

Research on Business Operation Mode of Strategic Outsourcing

Liu Yong, Diao Zhaofeng

School of Management, Wuhan University of Technology, Wuhan, P.R.China, 430070

(E-mail: dzhaof@whut.edu.cn, diaozf@163.com)

Abstract Corporate strategic outsourcing is the advanced form of business outsourcing. Its main purpose is to enhance the core competence and sustainable competitive advantage. Firstly, this paper analyzes the essential difference between corporate strategic and tactical outsourcing; secondly, a comparative study of the main business operation model of strategic outsourcing is generalized; finally, a new strategic outsourcing business operation mode based on the mode of operation existing is brought forward - contingency operation of enterprise strategic outsourcing.

Key words Outsourcing; Strategic outsourcing; Core competencies; Operation mode

1 Introduction

Since Prahalad & Hamel first proposed outsourcing in 1990^[1], a large number of scholars have defined on outsourcing from different angles, in which Cheng Suan Soon believed that outsourcing is the strategic use of external resources through which to deal with those activities that is traditionally completed by internal staff or resources. Yin Jianhua, (Wang Zhaohua and Su Jingqin 2006) believed that outsourcing is a management model through which to achieve lower costs, improve performance, enhance the enterprise's core competitiveness and the environmental adaptability by retaining only the most competitive advantage of its core resources when in-house resources are limited^[2]. (Tan Liwen, Liu Linqing 2008) proposed that outsourcing is an interest-interactive, collaborative strategic management that transferred the services provided original by in-house staff to external organizations based on mutually agreed standards, costs and conditions of the contract division of work to achieve their organization's own sustainable development^[3]. From the definition of these scholars, it's easy to find understanding of outsourcing has been raised to a strategic height, with characteristic of the interest of inter-organizational interaction and collaboration division. From a business point of view, outsourcing remains not only in the level of costs reducing and efficiency improving and access to resources, the operation of strategic outsourcing is the auxiliary rudder of enterprises to gain greater competitive advantage and sustainable development capacity^[4]. Based on analysis of the nature of the strategic outsourcing, the paper study strategic outsourcing business operation in-depth.

2 Essential Characteristics of Strategic Outsourcing

Strategic outsourcing or partnership outsourcing appearing in the 1990s is the outsourcing that the contracted signs long-term agreements only with one or a few contractor. Enterprise focuses on the relationship between outsourcing and overall strategy implementation, tend to conclude a long term partnership with cooperation partners, and the outsourcing relates to the business servicing its core competence. Here, in order to further define the content and essential characteristics of the strategic outsourcing, this study will clarify the difference between strategic and tactical outsourcing from various angles, detailed in Table 1.

From these we can give the scientific understanding of the Enterprise Strategic Outsourcing: with limited internal resources, some non-dominant functions or business within the enterprise will be outsourced to external specialized companies through contractual relationships and governance model in order to achieve its long-term strategic goal, develop and upgrade their strategy-oriented, unique core capabilities and maintain a sustainable competitive advantage.

3 Operation Modes of Enterprises Strategic Outsourcing

3.1 Analysis of the main operation mode

According to the special requirements related to the industries characteristics, stage of development, business strength and market demand, Enterprises choose a different outsourcing partners outsourcing target, outsourcing path. There are four different outsourcing operation modes: central dependent, oligarchic joint type, pyramid, nested-interleaved type.

(1) Centre dependent operation model of strategic outsourcing

This operation model centers around a company with core technology companies and surrounded by other cooperative enterprises. The core enterprise tends to outsource certain business to cooperative enterprises around from a strategic point of view. The strategic outsourcing mode is the most basic and widespread organizational form.

(2) Oligarchic joint strategic outsourcing operation mode

Oligarchic joint model, also known as value alliance model, has two or more of the core business. These companies with different core competencies and technologies are equal, mutually beneficial and complementary. Through mutual cooperation they maximize their core competitiveness. At the same time, each core business has its own outsourcing cooperative enterprise. An outsourcing company can serve more than one core business. In the operation, each member with their own core competencies will focus on one part of the industry value chain, then complete the course of value-added products or services through mutually beneficial cooperation between the members, deliver the completed products or services to the terminal customers, and finally achieve their own core competencies.

