



## Outsourcing and its Relatives

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*Abstract: Outsourcing became a relatively well-known term in the last three decades both in the academic and the business world. Contrarily or because of it there are so many different terms around the outsourcing model that many times it could confuse even the experts of the area. The aim of this research to collect all important outsourcing terms, organize them, create a framework or grouping them with different viewpoints. The framework could help to understand the similarities and differences about the different classes.*

*Keywords: Outsourcing, Global sourcing, Crowdsourcing, Outtasking, Contracting-out*

### 1 Introduction

In order to decide which processes need to optimize it is worth to analyze the business processes in terms of the volume of transactions, their strategic importance and the cost of the process. There is no need to optimize those functions/services that the company can provide in-house cheaper and better in comparison with competitors. In case of the strategically less important processes it may be considered that certain parts of a service will be purchased from an external service provider. However, if the cost of service providing overtakes the market costs or the competitors' cost level or maybe higher, then it needs to optimize the processes. (McIvor, 2009)

At strategic key processes the classical process optimization techniques could be useful, because of their merger with the core activity the organization consolidation will not benefit, and the outsourcing is not an option because of its strategic importance. The optimization by organizational consolidation could be a good solution for strategically less important processes, but it has to be decided, that the service functions should concentrate into a corporate center or a shared service center as an independent organizational unit. To make a good decision it is important to analyze the processes of strategic importance and the volume of transactions (the frequency of implementation and the necessary and allocated capacity to it). (Bodnár & Vida, 2006)

The decision should take not once, but every company must create a sourcing strategy which is about holding the services or activities inside or outside of the organization or maybe some sort of combining these two. It is called in the literature as multisourcing and hybrid models. (Cohen & Young, 2005)

The sourcing activities could be implemented in four ways in an organization (Cohen & Young, 2005):

- creating (and maintaining): this is the traditional organizational operation, in which the organization uses its own resources to carry out its activities, produces and provides the services. It included in-house (internal services) or insourcing solutions;
- buying: the organization provides services from external sources. These include a variety of outsourcing solutions;
- cooperation: where two or more departments (or organizations) create a solution from common resources. It includes joint venture, netsourcing or a consortium;
- competition: when the company integrates the market approach into the organizational operation (like quality, fee, cycle of provision). This often leads to the formation of spin-off companies or the development of internal service centers (shared service center model).

This study deals only with the second option, the buying when the company buys a basic service from outside partner.

## **2 Research aims and methodology**

In the literature, there are a lot of different types of outsourcing and the business practice could vary them further. It could cause a confusion for researchers and corporate experts to understand the differences among them. The aim of this study to use a broad literature review to clarify the similarities and differences among the outsourcing types and build an outsourcing framework that summarize the characteristics and help to use the terms correctly.

## 3 Outsourcing

### 3.1 Outsourcing in general

The term of outsourcing (comes from the phrase of "outside resource using") means handing over a business or organizational functions (traditional outsourcing) or the whole process (business process outsourcing, BPO) to an external service company. This external service company will offer the required service the amount required at the market price. It also means outsourcing when the company terminates an organizational function and buy it from an appropriate service provider. The definition of Bögel-Salamon's definition is cited by Hinek:

*"The outsourcing is essentially nothing more than the transfer of those activities to an outside contractor that were previously performed within the company."* (Hinek, 2009, p. 11)

The outsourcing is based on many management theories but the most important and influential two theories are the transaction cost economics (TCE) and the resource-based view (RBV). Within the TCE theory Coase (1937) and Williamson (1987) specified the conditions under which an organization should manage economic exchange internally or externally. The latter one is the outsourcing. Within the RBV theories Barney (1991) views the organization as a bundle of assets and resources that can create competitive advantage, assuming the resources are employed in distinctive ways. Superior performance achieved internally in an organization relative to competitors would explain why these activities are performed internally and not outsourced. Prahalad and Hamel's (1994) core competence theory has emerged from the RBV. It refers to such activities that a company would be able to perform it as well, but compared to the external service provider with worse efficiency. If the company realizes it and tends to make decision, then many times to choose outsourcing model. (Gerbl. et al., 2009)

