The Role of Outsourcing in Service Management and Business Process: Optimization Drives Competitive Advantages

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Abstract: Today, IT services are obtained with a combination of multiple type of work activities, primarily through sub-contract or known for as outsourcing policy. Structured activities are mainly based on standard processes, procedures and tools while unstructured mostly related to obtain new experience or knowledge in the different field through supervision. In support and delivery IT service, increasingly popular standardization efforts to be implemented into the business process which advocate for diverse kind of management such as capability, capacity, availability, service-level and financial in order to attain best level of IT product and quality result. As IT departments or division plan to bridge the digital divide that become the current trend, it is important that the automation can empower the process to become more efficient, there should be the trade-off to gain some improved activities if not have intention to hold the advantages as a adaptive, trigger and catalyst due to the interdependency. Thus, this study wants to develop an application in regard to deliver outsourcing service in various classification or type by understanding the current issue in the outsourcing in relation to pros and cons to balance the demand from the corporation (client) and preferences from the worker (provider).

1 INTRODUCTION

The availability of access to technology is very useful for the people in terms of information provided on the Internet for various purposes, with just a few easy steps, anywhere, anytime, any device and anyone. With these kind of interaction, various users without consider the different nation can find their desired information such as about freelancer, internship, trainee or contracts. In the rapidly growing digital age, many talents in graphic designers, web developers, animators, audio editors, language translators and design experts want to find quick cash or additional revenue, which certain corporations demand them for strategic reason. Unfortunately, there are various issues that hinder the attempts to connect those needs such as limited resources, unknown marketplace and unproven skills. Traditionally, certain service management and business process have been organized by geographic and business unit under branch coverage. Therefore, the advancement in telephony technology present new opportunities to streamlining call handling and routing process to other provider corporation. Importantly, the corporation ask the credibility and commitment from service provider to work under pressure to achieve the objective of certain project while organization can focus to the primary function.

Recently, information centre queues sends calls virtually to the suitable agent, regardless of the location or place, which allows calls to be managed based on several requirements namely customer needs and values, transaction type or the particular user segment. This can help to improve the profitability as well deliver more benefits towards the callers, since they will communicate with the best-qualified and high-competent agent for their particular problem. This mechanism for operator to handle complains is well known in the world, but the service management should be beyond that, allow other type of activity to be outsource effectively to increase the chance for many skill person find project or job easily and quickly. Therefore, multinational companies are also interested to improve the adoption of a cross-functional
mechanism into the organizational structure in term of service management and business process. In addition to service delivery function based on geography, various companies are developing what so called global “Centres of Excellence” for various type of program such as self-service account, customer data enhancing service, workforce planning system, talent forecasting, process improvement, dispatch queues and advanced call routing to increase the efficiency in coordination and communication. Furthermore, IT departments are pressed to do more with less resources, which require creative approaches in term of manage the human, application and budget resources. Therefore, the technology can solve this problem within and between operations such as with the service desk and application development, which are slowly designed for modularity, cohesiveness and automation. Actually, there are many theories that discuss the outsourcing strategy such as transaction cost economics (TCE), core competencies theory (CCT), relational theory (RT), resource-based theory (RBT), evolutionary economic theory (EET), knowledge-based view (KBV), agency theory (AT), neoclassical economic theory (NET), social exchange theory (SET) and economy of information theory (EIT) (Vaxevanou and Konstantopoulos, 2015).

2 LITERATURE REVIEW

2.1 Motivations for Outsourcing

The concept of outsourcing is derived from the “outside resourcing”, which means obtaining resources from abroad, where independent professionals, freelancer, practicum, internship, trainee and contract go into it. The term is then used in the economic terminology to indicate the use of external sources to develop a business, which normally uses its internal resources (Troaca and Bodislav, 2012). Currently, IT and business alignment become global trend, which several companies such as IBM, HP and Dell has been gaining their attention to implement into their service management such as virtual office, electronic transaction, off-shoring, private cloud utilization, clone product, high tech consumption, etc. It can be seen as the opportunities for knowledge sharing and acquisition in the technical solutions as the service to other companies. Actually, several companies determine their approaches holistically by the elimination of the complexity of the structure and architecture and through integration and automation of IT process as well business innovation support that concern to the customer satisfaction. For decades, some experts have encouraged the need for companies to pay attention to their competence by delegating supportive role, which cover from non-essential function to competitive differential then to competent service providers (Gibler and Black, 2004). According The Economist, the outsourcing is an old phenomenon that has made its presence felt since the time of the Second World War, knowing the tremendous trend especially after 1990. According to some estimates, in 1946 only 20% of the value added of US goods and services from external sources, 50 years later, the proportion has tripled, reaching 60%. Furthermore, Rob Aalders, mentioned in “The IT Outsourcing Guide”, which supports the fact that outsourcing is not a new phenomenon, that even now 50 year company have outsourced advertising, legal services, maintenance and production (Troaca and Bodislav, 2012).

