

Understanding Outsourcing from the Client's Perspective: Revisiting the Existing Literature

Damitha Rajini

Faculty of Graduate Studies
University of Colombo
Sri Lanka
damithar@uom.lk

K.A.S.P. Kaluarachchi

Department of Management and Organisation Studies
University of Colombo
Sri Lanka
samanthakaluarachchi@yahoo.com

Abstract

With the advent of globalisation and fierce competition, outsourcing is considered as a smart management technique and a strategic initiative, which enables organisations to achieve competitive advantage in today's market. Accordingly, most of the organisations from both private and public sectors have tended to outsource at least one of their services to outside service providers. Over the years, a number of researchers have discussed themes of outsourcing in different perspectives, and the aim of this paper is to synthesize the existing literature in order to provide a clearer picture of the outsourcing concept. Though outsourcing has been written extensively, as the researchers highlighted, most of the previous studies have focused on two key questions: "should we outsource?" and "what to outsource?". Therefore, this paper goes beyond what is often addressed in literature and discusses different definitions of outsourcing, the notions identified through those definitions, different forms of outsourcing, motives as well as the outsourcing process. While outsourcing involves two major parties, i.e. the Client; who obtains a specific product, service or a process and the Service Provider; who provides the said product, service or process, this paper discusses the above key themes from the Client's point of view.

Keywords

Outsourcing Definitions, Forms of Outsourcing, Motives of Outsourcing, Process of Outsourcing

1. Introduction

The concept of "Outsourcing" first originated in early 1970s in the United States (Magableh, 2018; Zitkienė & 2015; Bhattacharya et al., 2013) from the professional services and facility management (Magableh, 2018). Initially outsourcing was used as a quick and immediate meeting of a specific need or solving a specific problem, and its main premise was to limit costs (Deavers, 1997 as cited in Zelga, 2018; Harland et al., 2005 as cited in Bhattacharya, et al., 2013) and gain control over diverse businesses (Harland et al. 2005 as cited in Bhattacharya et al., 2013). However, as the technology developed, managers realised that the enterprises would not be able to be experts in more than one or two basic areas. That led the enterprises to renounce peripheral activities and to focus on elementary tasks which are the core competencies of them (Zelga, 2018). Over the last 50 years, outsourcing has evolved from the method used to implement simple business tasks to the concept treated as a mechanism involving strategic shaping of the structure of business operations (Zelga, 2018). Hence, the traditional rationale for engaging in outsourcing arrangements has now morphed into an inherently strategic activity (Bhattacharya, et al., 2013) and is gaining a considerable popularity in the field of business services and management (Galanaki & Papalexandris,

2005). Further, the dynamics of outsourcing have been growing rapidly during the last decade for the survival and to achieve profitability in such competitive environment (Sandhu et al., 2018)

The concept of outsourcing has been discussed in the literature focusing on different aspects individually, mostly the decision factors and advantages and disadvantages of outsourcing. However, a paucity of studies could be identified which attempted to understand the key themes of outsourcing and provide a clearer picture of the outsourcing concept (Kakabadse & Kakabadse, 2006; Bergkvist & Fredriksson, 2008; Bhattacharya et al., 2013). Therefore, this paper aims to study the available studies in-depth and explore possibilities of converging diverse perspectives to get a clear understanding of outsourcing from the Client's perspective. Further, this is a part of a large study intended to carry out on client-provider relationships in outsourcing. The paper specifically highlights the (a) definitions and different perspectives of the outsourcing, (b) different forms of outsourcing, (c) motives/expected benefits of outsourcing and finally, the (d) outsourcing process.

2. Research Method

A literature review is a critical assessment which enables the researcher to thoroughly investigate the existing body of knowledge of the theme or the problem under investigation (Uyangoda, 2010; Saunders et al., 2009). Hence, a systematic literature review conducted initially will enrich and reinforce the research process from the beginning. Acknowledging this importance, a comprehensive literature review in a broader context was conducted referring journal articles, books, conference proceedings, industry reports, etc. on key themes of outsourcing. The findings of the literature review are discussed in following sections.

3. Overview of Definitions and Characteristics of Outsourcing

"Outsourcing", (from "out" and "source", together describe an external source) is a well-known management approach (Lok & Baldry, 2016), which involves the procurement of products or services from sources that are external to an organisation (Lankford & Parsa, 1999, p.310). Kremic and Tukul (2003 as cited in Kurdi et al., 2011) identified outsourcing as a common practice, among both private and public organisations and as a major element in business strategy. Over the past years, the concept of outsourcing has been studied by many scholars from different scientific backgrounds and disciplines. Numerous definitions of outsourcing exist in the academic literature, and most of the definitions are relatively similar whereas some definitions introduce specific characteristics of outsourcing. Some of the selected definitions of outsourcing are depicted in Table 1.

The essence or the most common characteristic of outsourcing as mentioned in all the definitions presented in Table 1, is obtaining a product, service or a process by an outside external expertise. Accordingly, outsourcing involves two major parties, i.e. the party who obtains the product, service or a process - the "Client" and the outside party who provides it - the "Service Provider" (Olanrele et al., 2013; Kern & Willcocks, 2000 as cited in Bhattacharya et al., 2013, p. 400). As the definitions given by Pratap (2014, p.228) and, Grover and Teng (1993, p. 34 as cited in Bhattacharya et al., 2013, p.399), a client may outsource either a part or the entire organisational task to one service provider or several service providers. Best et al. (2003, p.5) stated that the tasks outsourced by client organisations can otherwise be performed by a person, unit or department within the client organisation itself. Hence, outsourcing decision is a version of "make" or "buy" decision, in which an organisation decides to carry out an activity using in-house staff (make) or contract-out to an external service provider (buy) respectively (Ikediashi, et al. (2014).

