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## Basic Principles the Philosophy of Outsourcing

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### Abstract

This study aims to examine one of the usual business strategies of the outsourcing concept. Will actually mention the incentives that lead a firm to implement outsourcing strategy and will address also with the disadvantages of this strategy. The study examines the way that a firm will be able to obtain the best possible results by giving a sector of its operation to an external collaborator and creating competitive advantage to its operating field and the (5) phases that this procedure follows.

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### 1. What is Outsourcing

Outsourcing is not a new concept in the modern business environment. A large number of day-to-day operations are currently being outsourced. Many of these operations are crucial, while others are of lesser importance. However, they all contribute to the proper functioning of the enterprise. Many firms, both in Greece and abroad, opt for outsourcing their operations to external vendors (Banerjee & Williams, 2009).

However, the outsourcing of operations in sectors that could provide a competitive advantage to small, medium and larger enterprises is a completely new method that has emerged in recent years. The need to develop information and communication technologies in order to increase performance within a competitive environment has lead to the development of various IT and computer departments within firms (Kang, 2009).

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It should not go unmentioned that rapid technological developments have had a significant effect on the international business sector. However, recent research suggests that outsourcing is constantly expanding among small and medium enterprises, due to two main reasons:

The first reason relates to the extended use of the Internet and its development by large enterprises in combination with the use of mass media (Mohr, Sengupta & Slater, 2009). By creating a substantial presence in the Internet, small and medium enterprises are treated by clients on an equal footing with large enterprises. Therefore, outsourcing the creation of these solutions to specialised vendors is an absolute priority.

The second reason relates to the reduced staff of small and medium enterprises, which often lacks the necessary specialisation. Usually, workers in a small or medium enterprise or even the entrepreneur himself cannot undertake the operations of a specialised department. This task is carried out randomly and according to the availability of human resources, taking account of the issues of time and knowledge. This organisational structure often puts an obstacle to highly-specialised operations. At this point, the enterprise seeks to cooperate with other enterprises that are fully specialised in the field.

In addition to the above reasons, there are many other factors that favour the use of outsourcing processes. The introduction of outsourcing practices into the Greek market is a fundamental “tool” for enterprises, which however has not risen to enormous proportions in our days.

It should be noted that according to its general definition, outsourcing is the performance of specific operations by enterprises, which involve assigning specific tasks to a specific external vendor in order to provide predefined services (Baloh, Jha & Awazu, 2008).

It could be argued in relation to the definitions of the concept of outsourcing that this method is nothing but a key “tool” for running an enterprise (Baloh, Jha & Awazu, 2008). This process also encompasses services which, until a few years ago, were considered to be traditionally incorporated into the internal operations of each firm. These may be accounting, human resources management, supply chain management and IT services (Marinagi et al., 2014).

## **2. The Process Of Outsourcing**

Outsourcing is the process of creating and managing a contractual relationship with an external vendor for the supply of skills that used to be provided by the firm’s internal services in the past (Momme, 2001).

Despite the impressive number of studies focusing on the process of outsourcing, only a few models reflect the actual phases and present the overall structure of the outsourcing process. The critical issue at hand is how to divide the process into distinct phases in order to understand its structure and appreciate value generation (Kutsikos & Sakas, 2014).

Many efforts have been made towards this direction. Some indicative examples are: (Greaver, 1999), proposed the division of the outsourcing process into seven stages.

Three years later, (Momme, 2002) presented a structure of six phases, whereas Sara Cullen and Willcocks Leslie (2003) elaborated a circular process of eight stages. (Franceschini et al., 2003) proposed a very limited structure of 3 phases based on the principles of total quality management. (Click & Duening, 2005) used a model comprising five phases, while (McIvor, 2005) introduced a structure of six phases in order to analyse the outsourcing process.

Taking account of all previous categorisations and analysing in depth all the sub-activities involved in the process of outsourcing, (Perunovic, 2005) (Perunovic, 2006) (Perunovic, 2007) proposed a general division of the outsourcing process into five phases, whereas (Sakas et al, 2014) propose a simulation-based approach to assessing risks and benefits.

## **3. Outsourcing in five phases**

In particular, the researcher proposes the phases of Preparation, Vendor Selection, Transition, Relationship Management and Reconsideration. Each phase contains a significant number of individual sub-activities, whereas phases are involved in the outsourcing process in the order presented above. Each of the phases must answer a series

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