Of course, the company should be looking for the one that deliver cost effective quality services, in which certain obstacles should be considered such as gaps in corporate culture or objective lead to inconsistent action with the firm’s policies and procedure. At some point, the decision to use outsourcing is not merely to reduce operating costs, but in response to tremendous demand to downsizing number of employees to face tougher competition and to demonstrate value (Matthews, 2017). In addition, there are three level of outsourcing, which are tactical that is used to determine and solve specific problems, then transformational as a long-term relationship to assist business changes and manufacturing that refer to determine various activities to be offered to outside (Krstic and Kharovic, 2015). Investment in IT can cause the unbalance financial, so that some organizations become very careful to make decisions, become the follower rather than as the pioneer. Literally, outsourcing shows the use of external resources when the execution of task, function and processes are carried out internally entrusted to an external providers in the specializing area based on long-term cooperation (Koszewksa, 2004). Meanwhile, the optimization of service delivery through outsourcing is not merely about reducing the cost in operational level but also create the flexible and reliable infrastructure to deliver competent business value based on IT investment to have high return on investment (ROI) in the next period. Thus, the concept of linking the differences between IT capability and business value, which
some organizations poor to realize the benefit of particular IT investment, flexible resources and usage integration lead to many IT project got failed (Lientz and Larseen, 2004).

There are five elements of outsourcing characteristics, which are close link between process and critical factor, the transfer of ownership of internalized business function, a global contract, a long-term commitment and obligation of service level (Quelin and Duhamel, 2003). Specifically, the demand for increased productivity, higher profitability and quick growth have led the organizations to validate their internal human resource in term of service management and business processes, resulting in a shift of strategic services to outsourcing and move away from discrete services (Seth and Sethi, 2011). It is expected to the increases of the quality of services, even though there is no quantitative data to support the real decision that outsourcing is always cheaper and better. Meanwhile, the lack of potential innovation and knowledge of other processes, where the possible alternatives to business processes are design thinking approaches become the choice to guarantee better results, cost savings and help differentiate between suppliers. Of course, the objective of the organization to create opportunistic results by focusing on customer satisfaction that require logic, systematic reasoning and intuition to explore every possibilities (Matthews, 2017). Therefore it is important to harmonize the legislation both in terms of freedom and privacy to avoid misunderstanding in managing the service delivery process related to individual and public interest (Lubis, et.al, 2018). On the other hand, there are various strategic factor to be considered before implement outsourcing such as core competence and critical knowledge, flexibility, lack of resources and the implication of the quality service (Kremic, et.al, 2006).

### 2.2 Expected Benefits of Outsourcing

To encourage the human perception to achieve the objectives and expectations in order to have a good quality of state security that has the principle of transferability and readability, where a series of strategies must be developed and suitable environment should be prepared (Ahlan, et.al, 2015). The law establishes the obligation of the individual's conscience that fall within the cultural field in which the values are received. It supposes the freedom of the individual as a cause that acts without external coercion through the process of socialization, although the importance of the principle tends to be overlooked (Lubis, et.al, 2017). The strategies adopted by majority large companies has reduced their cost production to around 20%, which encourages them to highlight the globalization with outsourcing practices (Troaca and Bodislaw, 2013). However, the outsourcing process has relative challenge in regard to service provider, which is not financially compensated for being proactive. As a result, they have tendency to be logically ‘pushed back’ in a dependent role and cannot accelerate the innovation process. The second concern is related to the information research and best practice, which mostly outsourcing contractor are working on operational projects and tasks that has purpose to support core business, so do not provide a basis for innovation. Last concern, the outsourcer assesses personal trust at a much lower level than service provider, which verified the kind of relationship is not in the partnership stage yet (Silvius, 2013).

