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The Dynamics and Complexity of Outsourcing

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Abstract

Outsourcing has become very sophisticated and technology intensive. This is attributed to the demand for enhanced productivity and the maintenance of standards. It cannot be emphasised enough that skilled personnel is a key requirement when conducting outsourcing. This article investigates The Dynamics and Complexity of Outsourcing through the use of secondary method of data collection. The key findings suggest that the increase in outsourcing of core and non-core activities creates business opportunities. The successful management of outsourcing relationships, the adoption of Total Quality Management (TQM) and the skillful compilation of outsourcing contracts are considered to be of paramount importance in attaining successful outsourcing outcomes. Outsourcing creates jobs with minimal remuneration for vendor companies to attain higher profits and job loss of permanent personnel which is a complex issue to address. Union leaders globally have viewed outsourcing as unfavourable for their members. The challenge however lies in identifying suitable formulae to compensate retrenched workers and the compilation of favourable remuneration packages for outsourcing personnel. In conclusion, supply chains open markets globally allowing free trade to take place which consequently results in increased economic growth and development.

Keywords: *Outsourcing, Outsourcing Vendors and Client Firms.*

1.1 Introduction

The practice of outsourcing mainly involves the act of moving some of a firm's internal activities, decisions and responsibilities to outside provider/s [1] located domestically or internationally.

Major industries - specifically telecommunications, computing, the automotive industry and the military – have outsourced training services for instance for many years now. Contracting assisted organisational executives because they did not need to hire additional personnel [2].

Offshore outsourcing/offshoring is a trend that has developed globally. It involves contracting outsourcing vendor companies in a different country. The expansion and increased capability of offshore outsourcing organisations in India, China and the Philippines, among other countries, has led to functions like software development, call centres and accounting being outsourced to them [3]. In order to remain competitive, outsourcing vendor firms need to appeal to client organisations, and motivate and maintain personnel [4]. It is important for a client organisation's management to establish a relationship or a strategic alliance with an outsourcing provider if the organisational management is to consider outsourcing its core business function/s such as manufacturing [5]. Due to the increase in outsourcing of non-core activities such as cleaning, business opportunities have been created to cater for the demand for new services [6], particularly in logistics.

Outsourcing firms over the years have aimed at attaining the required standard expectations of client firms. Not all outsourcing vendors have managed to achieve Total Quality Management (TQM) when offering outsourcing services to client firm/s.

TQM has been practiced by many companies, including outsourcing vendor organisations, since as far back as the 1990s. Senior management executives are today aware of the quality message that has been declared by the 'quality gurus' [7]. Quality management is often viewed as having developed in four phases: quality inspection; quality control; quality assurance and Total Quality Management [8]. TQM is a management structure that constitutes values, techniques and tools that aim at fulfilling - or even exceeding - the needs and expectations of the clients with reduced quantity of resources [9].

There are several key factors that motivated this research on The Dynamics and Complexity of Outsourcing. The first is the need for increasing understanding on the types of outsourcing that can be adopted. It is our view that it is essential to adopt the right type of outsourcing technique in order to achieve successful outsourcing outcomes. This study sought to establish what aspects contribute to the success or failure of outsourcing outcomes.

The second reason why it was deemed important to conduct this study on The Dynamics and Complexity of Outsourcing, it is our view that there are certain aspects necessary for possible successful outcome of an outsourcing venture. One aspect is the selection of appropriate outsourcing vendors and the second is the adoption of appropriate contract formulation and negotiation techniques in outsourcing.

The third factor that motivated this study is that it is our view that there is a link between Total Quality Management (TQM), and Supply Chain Management in attaining favourable outsourcing outcomes.

The fourth factor that motivated this study is that outsourcing brings out complex issues such as unemployment due to transfer of jobs to other countries in the case of offshoring [10] and retrenchment of permanent staff in the case of domestic outsourcing.

This article is presented as follows: The second section addresses the types of outsourcing and selecting and assessing outsourcing venders. The third section of this article addresses outsourcing relationships and contract formulation and negotiation. The fourth section describes complexity in outsourcing while section five looks at linking Total Quality Management (TQM), Supply Chain Management (SCM) and outsourcing to ensure successful outsourcing outcomes. Finally, section six concludes.

2. Types of Outsourcing and Selecting Outsourcing Vendors

This section addresses two main aspects of outsourcing which are types of outsourcing and selecting and assessing outsourcing vendors.

2.1Types of Outsourcing

There are ten types of outsourcing adopted by firms today [11]. The table that follows lists and defines these.

