

# Studying the Effect of Service Outsourcing on Efficiency

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## Abstract

After finishing of the age of vertical integration in which all organization have implemented all stages of their activities respecting the supply chain, the age of outsourcing is started now. Nowadays, one of the concerns of the manager is to assess and monitor the outsourced process. These activities are sometimes affected by individual reference and thinking orientations of the expert, which may cause the future activities to recreate. In this research, efficiency improvement in the outsourced services in the south pars special economic zone organization is assessed. The statistical society includes all related managers and employees of the organization in zahedan. Then, 196 persons who have been present during the whole outsourcing process are selected this research is based on the quality sheet which chronbach is equal to. /875. The following items are considered for the efficiency assessment process: strategic management, human resource, cost, speed of services, quality of services, and customer satisfaction. This research show that the result of outsourcing in strategic management and human resource aspect are acceptable but not in cost, speed and quality of services aspects.

**Keywords:** Customer Satisfaction, Efficiency, Outsourcing of Services, Quality of Services, Strategic Management

## 1. Introduction

Today, issues such as increased competitive pressures, business difficulties, limited resources, technological sophistication and more specialized tasks, accelerating of environmental changes, uncertainty about the future, rising costs, too much large size of some organizations (especially public sector) and as well as legal restrictions have caused organizations to rethink their management models and turn to new strategies to achieve a competitive advantage in today's world of business. One of these strategies is focus on core competencies and

transfer of many activities of sources out of organization (outsourcing)<sup>4</sup>.

Outsourcing of services and activities every day takes a wider scope and not only welcomed by the governments, but also has attracted the attention of private companies; it would be a precursor to organizational productivity. Given that the productivity is consists of two components, the efficiency and effectiveness, researcher is to review the effects of the outsourcing activities from the two above-mentioned perspectives. Thus, according to the organization's priorities in order to achieve productivity, dimensions of focus on core activities (strategic

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management), efficient use of expertise inside and outside the organization (human resources), operational costs reduction (cost) improved speed of services (speed), improved the quality of services (quality), increased customer satisfaction (satisfaction) are of interest to the organization.

## 2. The Concept of Outsourcing

Outsourcing is formed of the words “out” and “deposit”. To define outsourcing first, the meaning of the word “deposit” refers to the work assignments, responsibilities and decision rights to someone else. Deposit or transfer operation is usually performed by an external group. It means that the ratio of the unit that do depositing is considered exterior. So we apply the word “out”. Outsourcing is the following: Transfer or assignment of the work of one or other entity, the outsourcing is transfer of work to foreign contracting party. Outsourcing requires the transfer of production factors, the resources used to perform a task or responsibility for the decision and the right decision<sup>8</sup>.

### 2.1 Process of Outsourcing

Company executives could affect the business in several ways, often are not able to do so through general guide lines, that this is also true for outsourcing issue. Complex outsourcing contracts are concluded at company level. If our decision is on focus custom work, a useful way is to draw contract framework, to manage negotiation direction with suppliers of services. The contract framework can help the entity in the economic evaluation of the transaction costs, including costs associated with finding suppliers, negotiating to reach a deal and can

also provide a means to achieve stable control of the company. Questions about outsourcing are increased often when the investments associated with it are large. Such investments should be considered first from the look of the strategies and competitive requirements of the company. In the first step of analysis, managers need to assess their strategic directions. This often requires much time and effort of the different levels in the company. Second step in the analysis, proper assessment of internal capacities required, maintained, developed or even destroyed. Outsourcing is often the result of an open, transparent revision of its restrictions for the flexibility, control and competitiveness. This type of analysis is very difficult to manage. Since internal departments tend to continue their activities, often the cost of doing it by external providers is less. Third step is clear exposition of the market that is a major obstacle in the development of strategic outsourcing. Complexity of outsourcing demand from services providers in the field of outsourced support services creates challenges. Fourth step is to referring to run of the discussions. Company managers must be able to handle negotiations for large volumes of contracts and provide guidelines for their business. In particular, they should be able to provide the framework contracts to ensure a high level of correlation in their organization.

## 3. Productivity

Man has always been and always focused on its economic efforts to achieve maximum results with minimum effort and resources. This tendency can be named longing to achieve additional “productivity”. All human inventions, from the basic tools used in primitive times, to the most complex mechanical and electronic equipment at present

**Table 1.** The general policies of outsourcing<sup>3</sup>

|                                                             |                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Formulating strategic goals                                 | Specify the position of the company, the cost of separation or concentration<br>Specify the main and non-core activities List possible opportunities                                                                                             |
| Assessment of internal positions                            | List potentials Evaluate the cost of internal activities Evaluate the risks associated with domestic operations Evaluate Outsourcing practical level                                                                                             |
| Evaluation of external potentials and competitive landscape | Evaluate Structural options and competitors performance in relation to the outsourcing of business activities Evaluate external suppliers performance in terms of costs, structures and competences Evaluate the risks associated with suppliers |
| Define policies for outsourcing business                    | Develop various financial weights Specify detailed specifications of suppliers Provide policies for the decentralization level in outsourcing of activities and draw contractual framework for the business units                                |

time, are affected by the same desire and passion. Every wise man wants to do the best and yield the best interest. It is a few years that Abtahi and Kazemi<sup>1</sup>, have opened the debate about “productivity” in the scientific and social issues as well. In intense global competition and rapid technological progress in the field, now policy-makers and managers have considered “increased productivity” as an instrument and sometimes as the goal. Productivity is a comprehensive concept that its increase is a necessary to improve lives and build a more prosperous community that is a national goal for all countries in the world, that it is considered by experts in politics and economics. Following excellence in knowledge and human insight in economic and social issues, the concept of productivity in terms of form and content changes gradually and constantly new aspects of the phenomenon is accepted.