A study reported general outsourcing practice from 1021 firms interviewed, there is 61.7% purchased training services from external service provider; 54.3% using external legal advice; 49.8% purchase services in temporary agency work; 33.6% requested consulting services and 31.8% used external service to provide assistance to find manager (Braun, et.al, 2011). Another study emphasized that 71.8% of Hungarian organization outsource several HR activities at around 58% (Molnar, 2010). On the other hand, India continues to be the leader in IT outsourcing, although its infrastructure index is lowest (3.7) compare to China and Mexico with 4.5 and 4.0 respectively as other global alternatives. Therefore, for the corporate taxes India also the highest (34%) compare to China (25%) and Mexico (30%) (Stettler, et al, 2014). On the other hand, China and Mexico offer cost advantages compare to India, but they do not have strong English proficiency and wide range of IT skill in general. Nearly all offshore-outsourcing project will involve a transition phase in which the provider should develop expertise within client’s systems in order to maintain the services from the offshore location (Kotlarsky, et. al, 2014). Many manufactures outsource 70% - 80% of the content of their finished product (Corbett, 2004). Interestingly, statistical analysis suggested that the inclusion of outsourcing was negatively related to the satisfaction changes for opportunities and participation at work, to achieve something valuable and advancing skill in the organization. Furthermore, participation in the outsourcing program was negatively related to
communication changes throughout the organization as well as work capacity, challenge and personal work responsibility (Elmuti, et. al, 2010; Ahlan, et.al, 2011).

Outsourcing can allow an organization to obtain more control towards business function through an agreement or contract while an administrator can connect reward and compensation based on the result of the task completed directly (Phipps and Merisotis, 2005). Some economists have expressed concern that outsourcing is less likely than other forms of international trade to gain general prosperity and more likely to harm the workforce based on size of company and the service ranges (Bhagwati, et. al, 2004). Other benefits can be obtained with the ability to focus on core competencies, faster and higher-quality service and improved efficiency, access to new skills and technology, greater flexibility, staff relocation, lower long-term capital investments, improved predictability of costs, assistance with organizational changes and globalization (Doyle and Tapper, 2001; Smith, 2012; Stettler, et. al, 2014). In addition, the study found that companies tend to repeat transaction based on previous experience with company work upon, which main problem in the global online market is related to the effective communication limited to the language barriers, time-zone differences, lack of familiarity and cultural differences (Hong and Pavlou, 2013).

3 RESEARCH METHOD

Researcher use observation to examine the pros and cons in outsourcing market in regard to deliver the service management and how to optimize the platform. To achieve comprehensive process of observation based on strict criteria, researcher investigate various cases involving issues of outsourcing process by adjusting the assumption and requirement based on literature review (Leedy and Ormrod, 2010). Theories and concept has been driven by the result in the data collection process that represent the classification and categorization process of variable or construct through systematic activities in explaining the phenomenon based on particular setting. Thus, the researcher request group of student to develop the application for outsourcing market using classic lifecycle due to limited resources, budget and time by using spiral model. It has emphasized more on risk analysis comprises of planning, risk analysis, engineering and evaluation. To analyse the requirement, team member use Unified Model Language (UML), involving Use Case diagram, Class diagram, Activity diagram, Sequence diagram and Entity Relationship diagram to represent the relationship between entity and features. In the development phase, it used PHP to allow integration service with HTML for web application and MySQL for the database management system (DBMS). To improve the outsourcing process, certain activities should be done in the system such as recruiting process outsourcing (RPO), training and development, compensation and salary surveys, organizational design and development, IT risk management and payroll (Cicek and Ozer, 2011).

4 PROTOTYPE DEVELOPMENT

IT evolution from technology-driven to business-opportunities consider the various factors, which are compliance, complexity, speed of change and cost. Therefore, to optimize the service delivery, the corporation should identify the constraints and limitation of their operational and management model to provide efficiency in term of time and budget. Competition in the global market is really brutal because a firm must capture a positive threshold of demand or else it is not profitable. On the other hand, the attempt to increase price competition such as a price cut increases demand, which lowers the average cost per unit of demand (Cachon and Harker, 2002). Before the evolution took the biggest step, the environmental identification is necessary to match with the type of applications, data, network and process to be developed. For example, corporate business strategies need to integrate data store from decentralized into centralize data warehouse to remain competitive. On the other hand, different organization culture might influence the process of decision-making in regard to priorities, assets and infrastructure. The decision-making of outsourcing involves various assessment such as related to the suitability and scalability of particular technology to the operational activities, considering how rapid the changes somehow leave behind the other old tech to prevent waste in the investment (Doyle and Tapper, 2001). These examples encourages the researcher to develop open market which buyers and sellers can specify their preferences and criteria with lower expectancy and small risk. The outsourcing should evolved as the best practice to optimize service delivery with several golden of rules:

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1) Enable the business capacity and capability to be comprehensively help the complete phase of service delivery from design to the optimization.

2) Distinct the service value based on its offer, the agreement and the form used to avoid go beyond what customers expect from the organization.