Table 4: Types of outsourcing

Type of Outsourcing	Description
Offshore Outsourcing	This refers to outsourcing to a provider in a different country from the client firm/organisation.
Traditional Outsourcing	This involves outsourcing an older business, so that the firm can focus on making a new product. For instance, an outsourcing provider/vendor organisation may operate an older computer-based system for current customers while the client organisation installs a new system and makes it operational.
Co-sourcing	Refers to outsourcing in which the outsourcing vendor's payment is based on achieving a particular goal, such as improving the client's business performance.
Spin-offs	Refers to outsourced business activities of one company being bought together into a company - as a new and separate firm. For instance, an outsourced accounting department can become a separate accounting service firm.
Back-sourcing	This is where a client firm has experienced less than desirable outsourcing outcome. As a result, the firm moves the outsourced business activities back to the client firm.
Business Process Outsourcing (BPO)	BPO involves the outsourcing of an entire process or department within a firm. For example, outsourcing all monitoring and evaluation services for an NGO client firm or accounting department.
Value-added outsourcing	It involves combining client and vendor firms' strengths to market products or services.
Shared outsourcing	Refers to when an outsourcing provider works for more than one direct firm at the same time. For example, a software outsourcing provider can work on the same computer software code for several banks, all of which require the same type of software for their customers.
Multi-outsourcing	Multi-outsourcing is when multiple outsourcing providers are used simultaneously to ensure, for example, competitive bidding in an outsourcing arrangement.
Near shore outsourcing	Similar to international outsourcing but in the case of near shore outsourcing, the countries are neighbours. For instance, a US firm outsourcing for a Canadian firm.

The type of outsourcing technique to be selected by client firms is determined by whether a client firm prefers to outsource one or more of its services to domestic or international outsourcing providers. Cost and type of product or service to be outsourced will influence whether a client firm will outsource its functions to a local or will engage in offshoring.

2.2 Selecting and assessing outsourcing vendors

Vendor assessment involves finding an outsourcing vendor that specialises in the service that a given client organisation wishes to outsource. It has been argued that the vendor selection process can be a very complicated and emotional exercise if the management of a client firm does not know how to approach it from the very beginning [12]. To comprehensively understand vendor assessment and selection, it is crucial to discuss the vendor selection process and the common mistakes that client firms get trapped in when selecting outsourcing vendors.

2.2.1 The Vendor Selection Process

The vendor selection process first involves self-assessment. Before even undertaking the vendor selection process, a client organisation should make sure that it needs to outsource in the first place [13]. A client firm may assess the cost implications of engaging in such a project. A firm that is considering outsourcing as an option may evaluate the fixed costs of shifting production function or any other activity to an outsourcing vendor as well as the variable costs. Fixed costs are the costs that do not change for a given period of time with any activity indicator, for example the salary of a director, rent and insurance for a building. Variable costs however are costs that may change with the amount of production. Power cost is one example of a variable cost; the cost of power varies in direct proportion to the amount of production [14].

The third issue to consider in vendor selection is the macro-factors. This involves the selection of an outsourcing region or type of outsourcing organisation to follow-up in a client firm's search for a suitable outsourcing provider. This also involves evaluating a variety of outsourcing organisations within a given geographical region. It is essential for outsourcing vendors to have the appropriate equipment, technology and skills required to accomplish activities that client organisations contract them with [15].

Relevant factors is the fourth criterion, refers to those related to the unique corporate culture and organisational goals of the client firm [16].

Lastly, personal factors to do with the person who has to implement the outsourcing engagement must be considered [17]. These have to do with personal judgment and the needs of a client firm. Additionally, if a representative from a client firm has negative thoughts or doubts about a potential outsourcing vendor, the client firm representative may opt not to engage in a contract with the outsourcing vendor.

These insights are usually attained over time and they are based on experience and exposure of a client firm's management. The vendor selection process can also factor in the needs of all stakeholders involved in an outsourcing venture.

Once a client organisation has selected an outsourcing vendor, it is essential to ensure that the client firm's representative/s visits the outsourcing vendor organisation. The management of a client firm may encounter some pleasant surprises that might bring certain companies to the top of the list for consideration as appropriate outsourcing vendors.

There are six onsite best practices that a client firm can adopt to ensure that a visit to a potential vendor is successful. First, it is necessary to interview the development personnel and project leader or manager. Second, a client firm needs to critically evaluate a potential vendor/s' knowledge, their process for problem solving and filling any knowledge gaps, their work behaviour and their consistency. This will help the client firm establish an outsourcing provider's credibility in relation to quality assurance. Third, it is essential for client firms to evaluate the training process used by outsourcing providers. Today it is common to find outsourcing provider companies hiring recent qualified university graduates who have selected basic skills. Outsourcing providers are required to make up for this. Inspecting the outsourcing provider's facilities is another aspect to consider. Touring their premises and searching for things such as potential security hazards and poor working environment is important. Lastly, it is essential to confirm the outsourcing company's methodology [18]. This means that the client firm representative should evaluate whether the vendor/s in question advertise a particular methodology of working or not. It is vital to evaluate if the methodology is actually practised or not.

Visiting a potential outsourcing vendor provides insightful information for a client organisation which cannot be obtained through mere conversation. The work environment of an outsourcing vendor reflects how organised a vendor's management team and employees are. By visiting a potential outsourcing vendor, a client firm will get an idea of the corporate culture of the outsourcing vendor's organisation. This is reflected in the dress code and how employees of the outsourcing vendor organisation communicate and behave amongst each other as colleagues.

