

## **Outsourcing approach and its driving reasons**

Outsourcing approach is a modern business model of efficiency for most of the companies in today's rapidly changing market. Outsourcing is a powerful tool when used appropriately (as per Victor Hugo “nothing is the world is so powerful as an idea whose time has come”). Outsourcing is a term invented by the information systems trade press in the late 1980s. It was coined to describe the growing trend of large companies. “Outsourcing” is the act of transferring some of an organization’s recurring internal activities and decision rights to outside providers, as set forth in contract. Because the activities are recurring and a contract is used, outsourcing goes beyond the use of consultants. As a matter of practice, not only are the activities transferred, but the factors of production (resources include people) and decision rights often. Taken into consideration, decision rights are the responsibilities for making decisions over certain elements of the activities transferred. The outsourcing decisions is always driven by a strategic & tactical (both) ways and problem solving mentality. The outsourcing initiative becomes strategic when it is aligned with the organization’s long-term strategies, and when the typical outsourcing benefits will emerge over several years. Strategic outsourcing is associated with the organization through its vision, core competencies, future structure, future costs, future performance and future competitive advantages. There are “top six reasons to outsource” can be summarized as follows:

### **Organizationally driven reasons:**

- Enhance effectiveness and increase flexibility to meet changing business conditions, demand for products and services, and technologies
- Transform the organization and increase the package and service values, customer satisfaction, and shareholder value.

### **Improvement driven reasons:**

- Improve operating performance

- Obtain expertise, skills, and technologies that would not otherwise be available
- Improve management and control.
- Improve risk management
- Acquire innovative idea and improve capability and image by associating with superior providers

**Financially driver reasons:**

- Reduce investments in assets and free up company resources for other purposes

**Revenue-driver reasons:**

- Gain market access and accelerate expansion by tapping into the provider's developed capacity, processes, and systems
- Commercially exploit the existing skills

**Cost driven reasons:**

- Reduce costs through superior provider performance and the provider's lower cost structure. Thus, Turn fixed costs into variable costs

**Employee driven reasons:**

- Give employees a stronger career path
- Increase commitment and energy in non-core areas