According to Olanrele and the researchers' (2013, p.33) definition (refer Table 1), outsourcing involves shifting of the responsibility for provision of outsourced task to the service provider. Here, the 'responsibility' refers to either planning, operational or/and decision-making responsibility of the organisational task (Chase et al., 2004 as cited in Rahim et al., 2010; Neale, 1995 as cited in Embleton & Wright, 1998). This 'transferring responsibility' could be identified as another common element addressed in most of the outsourcing definitions. Olanrele and the researchers (2013, p.33) mentioned that transferring responsibility in outsourcing allows the client to concentrate on core business, suggesting that only the non-core business functions are outsourced. Although non-core is the mostly outsourced type of business function, the situations where core activities were also outsourced have been reported in the literature (Dominguez, 2006 as cited in Agburu et al., 2017; Bhattacharya et al., 2013; Embleton & Wright, 1998). However, the suitability of outsourcing core or main activities of a business has been discussed vastly in the literature. As most of the researchers (Jennings, 1997 as cited in McIvor, 2000; Heikkil, 2002; Quinn & Hilmer, 1994 as cited in Ikediashi et al., 2014) argued, core competencies are the long-term competitive activities which provide competitive advantages to an organisation and therefore, they must be kept away from the domain of

competitors, while other non-core activities can be outsourced. In other words, the common belief in the industry as reported in the literature is that the key activities of an organisation need to be undertaken in-house and the rest are the candidates for some form of outsourcing (Kakabadse & Kakabadse, 2003).

Table 1. Definitions of Outsourcing

Reference	Definition
Neale (1995 as cited in Embleton & Wright, 1998)	“Outsourcing is the practice of handing over the planning, management and operation of certain functions to an independent third party”
Lankford and Parsa, (1999, p.310)	“Outsourcing is defined as the procurement of products or services from sources that are external to the organisation.
Best et al. (2003. p.5)	“Outsourcing refers to any situation where an organisation contracts with another organisation for the provision of a service that could equally be provided by a person, unit or department within the organisation that requires the service”.
Chase et al. (2004, as cited in Rahim et al., 2010, p. 178).	“Outsourcing as “an act of moving some of a firm’s internal activities and decision responsibilities to outside providers”.
Olanrele et al. (2013, p.33)	“Outsourcing is the shifting of the responsibility for provision of service(s) to service provider (contractor) who organise, plan, control and supply a support service or range of support services, leaving the client to concentrate on main core business”.
Grover and Teng (1993, p. 34 as cited in Bhattacharya et al., 2013, p.399)	“Outsourcing refers to the practice of turning over part or all of an organisation’s functions to a single or multiple service providers”.
Kern and Willcocks 2000, as cited in Bhattacharya et al., 2013, p. 400)	“Outsourcing is a special form of contractual-based and results-oriented inter-organisational relationship where one party that is the service receiver organisation employs external provider/s to provide services for traditional in-house functions”.
Li and Choi (2009 as cited in Ikediashi et al., 2014)	“Outsourcing is contracting-out of services that were previously performed in-house to an external service provider for a fee as a mean of increasing organisational efficiency and effectiveness”.
Pratap (2014, p.228)	“Outsourcing is the external provision of a process, in part or in its entirety, which was earlier being carried out within the firm, by contracting out to one or more suppliers”.

Some definitions on outsourcing (Li & Choi, 2009 as cited in Ikediashi et al., 2014, p. 472; Pratap, 2014, p.228) suggest that outsourcing is contracting-out services that were previously performed in-house by employing an organisation’s own employees. However, as described by Gilley and Rasheed (2000), though this seems to be the most commonly understood type of outsourcing, outsourcing may arise in two ways, either through the substitution of external procurement for internal activities or through abstention. In substitution, initiation of procurement from outside suppliers is happened to obtain a good or a service which was previously achieved through inhouse method. In contrary, through abstention, outsourcing may also arise when a firm procure goods or services from outside organisations even when those goods or services have not been completed in-house in the past.

Anon., 1995 (as cited in Embleton & Wright, 1998) distinguished contracting out and outsourcing emphasising that “outsourcing is not a synonym for contracting out”. Contracting out refers to work assigned to a service provider on a job-by-job basis, usually involving a cost-plus arrangement, whereas outsourcing entails a long-term relationship between supplier and beneficiary, with a high degree of risk-sharing”. Thus, Kern and Willcocks 2000 (as cited in Bhattacharya et al., 2013, p. 400) named outsourcing as a special form of contractual-based and results-oriented inter-organisational relationship, providing outsourcing, a more comprehensive view.

Hence, by summarizing the key characteristics identified through the definitions discussed above, outsourcing can be defined as *“a contractual-based and results-oriented inter-organisational relationship which involves transferring of the operational and/ or decision-making responsibility of an organisation’s internal activity/ activities (product/s, service/s or process/es) or a certain scope of it/them to external service provider/ providers, which was, or which could have been obtained by the organisation itself”*.

4. Different Forms of Outsourcing

Over the last two decades, organisations have tried different forms of outsourcing depending on what they felt would work best for their situation (Gandhi et al., 2012). According to Gandhi et al. (2012), outsourcing projects can be classified based on the geographical location of the outsourced project as Onshore and Offshore. Onshore is commonly called Domestic Outsourcing whereas Offshore is also called Global Sourcing or International Outsourcing. In Onshore arrangement, the client organisation outsources work to a vendor organisation located in the same country whereas in offshore outsourcing, the client organisation outsources work to a vendor organisation located in a different country (Chakrabarty et al., 2007). As mentioned by Chakrabarty (2006 as cited in Chakrabarty et al., 2007), offshoring can again be classified into Offshore-outsourcing and Offshore- insourcing, where offshore-insourcing involves the setting up of a captive centre or subsidiary in the other country from where work is then insourced. In simple terms, work is "outsourced to vendors" and "offshored to another country".