2.2.2 Common Mistakes made by Client Firms in Outsourcing Vendor Selection

Client firms need to be aware of mistakes they could make when selecting outsourcing vendors. These mistakes include: forgoing the benefits of selecting an outsourcing provider on a competitive process by focusing too much on the cost of the outsourcing project, disclosing too little or too much information or being dishonest, rushing to conclude an outsourcing contact, and inadequate research and evaluation of all the outsourcing service providers available [19].

Patience must be cultivated by the client organisation at all times in order to increase the chances of selecting a suitable outsourcing vendor. References provided must be evaluated before the choice of a suitable vendor is made.

3. Outsourcing Relationships and Contracts

This section expounds on managing relationships in outsourcing and outsourcing contracts and negotiations.

3.1 Managing Relationships in Outsourcing

An outsourcing relationship involves two parties: the outsourcing provider firm personnel and the client firm personnel. Professional outsourcing relationships are built over a period of time. A key element in managing relationships in outsourcing is the practice of ethics. Management teams frequently lack the experience needed to execute the design management process that an outsourcing relationship requires. The design management process refers to a strategy for successful project planning and execution. The outsourcing contract by itself is not an exchange for an active, designed management process. The management of relationships in outsourcing can be discussed in three areas: developing a value plan, 'healthy' business relationship tips, and guidelines to engage interactively with the market [20]. A value plan is a strategy adopted by a client firm to derive positive outsourcing relationships between the outsourcing provider and the client firm. Having a value plan is crucial for the successful adoption of a value assessment. Value is lost in a range of ways specifically in outsourcing relationships. If a client firm's management begins from the point that their objective is to enhance their relationship with the outsourcing vendor, this is a step closer to a quality process that will assist to achieve that objective. On the other hand, if the management is not prepared for the outsourcing programme, it is unlikely to face challenging queries on the original exploratory research and the consequent results.

Furthermore, in order to enhance an outsourcing relationship it is essential for a client firm to engage with the outsourcing provider. Evaluations made by the client firm management of the outsourcing provider about the outsourcing provider personnel are in most circumstances undertaken as audits. It is important for a client firm not to create an environment of defensiveness with an outsourcing provider because a client firm's senior management will end up asking the outsourcing provider to work with the client firm's management in order to improve services and costs [21]. When a value-plan has been developed, the outsourcing provider needs to explain the approach that will be adopted to accomplish the client firm's objectives. There are five outsourcing relationship tips which client firms should consider in their relationships with outsourcing providers. These are fostering and maintaining interactions in support of strong, trusting relationships; that the outsourcing vendor should drive relationship effectiveness by increasing capabilities through training, organisational learning and growth; establishing, developing and executing effective measures to facilitate the best balance of mutual behaviours and advantages between the client organisation and the outsourcing provider; and finally, continuous assessment, planning, managing of risks and controlling of objectives should be considered [22].

Finally, in order to manage outsourcing relationships it is essential to consider five approaches for interacting with the market. The first is the appropriate level of interaction for a given project as some will require more communication than others. The second approach is Interactive Vendor Engagement (IVE) which involves the combined efforts of the client firm and outsourcing vendor in building trust. A client firm needs to understand what the market can offer. The third approach is to establish suitable rules and procedures from the start. The fourth approach is to use communication to evaluate cultural suitability. A client firm can at all times use each and every opportunity to meet with the outsourcing provider's sales and delivery personnel to examine the competence suitability, the cultural suitability and the willingness to follow the necessary procedures. Finally, trade-offs result to increased procurement expenses, with reduced delivery expenses and risk. Working up-front on refining essentials, tightening the fit of the solution and building effective business relationships results in time and money well spent - particularly because the procurement stage is seen only as a small percentage of the total contract expense of any outsourcing venture [23]. Managing outsourcing relationships is a key issue in outsourcing. Both the outsourcing provider and the client firm have a key role to play when it comes to ensuring that outsourcing yields favourable results.

3.2 Contracts and Negotiations in Outsourcing

Contracts are vital documents in outsourcing ventures. Contract formulation and negotiations can sometimes be a new domain for some organisations [24]. Too often firms move from one contract negotiation to another - and from one negotiation of commodity buying to those of complicated, long-term, essential business relationships - without any appropriate planning [25]. This section looks at two key areas, namely: the components of an outsourcing contract and contract negotiation strategies and principles.

3.2.1 Components of an Outsourcing Contract

A contract is negotiated and signed by both the client firm and the outsourcing provider. A contract clearly identifies aspects such as the services to be rendered by the outsourcing provider, the terms of payment, an exit clause for the outsourcing provider and the client firm and techniques for making alterations to the outsourcing venture agreement [26]. There is a common set of essential contractual components in outsourcing contracts [27]. However, contracts between the client firms and their outsourcing partners are found to be vital in ensuring successful outsourcing [28].