Based on complexity in design and execution the literature use the term of transactional outsourcing that means a fairly low level of work that entailed process and contact centers. (Gerbl. et al., 2009) The outsourcing is mostly chosen by organizations to concentrate on core activities (core competences) and thus reduce operational costs and possibly improve service quality as well. But it may be chosen due to introduce and manage certain organizational changes. This type is called in the literature as reorganizational outsourcing or transformational outsourcing. This is a risk and benefit-sharing cooperation, which enable the organization to significantly improve the operational processes. (Corbett, 2004) (Marciniak, 2013)

### **3.2 The outsourcing framework**

In the grouping of outsourcing, there are more viewpoints that could help to classify the different terms. The first viewpoint is the scope of the outsourcing. It concerns those questions which business processes and how a large proportion of a business function will be outsourced. The two typical subtypes are the task-oriented and business-oriented outsourcing. The former is the classical, the latter is the business process outsourcing. The business process outsourcing could happen in three different ways as selective, transition and total outsourcing. Very similar to the selective outsourcing is the pilot or the organic outsourcing. One important subtype of the business process outsourcing is the knowledge process outsourcing.

A second viewpoint to the grouping could be the control over the process outsourced. Contracting out and full outsourcing means different levels of control over the processes.

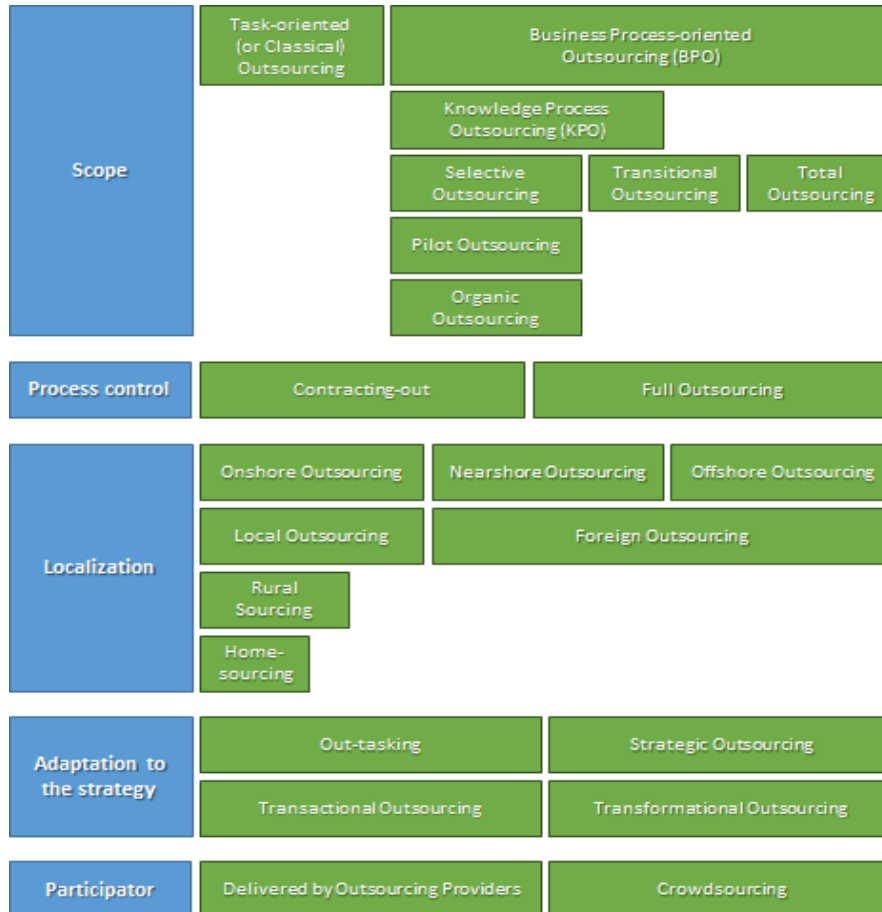


Figure 1  
 Grouping of Outsourcing types  
 Source: own work

The localization of the outsourcing provider also classifies the outsourcing terms. Besides the local (onshore) and foreign (nearshore, offshore) outsourcing it is very interesting the rural sourcing and the homesourcing.