Gilley and Rasheed (2000) proposed two generic types of outsourcing as Peripheral Outsourcing and Core Outsourcing, based on the nature of activities outsourced. Peripheral outsourcing occurs when firms acquire less strategically relevant, peripheral activities from external suppliers whereas core outsourcing occurs when firms acquire activities that are considered highly important to long-run success. As the researchers described, through similarities may exist, the peripheral and core activities can be different from one organisation to another. This is because, the identification of an activity as core or peripheral is basically depends on the judgments made by each individual firm, based on what it considers as its core competency and the strategy it intends to pursue.

Apart from above two classifications, outsourcing has also been classified as Traditional, Strategic and Futuristic outsourcing (Franceschini et al., 2003 as cited in Gandhi et al., 2012). According to the researchers, there was no any established relationship between the vendor and the client in traditional outsourcing and it was done purely for cost savings and had no other primary aim besides reducing the overall cost. The traditional outsourcing emphasis on tactical benefits like cost reduction, have subsequently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Elmuti, 2003). Hence, with this evolvement, the discipline of outsourcing received a strategic emphasis (Zelga, 2018). As Franceschini et al., 2003 as cited in Gandhi et al., 2012) highlighted, in strategic outsourcing, the main objective is to have joined value creation and the relationship is more of a partnership. Like strategic outsourcing, futuristic outsourcing is also a form of partnership, but its main objective is to have a better future market position. It is normally a long-term co-operation in which there could be a joint company vision (Franceschini et al., 2003 as cited in Gandhi et al., 2012).

Magableh (2018) also discuss about two types of outsourcing i.e. Full Outsourcing and Selective Outsourcing. As per the researcher, selective outsourcing is confined to a specific function rather the entire project whereas full outsourcing approach involves acquiring all the products and services required for a project from external suppliers.

Another form of outsourcing reported in outsourcing literature is Out-tasking, which is considered as the oldest form of outsourcing (Tuomela & Puhto, 2001). Out-tasking is a management process whereby specific tasks, as opposed to a whole package of support function in the case of outsourcing are performed by a service provider (Kleeman, 1994 as cited in Hui & Tsang, 2004). Pure outsourcing is generally understood as a situation where the responsibility of the human resources and financial issues of the outsourced units are also assigned to the outside service provider. However, as Tuomela and Puhto (2001) highlighted, out-tasking involves transferring of certain business processes to an external supplier without the responsibility of human resources and other assets.

5. Motives and Expected Outcomes of Outsourcing

A client organisation may choose to outsource with certain business aims in mind (Agburu et al., 2017) which can be either strategic or tactical (Kroes & Ghosh, 2010). However, as Tuomela and Puhto (2001) mentioned, the motives for outsourcing are most commonly the strategic decisions focused on core business. While economic factors often dominate the outsourcing motivation debate (Rhodes et al., 2016), there are other motives that trigger initiating outsourcing in organisations as well. The motives for outsourcing, i.e. why people take initiatives for outsourcing is because of the advantages or the positive outcomes of it. Therefore, the motives of outsourcing are the expected benefits that can be gained through outsourcing. Over the years, different scholars have widely discussed the motives and advantages of outsourcing independently and specially in comparison with inhouse procurement approach. The motives of outsourcing identified through the literature are explained below.

To reduce cost and improve financial ratios: The literature on outsourcing often cites cost benefits as one of the primary reasons a firm contemplates outsourcing (Kakabadse & Kakabadse, 2000; Liou & Chuang, 2010; Sreedevi & Tanwar, 2018). According to Barthelemy and Dominique (2004 as cited in Burdon & Bhalla, 2005), external service providers are regarded as specialists who can provide similar or better level of service at a lower cost than available in-house. Further, in cases where institutions outsource human resources from the provider's organisation, insurances, gratuities and other employee related expenses, etc. are transferred to the service provider, minimizing financial commitment of the client organisation on employees (Amos & Gadzekpo, 2016). Hence, outsourcing is cost efficient and thus, tend to improve financial standing. Further, cash position will be improved as a result of capital reinjection.

To concentrate on core business: Since the responsibility of performing a certain task is transferred to a specialised service provider in outsourcing, client organisations would have more time to focus on their core business and develop their core competencies (Burdon & Bhalla, 2005; Amos & Gadzekpo, 2016). Further, outsourcing allows an organisation to transfer non-core activities and utilise the freed resources to advance the core business activities of the organisation (Boguslauskas & Kvedaraviciene, 2009 as cited in Pratap, 2014). Therefore, strengthening core business is another factor that motivates client organisations to select outsourcing procurement.

To use vendor's competencies and facilities: A literature review done by Sandhu et al. (2018) identified that another important reason for outsourcing is to acquire the facilities of expertise knowledge and experience of the service provider. In situations where clients identified their unavailability or lack of in-house capability for the outsourced competence and where the outsourced competence is too costly for them to achieve, client organisations tend to go for outsourcing (Bolumole et al., 2014; Amos & Gadzekpo, 2016; Sandhu et al., 2018). Outsourced service providers are specialists in their areas of service delivery and therefore, there is a direct benefit from the expertise and competence of the service provider towards client organisation (Amos & Gadzekpo, 2016).

To improve quality, productivity and operational efficiencies: Outsourced service providers will provide quality services than when kept in-house by implementing their tried and tested models and methods of service delivery (Amos & Gadzekpo, 2016). Further, meeting the clients' requirements is service provider's utmost priority and therefore, they are always keen to deliver services leading to improved operational efficiency and productivity (Kakabadse & Kakabadse, 2003; Amos & Gadzekpo, 2016).

For increased flexibility: Flexibility in outsourcing as discussed by Kremic et al. (2006) includes demand flexibility, operational flexibility, resource flexibility, or the flexibility of a number of other strategic elements. According to Amos & Gadzekpo (2016), the degree of flexibility is limited with in-house procurement as the response time to changes is long. However, in outsourcing, there is a potential to instruct changes in scope, scale, location and quality to account for changing needs or demands of the business, allowing more flexibility to the client (Usher, 2003). Hence, according to the literature, organisations sometimes consider outsourcing as an effort to increase the flexibility (Liou & Chuang, 2010; Kremic et al., 2006).