A well-defined outsourcing contract helps in a number of ways. Firstly, it assists to clearly articulate the success standards to the stakeholders - in both the client firm and the vendor firm teams. Secondly, it assists in explaining some of the high-level metrics used to evaluate the performance of outsourcing personnel. Thirdly, it explains the project requirements - in terms of individuals, process, security, technology and business continuity. Fourthly, it assists in explaining the incentives and penalties, based on outsourcing provider performance. Next, it assists in handling unpredictable circumstances, without causing undue frustration on either the outsourcing provider or client firm personnel. Finally, it assists in pursuing properly structured growth of the partnership between the outsourcing provider and the client firm [29]. Outsourcing contracts can be skillfully compiled. Therefore, it is essential to consider the components of an outsourcing contract. Eleven components of an outsourcing contract consist of: First, an outsourcing contract should include the frequency and types of reports the outsourcing firm will prepare. Business continuity plans comprise the second component of an outsourcing contract. This section of the contract incorporates the critical recovery times following a disaster. In addition, it also defines the outsourcing vendor's responsibility for providing back-up equipment, continuous testing and back-up plans for data and programme files. Thirdly, sub-contracting can also be included in an outsourcing contract. This is where the outsourcing provider's rights to work with sub-contractors in delivering its services are outlined. Cost is the fourth component of an outsourcing contract and refers to the fees to be paid by the client firm for the various services rendered. Ownership of the work product is another important component of an outsourcing contract. This section clearly outlines the ownership of the tools, the equipment, data and output of the work to be conducted by the outsourcing vendor.

Duration is another key component and in this regard the term of an outsourcing contract is outlined. Dispute resolution is also included and in this section how disputes shall be resolved once they occur is outlined. Scope of service is another important component that is considered in an outsourcing contract. This section clearly describes the rights and responsibilities of the parties involved in the outsourcing contract. Another key component of an outsourcing contract is performance standards. This section outlines the minimum service-level requirements and the measures for failing to meet the standards.

Security and confidentiality arrangements and assurances are also included in the outsourcing contract. Security and confidentiality refers to the safe handling of data, the confidentiality of the client firm's plans, their activities, and customer information as well as defining the outsourcing provider's practices with their personnel. Controls are another component of an outsourcing contract. The client firm may want to define particular controls for instance record maintenance timeframes and the notification of material changes to personnel. Finally, it is important to make provision for an audit in a contract. The contract can specify how frequently the audit will be done and who will pay for the audits and the types of audits necessary for instance financial, security or internal control measures [30]. A contract serves as a record and roadmap which can be referred to at any time after the commencement of an outsourcing venture. It is a guideline for both the vendor organisation and the client organization.

3.2.2 Strategies and Principles in Outsourcing Contract Negotiations

There are several strategies that can be adopted when negotiating outsourcing contracts. Firstly, it is important to rank priorities, along with their alternatives. Secondly, the client firm's management needs to establish the difference between what the client firm needs and what the client firm wants. Thirdly, it is necessary to know when to quit and walk away. This means that it is important for a client firm's management team to establish whether there is a cost or hourly fee that the client company cannot exceed. Fourthly, it is important for the client firm's negotiating team to outline any time limitations and standards. Furthermore, evaluating potential obligation and risks as well as privacy, conflict management and changes in requirements may also be considered in the strategies for planning. The final aspect to consider in strategies for planning outsourcing contract negotiations is to do the same for one's outsourcing provider [31]. This means that it is essential to repeat the same process, as if (the client firm management) were the outsourcing provider. Both the outsourcing vendor firm and the client organisation need to conduct negotiations in a professional and ethical manner - taking the interests of each party into consideration. Contacts are formulated to be used for a given period of time and therefore they can be negotiated right the first time.

It is not enough just to consider the strategies and planning of outsourcing contracts. The principles of negotiation could be considered and practised by client organisations in order to formulate a comprehensive contract that may be adopted for outsourcing purposes.

There are twelve principles of negotiation which could be adopted by client firms when they consider engaging in an outsourcing contract. These principles consist of: the greatest shortcoming in negotiation is not to engage in negotiation at all; the most important individual to know in a negotiation is the negotiator; both the outsourcing vendor and the client organisation have power in a negotiation; single-issue transactions leave both the outsourcing provider and the client firm's management unsatisfied; urgency triggers decisions to be made quickly; an agreement is considered the end and mutual benefit is the means adopted to attain an agreement; the most appropriate negotiating outcomes are obtained through keeping the other party on a 'need-to-know' basis; the benefit of something is always in the eye of the observer; success in negotiation is mostly determined by the amount and type of preparation that follows the negotiation; the intelligence to know when to walk away or when to select another alternative to a negotiated agreement places a negotiator in a very good position; even when the outsourcing vendor and client organisation are in disagreement on key issues, there are always issues on which they can both agree on; meaningful negotiation in most situations involves disputes [32].

