OUTSOURCING STRATEGIES. HOW TO FORMALIZE AND NEGOTIATE THE OUTSOURCING CONTRACT

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In the globalized economy multinational firms have given rise to local firms able to produce at a low cost and at acceptable quality levels. A growing number of firms have outsourced production and manufacturing activities of all types to these firms, not only to reduce production costs but also to make their organizational structures more streamlined and flexible. Outsourcing decisions, which originally were limited to production which had a modest technological content and was of marginal importance for the business in question, is increasingly adopted for activities which, requiring core competencies or belonging to the core business, were considered inseparable from the organization and thus not outsourceable. Gradually an outsourcing strategy has developed which has found it convenient to outsource even core competencies and functions, such as specialized manufacturing, which require a particular technology, marketing, product design, and the search for know-how (Prahalad and Hamel 1990: 79-91).
Such an outsourcing strategy has a number of advantages, among which quality improvement, a greater focus on managing other core competencies, a greater flexibility and leverage regarding resources, along with the possibility of entering new markets, even ones with a high rate of development.
This article analyzes the fundamental stages for an outsourcing strategy. It will demonstrate how, in order to achieve an outsourcing strategy, it is necessary to include outsourcing in the general strategy, gather suitable information for choosing the outsourcer, negotiate the contract with the supplier, choose the type of relationship to have with the supplier, and, finally, plan the transfer of activities and functions from the outsourcee to one or more outsourcers or providers.

Keywords: outsourcing, outsourcing decision, strategic perspective, outsourcing contract, contract negotiation, outside information, organizational culture.

JEL Codes: M10, M19, L20, L21, L24, L26

1. Introduction. The object of outsourcing

Outsourcing functions, processes and activities, normally carried out inside the firm, through outsourcing contracts – by repurchasing through supply contracts the products or results of certain activities by firms delegated for such activities – is not a new phenomenon.
Starting from the early '80s, the use of outside suppliers has taken on new features. In the global economy, in many countries still referred to as the "Third World", multinational firms have set up local companies able to produce at low cost and at an acceptable level of quality "(1)"; these firms have been handed production and manufacturing activities of all kinds by a growing number of firms, who are motivated by the possibility of reducing manufacturing costs as well as of streamlining their organizational structure.
In recent years outsourcing strategies have undergone a profound evolution, moving from simple forms of production contracts involving third parties to agreements that entail several

strategically important functions: from technological innovation to logistics, customer relations to post-sales services.
The outsourcing decision is not limited to marginal production with a modest technological content but is increasingly extended to activities that require "core competencies" that are part of the "core business", activities which, until that moment, were considered an inseparable part of the firm and thus not outsourceable.

2. Outsourcing as a strategic perspective

Today firms consider outsourcing from a long-term, and thus strategic, perspective, whose aim is the outsourcing of functions and processes through a network of stable agreements with specialized outsourcers who take on the role of providers, with or without exclusivity.
Quinn and Hilmer have clearly summed up the four main advantages of outsourcing from a strategic perspective (Quinn and Hilmer 1994: 43-55):
1. maximizing the yield from internal resources by concentrating investments and effort on what the firm "does best";
2. creating or protecting the competitive advantages by developing and strengthening the "core competencies" and building barriers against present or future competitors who might try to enter the firm's areas of interest;
3. providing incentives to investments in the outsourcers' technology and know-how, their innovations and skills, and their specialized activities, which the outsourcee can maintain in-house only through continual investments and innovation;
4. reducing the risks in rapidly changing markets and in the presence of fast-evolving technologies; an outsourcing strategy transfers outside the firm the risks from technological change and R&D costs, thereby shortening the production cycles and making the response to customer needs faster and more flexible.
Today the tendency is to achieve global sourcing and offshoring; that is, outsourcing that involves outsourcers located in countries other than that of the outsourcer.
With the decline in transport costs and the development of the merchant marine and container ships, globalization has begun to separate the "geography of production" from the "geography of consumption" (Mella 2007: 12).
Global outsourcing and offshoring are processes that best illustrate this tendency.
Outsourcing is transforming production from a relationship involving the supply of materials, components and services into a network of competencies involving research and development and planning.
Outsourcing has entered into new fields, from customer service to R&D to the study of new business models, even health care services.
Along these lines Champy writes, in his introduction to Koulopoulos and Roloff's book: "*The forces of globalization have finally kicked in. … Material and product sourcing move between multiple countries as a function of price, quality, and speed. And customers are everywhere expecting to be served with consistent quality and price, independent of location. The Internet has made markets global, even for the smallest company. In fact, information technology is the great enabler of those changes*" (Koulopoulos and Roloff 2006: 1-5).

3. The phases of the outsourcing strategy

An initial interesting model for the outsourcing decision – developed with reference to the industrial services sector, though of general validity – is presented by Kumar et al. (Kumar, Aquino and Anderson 2007: 323-342). After a preliminary brainstorming process on the fundamental internal and external variables that can influence the outsourcing decision – a

process which involves all the organizational levels of the outsourcing firm – the risks of outsourcing are then considered (Pellicelli 2008).

