

## Factors Influencing Corporations to Outsource: A Case Analysis of MBE Corporation

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**ABSTRACT:** The contracting out of an internal business process to a third party company could benefit corporations in their ability to focus on core competency, the increase of productivity, and ability to lower costs associated with running the organization. The purpose of this qualitative research was to explore and assist the decision makers in outlining the benefits their corporation would acquire by opting to outsource instead of using in-house employees to perform the customer service tasks. The participant population consisted of a purposeful sample of 20 members of the organizational management team with a range of 1 to 15 years of working experience. The findings confirmed the following themes (a) cost reduction and innovation, (b) clients achievement of a competitive advantage by enforcing cost reductions, (c) improve performance, and (d) firm can gain efficiencies. The proposed results could contribute to the understanding of the pros of outsourcing by corporations that are persistent in using in-house employees and skeptical about using third party outsourcing companies for their services.

**KEYWORDS:** Outsourcing, Domestic, Offshore, Business process outsourcing (BPO).

### 1 INTRODUCTION

Corporations seek to contract out or externalize non-core activities and transfer the activities that were traditionally carried in-house by personnel staff to third parties located domestically or offshore because of their attraction to cost savings and increase in profits (Bouchet, 2010; Crişan, Butilcă, Salanţă, & Ilieş, 2011; Dou & Sarkis, 2010; Mortensen, 2010). The corporation's decision makers are also in the quest for the benefits that outsourcing arrangements could provide such as governance by contracts that outline obligations, rights, and responsibilities of parties involved (Schoenherr, 2010). Additionally decision makers are attracted to the careful attention given to conditions and clauses that need focusing on the contract because of the ability to impact performance, quality, and efficiency (Bouchet et al., 2010; Schoenherr, 2010). The crucial element to understand is that even though outsourcing began in the 1700s the process did not shift to competitive global outsourcing until the 1980s. The involved firm's decisions to outsource contributed to the phenomenal growth of outsourcing over the last 30 years. As of 2011, the information technology (IT) outsourcing business cost from the United States was approximately U.S. \$77 billion and nearly 65% of all companies had a formal approach for selecting outsource vendors (Niranjan & Rao, 2011).

The contracting out of an internal business process to a third party company could benefit corporations in their ability to focus on core competency, increase of productivity, and ability to lower costs associated with running the organization (Thakur, 2010). The purpose of this research was to explore and assist the decision makers in outlining the benefits that MBE would acquire by opting to outsource instead of using in-house employees to perform the customer service tasks. For the purposes of the current research, the organization's name is referenced as pseudonyms to conceal the firm's identity. This research study will include a consumer electronics service firm located in Northern Pennsylvania that was opting to outsource their customer service to a domestic company located in the United States. The pseudonym for the company name was Megan Bay Enterprise (MBE).

## 2 LITERATURE ANALYSIS

The scope of the literature review in this section includes existing research of peer-reviewed publications, books, dissertations, and Google scholar to provide supporting evidence of the influencing factors that attract corporations to pursue outsourcing. When offshore outsourcing for smaller finance departments became attractive; according to Stuart (2011) Rhapsody Music Company's vice president of finance outsourced most of his finance and accounting work to India. The estimated price of two U.S.-based employees was about equivalent to five full-time employees in India, with the option of scaling up and down as necessary. Similarly, according to a recent study by Alsbridge's outsourcing advisory firm (as cited in Stuart, 2011), the price of finance and accounting in outsourcing has decreased between 6% and 8%. Market competition was the primary driver of the business decline as outsourcing providers took smaller profit margins in order to prevail in business (Stuart, 2011).

Deloitte Consulting survived in 2003 as one of the world's top 100 financial institutions and would make annual cost savings of \$138 billion in 5 years by moving operations to offshore locations (Yao et al., 2010). In comparison to outsourcing done in the UK, a study done by EquaTera of more than 400 outsourcing contracts found that UK firms that used offshore resources rose from 57% in 2007 to 66% in 2008 (Weerakkody&Irani, 2010). The results validated that 89% of the organizations that opt for offshore outsourcing review IT service offered from India as a guide. The results confirmed that 1 in 4 multinational corporations outsourced software requirements to Indian companies (Weerakkody&Irani, 2010). A survey by Deloitte Consulting in 2005 revealed that 70% of respondents mentioned the primary reason for outsourcing was cost savings (Yao et al., 2010).