4. Complexities Surrounding Successful Outsourcing Outcomes

Conducting outsourcing professionally can yield favourable outcomes such as cost savings. However, outsourcing can have negative outcomes. The example Kenya Airways, who brand themselves as the 'Pride of

Africa' and believe in outsourcing, provides an example of both the positive and negative aspects of a successful outsourcing initiative. This section also provides an example of the response of unions to outsourcing.

4.1 Kenya Airways Scenario

Kenya Airways has in the recent past formulated plans to cut costs through voluntary retirement, terminations and outsourcing of non-core functions in order to manage increasing costs and to protect its bottom line objectives. To date some employees have already volunteered to resign. However, retrenchment has not yet been conducted. These plans to reduce costs have resulted from the fact that Kenya Airways' wage bills have more than doubled in the last six years to amount to 13.4 billion Kenya shillings ($159 million) with the total work force increasing by over 16% to 4,834 employees. Kenya Airways top management has not mentioned the level of savings it is hoping to achieve in the near future and neither has it been made public the number of jobs that will be lost in the exercise. The Aviation and Allied Workers Union (AAWU) which has 3,800 members pledged to its members that it would utilise all means at its disposal, including going to court, to block the job retrenchment exercise. It has been queried why the job retrenchment exercise was made public soon after Kenya Airways announced an ambitious five-year expansion plan which would definitely require hiring personnel, rather than reducing staff members. This further opposes what the Kenya Airways management said in March 2012, that it would spend $3.6 billion Kenya shillings, to mainly purchase new aircrafts and thus begin to fly new routes between Africa and Asia [33].

The Kenya Airways scenario indicates that outsourcing does indeed reduce human resource cost. However, complexities arise considering the fact that staff outsourced are employed more on a casual or contract basis. This means that there is no job security and thus outsourced staff are always anxious, which could lead to poor job performance and sometimes health issues. In addition, to this, staff wages of outsourced personnel cannot be compared with remuneration of permanent staff working at the Jomo Kenyatta International Airport in Nairobi, Kenya. Benefits such as medical aid, pension, complementary air tickets, transport to work and yearly bonuses will not normally be provided to outsourced personnel. This ultimately will affect the morale of the outsourced staff. On the other hand, those employed by outsourcing vendors do indeed get jobs at the end of the day despite the fact that they are not compensated as permanent staff are. As some would argue it is better to have a job that pays something than to be jobless.

The voluntary resignation of some staff at Kenya Airways can be seen as either positive or negative action. It is positive, in the sense that these people might consider engaging in entrepreneurial activities and thus create employment for others, but, on the other hand, some will end up applying for jobs and waiting to be recruited. If they are not recruited, this could result in poverty and a feeling of hopelessness and which ultimately could result in clinical health conditions such as depression and deviant behaviour like crime.

Another key outcome of Kenya Airways' outsourcing its non-core activities is conflict between the airport union and management. Conflict could lead to theft, damage to property and strikes and these would all lead to Kenya Airways incurring losses.

Lastly, it is crucial to also note that Kenya Airways has invested in training the very personnel they want to retrench. This is an indication that the investment in training is not going to be utilised. It is essential to consider that the risk of outsourcing could come with compromised standards due to lack of adequate training of outsourced personnel.

4.2 Outsourcing and Unions

Outsourcing is often viewed as cost effective as less labour is required by a client organisation that chooses to outsource. This has resulted in the retrenching of personnel in client firms. Union leaders globally have therefore viewed outsourcing as unfavourable for their members. This calls for policy makers to commit to formulating effective outsourcing policies if the impact of trade union opposition is to be reduced [34].

Offshoring has become a major phenomenon discussed in the media globally. The majority of pro-outsourcing executives blame the educational deficiencies in the United States as the key concern that needs to be discussed. The initiative to increase profits by organisations often results in decisions involving 'outsourcing', 'sub-contracting' and 'privatisation'. Sub-contracting is currently considered a form of outsourcing. Employers worldwide are at all times aiming to increase profits and the simplest way to do this is to reduce employees' pay and benefits (such as medical aid and pension) or to make employees work more hours per week. The most recent management strategy to increase profits is outsourcing/sub-contracting/privatisation [35].

Reasons given for the increase in outsourcing tend to involve economic and human resources management explanations and disregard of the political perspective. In particular, unions and collective labour relations have been a target of a 'neo-liberal' change programme which is followed by both labour and conservative governments which have used outsourcing as a means of individualising the employment relationship and reducing the influence of unions [36]. Employees adopt industrial action, to counterbalance the power that tends to reside with the employer. The collective bargaining process involves decision making between parties that represent the interest of employer and employee [37]. Additionally, collective bargaining involves negotiation and continuous application of agreed set of rules to govern the definite and procedural terms of employment relationship [38].