3) Develop a clear understanding of alternative as the result of uncertainty as the possibility of changes within organization.

4) Gather those interested in technology, management, business and administration to come into common agreement of understanding to define future objectives.

5) Determine the list of necessary priorities and sequences in creating the opportunities to align with the vision and mission from organization.

6) Create the satisfied of payment terms by simplify the single-contract to improve the flexibility with reward and punishment mechanism.

7) Identify, articulate and obtain support from executive management.

8) Provide comprehensive solutions backed by a global knowledge network through standardization for supporting business plan.

9) Reduce complexity to increase added value to achieve service levels.

10) Encourage the program on the customer satisfaction and internal efficiencies of operation.

The process of developing the web and mobile application take granted those golden rules especially, in the process of requirement analysis. After designing the prototype, the evaluation take place involving several testers to check the performances and to find the vulnerabilities of the system based on business model involving targeting, marketing and positioning. To help the client to find the capable workers to assist and support the process of project or tasks completion, the application maintain the list of expertise, range of salary and previous experience based on category that is selected. The general concept of this application is to encourage quick searching process based on outsourcing popularity, certainty and capability for the freelancer, contractor, practicum, internship and other type of roles. It is expected the searching process will be conducted easily and save time efficiently by promoting sticky, tagging and bookmark feature to keep historical data and alternative for further use. The list of job promotion can be seen by people who need services in a particular field by alphabetic order based on set of expertise of specific order such as time posting or previous task. By just waiting the user request, the opportunities will be missed so the service delivery in this application need be proactive to enhance the function with specific constraint as the baseline:

1) Deliver superior support to the complaint from customers with the principle of service excellence through chat menu in order to allow communication directly between corporate, outsourcer and management by selecting specific room for discussion purposes.

2) Enable acceleration of innovation through personalization and customization process based on context awareness to enhance learnability.

3) Allow quick service creation and maximum performance as the work standard by allowing user to add category to their profile or memo independently.

4) Provide greater visibility across the application through familiar icon, label and smooth colour to deliver operational efficiency in meeting the objective of accessing the application.
User perspective and objectives are critical to define the scope and evaluating the risk before selecting the group project and consultant, where organization should notify employees about outsourcing initiatives and conduct analysis to gain technical support, facilitating thorough discussion and drawing out consensus to drafting report or making presentation (Bajec and Jakomin, 2010). Interestingly, a study indicated that the primary strategic driver for offshoring is the need to reduce the costs (93%), followed by competitive pressure (69%), the need for improved service levels (56%) and the need for accessing qualified personnel (55%). On the other hand, poor service quality was cited by 61% of the respondents as the most important risk, followed by lack of cultural fit (54%) and loss of control (51%) (Oshri, et. al., 2009). The size of the country also can affect the thickness of its market, while the technology for search affects the cost and likelihood of finding a suitable partner, in which the technology for specializing components determines the intention of a partner to undertake the required venture in a prototype (Grossman and Helpman, 2005).

In fact, the answer to successful strategy for outsourcing is extensively complex as it implies the optimization of the level disaggregation and geographical as well as organizational dispersion (Contractor, et. al., 2010). Operational risk and management are considered as dominant factors in the decision to outsource specific function such as accounting, which depends on the issues of the loss of confidential data, owner responsibilities, changes in suppliers and supplier failure to deliver as expected (Dorasamy, et. al., 2010). After all, success in outsourcing business depends on various elements, some of which are visible to customers such as quality of service and products or after sales services but what makes the differences is structure where the company is organized (Bacea and Borza, 2015). To maintain the enforcement, it is encourage to create periodical auditory, proper compliance and privacy impact assessment towards the implementation of the policy (Rosmaini, et. al., 2017). We hope you find the information in this template useful in the preparation of your submission.

5 CONCLUSION

Currently, no one disputes the importance of IT resources as the fundamental pillar for electronic or mobile commerce, which can decrease the operating cost and increase profit significantly, although some of companies have not done so well in utilizing IT resources. In addition, many stories about adoption of IT capabilities have been triggered by collaboration with other corporation with high investment and dependencies, structure complexity, changes of trends and dynamic environment. Arguably, it has affected the direction of strategy with IT and business alignment concept to be set foothold in the condition of high competition in the marketplace. The existing literature has shown that firms are moving towards outsourcing, though with different calculation. This study has made a theoretical contribution by extending previous research conducted with emphasizing the motivation, expected benefits of outsourcing and
advancing the understanding of the association between influencing factors and the application development through self-regulated market rather than government-regulated.

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