For increased innovation: With significant core business knowledge and experience of the service partner, together with input from a host other client accounts, outsourced service provider is capable of providing swift responses to new changes in technology and services. Accordingly, as Sreedevi & Tanwar (2018) mentioned, the need for product and process innovation clearly favour engaging in outsourcing (Usher, 2003; Amos & Gadzekpo, 2016).

To transfer risk: Transferring risks to another party has also been considered as a motive for outsourcing by a number of researchers (Elmuti, 2003; Vaxevanou & Konstantopoulos, 2015). As discussed by Usher (2003), through outsourcing, all contingent liabilities will be transferred to the service partner while maintaining the right to modify the scope and scale.

To achieve right-sized employees and reduced space: According to Amos and Gadzekpo (2016), outsourcing leads to core competencies staff being employed, thereby resulting in right-sizing. Further, some vendor services are delivered as a package and there is no need for vendors to permanently occupy space, thereby reducing space and cost of rent.

For improved customer orientation and service: Usher (2003) stated that understanding and responding to the customer, and the training, management and resources to support and reinforce the value set consistently across all service lines can be effectively done by the service providers in outsourcing contracts. Hence, aim of achieving customer related benefits also acts as a motive to initiate outsourcing in an organisation (Pratap, 2014; Sandhu, Shamsuzzoha & Helo, 2018).

As a solution for lack of initial and major capital investments for service provision: Unlike in-house provision which requires funds to be set for service provision, outsourcing tends to shift the initial capital outlay required to the service provider (Amos & Gadzekpo, 2016). In order to retain the contract, service provider will facilitate investments for improved service delivery and in turn greater client satisfaction. Hence, outsourcing provides the client with the benefit of full utilisation of external suppliers' investments and therefore, as a solution for lack of initial major investments required for service provisions, client organisations tend to outsource certain services (Kakabadse & Kakabadse, 2006).

To achieve competitive advantage: Liou and Chuang (2010) mentioned that the purpose of outsourcing is to create value from outside, rather than within, the organisation. As products and services are effectively provided in by service providers in outsourcing, and as client is released from outsourced activities, enabling client to focus on more fundamental operations can bring a competitive advantage to the client organisation (Liou & Chuang, 2010; Vaxevanou & Konstantopoulos, 2015).

6. Process of Outsourcing

According to Momme (2001 as cited in Vaxevanou & Konstantopoulos, 2015) outsourcing is a process of creating and managing a contractual relationship with an external service provider for the provision of skills and capabilities to perform a certain task, process or a service. Therefore, outsourcing involves different activities which should be performed from the point of identifying the requirement to the completion of the outsourcing agreement. Although the activities discussed are similar most of the times, different authors have put forward different categorisations and introduced different phases of outsourcing. Table 2 depicts some of the selected categorisations of outsourcing process which could be found in the outsourcing literature.

Table 2. Overview of Process of Outsourcing from Previous Literature

Reference Source	Process of Outsourcing- Phases					
Deloitte (2013)	Assess	Prepare	Evaluate	Commit	Transition and Transformation	Optimise
Brown and Wilson (2005)	Strategy	Scope	Negotiation	Implementing	Management	Completion
Momme and Hvolby (2002 as cited in Sandhu et al. 2018)	Competence Analysis	Assessment and Approvals	Contract Negotiation	Project Execution and Transfer	Managing Relationships	Contract Termination
Perunovic (2007)	Preparation	Vendor(s) selection		Transition	Management of relationship	Reconsideration
Cullen et al. (2014) and Cullen et al. (2005).	Architect (Investigate, Target, Strategize and Design)	Engage (Select and Negotiate)		Operate (Transition and Manage)		Regenerate (Refresh)
Luong & Stevens, (2015)	Contract	Transition		Support		Partnership
Alborz et al. (2003)	Pre-contract (Scoping and Evaluation)		Contract (Negotiation)	Post-contract (Transition, Middle Management and Mature)		

Brown and Wilson (2005) introduced a model which includes six stages of outsourcing which are Strategy, Scope, Negotiation, Implementing, Management and Completing Contract stage. According to the researchers, the decision to outsource is taken by the client during the strategy stage after determining the feasibility of outsourcing. Also, the responses are obtained from service providers and after an analysis, the suitable service providers are finally selected during this stage. After the negotiations are taken place between client and service provider, the contract is signed by both parties. Implementation, which comes after negotiation phase is termed as implementation phase and it includes transition from in-house provision of services to outsourcing. The next phase involves the management of outsourcing relationship with the service provider. Any change that is required to achieve outsourcing success need to be negotiated and implemented during this stage. According to Brown and Wilson (2005), the final stage of an outsourcing process is completion or termination phase. At the end of the contract period, the client organisation should decide either to negotiate another contract with the same vendor or to terminate that relationship and align with a new vendor. Alternatively, the client organisation may decide to bring the function back to inhouse operation. Once the organisation decided to outsource again, the same cycle discussed above begins again.

As the Table 2 shows, the phases of outsourcing introduced by Deloitte (2013) report also includes six phases namely, Assess, Prepare, Evaluate, Commit, Transition and Transformation and Optimise phase. First phase is Assess stage which lays down the objectives and assess the capacity followed by Preparation during which service level definition is carried out. Evaluation stage normally involves response evaluation and supplier selection. Contract development, negotiation and finalization come under the Commit stage (Deloitte, 2013), new service implementation is referred to as Transition and Transformation and finally comes the Optimize phase which is vendor management. The Assess stage of Deloitte (2013) classification is similar to the Strategy stage in Brown and Wilson's (2005) classification. However, while Deloitte (2013) has introduced two phases as Prepare and Evaluation stages, whereas Brown and Wilson (2005) have combined the activities performed in those two stages and named it as Scope phase. Further, as per the explanation on Deloitte, (2013) report, Commit and Transitional and Transformation, phases include the same activities as of the activities of Negotiation and Transition stages of the other classification. Final stage of Deloitte, (2013) report's classification i.e. Optimise stage covers the activities discussed in Management and Completion stages of Brown and Wilson's (2005) classification.