The adaptation to the strategic viewpoint concerns about the duration of the contract and the role of the outsourcing in the organizational strategy.

The last viewpoint is the participator which means who deliver the functions to the recipient organization. Typically that it is an independent market player, an outsourcing service provider, but it could be a group of people (the crowd) as well. The latter is called as crowdsourcing.

The framework includes only the most important subtypes of outsourcing. In the following parts will be introduced every type of the framework in more detailed.

### **3.3 Subtypes of Outsourcing**

#### **3.3.1 Business Process Outsourcing**

Process-oriented outsourcing involves the provider who takes responsibility for executing a business process such as customer contact, and delivering it to the client as a service, often referred to as business process outsourcing (BPO).

In the literature as a part of BPO the high value-added process outsourcing is called knowledge process outsourcing (KPO). Such higher value-added processes are in the literature, e.g. R&D, business and technology analysis and market research activities. But there are other similar outsourcing types like recruitment process outsourcing (RPO) as well.

The business process outsourcing could be grouped in three different subtypes:

- selective outsourcing involves outsourcing a limited ratio (20-80%) of activities associated with the business process. It has been chosen mostly in the two cases (Oshri, et al., 2009):
  - o if the company outsources the entire activity concerned, could lose the in-house knowledge to be able to verify the supplier at an appropriate level;
  - o if the company does some work in-house, then it is a daily, operational knowledge and information that it is necessary for the efficient operation of a reporting system;
- transitional outsourcing involves outsourcing the process to a supplier on a temporary basis;
- total outsourcing (more than 80%) involves outsourcing the entire process to a vendor.

In most of the cases, the selective outsourcing means as pilot outsourcing. In this case, only a sub-area of a certain activity is organized out by the first round, but allows the provider to ensure that, in the medium term be able to acquire the remaining parts of the task. The advantages of this approach is to focus on the relatively small area of the service and there can achieve the highest possible level of service quality. It ensures time for the receiving organization to examine the benefits of the outsourcing. This is actually the same as or very similar solutions as the so-called. Organic outsourcing means the case when the receiver buys only smaller task from the service at first time and if the cooperation is successful, it

will gradually involve more and more functions and process parts. This model is rather opt for smaller providers, which in many cases will not be able to take over the entire business process firstly, but do it later with the organic growth of its organization.

The outsourcing contracts of the non-profit and public sector is called as contracting-out. It means a contract when the function will outsource but without the transfer of control.

### **3.3.2 Classical outsourcing types**

The classical outsourcing means an outsourcing only a specific function or service of the organization.

In the business practice one type of the classic outsourcing has a very vital role it is the information technology outsourcing (ITO or Information and Communication Technology Outsourcing, ICTO). The other known subtypes of classical outsourcing of finance and accounting outsourcing (FAO). But there are other subtypes of classical outsourcing activities like human resource outsourcing (HRO), procurement outsourcing (PO), etc.

### **3.3.3 Strategic outsourcing and Out-tasking**

Strategic outsourcing is a sophisticated tool for achieving or exceeding long-term corporate objectives. It has four main characteristics:

- it involves a fundamental executive decision to reposition the business positively through a large-scale strategic change program;
- mitigation of the associated risks through the contractual leverage of specialist third-party experience, resources, assets and skills;
- commitment to the concerted management and motivation of such relationships at every organizational level, especially by the executive team;
- focus on ensuring of the key objectives that create the stakeholder value in a measurable and sustainable way.

In the literature the small-scoped, not a complete process involving, relatively short-term (up to one year long) contracts are called as out-tasking. In this case, the outsourcing organization retains the control of the strategic task.

### **3.3.4 Onshore, nearshore, offshore outsourcing**

The outsourcing could geographically grouped according to the source location which means the place where the service is provided. Thus, the literature talks about onshore, nearshore, offshore outsourcing. In the case of onshore outsourcing the recipient is in the same geographical area, in nearshore outsourcing the areas is adjacent and in offshore outsourcing, there is a large geographic distances between the recipient and the provider. The onshore outsourcing is called as a local, the nearshore and offshore as a foreign outsourcing.