Collective bargaining aims to reach some agreement and it is a process of engagement by equal partners. Its outcome depends on the acceptance of the parties involved. Unions can only do so much in protecting the rights of employees. The challenge lies in identifying suitable formulae to compensate retrenched workers and the compilation of favourable remuneration packages for outsourcing personnel.

5. Linking Total Quality Management (TQM), Supply Chain Management and Outsourcing to ensure successful outsourcing Outcomes

This section looks at the trends in outsourcing today. These all involve practices aimed at enhancing outsourcing initiatives. In particular, Total Quality Management (TQM) is explained in the context of its importance and relevance of the principles of TQM when conducting outsourcing initiatives. Another key trend in outsourcing discussed in this section is Supply Chain Management (SCM). SCM is discussed in relation to its importance to outsourcing. This is accomplished by examining the Supply Chain Portal (SCP) and the diversification of SCM.

5.2 Total Quality Management (TQM) and Outsourcing

Outsourcing firms over the years have aimed at attaining the required standard expectations of client firms. Not all outsourcing vendors have managed to achieve TQM when offering outsourcing services to client firm/s.

TQM is designed to re-focus the organisation's conduct, forecasting and working methods towards a custom which is staff-motivated, problem-solving and focused on stakeholders, with good principles and honesty, transparent and free of anxiety [39].

A TQM structure is based on the ideology that as quality improves, costs will reduce as a result of lower failure rates and reduced wastage of resources. Thus, TQM offers more than just assurance of quality of goods and/or services; it is a structure which looks at quality in every phase of the process of production, both internally and externally. Every part of the organisation must be incorporated to form part of the complete structure. If the TQM structure is not comprehensive, there will be organisational gaps and these could lead to wastage or failure to meet the provisions of another part of the organisation. TQM is an organisational strategy that aims at improving business efficiency and elasticity. Thus, it seeks to accomplish the removal of waste, so that quality outcomes can be achieved faster and cheaper. Quality is achieved through various techniques that are geared towards ensuring customer satisfaction [40].

In TQM terms, when an outsourcing vendor attains the required results, their costs will be reduced as wastage will be minimised. A client firm can monitor the performance of outsourcing vendors continuously in order to keep them 'on their toes'. However, this cannot be done in such a way that the outsourcing vendor/s feel that they do not have any freedom to perform their duties and functions freely.

A successful TQM environment requires a committed and properly-trained staff that takes part fully in quality improvement initiatives. Such involvement is secured by reward and appreciation methods which focus on the success of quality goals [41].

An employee who knows what to do is better placed to perform a task to the required standards. Outsourcing vendors should not think of training as a huge cost but rather as an investment as well-trained and motivated employees will strive to achieve the expected performance standards to satisfy a client organisation. A satisfied client firm will enter into another contract with a reputable outsourcing firm and would possibly recommend the outsourcing vendor firm to potential clients who are considering outsourcing a similar service.

Companies that use TQM are committed to: improved quality of product or service, faster less irregular response from strategy and development through supplier and sales channels, offices and forecasting right through to the final consumer; offering greater flexibility in modifying the consumer's changing volume and mixed needs and reducing costs through quality enhancement [42].

In conclusion, there are five principles of TQM. The first is that quality can and must be managed. The second is that processes, not persons, constitute the problem. The third key principle is not to treat symptoms but to look for the cure. This means, for instance, that if a vendor organisation notices that their personnel are not performing their tasks to the required standards, it is important for the supervisors to find the root cause of the problem. The fourth principle is that quality must be measureable. The client firm's management needs to establish measureable ways to identify whether tasks performed by an outsourcing vendor meet the expected standards. This could be tabulated by listing all the tasks to be conducted and what is considered to be the ideal standard of quality assurance. The final principle is the quality of a long-term investment. For instance, this can refer to when a client firm is of the view that the outsourcing vendor is delivering the quality expected. It is then likely that the client firm would renew its contract with the same outsourcing vendor company and possibly even refer other potential clients to the same outsourcing vendor organisation [43].

Three additional basic principles of TQM consist of: The first is satisfying the customers which means that the outsourcing vendor provides the required service or product to the client organisation. Satisfying the supplier, the second principle, involves outsourcing vendors purchasing supplies which are used in conducting tasks contracted to them by client organisations. Satisfying a supplier can be achieved through for instance making payments on time for goods delivered. A satisfied supplier could be drawn to offer quality products consistently to its customers. Continuous improvement is the third principle of TQM. Outsourcing vendors should strive to continuously improve the services they offer to client organisations - for repeat business and referrals. Continuous improvement involves quality circles, statistical instruments and control mechanisms. Management can never be satisfied with the technique used in production or the delivery of outsourced services. This is because there may always be improvements and modifications especially when competition is increasing. It is necessary to strive to keep ahead [44].

