

# Chapter 11

## The Role of Strategic Outsourcing in Global Business

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### ABSTRACT

*This chapter reveals the role of strategic outsourcing in global business, thus describing the theoretical and practical concept of strategic outsourcing; the management theories related to strategic outsourcing; the applications of Business Process Outsourcing (BPO) and Information Technology Outsourcing (ITO); and the significance of strategic outsourcing in global business. The fulfillment of strategic outsourcing is vital for modern organizations that seek to serve suppliers and customers, improve business performance, enhance competitiveness, and reach continuous achievement in global business. Therefore, it is necessary for modern organizations to explore their strategic outsourcing, establish a strategic plan to usually check their practical advancements, and immediately respond to strategic outsourcing needs of customers in modern organizations. The chapter argues that applying strategic outsourcing in global business has the potential to increase organizational performance and attain business goals in the digital age.*

### INTRODUCTION

Outsourcing has become one of the most popular operations strategies in recent years that allows companies to reduce capital costs concerning customer requirements in the global marketplace (Kakabadse & Kakabadse, 2005) and to improve organizational performance (Bustanza-Sanchez, Arias-Aranda, & Gutierrez-Gutierrez, 2010). Outsourcing is critical to the growth of a nation's economy (Corbett, 2004). Strategic outsourcing includes the integration of the firm's different functions to the firm's strategic decision-making level (Su & Gargeya, 2012).

There are a lot of studies on outsourcing and its strategic influence to sustainable growth in the organizations (Demirtas, 2013). Outsourcing is broadly recognized in management literature (Kotabe, Mol, Parente, & Murray, 2012; Petersen, Handfield, & Ragatz, 2005). Gunasekaran et al. (2015) stated that outsourcing, an operations strategy that influences the performance of a supply chain, has become

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an important component of global operations management. Resources of both the outsourcer and the outsourcee are important in turning potential complementarities into higher outsourcing performance (Unal & Donthu, 2014).

The strength of this chapter is on the thorough literature consolidation of strategic outsourcing. The extant literature of strategic outsourcing provides a contribution to practitioners and researchers by describing a comprehensive view of the functional applications of strategic outsourcing to appeal to different segments of strategic outsourcing in order to maximize the business impact of strategic outsourcing in global business.

## **BACKGROUND**

Outsourcing was initiated in the 1950s but became viable in the 1980s, when organizations used outsourcing as a process of reducing costs related to service-oriented operations (Lacity & Hirschheim, 1993) which were normally non-core business processes. Outsourcing has become a common strategy in the information system/information technology (IS/IT) field in recent years (Chen, Wang, & Wu, 2011). Outsourcing has moved from a non-core business activity to more critical business activities such as design, manufacturing, marketing, human resource management, and logistics. Current advancement in technology has made procurement a very specialized service (Camperi, 2005).

Outsourcing is strategically important (Jennings, 2002; Quinn & Hilmer, 1994). Outsourcing initiative becomes strategic when it is aligned with the organization's long-term strategies (Greaver, 1999; Shy & Stenbacka, 2003). Most organizations have tried to cope with enormous challenges such as the globalization of markets and the rapidly changing technology (Dirani & Kuchinke, 2011). Sourcing plays a significant role in a company's strategic decision-making process (Baum, Locke, & Smith, 2001; Kang, Wu, & Hong, 2009). Tactical plans (e.g., reducing costs, transforming fixed costs to variable, and liberating capital) are the basic reasons for turnings to an outsourcing service provider (Ventkatesan, 1992).

## **ROLE OF STRATEGIC OUTSOURCING IN GLOBAL BUSINESS**

This section describes the theoretical and practical concept of strategic outsourcing; the management theories related to strategic outsourcing (in terms of resource-based view, resource-advantage theory, transaction cost theory, the capability approach, knowledge-based theory, agency theory, and social exchange theory); the applications of BPO and ITO; and the significance of strategic outsourcing in global business.

### **Concept of Strategic Outsourcing**

Outsourcing is viewed as ongoing purchasing of services and parts from an outside company that is provided by the outsourcing company (Linder, 2004). Ellram and Billington (2001) defined outsourcing as the transfer of activities and processes conducted to an external party. Outsourcing refers to contracting a particular processor function in an organization to an external firm (Kotabe & Zhao, 2002). Outsourcing includes any good or service that organizations procure from outside their firms (Momme, 2002). Outsourcing is recognized as a tool for business transformation (Kumar & Arbi, 2008).

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