### **3.3.5 Rural sourcing**

The relatively new rural sourcing concept refers to a kind of outsourcing in which model some tasks that can be performed as telework will be outsourced from urban areas with higher wages and skill shortages in rural areas. This is essentially a type of onshore outsourcing that may even be a solution for certain structural problems in the labor market. (Berta, 2011)

### **3.3.6 Homesourcing**

In the case of homesourcing, the activity is organized home to a workforce that prefers or exclusively (e.g. because of disabled status) is working only from home, instead of a workplace. Typically, such work can be a call center or telephone sales work. It means that it is not necessarily flexible working hours only the place of work is different from the traditional office work. However, usually part-time employees used this model (e.g because of being on maternity leave). But the organization also may benefit from the homesourcing, since it is not necessary to ensure (or only minimal) working infrastructure, which saves the company a lot, but nowadays it can easily check the work with different IT tools. (Marciniak, 2014)

### **3.3.7 Crowdsourcing**

Recently among certain companies (e.g. Getty Images, InnoCentive, YourEncore, NineSigma, etc.) spread the so called crowdsourcing model, which is also a version of outsourcing. The concept coined by Jeff Howe, who said:

*"simply defined, crowdsourcing represents the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call. This can take the form of peer-production (when the job is performed collaboratively), but is also often undertaken by sole individuals. The crucial prerequisite is the use of the open call format and the large network of potential laborers."* (Howe, 2006, p. 15)



In this case, an external expert is hired who were recruited mostly on the Internet, and involved in a complex task to solve one part of it. The use of it ranges wide from the typing of handwritten forms through the implementation of telephone research, till data cleaning, database building, customer service or other tasks. (Sütő, 2012)

The employed workforce in crowdsourcing does not require corporate training, office work equipment, and other benefits over salary and even may have a better knowledge than the corporate workforce. The work is realized through Internet, telework, in flexible time and only for one part of the total task. It well uses to perform well-paralleled task with large volume, but require human intelligence. The work carried out in crowdsourcing could have cost advantage of up to 60-70% compared with the outsourcing model. The costs might be lower by additional 10-15% since the employees should be paid only during the execution of the task, not during a training or between two tasks.

In some areas, such as software development, crowdsourcing can be absolutely competitive with other outsourcing solutions. However, the crowdsourcing is not suitable for every task and all companies. The biggest fears about crowdsourcing is related to the safety of intellectual property. The specialized needs of the task, the more complex the project, the closer the team-work, the less available the benefits of crowdsourcing.

Besides the security issues there is uncertainty related to the workforce as well. What is the guarantee that the workforce can do the job accordingly to requirements, do not leave the job at half time, does not reject the task, will not be disappointed in the payment terms or will not restrain the rights of work performed. In order to exploit the benefits of crowdsourcing the company need to build a private team to serve the company. In this private team there should be those expert members whose professional backgrounds were checked, whose knowledge meets the needs of customers and who enter into a confidentiality agreement, whose proper pay and incentive package agreed. (Marciniak, 2014)

The term is still constantly evolving and changing as more and more fields will be emerging. Crowdsourcing of tiny pieces of meticulous work has since expanded to several additional applications. The crowdvoting entrusts the crowd with certain decisions through voting, the crowdtesting involves the crowd into testing, crowdfunding is an online funding platform of various projects in which the community can help. In recent years more and more popular are those solutions that use crowdsourcing to solve creative tasks (design, writing, illustration).

The crowdsourcing model highly builds on the initiatives and ideas of insiders that may be used through a common online platform and can be built into the corporate practice. So essentially the crowdsourcing creates the basis for open innovation.

The open innovation concept was coined by Henry Chesbrough in 2003 who thinks that this is the opposite than traditional (closed) innovation. According to him, the open innovation is a targeted use of knowledge inputs and outflows to accelerate internal innovation and expand the markets for external use of innovation.

## 4 Conclusions

The research confirmed that it is not easy to see through the different kinds of outsourcing solutions. They could be grouped by many different viewpoints and within the viewpoint there could be different terms in the literature and business practice which can cause confusion among the experts as well. The research introduces a comprehensive framework about the subtypes of outsourcing and try to clarify the differences among the terms.

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