Alborz et al. (2003) came up with a broader categorisation to the outsourcing process as Pre-contract, Contract and Post-contract Stage. However, as the Table 2 shows, sub phases come under those three phases, i.e. Scoping and Evaluation, Negotiation, Transition, Middle Management and Mature are also similar to phases discussed by Brown and Wilson's (2005) and Deloitte (2013). Here, the Mature phase refers to the final stage of outsourcing discussed above. Moreover, a study done by Perunović and Pedersen (2007) evaluated the outsourcing process studies carried out by several researchers (Greaver, 1999; Momme, 2002; Cullen & Willcocks, 2003; Franceschini et al., 2003; Corbett, 2003; Click & Duening, 2005 and McIvor, 2005) and categorised outsourcing activities into five stages as Preparation, Vendor(s) Selection, Transition, Management of Relationship and Reconsideration phases. In this classification, the activities performed during the pre-contract stage have been grouped into Preparation stage whereas the selection of the vendor/s, negotiation of contract and developing the contract have been grouped to include in the Vendor Selection phase. After the next phase which is Transition, Perunović and Pedersen (2007) introduced a new phase called Management of Relationship, which has been mostly cited as operation and management or optimise stage of outsourcing, in the literature. The final stage of outsourcing process as per Perunović and Pedersen (2007) is Reconsideration phase in which, contract termination or reconsideration options are considered. As it was mentioned earlier, this process flows as a cycle and therefore, some researchers (Cullen, et al, 2014) have discussed the activities performed in outsourcing as a cycle, naming it as outsourcing life cycle. Though the process was presented as a cycle, the phases of outsourcing discussed by Cullen et al. (2014), i.e. Architect, Engage, Operate and Regenerate phases which can be again sub categorised as Investigate, Target, Strategize, Design, Select, Negotiate, Transition, Manage and Refresh phase are also similar to the phases which have been generally discussed by the other researchers (Refer Table 2).

Hence, after a comprehensive review of the literature, based on the outsourcing processes discussed by Brown & Wilson, 2005; Alborz et al., 2003; Cullen et al., 2005 and Cullen et al., 2014, which provide a more detailed picture of outsourcing process, a process model was developed as depicted in Figure 1 and the phases of outsourcing as per the model are explained below.

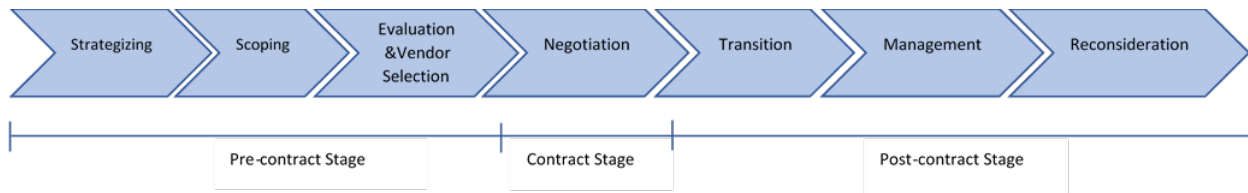


Figure 1. Different Phases of Outsourcing

Strategising: According to Kern and Willcocks (2001, p.57 as cited in Alborz, 2003), “every relationship is launched with particular guiding objectives, reasons, and intentions behind its instigation, formation, and maintenance. Therefore, whatever the reason it is, since the decision to outsource has a lasting impact on the organisation, executive management should make the decision with long-term objectives in mind. Accordingly, the client organisation is required to answer several questions during this stage before making an outsourcing decision. The questions generally include, the reasons for outsourcing, the expected benefits and the philosophy as well as the approach of the client in the outsourcing process (Vaxevanou & Konstantopoulos, 2015). Hence, after a comprehensive analysis, an organisation will select outsourcing as the sourcing strategy during this stage.

Scoping: According to Brown and Wilson (2005), the total effort is planned in terms of time, budget, and necessary resources during this stage. Further, the definition of service level requirements, i.e. the scope, which should be met by the service provider and development of the Request for Proposal (RFP) is also done during this stage (Deloitte, 2013). RFP is a document used to communicate the client’s outsourcing requirement and the evaluation criteria that will be used for selecting a suitable service provider. As Brown and Wilson (2005) mentioned, RFP is generally sent to limited number of service providers who have been previously identified as qualified for providing the respective service. Hence, at the end of the scoping phase, the client organisation knows itself well enough to confidently publicise its needs (Cullen et al., 2005).

Evaluation and Vendor Selection: After the scoping stage, the client organisation announces its intention to find a vendor through RFP and collect the offers of tenderers, which may be evaluated using a series of criteria (Cullen & Willcocks, 2003 as cited in Vaxevanou & Konstantopoulos, 2015; Perunović & Pedersen, 2007). Hence, upon the analysis of service providers’ responses, the service provider who represents the best value for the services being outsourced is chosen during this phase (Deloitte, 2013).

Negotiation: Negotiations phase is started once the vendor was chosen (Brown & Wilson, 2005) and hence, outsourcing relationships among customers and vendors are started during this stage. The focus of this stage is to determine the agreement that is taken place among the client and service provider and to establish an appropriate business relationship among those two parties (Marshall et al., 2005). Further, the communication and implementation plans, together with communication plans are also developed during this stage (Marshall et al., 2005). Apart from the matters related to the agreement between parties, the internal issues that have to be addressed are also considered during the negotiation phase. This stage proceeds until a contract is drawn up and ultimately, signed by both parties

Transition: Transition stage in an outsourcing process is started once the contract was signed (Vaxevanou & Konstantopoulos, 2015; Luong & Stevens, 2015). According to Luong and Stevens (2015), transition stage is the most important stage of the outsourcing process as it directly affects the performance of the management stage. During the transition phase, all the operations planned and scheduled in the previous phases are started to be implemented (Vaxevanou & Konstantopoulos, 2015). Transition involves the movement of client’s environment, infrastructure, workload, and often resources are moved to the control and management of the service provider (Hugo, Tate, & Alborz, 2007). The aim of Transition is to guarantee the smooth productive and functional transition from the previous situation to the scheduled operations. Therefore, during this stage, the client strives to receive the expected services consistently, while the supplier assesses how well the services provided meet the terms of the contract agreed (Marchewka & Oruganti, 2013; Hugo, Tate, & Alborz, 2007).