Jennings proposes a more general model according to which the outsourcing strategy can be outlined in the following phases (Jennings 1996: 393-405). (Table 1)

Table 1 – The phases of an outsourcing strategy.

PHASES	PRINCIPAL ACTIONS
1. The objectives. **Allocate outsourcing as part of the general strategy.** Assess whether or not outsourcing is a feasible strategy for the organization, taking into account its current strategic objectives.	• Define the long-term strategy for the function to be outsourced. • Consider the impact of the outsourcing decision on the chances of achieving the organization's mission and strategies, including costs, quality, flexibility and time frame. Consider the changes in the business environment that would entail a change in strategy.
2. Which activities to outsource. **Collecting information.** Collect and analyze information about the products/services to outsource and those than can be produced in house.	• Identify the products/services to outsource and the expected performance levels. • Give a clear definition of these products/services. Identify the "core" competencies. Determine the current costs of the products/services to be outsourced and estimate the potential savings from outsourcing. • Obtain references about the supplier.
3. Choosing the outsourcer. Set evaluation criteria to identify a group of potentially reliable candidates.	▪ Identify the number of suitable suppliers in order to have a vast and rational choice. ▪ Document the technical and managerial capacities of the candidate firms, their organizational cultures, and the potential fit (degree of integration with the outsourcer).
4. Negotiating the contract. Aim for a contract that strictly establishes the services required and at the same time is flexible enough to permit the addition of future services as a response to unforeseen events.	• Negotiate a fair and equitable agreement. • Specify the performances expected from each partner, how these should be measured and remunerated, and how any controversies that may arise are to be settled. • Clearly specify contingency clauses and how any subcontractors are to be managed.
5.Transfering the outsourcer's activities and functions to the supplier. **Preparing a plan to transfer the outsourced activities to the supplier.**	• Set up a temporary working group to control and organize the transfer. • Actively involve those employees whose activities may be affected by the transfer. • Ensure that the managers of the functions or of those parts of the organization outsourced are actively involved in the decision-making process
6. Choosing the appropriate outsourcer-supplier relationship	• Buy the market, ongoing relationship, partnership, strategic alliances, upstream integration.

Source: adapted from Jennings 1996: 393-405

4. The objectives: what place in the general strategy?

Successful outsourcing starts with the clear definition of objectives and a clear assessment of how these can be satisfied by the outsourcer. Many failures are due to unrealistic or wrong expectations (Allen and Chandrashekar 2000: 5).

In general, there is more than one objective, and the first phase in the decision-making process involving whether or not and how to outsource starts by defining which processes or functions should be kept inside the firm.

For example, one objective of outsourcing can be to support a phase of strong growth, and thus it may have a temporary horizon; or it can signal the start of a new strategy. In addition to investments, developing the necessary production capacity takes time. If the firm has entered a phase of fast growth then outsourcing will allow it not to lose the opportunity to gain market share, develop its own business, and increase supply without additional fixed costs.

Especially when we are dealing with the outsourcing of Information Technology, the "business recovery" objectives should be evaluated, thus considering what the impact could be on the firm's activity if the supply of a particular strategically-relevant product/service were interrupted or did not respect the agreed-upon specifications.

5. Gathering internal information and the choice of activities to outsource

According to Prahalad, firms should outsource only those processes and activities they know well; he asserts that they should not outsource to resolve problems they are unable to solve internally (Prahalad 2004).

Moreover, they should not hand over entire functions, which constitutes the "brute-force approach". For example, a firm could hand over a sales activity but should maintain data analysis activities in-house (Prahalad 2004). It is not always necessary to transfer an entire function. Maintaining part of the activities of a function in-house reduces the risk of choosing the wrong supplier and allows the firm to transfer at a later date the entire function if expected performance is below expectations. For example, a firm can transfer the active invoicing cycle and wait to transfer the passive cycle, which in general is more complex.

The decision as to which functions to transfer is always the result of a comparison between advantages and disadvantages, many of which are common to the various functions and activities, while others are specific.

Bragg offers several general suggestions regarding specific functions and activities, such as those which are listed below (Bragg 2006: 160-180).

A. Credit collection. The risk is that the supplier may be too aggressive in his approach to the debtor and the creditor firm can lose the customer.

B. Salaries and contributions. This is the function which, more than any other, is outsourced. If the firm has several operational units spread out over several geographic areas in which the outsourcer is present, then the latter can assure the necessary services with greater uniformity and timeliness.

C. Computer services. The main advantage of outsourcing this service is the reduction in capital investments in computers, investments which will have to be made by the supplier, who may even buy the computers from the outsourcee, thereby freeing up liquidity. Outsourcing this function can also lead to disadvantages that cannot be ignored. Bragg presents some of these in detail (Bragg 2006: 164-166). In particular, Espino-Rodriguez et al. have examined the outsourcing strategy in computer systems in the hotel sector by constructing a theoretical model which, when applied to that sector, shows how outsourcing does not lead to an effective

strengthening of the capacity to manage the resources used in computer systems and in information technology (Espino-Rodríguez and Gil-Padilla 2007: 757-777).