Monaghan (2011) conducted a study on outsourcing of passenger aircraft maintenance on domestic flights to determine a firm's decision to outsource. Airlines outsource major aircraft inspections and modifications to domestic and international location to reduce cost (Monaghan, 2011). The Global Airline Industry Program findings indicated the total outsourced flight equipment expenses increased from \$1.726 billion in 1996 and to \$4.165 billion in 2006. Outsourcing of airlines maintenance rose from 30% to 50%. Nine major air carriers have now been outsourcing 71% of heavy maintenance (Monaghan, 2011). In comparison, to reduce cost, United Airlines has outsourced all of its Boeing 747 and 777 heavy maintenance work to China and Korea (Murray, 2009).

## 3 METHOD

The ability to gain an understanding of how successful outsourcing ventures were conducted is essential for companies that are considering the prospect of transitioning from in-house employees to third-party employees. An important dimension of the research was to obtain data from MBE organizational employees on factors that could influence their decision to outsource. The research approach was placed on interviewing MBE organizational employees and at a later date presenting the results to MBE decision makers that were reluctant to take on outsourcing. MBE's reluctance to outsource had a correlation to existing research that documents outsourcing ventures failures encountered by Deloitte Consulting whereby 50% of outsourced arrangements failed (Ravindran, 2010); and where vendors encountered poor communications, ineffective management, and vendor opportunistic behaviors (Niranjan & Rao, 2011).

The focal point of the research was to provide my academic analysis of feedback given by MBE organizational employees to as the MBE decision makers who pondered on the essential factors in their decision to outsource. Data collection was done primarily through face-to-face interviews with employees of MBE organization for access to provide results that would confirm their values and beliefs and set the tone for possibility of outsourcing by the firms' decision makers (Hajebi et al., 2012). The research study's selection of the participants' population, data collection, data organization, coding, analysis, and identification of themes are explained below.

### 3.1 PARTICIPANTS

The participant population for this exploration consisted of a purposeful sample of MBE outsourcing decision makers that comprised of 20 members of the organizational management team with a range of 1 to 15 years of working experience. The selection of the operational managers with the varied years of working experience was to allow for comparison of their day to day operations in this research to explore potential benefits of outsourcing. Participants acknowledged and signed the consent forms to participate at the MBE office location before scheduling and conduction of formal face to face interviews occurred. The participants were assured confidentiality of by coding names as MBE study 1, specifically MBES1, MBES2, to MBES20 when reporting the results of MBE potential to outsource instead of performing customer service tasks in-house.

### **3.2 PROCEDURE**

This research was limited to MBE Corporation and the desire for upper management to understand the benefits of outsourcing instead of conducting customer service in-house. In this single-case exploratory study my role entailed gaining access to the MBE corporation, purposefully sampling research participants, conducting the interviews, coding and interpreting data, and explaining the results to the MBE corporation. Data collection using six open-ended interview questions designed for reading existing peer-reviewed literature on the benefits of outsourcing. The selection of the questions was to stand on previous researchers' shoulders as I explored the benefits of outsourcing and their correlation to MBE Corporation. Interviews were conducted face-to-face at the MBE location at the participants' convenient time where they provided answers to the open-ended questions about MBE day to day operational management. The interview data was then transcribed and NVivo 10 software was utilized for data coding to gain common themes from participants interviews. To compare and contrast the participants' coded data, the participant names were coded as MBES1, MBES2, to MBES20 and years of experience as MBES1.1, MBES2.2, to MBES20.15. In this research, data from participants was analyzed to identify if the participants perceptions of the benefits of outsourcing outweighed those of conducting in-house customer service at MBE Corporation.