Management: This phase focuses on managing the outsourcing arrangement and make necessary actions to continuously improve the outsourcing effort (Deloitte, 2013). Therefore, it is necessary both to manage the relationship with the vendor throughout this phase (Brown & Wilson, 2005) and, also to ensure that contractual obligations are fulfilled in a timely and effective manner and that service demand is properly managed and satisfied.

According to Cullen et al. (2014), the effort made in previous phases are paid off in this stage. Thus, this phase either proceeds smoothly as a result of the strategies, processes, documents, and relationship designed in the earlier stages, or the phase suffers due to misinterpretations, ambiguities, disagreements and disputes. Further, as the authors mentioned, huge and tedious remedial efforts need to be put in order to ovoid or overcome such problems.

Reconsideration: Reconsideration is the last phase of the outsourcing process, during which, the past performance of outsourcing is evaluated and a decision for the future is taken (Cullen et al., 2014; Vaxevanou & Konstantopoulos, 2015). Hence, during this stage, client can either decide to continue the outsourcing arrangement with the same service provider, shift to another service provider or back source by bringing the services back inhouse (Cullen et al., 2014; Brown & Wilson, 2005). Whatever the decision is taken, it is taken in order to go forward in an improved position. Therefore, as contracts begin to mature and reaches its scheduled time of expiry, this decision need to be taken carefully (Cullen et al., 2014). However, there can be some situations that contracts are terminated due to changes in the ownership structure of the organisation or of the vendor, mutual interest, insolvency of a party, breach or violation of certain contract terms by at least one of the two parties, etc. (Cullen & Willcocks, 2003 as cited in Vaxevanou & Konstantopoulos, 2015). Further, as Veltri et al. (2008 as cited in Freyta et al., 2012) pointed out, reconsiderations may not only arise as a result of the issues in the outsourcing arrangements, but may also occur because of new opportunities appearing internally or externally.

Based on the above discussion, Figure 2 summarises the key activities and outcomes of each phase of outsourcing process and where the two parties of outsourcing, i.e. Client and Service Provider involves during the process.

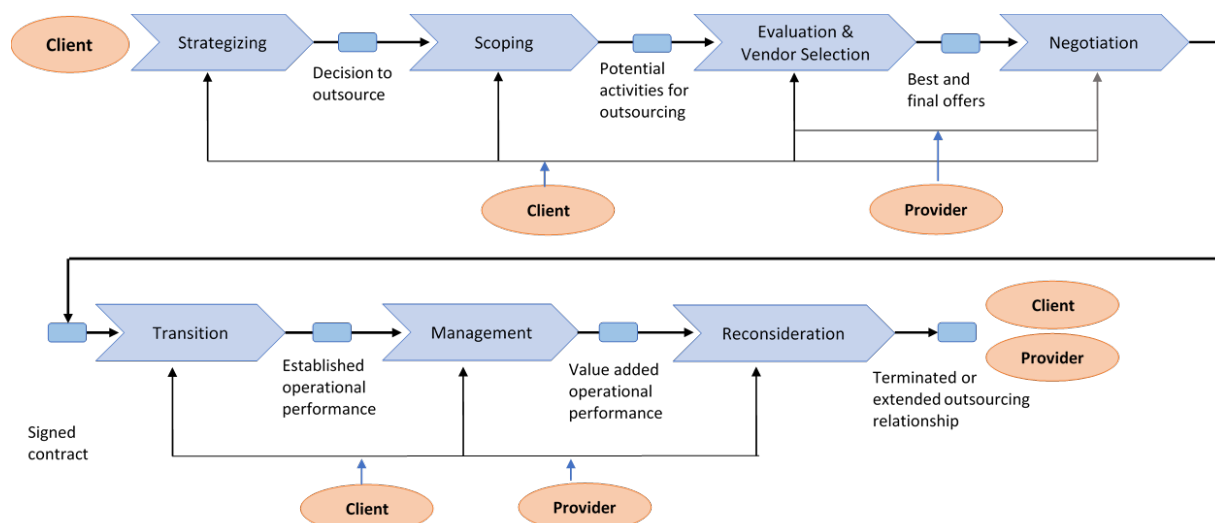


Figure 2. Phases, Outputs, and Actors as part of the outsourcing process
Source: Adapted from Bergkvist (2014)

7. Conclusion and Future Research Agenda

This review of literature aimed to identify the key themes of outsourcing. A number of definitions introduced by institutes and scholars over the years could be identified and by summarizing the key characteristics highlighted by those definitions, outsourcing could be understood as a contractual-based and results-oriented inter-organisational relationship which involves transferring of the operational and/ or decision-making responsibility of an organisation's internal activity/ activities (product/s, service/s or process/es) or a certain scope of it/them to external service provider/ providers, which was, or which could have been obtained by the organisation itself. As per the findings, various forms of outsourcing are available for client organisations and they can be categorised based on the geographical location, relationship type of the client and provider to the agreement, type of service, process outsourced, and the scope of work, etc. The findings revealed while reducing the cost and achieving the financial ratios is the biggest motive for client organisations for selection outsourcing procurement there are other significant

motives for outsourcing which include, for concentrating on core business, for using vendor's competencies and facilities, for improved quality, productivity and operational efficiencies, for increased flexibility, for increased innovation, for transferring risk, for right-sized employees/reduced space, for improved customer orientation and service, as a solution for lack of initial and major capital investments for service provision and thus, to achieve competitive advantage. It could be identified that the process of outsourcing has not been given an adequate attention in existing literature and different ambiguities exist in the way that different researchers have categorised the phases of outsourcing. By carefully going through process models available in the literature, outsourcing process that covers all the phases that client goes through could be determined. As per the process identified, it includes six phases, strategizing, scoping, evaluation and vendor selection, negotiation, transition, management and reconsideration. Though the service provider replies the client's RFP during the evaluation and vendor selection phase, the interactions of the two parties are started during the Negotiation stage.