Table 1 Strategic Outsourcing and Tactical Outsourcing

For comparison Comparison dimensions	Tactical Outsourcing	Strategic Outsourcing
Outsourcing guide	Cost-oriented	Relationship-oriented
Cooperative enterprises	Multiple	One or a few
Outsourcing frequency	More, important	Less, very important
Scope of business	Functions based activities	Capacity-type activities
Resource Level	Market resources	Core resources
Outsourcing Features	1. Relate to the important business . Aims to improve the financial performance or non-financial performance, support the core resources, and enhance competitive advantage Even if the failure would not threaten business survival	1. Relate to the core business, potential core business 2. The purpose is to obtain / improve core competence, make up lack of its capacity, develop the market response 3. Have the risk of losing their core technology and competitive advantage
Get the edge	Reduce and control operating costs; reduce investment; improve performance, increase functionality; overcome management difficulties	Strengthen core competencies, improve business concerns; acquisition of advanced skills; for reorganization; reduce risk management; for flexibility; offering customers a faster, newer solutions; ahead of the competition
The relationships with outsourcing Suppliers	1. A long time cooperation 2. Emphasis on communication and coordination 3. Limited technical support 4. There is a certain gap between the distribution of profits	1. Long-term partnership 2. A win-win mechanism, and respond to market competition and profit sharing 3. Technology can support each other

(3) Pyramid operation mode of strategic outsourcing

Pyramid strategic outsourcing model is system consist of the center with core business and multi-outsourcing joint venture. In general, the core business will contract the manufacturing or other business to primary contractor, primary contractor, as the case may be, will sub-contract to secondary contractor. Layer upon layer the core business will be up to manage the entire outsourcing system by manage the primary contractor.

(4) Nested-interleaved operation mode of strategic outsourcing

Nested-interleaved type is the relatively stable outsourcing pattern built by a number of core business through the outsourcing of products, information, capital and human resources. On an equal basis the core businesses have access to the capacity, resources, technology and knowledge they need but do not have. Other cooperative outsourcing companies around each of the core business form subnet. Here, different from the oligarchic joint model, the small and medium enterprises attached to the core business have the relationship of transactions in this mode. Therefore, in the nested-interleaved

outsourcing model, all the participation outsourcing companies are intertwined, and form a complex resource complex with one center or multiple centers.

3.2 Comparative Analysis

Centre dependent and the pyramid model of strategic outsourcing have a lot in common: the core businesses are generally large or giant enterprises with strong control of the outsourcing joint venture; the competitiveness of the model comes from the close coordination between the core enterprises and outsourcing joint venture; construction of the two outsourcing model is derived from the core business "will be more focus on core competencies."

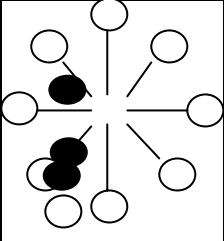
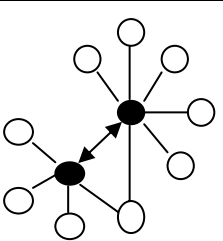
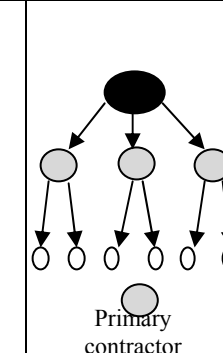
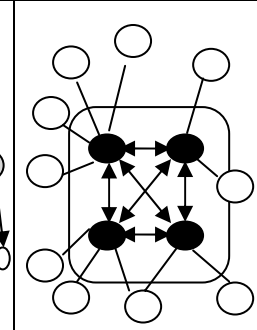
In general, oligarchic joint mode of strategic outsourcing consists of two or more comparable parallel enterprises, each with different resources, to achieve the purpose of power-and-power combination through core competencies complement. The enterprises in this mode have a strong initiative, and most of them would safeguard the interests of the whole pattern consciously.

Nested-interleaved model is the relatively loose and dynamic outsourcing mode that consists of a number of independent companies, all contributing to the operation of strategic outsourcing. The purpose of the model is to enhance the organizational learning and innovation of the core enterprise.

The comparison between the four models above is shown in Table 2.

4 Contingency Operation of Enterprise Strategic Outsourcing

Table 2 The Four Strategic Outsourcing Operation Models

	Centre dependent	Oligarchic joint	Pyramid	Nested-interleaved
Mode	One center with multiple attachment unit	Center with two or more enterprises	A central with layers of contracting	Multiple business units connected to each other
Stability	Poor	General	Poor	Strong
Competitive Power	Long and close coordination to achieve resources complementary	Core competencies complementary	Long-term trusting cooperation to achieve coexistence	Dynamic creation of competitive advantage
Objective	Need to focus on core competencies	Risk diversification, core competence enhancing	Need to focus on core competencies	Risk diversification, knowledge learning and innovation
Industry characteristics	Strong divisibility	Rapid changes of technology and market	Strong divisibility	Rapid changes of technology and market
Approach of labor division and collaborative	A central star-division collaborative approach	multi-center divergent collaborative approach	Relatively stable form	Collaboration between members by means of science and technology
Relationship with outsourcing joint venture	Core business-led, have a strong control of its members	Interference in each other, not depend heavily on each other, mutual benefit	Core business has many different levels of cooperative enterprises, long-term's mutual trust and dependence	Mainly with the learning organization, equality, common development, learning and innovation capabilities promoting
Model diagram	 <p>the core business Dependent enterprises</p>		 <p>Primary contractor</p>	
Case	Metersbonwe	Sony and Dell	Toyota	Saic Motor