Employee empowerment is an additional principle to the above eight principles of TQM. Employee empowerment provides employees with the opportunity to be involved in decision-making which increases employee's responsibility. This shifts authority to the lowest level possible in an organization [45]. Empowering employees gives the following additional advantages:

- There is the chance that the decision-making phases can be divided, as can the feedback time.
- It releases the creative innovation abilities.
- Empowerment facilitates in increased job satisfaction, drive and assurance.
- Empowerment facilitates personnel to achieve a greater sense of accomplishment from their work and it reduces operational expenses by omitting irrelevant levels of management and the consequent screening and rescreening of operations [46].

In conclusion, the principles of TQM serve as guidelines for attaining the quality standards expected by client organisations that have outsourced one or some of their minor or main functions. Outsourcing firms strive to continuously improve the standards of services they deliver to client organisations on a daily basis, in order to attain the required standard expectations of a client firm's management.

6. Outsourcing from a Supply Chain Management (SCM) Perspective - New Diversifications in Supply Chain Management

Supply Chain Management (SCM) is the management of a network of interconnected businesses involved in the ultimate provision of goods and service packages required by customers [47]. Additionally, SCM involves procuring outsourcing teams who are involved in all movement and storage of raw materials, work-in- process, inventory (stock-taking) and delivery of finished goods - from the point of origin to the final consumer [48].

SCM is relevant to outsourcing, considering client organisations outsource procurement services from vendor organisations. This section on SCM outsourcing looks at the importance of SCM, the Supply Chain Portal (SCP), Supply Chain Management (SCM) outsourcing and diversification in Supply Chain Management (SCM).

6.1 The Importance of Supply Chain Management (SCM)

Organisations have increasingly found that they must rely on effective supply chains, or networks, in order to compete in the global market and networked economy in procurement outsourcing. The concept of business relationships in SCM extends beyond traditional company boundaries and it seeks to arrange entire business processes in an entire value chain of numerous companies which consist of procurement outsourcing companies and client organisations [49]. Traditionally, companies in a supply network (outsourcing vendors offering procurement services to client organisations) focused on the inputs and outputs of the processes, with minimal concern for the in-house management. Consequently, the selection of an in-house management control structure was essential for outsourcing procurement firms – as an in–house management control structure is considered to impact on procurement outsourcing vendor firms' performance [50].

In the twenty-first century, alterations in the business environment have contributed to the development of supply chain networks (procurement outsourcing). This has been attributed to globalisation. Technological changes, particularly in the dramatic fall in information communication expenses which are an important component of transaction costs, have led to alterations in co-ordination between the procurement outsourcing vendor and the client organisation [51].

6.1.1. Supply Chain Portal (SCP) and Supply Chain Management (SCM) Outsourcing and Diversification

The Supply Chain Portal (SCP) is a combined Supply Chain Management (SCM) tool provided on an internet site which provides increased supply chain visibility and access to joint partner data for client firms that wish to outsource procurement services. Some of the advantages of SCP include the following: Firstly, there is real-time interaction across the entire supply chain which ensures that the current inventory information is available for appropriate decision-making in relation to scheduling, purchase orders, shipments, invoices, Bills of Material (BOM) and quality. No matter the size or geographical location of a company's supply chain partners, key inventory information - including outsourcing procurement services - is visible to client companies and their suppliers via the internet. Secondly, the SCP is considered to be a paperless system. This assists trading partners to interact electronically (online). Thirdly, transportation tracking facilitates long-distance trading. Finally, invoice visibility allows the procurement outsourcing supplier to obtain information about payments, vouchers and payment settlement arrangements as well as document management system integration [52]. The SCP is a useful tool adopted by vendor organisations that provide procurement services to client organisations, in order to enhance their chances of successful results in procurement outsourcing. Key points to be recognised by all parties involved in SCM outsourcing include: Firstly, it is essential to establish and define the reason/s for wanting to engage in SCM (procurement) outsourcing. Another is that it is necessary to evaluate the outsourcing business procedures against function. It is important to know what is being outsourced and why it is being outsourced. Another aspect to be recognised is the need to differentiate between the roles of the seller and the buyer. Furthermore, misunderstandings result in conflict and 'unhealthy' business relationships. Details of outsourcing vendor operations are another concern in SCM. It is critical for outsourcing vendors to clearly specify in writing what is done, by whom, how it is done, when and why it is to be done. Last but not least, when dealing with SCM outsourcing, it is important to manage the outsourcing process [53]. SCM outsourcing has numerous areas of responsibility and liability, since it is a complicated, multi-functional operation that 'runs' from suppliers, right through to clients. Challenges will occur and successful, quick problem solving involves establishing who is responsible. A single person can be held accountable for both the client firm and the outsourcing vendor. SCM outsourcing requires a great amount of organisation and planning. Successful procurement/ SCM outsourcing takes initiative and time. It is vital to differentiate theory from reality. Management can evaluate what must be accomplished and who must do it. SCM outsourcing makes it possible for a client company to build a responsive, unified supply chain that functions in near actual time with suppliers, partners and clients. Supply chain outsourcing is considered a highly complicated plan that requires a unique blend of consulting, technology and service expertise.