### 3.1 Productivity Concept

In today’s dynamic and complex situation governing on social, political and economic environment one of the factors that can contribute to the survival of the organization, is the issue of productivity, and for the first time the word “productivity” was used by a man named (Quinzi) in 1776 AD, later, a man named “Litre” in the 1833 AD defined productivity as “power and the ability to produce”. Taylor in 1881 started a revolution in productivity that can be considered as the date of formal studies and management of productivity<sup>9</sup>.

Factors affecting productivity:

Improving the productivity is not only performing better, more important is to perform better right things. The production process is a complex social, continuous and changing system. Relations between labor, capital and organizational social environment are so that they are in a perfect harmony is important. Productivity improvement depends on how we identify and apply the main causes of social- Manufacturing systems. In connection with this, three groups of main factors distinguish productivity from each other:

- Job-related factors;
- Factors related to resources;
- Factors related to the environment;

Given that the main subject of our review is productivity so the factors that should be analyzed and affected by them are greatly reduced. Classification proposed here is based on the report of “Mukherjee” and “Singh”.

## 4. Outsourcing from the Perspective of Productivity

Organizations need to outsource some of their processes to achieve productivity. The productivity is formed of the two main components of “efficiency” and “effectiveness”, that the “efficiency” is related to determine the needs and demands of customers and the “effectiveness” includes the resources they use. Evaluation of each of these two elements measures the productivity. From another point of view, effectiveness is looking at out and the efficiency is looking within the organization. To measure the efficiency organization deals with its internal operations and how it use resources rather than finds every service has caused how many monetary units, and based on standards to what extent the cost is justified. In assessing effectiveness, the organization looks out to see what impact service has had on society and customers. Sometimes outsourcing organizations is to achieve greater efficiency and sometimes in order to achieve effectiveness. Of course, outsourcing some work is done because the management of these activities has allocated much time to it. Outsourcing in this case makes the managers to deal with broader issues in line with the objectives of the organization without thought concern, which would have a direct impact to increase the efficiency<sup>6</sup>.

One of the importance of outsourcing of free business processes is the time of executives from daily responsibilities. So, basically 80% of the time of executives is spent for management of Minor Affairs in normal mode, and only 20% is spent to develop strategy. However, when outsourcing business processes are successful, the managers will have enough free time to explore new revenue areas, accelerate other projects on customers, which ultimately will lead to improvements in productivity.

## 5. Conclusion

Obviously, outsourcing is now considered one of the most important management strategies that can respond to the diverse demands by effective ways and monitor organizational competitions.

In an era when managing carefully reviews the costs and benefits of investing in any decision, results Outsourcing is crucial. Also today given the breadth

and diversity of tasks in the organization and the need to transfer departments and the main tasks to the people with the necessary expertise with least cost and high quality products under the light of the speed of doing works and keeping people and staff satisfied are of the undeniable requirements of today's organizations to survive in the marketplace and have the ability to compete with competitors in the market at the global level and finally achieve the productivity.

The results of this research will help us understand outsourcing properly and minimize limitations arising from the use of this strategy. The research consists of six hypotheses, which every six hypotheses were reviewed in different dimensions and consequences of any assumptions will be described separately in the following. The results can be outlined as follows.

Organization, to survive and grow in a changing, and dynamic environment, must focus its activities on its core competency and focus on their core activities and must outsource its non-core activities. As well as identifying the core competencies of the company and try to focus on these activities, so that by focusing on these activities the company can gain a competitive advantage over other competitors in the market. And since outsourcing as a simple administrative and economic tool, day-to-day finds more applications, managers of South Pars Special Economic Energy Zone Organization should use outsourcing strategies, therefore, they need outsourcing strategic planning in the South Pars Special Economic Energy Zone.

To develop human resources and also reduce the outsourcing impacts and promote industrial relations in the organization we must first prepare the people to accept the structure and for this work we can provide information and hold multiple conferences to provide accurate and transparent information by preparing booklets, leaflets, direct talks and multiple conferences; also, we should adopt the strategy of "win, win" instead of "win-lose" strategy. Exit of surplus powers at the same time, due to a lack of traction in the market will lead to many problems in practice that sometimes we may have to return them to political reasons, therefore plan should

be implemented at different levels and in the long term.

Remove invest in activities that have been outsourced: During a survey conducted by the organization, it became clear despite outsourcing activities, yet the organization invests in some of the activities that have been outsourced that this would increase the cost of rework and operational. Management of costs and eliminating unnecessary operations, managers and administrators can identify non-essential operations as well as flawed activities and processes, resulting in increased rework incomplete in the organization and help cost management.

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