Hence, the findings of the paper provided the whole picture of outsourcing including what outsourcing is all about and different forms of outsourcing arrangements available from client organisations, what are the expected outcomes of outsourcing and specially introduced an outsourcing process model from the client's perspective. Thus, this study will shed light on the understanding the above-mentioned themes of outsourcing clearly which will support the research scholars whose researches are based upon those themes. Further, as it was mentioned earlier, this paper is a part of a large study intended to carry out on client-provider relationships in outsourcing and the above developed model including different phases will be used as the basis to evaluate the client-provider relations in outsourcing, in future.

8. References

- Agburu, J. I., Anza, N. C., and Iyortsuun, A. S., Effect of outsourcing strategies on the performance of small and medium scale enterprises (SMEs). *Journal of Global Entrepreneurship Research*, vol. 7, no. 1, pp.1-34, 2017.
- Alborz, S., Seddon, P., and Scheepers, R., A model for studying IT outsourcing relationships. *PACIS 2003 Proceedings*, pp. 1277- 1313, 2003.
- Amos, D., Gadzekpo, A., and Polytechnic, K., Cost of in-house vs outsourced facilities management services in public polytechnics in Ghana. *Asia Pacific Journal of Advanced Business and Social Studies*, vol. 2, no. 2, 2016.
- Bergkvist, L., & Fredriksson, O., Outsourcing Terms: A Literature Review from an ISD Perspective. *Ecis*, pp.458–469, 2008.
- Bergkvist, L., *Towards a framework for relational-oriented management of information systems outsourcing: Key conditions connected to actors, relationships and process.*(Doctoral dissertation, Thesis (PhD). Helsinki University of Technology Construction Economics and Management), 2001.
- Best, R., Langston C.A., and De Valence G., *Workplace Strategies and Facilities Management – Building in Value*, Elsevier publishing, USA. 2003).
- Bhattacharya, A., Singh, P. J., and Bhakoo, V., Revisiting the outsourcing debate: Two sides of the same story. *Production Planning and Control*, vol. 24, no. 4–5, pp.399–422, 2013).
- Bolumole, Y. A, Frankel, R., and Naslund, D. A. G., Developing a Theoretical Framework for Logistics Outsourcing, *Transportation Journal*, vol 46, no 2, pp. 35–54, 2014.
- Brown, D. & Wilson, S., *The Black Book of Outsourcing*. John Wiley and Sons, New Jersey, USA. 2005.
- Burdon, S., and Bhalla, A. Lessons from the untold success story: outsourcing engineering and facilities management. *European Management Journal*, vol. 23, no. 5, pp. 576–582, 2005.
- Chakrabarty, S., Whitten, D., and Green, K. Understanding Service Quality and Relationship Quality in Is Outsourcing: Client Orientation & Promotion, Project Management Effectiveness, and the Task-Technology-Structure Fit. *Journal of Computer Information Systems*, vol. 48, no. (2), pp. 1–15, 2007.
- Click R.L., Duening T.N., *Business Process Outsourcing: The Competitive Advantage*, John Wiley & Sons, Hoboken, USA. 2005.
- Corbett, M. F. The Outsourcing Revolution. *The Outsourcing Revolution; Why It Makes Sense and How to Do It Right*, Abstract Summary, pp.1-5, 2004.
- Cullen, S., Lacity, M. C., & Willcocks, L. (2014). *Outsourcing: All you need to know*. White Plume Publishing., Melbourne, Australia, 2014
- Cullen, S., Seddon, P., & Willcocks, L., Managing Outsourcing: The Life Cycle Imperative. *MIS Quarterly Executive*, vol. 4, no. 1, pp. 229–246, 2005).