Supply chain diversification is an essential activity in SCM. Supply chain diversification is a manufacturing business term which is used to describe the act of increasing choices for when to order, what supplies and suppliers to deliver the products to the consumers. In other words, it describes the versatility of the suppliers for a particular product. In early times, the key objective in buying and materials management was at all times to have two or more suppliers. It was believed that competition between suppliers would drive down prices of products. To identify outside suppliers and vendors is a challenging task - and harmonising them to work on a particular project as a team may be even more challenging [54]. Having a variety of suppliers can also provide a range of competitive prices based on quality to select from. Thus, this forces the outsourcing vendors to offer quality services to client organisations.

To have numerous supplier sources in various geographical locations can assist a company to achieve better control of its supply approaches. The closer a supplier is to its clients, the quicker the delivery of goods/services will be [55]. It can also greatly minimise the cost of supplying as it reduces the distance covered. Another advantage of having numerous vendors is that shortages are less likely.

Diversification is a complicated activity. One barrier to diversification is 'systemic risk-diversification' for both purchasers and suppliers who require access to cash flow (liquidity) and a company's efficiency and short-term financial stability that allows a purchaser and a supplier to spread risk and maximise returns and raises concerns that may be a threat to a supply chain. These solutions come with challenges of their own. It cannot be ignored that supply chains may include international commercial links which are an indication that there is need for thorough risk assessment and credit evaluation. In this regard, local financial institutions are in the best positron to perform these tasks at local level and are a key element of these supply-chains [56]. SCM is a key element of outsourcing and as such, needs to be evaluated critically to help reduce the risks associated with it. Having multiple suppliers close in proximity with a client firm is essential to ensure efficiency in delivery of products and services. Credibility of suppliers can also be evaluated critically.

Conclusion

Client firms need to identify the appropriate type of outsourcing technique to adopt based on what is to be outsourced and whether outsourcing shall take place domestically or internationally.

Appropriate vendor assessment is key in ensuring successful outsourcing outcomes. Selecting of outsourcing vendors can be challenging and complex if not handled appropriately for the very onset.

Once a client organisation has selected an outsourcing vendor, it is essential to ensure that the client firm's management visits the outsourcing vendor organisation.

The principles of negotiation are considered and practiced by client organisations in order to formulate a complete contract that may be adopted for outsourcing purposes and thus could contribute to successful outsourcing outcomes.

Labour union leaders globally have viewed outsourcing as unfavourable. Ultimately, this calls for policy makers to make a commitment to facilitate in the formulation of effective outsourcing policies that will create a win/win situation for both employers and outsourced personnel. Outsourcing also involves shifting work from one firm to another that can do the same activity at a reduced cost. However, this could be evaluated as an advantage or as a disadvantage. For instance, looking at the US, the loss of higher paying jobs to India and China has brought about the use of the concept 'offshoring' or 'offshore' outsourcing. The initiative to increase profits by organisations often results to decisions involving engaging in outsourcing.

Labour unions can only do so much in protecting the rights of employees. However, the challenge lies in identifying suitable formulae to compensate and prepare retrenched workers. Furthermore, the compilation of favourable remuneration packages for outsourcing personnel should also be sought.

Today there is increasingly less government regulation of companies in many countries, and trade unions are not as powerful as they used to be. Many countries generally now have less intrusion of government in the operation of the economy. This encourages investment, and permits the rapid development of new products and activities by companies, and creates an opportunity for workers to adjust to new business opportunities.

Any inefficiency experienced within a company can have a tremendously negative impact on the company. Good Supply Chain Management (SCM) practices can bring huge benefits and competitive advantage to both client firms and outsourcing firms.

Domestic and international trade in a globalized world requires nations and their economies to compete with each other. From an economic perspective successful nations will hold competitive and comparative advantages over other economies, though a single nation will rarely specialise in a particular sector for instance agriculture. This means that a nation's economy will consist of various industry sectors that will have different benefits and shortcomings in the domestic and global marketplace.

Supply chain management involves the monitoring of supply chain activities with the aim of building a competitive infrastructure, ranking worldwide logistics, harmonising supply with demand and measuring performance worldwide. Additionally, supply chains open markets globally allowing free trade to take place which consequently results in increased economic growth and development within nations.

Notes

Bills of Materials (BOM): BOM are maintained by all firms. These comprise the sequence of everything that goes into the final good. BOM can be referred to as a product structure tree or it could be refered to as a flow diagram which illustrates the order of creating a product.
Client Firm: The term client firm/organisation refers to a company that contracts outsourcing providers to perform a major and/or minor tasks for a given period of time.
Outsourcing vendor/provider: Outsourcing vendor/provider has been used to refer to the companies that offer outsourcing services to client organisations.
Trade off: A trade-off refers to a technique of reducing or forgoing one or more desirable results in exchange for increasing or obtaining other desirable results in order to maximise the total effectiveness under given situations.

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