## **4 RESEARCH FINDINGS**

The purpose of this research was to explore and assist the decision makers in outlining the benefits that MBE would acquire by their choice to outsource instead of using in-house employees to perform the customer service tasks. The specific themes derived from coding and analyzing the data included (a) cost reduction and innovation: outsourcing removes the need to recruit, train, and retain an experienced and qualified professionals; (b) clients achieve a competitive advantage by enforcing cost reductions, especially with respect to labor costs and focusing on core competency; (c) improve performance, whereby firms outsource for access to specific skilled labor; and (d) firm can gain efficiencies. To show that the benefits of outsourcing outweighed MBE current process of conducting the customer service in-house the results were directly linked to a scholarly presentation of existing research as explained below.

### **4.1 FACTORS INFLUENCING MBE DECISION TO OUTSOURCE**

**Cost reduction and innovation.** The participant results contained similar perspectives that cost reduction and innovation could improve if MBE outsourced their customer service to third party companies. To share evidence of cost reduction and innovation the participant feedback was compared to existing research where an annual survey on business process conducted by Capgemini and International Data Corporation (IDC) in 2006 (as cited in Yao et al., 2010) confirmed outsourcing cost reduction of 41% and innovation drive of 35%. In comparison, an analysis completed on Gartner Incorporated confirmed that businesses spent 3.1% more on IT outsourcing services globally in 2010 than 2009 (Flinders, 2011). Gartner Incorporated IT service sales were worth \$793 billion in 2010, compared to \$769 billion in 2009. A decline existed of 5.1% in outsourcing spending in 2009 when compared to 2008 (Flinders, 2011). In this research, the cost reduction and innovation were elements that participants shared as they pondered on the benefits of MBE decision to outsource. The outsourcing practices could give MBE corporation opportunities to lower costs, focus on core competencies, improve performance, and gain efficiencies, (Thakur, 2010).

**Cost advantage and focus on core competency.** Participants shared that cost advantage and focus on core competency was essential for MBE's success. Their emphasis was that outsourcing could generate needed cash if their corporation could sell assets or transfer employees to vendors. Participant MBES1 and MBES15 shared that "cost advantage may come from reducing or eliminating investments or investment renewals." Using the existing research, the speculation of cost advantage benefit by corporations is reliable because the vendor services are more proficient and offer efficient services using technology than the client's (Pouder, Cantrell, & Daly, 2011). In addition, outsourcings in IT services have seen a global increase after a slowdown because of the recession (Pouder et al., 2011). In comparison, outsourcing can allow firms to focus on their core competencies (Crişan et al., 2011). A core competence is an activity at which firms excel and contribute substantially to a competitive advantage (Pouder et al., 2011). In this perspective, MBE can focus on consumer electronics innovation and outsource customer services to third party companies that have systems and personnel specialized in handling consumer demands. MBE would be successful by utilizing Business process outsourcing (BPO) as they ponder and finalize their decision to outsource customer service. The evolution of BPO is an indication of enabling the organization to nurture the available knowledge and utilize the resources at the optimum level (Mani, Barua, &Whinston, 2010; Mehta, Sharma, & Mehta, 2011).

**Improve performance.** Participants' feedback confirmed that there existed a high turnover of employee and the existing employees lacked the essential skills to effectively handle customer support. In my analysis of the data and presenting the results to MBE, I emphasized that firms outsource for access to improve performance utilizing the specific skilled labor. For example, India has highly educated, technologically trained workers among a population of more than one billion people. The population in India is growing at a rate of 1.9% yearly, with a slight majority rate (61%) of the population being literate. India produced the largest pool of technical and scientific personnel in the world (Combs, Clapp-Smith, & Nadkarni, 2010). In comparison, firms are outsourcing work that do not form part of the business core. Outsourcing gives access to focus on basic competencies in organizations. Clients can focus on business while the vendor firms cover the business needs contained in the outsourcing contract (Gonzalez, Gasco, & Llopis, 2010).