- Deloitte., The outsourcing handbook a guide to outsourcing. available at: <https://www.deloitte.co.uk/makeconnections/assets/pdf/the-outsourcing-handbook-a-guide-to-outsourcing.pdf>. 2013.
- Elmuti, D., "The Perceived Impact of Outsourcing on Organizational Performance", *American Journal of Business*, vol. 18, no 2, pp. 33 – 42, 2003.
- Embleton, P. R., and Wright, P. C., A practical guide to successful outsourcing. *Empowerment in Organizations*, vol. 6, no. 3., pp. 96–196, 1998.
- Franceschini, F., Galetto, M., Pignatelli, A., and Varetto, M., Outsourcing: guidelines for a structured approach. *Benchmarking: An International Journal*, vol. 10, no. 3, pp. 246–260, 2003.
- Gadzekpo, A. A. and Amos, D., Outsourcing of facilities management services in commercial banks in Ghana; a conceptual view on potential risks and threats, *International Journal of Innovative Research and Advanced Studies* vol. 3, no.10, 276-282), 2016.
- Gilley, K. M., and Rasheed, A., Making more by doing less: An analysis of outsourcing and its effects on firm performance. *Journal of Management*, vol.26, no. (4), pp.763–790, 2000.
- Greaver M.F., *Strategic Outsourcing: A Structured Approach to Outsourcing Decisions and Initiatives*, AMACOM, New York., 1999.
- Heikkilä, J. and Cordon, C., Outsourcing: a core or non-core strategic management decision?. *Strategic change*, vol. 11 no. 4, pp.183-193, 2002.
- Hugo, G., Tate, M., and Alborz, S., Managing the outsourcing marriage to achieve success. *Proceedings of the 40th Annual Hawaii International Conference on System Sciences*, Waikoloa, China, 1–10, 2007.
- Hui, E. Y. Y., and Tsang, A. H. C., Sourcing strategies of facilities management. *Journal of Quality in Maintenance Engineering*, vol. 10, no. 2, pp. 85–92, 2004.
- Ikediasi, D., O. Ogunlana, S., and Boateng, P. Determinants of outsourcing decision for facilities management (FM) services provision. *Facilities*, vol. 32, pp. 472–489, 2014.
- Kroes, J. R., and Ghosh, S., Outsourcing congruence with competitive priorities: Impact on supply chain and firm performance. *Journal of Operations Management*, vol. 28, no. 2, pp. 124–143, 2010.
- Kurdi, M. K., Abdul-Tharim, A. H., Jaffar, N., Azli, M. S., Shuib, M. N., and Ab-Wahid, A. M., Outsourcing in facilities management - A literature review. *Procedia Engineering*, vol. 20, pp. 445–457, 2011.
- Lankford, W.M., and Parsa, F., Outsourcing: a primer, *Management Decision*, vol. 37 no: 4, pp.310-316, 1999.
- Liou, J. J. H., and Chuang, Y., Expert Systems with Applications Developing a hybrid multi-criteria model for selection of outsourcing providers. *Expert Systems with Applications*, vol. 37, no. 5, pp. 3755–3761., 2010.
- Lok, K. L., and Baldry, D., Demand and supply of FM outsourcing services. *Journal of Facilities Management*, vol. 14, no. 3, pp. 221–248, 2016.
- Luong, M. and Stevens, J., A Multi-Stage Maturity Model for Long-Term IT Outsourcing Relationship Success. *Journal of Learning in Higher Education*, vol.11, no. 1, pp. 43–56, 2015.
- Magableh, A. K., Selective Outsourcing of IT Functions is the best option. *Open Science Journal*, vol. 3, no. 1, pp.1-9. 2018.
- Marshall, D., Lamming, R., Fynes, B., and de Búrca, S., The development of an outsourcing process model. *International Journal of Logistics*, vol. 8, no. 4, pp. 347–359, 2005.
- McIvor, R., A practical framework for understanding the outsourcing process. *Supply Chain Management: An International Journal*, vol. 5, no. 1, pp. 22–36, 2000.
- Momme, J., Framework for outsourcing manufacturing: strategic and operational implications, *Computers in Industry*, vol. 49, pp. 59–75, 2000.
- Olanrele, O. O., Ahmed, A., and Olatomiwa, L. J., A Study of User Satisfaction of Outsourced Facilities Management (FM) Services in Public Residential Towers in Nigeria, *Journal of Humanities and Social Science*, vol. 15, no. 3, pp. 32–37, 2013.
- Perunović, Z., and Jørgen, L.P. Outsourcing process and theories. *Proceedings of the POMS 18th Annual Conference, May 4–7, Dallas, Texas, 007*, vol. 3, 2007.
- Pratap, S., Towards a framework for performing outsourcing capability. *Strategic Outsourcing: An International Journal*, vol. 7, no. 3, 226–252., 2014.
- Puhto, A.T.J. and Tumela, A., *Service Provision Trends of Facility Management in Northern Europe* (Doctoral dissertation, Thesis (PhD). Helsinki University of Technology Construction Economics and Management), 2001.
- Rahim, N., Baldry, D., and Amaratunga, R., Decision making in outsourcing support services in The United Kingdom public healthcare, pp.176–191, 2010.

- Rhodes, J., Lok, P., Loh, W., & Cheng, V., Critical success factors in relationship management for services outsourcing. *Service Business*, vol. 10, no.1, pp. 59–86, 2016.
- Sandhu, M. A., Shamsuzzoha, A., and Helo, P., Does outsourcing always work? A critical evaluation for project business success. *Benchmarking: An International Journal*, vol. 25, no. 7, pp. 2198-2215, 2018.
- Saunders, M., Lewis, P. and Thornhill, A., Research Methods for Business Students. 5th ed. Pearson Education Limited, England, 2009.
- Sreedevi, R., and Tanwar, T., Outsourcing—A Review for Research and Practical Applications. *International Journal of Business and Economics Research*, vol. 7, no. 1, pp. 20-24, 2018.
- Usher, N., Outsource or in-house facilities management: The pros and cons. *Journal of Facilities Management*, vol. 2, no. 4, 351–359. 2003.
- Uyangoda, J., Writing Research Proposals in the Social Sciences and Humanities: a Theoretical and Practical Guide, Social Scientists Association, Colombo, 2010.
- Vaxevanou, A., and Konstantopoulos, N., Basic Principles the Philosophy of Outsourcing. *Procedia - Social and Behavioral Sciences*, vol. 175, pp. 567–571, 2015.
- Zelga, K., A Finance and Accounting Outsourcing Contract. *World Scientific News*, vol. 104, pp. 451-461, 2018.
- Žitkienė, R., and Blusytė, U., The management model for human-resource outsourcing among service companies. *Intellectual Economics*, vol. 9 no. 1, 80–89, 2015.

Biographies

Damitha Rajini is a research scholar attached to the Faculty of Graduate Studies, University of Colombo, Sri Lanka on the area of Facilities Management outsourcing relationships. She is also a lecturer attached to the Department of Building Economics, University of Moratuwa, Sri Lanka. Her research interests include outsourcing relationships, operations management, physical asset management and supply chain management.

K. A. S. P. Kaluarachchi is a Professor attached to the Department of Management and Organisation Studies, Faculty of Management and Finance, University of Colombo. He is currently the Head of the same Department. He has published several text books and scholarly books in the field of Business Administration locally and several research papers in Management Theory and Practices both locally and internationally. His research interests include, Organisational Culture and Total Quality Management, Organisational Culture and Managerial Practices as well as Organisational Leadership and Managerial Practices.