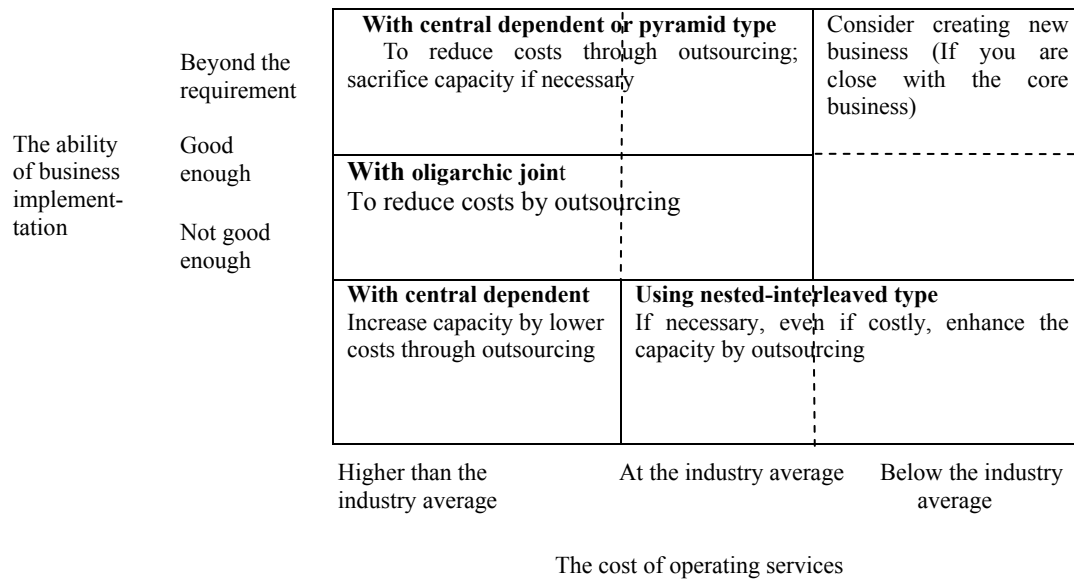


Figure 1 Contingency Enterprise Strategic Outsourcing Operation Map

5 Conclusions

The operation mode does not require the same. It should be adjusted according to the characteristics of business and industry. When the enterprise has strong implementation ability and with business operating costs below the industry average, it can consider creating new business. When the enterprise's implementation ability is beyond the requirements, and the operating costs is at or above the middle level of the industry, enterprises should adopt central dependent or pyramid type strategic outsourcing mode of operation. When the company's implementation ability is good enough, but the operating costs at or above the middle level of the industry, enterprises should adopt oligarchs joint type, to achieve core competencies complementary and risk diversification. When the company's implementation ability is not good enough, and operating cost is at or above the middle level of the industry, it should adopt central dependent type, but it's not the leading force but attachment. When the company's implementation ability is not good enough, and the cost of operating is at or below the middle level, enterprises should adopt nested-interleaved type, while in the diversification of risk, to meet the business needs of learning and innovation, and to create a dynamic competition advantage.

References

- [1] Prahalad CK, Hamel G. The Core Competence of the Corporation[J]. Harvard Business Review, 1990(3): 79-91
- [2] Yin Jianhua, Wang Zhaohua, Su Jingqin. Outsourcing Theory in China and Aboard: a Review[J]. Science Research Management, 2003 (5): 133-137 (In Chinese)
- [3] Tan Liwen, Liu Linqing. Multinational Companies Manufacturing and Service Outsourcing Trend and Related Policy Research in China[M]. Beijing: Publishing House, 2008 (In Chinese)
- [4] Ma Ming, Su Yong. Strategic Outsourcing: "The Donkey Rudder" of Enterprises Core Competence[J]. Shanghai Management Science, 2006 (6): 75-77 (In Chinese)
- [5] Mark Gottfrdson, Rudy Puryear. Outsourcing: From the periphery to the core strategy[J]. Harvard Business Review, 2005 (5): 44-55