CHAPTER – 7

CONCLUSION & RECOMMENDATIONS
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7.1. Conclusions

The study has identified salient elements of business outsourcing process and makes a significant contribution to academic literature. Three main contributions of this study are that firstly, an outsourcing model that is strongly grounded in theory is presented and tested. Secondly, a rigorous multi-stage methodology is used to refine and validate new scales for constructs pertaining to the strategic evaluation and contractual completeness of outsourcing initiatives. Finally, a thorough empirical methodology is utilized to establish unambiguous prescriptions for the management of outsourcing initiatives. The managerial recommendations include:

- Considering the current situation in Iran which is turbulent; the survived of even the giant automobile players are at risks. All of the players in this industry, including automakers, suppliers and sales agencies will employ offensive structural reconstruction plans for coordinating and integrating with new facts. It is obvious that the winners are those who manage the economic recession period successfully, control cash and eliminate the unnecessary expenditures. At the same time automobile makers, should prepare themselves for recovery which is started from 2012. Accordingly continuous investment in new product development and creating new capacities are necessary issues. Meanwhile successful pioneers of the industry will continuously seek new ways to increase their revenues and protect their position in automobile industry.

- Outsourcing management teams must focus on the development of a cooperative and mutually committed relationship with the provider if they are to fully realize their performance expectations. This would carry a lot of significance in standardizing the process. It is a fact that it is the managerial cadre which is to either set or follow benchmarks in quality and other standards. This being done would mean that the focus would concentrate in the direction of performance.
Another outcome of this research study is that, the influence of strategic evaluation on outsourcing performance is only indirect rather than direct. But the true value of a more extensive strategic evaluation lies in its direct influence on relationship management which in turn directly influences outsourcing performance. The very nature of anything being strategic in nature is that it is planned to have an effect in the future and hence lies in its conceptual stage. It is necessary therefore to build awareness of the importance of strategic evaluation and to identify the areas of preference and work upon the same so that work done in the present would be of help in the future. It is the relationship building which matter the most in determining the success or failure in the future. The automotive industry currently in Iran does not have an integrated approach for outsourcing. The study reveals that outsourcing is not holistic but a piecemeal new functional approach. The capability and maturity level of the automotive industry in Iran is not up to the mark for implementing outsourcing on the basis of an ideal framework.

Contractual completeness does not guarantee improved outsourcing performance. This is yet another outcome of the research undertaken in the automobile industry in Iran. The reasons being the lack of knowledge of outsourcing process amongst key executives and the lack of structure in entering into off-shore and near-shore outsourcing contracts.

Outsourcing performance has positive influence to increase organizational performance alignment. This cannot be ruled out as it is the performance of the outsourced activity which too would have a bearing on the quality of the final product. No matter what is being outsourced, it is the quality which matters. It needs to be kept in mind that the finished good of one becomes the input for the other. Therefore if the quality of the input has a flaw it would project on the
next product. Same in the case where activities are outsourced. Here the quality and approach adopted would and could affect the image and performance of the organization and hence the effort that would ensure quality in the outsourcing performance. Good outsourcing performance will increase competency integration, empowered workgroup, organisational capability management, and quantitative performance management.

With the passage of time and also the dynamism of the environment it has been noted that any performance needs to be evaluated and tracked so that it is accomplished in a better manner. It is not only performing tasks but also to see that it is done in a manner which would be appropriate. In the study at hand the model developed measures outsourcing performance which if done well would mean that there would be a marked change in the way things are being done at present and also future.
7.2. Recommendations

This study presents an outsourcing process model represented by three factors hypothesized to influence outsourcing performance. Strategic evaluation, contractual completeness, and relationship management theoretically represent critical factors of the outsourcing process.

7.2.1. Strategic evaluation and outsourcing performance

From this study, it is recommended that management teams thoroughly consider not only the economic implications, but also the strategic implications of each outsourcing opportunity. The analysis indicates that a more extensive strategic evaluation does not directly lead improved performance of the outsourcing initiative. Instead it is indirect benefit of this knowledge which is of value. The knowledge gained from the strategic evaluation yields benefits in terms of effectively implementing the external sourcing arrangement, and enhancing the relationship management involved with the outsourced business activity.

7.2.2. Strategic evaluation and contractual completeness

This evaluation will lead to a better understanding of inter-firm resource coordination requirements, which can be facilitated through coordinative contractual provisions (Mellewigt et al., 2007) a more extensive strategic evaluation reveals the value and location of key capabilities as well as the potential risks involved with outsourcing a particular business activity. This knowledge can and should be utilized by management teams to craft effective coordinating and control provisions within their outsourcing contract.