**Gain Efficiencies.** Acquiring of technology that was up-to-date with other competitors was a challenge as confirmed by MBE participants; they expressed their disgust in the ability of the computer systems to capture consumer data for usage in monitoring of trends in analytical processes. In my academic analysis of MBE and outsourcing, I presented to MBE decision makers that a firm may integrate a vendor's unique skills and capabilities, thus gaining access to sophisticated technology (Rahman, 2011). A well-utilized outsourcing organization aids in companies being competitive (Lee & Choi, 2011). Considering enhanced operational flexibility firms can achieve considerable advantages outsourcing. The quality offered by information services can improve staff performance and create better management systems. In comparison, outsourcing firms can also coordinate, control services, or have a stronger commitment to ensuring positive alliance with the client work (Rahman, 2011). Kim (2010) examined Toyota's high-performance supply network, to frame the relationship between Toyota and its U.S. based suppliers in tie-strength terms. Initially, the relationship was weak in the sense that the ties were new with little exchanges of co-specialized assets between parties, and the interactions occurred inconsistently and infrequently. The findings confirmed Toyota as strategically oriented. In the supplier relationship, management is concerned with developing a close and developmental relationship with every one of its suppliers.

#### 4.2 DISCUSSION WITH MBE DECISION MAKERS

The research findings were also discussed with MBE decision makers as they pondered on the benefits that they could potentially acquire by selecting the choice to outsource instead of using in-house employees to perform the customer service tasks. In the discussion MBE's decision makers expressed that their attraction and desire to outsource was elicited by the evidence presented in this academic research. The collected data from participants confirmed that the cost to conduct in-house customer service exceeded the firms budgeted dollar amounts by 25% for the fiscal of 2012. To address the 25% increase in cost and have the ability to focus on core competency, the review of the existing MBE's collected data took place. The findings from the collected data exhibited evidence that the additional costs were associated with money spent on employee rehire and training to suffice the organization.

To reiterate my analysis to MBE decision makers I presented to them the existing research with evidence of fourteen percent of the companies who were able to focus on core competencies when they opted to outsource (Yao et al., 2010). Secondly, MBE's need to recruit, train, and retain an experienced and qualified professionals impacted their allowable expenses to run a customer service department and outsourcing is used by firms to achieve a competitive advantage by enforcing cost reductions, access to specific skilled labor, and ability to focus on core competency (Kuzaqui, 2013; Yao et al., 2010). MBE's decision makers considered outsourcing as a viable option for their firm to reduce their costs increase of 25%. The option to outsourcing the customer service division would allow MBE to succeed in reducing the labor cost spent to run a customer service department in-house and have the ability to invest the saved funds into product development which was their core competency.

#### 5 LIMITATIONS AND FUTURE RESEARCH RESULTS

The limitation of this research pertained to the following (a) participants from the MBE organization, (b) participants experience and views on outsourcing, and (c) allowed time to conduct the face-to-face interviews. The number of participants willing to participate in the study could hinder the generalizing of the study to a larger population because of the limitation of the participants only within the MBE organization. Future researchers can explore participants from multiple electronics companies to understand their desire to outsource and conduct a cross-examination with the findings from MBE organization. In additional research can be conducted on multiple companies whose core competency is not related to electronics; the use of multiple organizations could afford researchers an opportunistic access to explore the organization to determine if the MBE results can be replicated.

## 6 CONCLUSION

In this research, there exists evidence that outsourcing practices could provide MBE and other organizations' managers' opportunities to benefit from cost reduction and innovations, cost advantage, and focus on core competency, improve performance, and gain efficiencies. The success of the outsourcing firm and the vendor providing the services has a correlation with constant analysis and modification of services not meeting the firms' objective. The monitoring will ensure attainment of set objectives because many outsourced services fail because of inflexible contracts, poor communications, ineffective project management, and rigid contracts (Cordella&Willcocks, 2010; Susarla, 2012; Mclvor, 2010).

Outsourcing was a worthwhile decision to achieve the desired result to minimize the labor cost increase of 25% by MBE. MBE's choice to outsource their customer service department would give the organizations the cost saving advantage and the ability for their personnel to focus on their core competencies of product development. To minimize failure, outsourcing decision makers need to understand companies' performance before signing of contracts. Outsourcing firm's decision makers must confront several issues to save resources and to minimize total costs such as (a) is there a clear reason to outsource, (b) does the company have a developed framework, and (c) can the framework apply to real firms outsourcing problems (Vining &Globerman, 1999). In this study, MBE having an apparent reason to outsource and closely analyzing outsourced projects and services was essential to ensure that MBE meets their desired results.

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