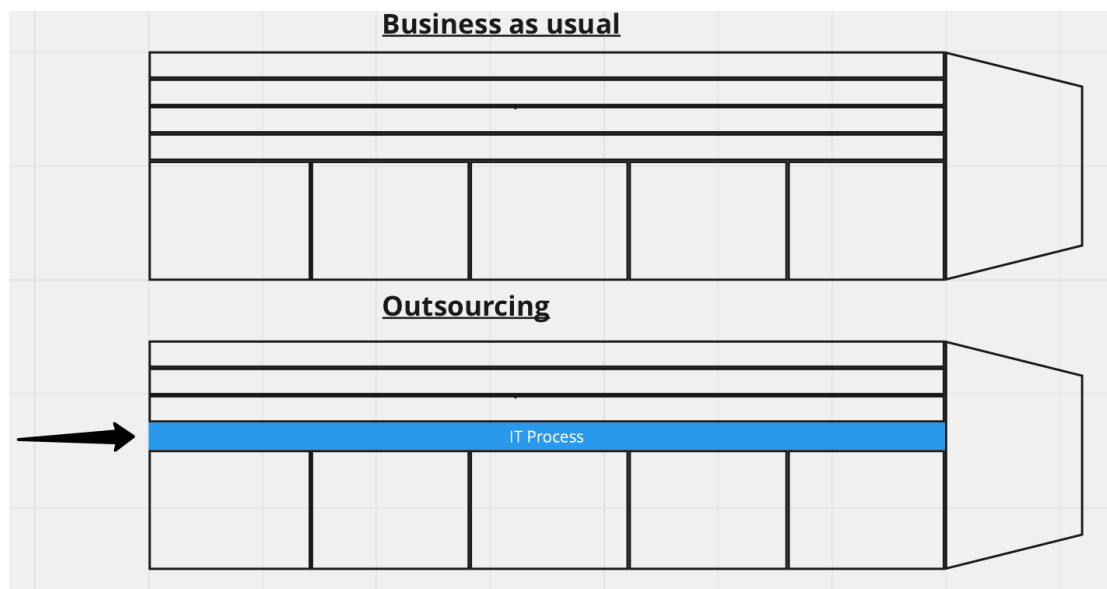
(Peppard & Ward, N/C)

Figure 9 Outsourcing in-house VS off-house

	Advantages	Disadvantages
Outsourcing in-house	<p>More control of customers</p> <p>Confidentiality</p> <p>Personalize service for customers</p>	<p>Costly</p> <p>Maintenance</p> <p>Update issues</p>
Outsourcing off-house	<p>Allows invest money in other resources of the company</p> <p>Share of the service and its maintenance</p> <p>Guaranteed evolution and update of services</p>	<p>Issues with customers if the service is not personalized</p> <p>There is not confidentiality on the users information</p> <p>Competitors could access to your market</p>

(Peppard & Ward, N/C)

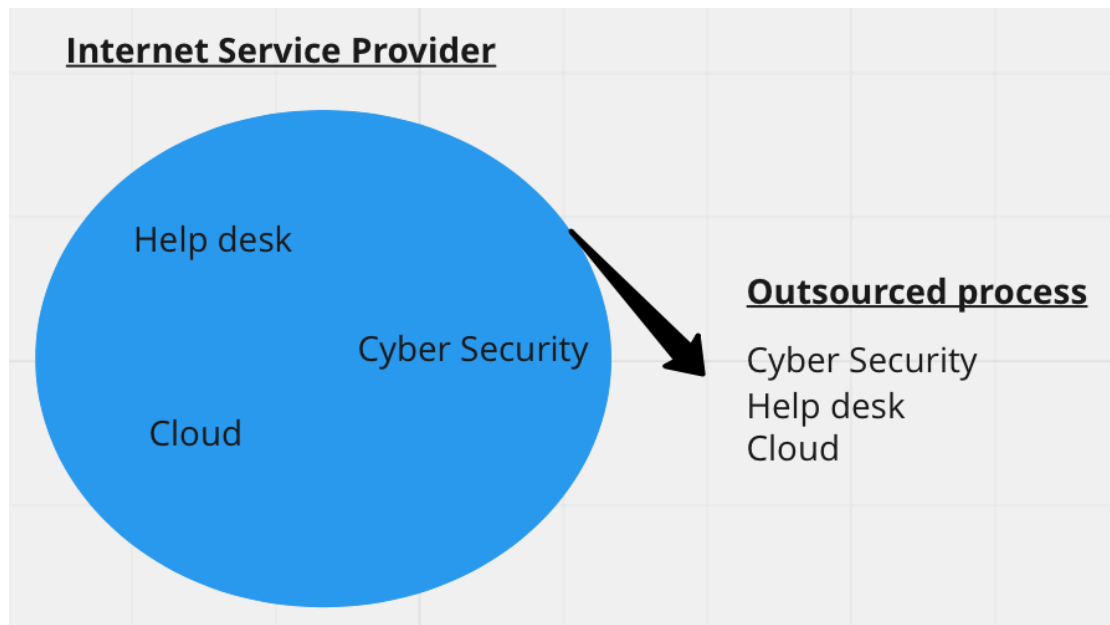
Figure 10 Outsourced process from the VC of a business



Own work.

The outsourcing company it is responsible for some IT process that are include in the VC of the business and could add value to the business due to the business focuses in other areas of the business such as customer service, sales or HR.

Figure 11 Example of outsourced processes



Own work.

Some areas of the company that were in the company, now are outsourced to external companies, for example, Internet Service Providers outsource some of their processes. For example, Customer Service in call centers.

Companies could choose which area is more suitable for outsourcing, for example, if it's a retail company, the business is focused on design clothes and sell this clothes, so the IT area of the company could be outsourced to help the business focus just in the operational areas of the company.

Figure 12 Benefits and risk from outsourcing

Benefits

Strategic:

- Improve the competitive position through rapid access to the cutting edge of technology.
- Improve the quality of service.
- Vision and experiences from other sectors of activity through the capacities acquired by the provider.

Financial:

- Reduce the needs for fixed capital.
- Control of cash flow and costs.
- Reduce costs due to economies of scale and being able to share equipment, facilities and personal.

Infrastructure:

- Technological flexibility in both software and hardware.
- Improve the technological capacity available to the company.
- Access a knowledge repository to obtain the most appropriate solution at all times.

Management:

- Focus on the parts those are crucial to compete.
- Delegate parts of planning, development and management of large systems to a supplier.
- Eliminate the need to hire and retain IT staff.

Human Resources:

- Get the participation of specialists to solve specific problems.
- Enrich the career opportunities of our own staff.

Quality:

- Clearly define service levels.
- Increase responsibility for systems, their operation and maintenance.
- Work with a department certified for its quality.

Flexibility:

- Respond quickly to business needs.
- Manage peaks of demand effectively.

Risks

Strategic:

- The supplier uses the capabilities and skills developed during the relationship with the company to help a rival compete better against the first company.
- The provider goes bankrupt and stops providing the service.
- Loss of "know-how" about outsourced functions or services.

Financial:

- The provider increases rates by adding more services to the initial contract.

Quality:

- The supplier does not achieve agreed quality levels.
- The agreed quality levels are insufficient for the business.

Infrastructure:

- High turnover rates of the supplier's staff can cause problems for the maintenance or development of the services provided and levels of qualification below those expected.

Management:

- The lack of homogeneity in the management of the provider could impacts on the quality of the services provided and on costs.

(Peppard & Ward, N/C)