7.2.3. Strategic evaluation and relationship management

It is this clarity of risks and capability requirements that allows the strategic evaluation to strengthen the effectiveness of relationship management efforts. In order to clearly articulate expectations to the supplier, the outsourcing organization must first internally comprehend its strategic goals and concerns. While the knowledge acquired by the strategic evaluation
is itself useful to the organization, its value to the performance of the exchange is enhanced when shared with the provider. Sharing the knowledge that results from the strategic evaluation establishes a mutual understanding of the objectives and concerns of the outsourcing firm, which in turn places the provider in a more informed position to allocate resources in a manner that is consistent with the goals of the customer. Thus, an extensive strategic evaluation creates a knowledge set encompassing capability value, resource coordination and development requirements, and the strategic risks associated with external sourcing. Capitalizing on this information allows the outsourcing firm to appropriately structure the relationship, and sharing it with the provider allows them to more effectively service the outsourcing organization.

7.2.4. Contractual completeness and outsourcing performance

In summary, it is not recommended that the findings associated with this hypothesis be interpreted to mean that organizations should not be concerned about developing a more complete contract. An effective contract can serve to structure coordinating routines, clarify responsibilities, and provide a legal means for addressing irresolvable disputes. However, firms need to be aware of the limits to which these efforts can ensure achieving performance objectives. These results make it clear that a more complete contract alone cannot be relied upon by firms to completely realize the performance objectives of their outsourcing efforts.

7.2.5. Relationship management and outsourcing performance

These results indicate that organizations that wish to incorporate outsourcing as part of their broader strategic plan must invest resources into the development of a strong relationship management competence. As organizations are continuing to outsource ever more important aspects of their value chain, they must be able to effectively coordinate and control outsourced business activities which no longer lie within their hierarchical control. Due to contractual incompleteness and the cost of managing contracts to the letter of the law, legal forms of redress are not completely
effective. Thus, organizations must invest in capabilities that allow them to coordinate and control outsourced activities using relational rather than formal mechanisms.

7.2.6. Outsourcing Performance and Organisational Performance Alignment

The abstract nature of high-level performance measures is such that it does not mean anything to the people who actually do the work. These measures need to be broken down into a set of more focused measures that are meaningful to employees at every level. Lifecycle Performance Management addresses the issue by translating each high-level target into a cascading series of focused performance as it is designed to drive specific behavior at a particular level in the organization. At every level employees are measured by something they understand and control with Lifecycle Performance Management which clearly links to the goals of their direct supervisor and the organization as a whole. In an organization, many business processes may span across business units and functional support groups. In order to avoid bottlenecks, redundancy of work and finger-pointing, shared performance measures that align people across organizational boundaries need to be identified and responsibilities accounted for. People are encouraged to collaborate thereby boosting the organization’s overall performance by shared and integrated performance measures.
Future studies concerning the drivers of outsourcing performance are warranted. The model evaluated in this study explains a substantive 25% of the variance in performance, yet also pointing to the need for understanding other elements of the outsourcing process that meaningfully impact performance through training program for key executives to increase their knowledge level of outsourcing and what organisation should expected. The evolving field offers many complexities that must be more fully understood. For instance, in a recent work Aron et al. (2008) offers initial insights into how advances in information technology are allowing buying firms to gain more control over their offshore BPO providers resulting in improved levels of process quality. Also, the current study does not find support for the hypothesis that contractual completeness has influence on outsourcing performance. Future research could look at specific outsourcing environments where the contract plays a more or less significant role in determining performance outcomes.

Alternatively, future empirical efforts could investigate whether a more complete contract when used in conjunction with other “enforcement” practices (e.g. monitoring, inspections, audits) would significantly influence performance outcomes. Additionally, there are often significant employee related issues that arise with outsourcing and complicate the implementation of the new sourcing arrangement. Future empirical studies could take a more focused look into these areas. For example, one could study a sample of outsourcing initiatives which result in layoffs or employee transfers.

Finally, it is often said that outsourcing alters the risk profile of supply chains. This notion offers rich opportunities for exploration. Future studies could seek to develop detailed insights as to how organizations can balance the potential financial benefits of outsourcing with the inherent risks (financial and/or strategic) involved. These are just a few examples of potential studies in what is anticipated to be a blossoming research stream.