D. Customer service. The main advantage derives from the outsourcer's experience in responding to the customer requests and in managing complaints; if the outsourcee is a prestigious firm it can contribute to the outsourcer's reputation.

E. Planning and R&D. Transferring the personnel to an outsourcer with high qualifications (higher than those of the outsourcee) would streamline the function and, if this is carried out by a highly specialized team with great potential, could provide better results in terms of innovation and patents. The advantage of turning to a supplier is decisive when the firm has a request from a customer which it cannot meet in the short term due to a lack of resources (human and financial).

Nevertheless, even this form of outsourcing entails serious risks. The idea of the "outsourcing-offshore" is "synonymous to cost cutting", but firms who go this route often forget to do so in a way that increases their capacity to compete.
Wrong outsourcing choices have also caused a diminishing of the firm's capacity to compete and led to their decline (Bettis, Bradley and Hamel 1992: 7-22; Brown and Wilson 2005: 30-34). This means that the firm must be able to identify which activities to outsource without risking negative effects on their capacity to compete. Quinn and Hilmer have listed three classes of strategic risks firms can face when they outsource: 1) the loss of critical capacities or competencies; 2) the weakening of their capacity to coordinate more than one function; 3) the loss of control over the supplier (Quinn and Hilmer 1994: 43-55).
Kearney's study on the reasons that make outsourcing a problematic choice highlights that the main fear of the outsourcee is the loss of control over the outsourcer, in particular the risk it will be less able to protect its intellectual capital (Kearney 2005: 1-97).

6. The gathering of outside information and the choice of outsourcer

Gathering information on the potential outsourcer can start by contacting firms that have had dealings with the outsourcers: individual firms or associations of firms that can serve as references for the outsourcing candidates.
The technical possibilities of producing the product/service and management's capacities are the most important criteria for choosing among the outsourcers. There is a clear relation between the risks faced by the outsourcee and the supplier's capacities: the greater the latter, the fewer the risks for the outsourcee.
According to Stacey, during the implementation of the outsourcing this information must be shared and periodically discussed with the outsourcer (Stacey 1998: 24-27).
A particular aspect to consider is the size of the outsourcer: whether the outsourcer is a large or small firm. The answer depends fundamentally on the type of activities and the volume of services to outsource. In general a large outsourcer, one who can guarantee the desired volumes and quality, is preferred to a small firm, which must be the object of constant and costly controls on the part of the outsourcee.
It must be pointed out (Bragg 2006: 30-34) that the supplier can also be a large firm that produces for its own market but, since it has excess production capacity, is willing to also produce for other customers; it may be a good idea to make use of this willingness in order to outsource modest volumes of activities.

To decide which supplier to outsource an entire function (or part of a function) to, there is need for an accurate knowledge of the potential outsourcer which identifies its objectives, including how it operates to achieve its profits and to compete with its rivals.
It should always be remembered that organizational culture may be at the basis of outsourcing choices. An example of how an organizational culture may condition the choice of outsourcing strategy is Codelco, a Chilean copper mine reputed to have one of the best managements despite being partly state-run. Codelco had to decide which functions to keep in-house and which to outsource. The problem was how to create an outsourcing strategy in a sector such as mining, which traditionally invests little in information technology. The greatest problem was management's resistance due to a culture based on centralization (Upton, Staats and Fuller 2007).
Table 2 presents information that is useful for evaluating the potential of outsourcer candidates.

Table 2 – How to evaluate the potential of the supplier. Some of the possible questions to ask firms that can provide references for previous experiences with the supplier.

1.	How did the supplier manage the transfer (transition) of the functions from the outsourcer to its own organization?
2.	What is the level and quality of the resources employed?
3.	How would you describe the services provided by the supplier?
4.	How was the transfer of personnel to the supplier's organization managed?
5.	What were the differences in pay and benefits for the transferred personnel?
6.	What was the level of responsibility given to the employees transferred to the supplier compared to the previous level in the outsourcing firm?
7.	What is the quality of the supplier?
8.	How and to what extent did the supplier respond to indications of defects from its own personnel?
9.	What is the level of technology adopted by the supplier?
10.	To what extent does the supplier use sub-contractors?
11.	How did the supplier deal with any conflicts with the firm?
12.	How did the supplier manage any contract renegotiations?
13.	How detailed is the calculation of costs (invoicing) by the supplier?
14.	Did the supplier share with the firm any cost economies not provided for in the contract? If so, in what way?
15.	To what extent did the costs charged by the supplier meet the firm's expectations? Were there any economies with respect to the costs when the production occurred in-house?
16.	How did the supplier manage the services not included in the contract and to what extent did it take account of the related costs?
17.	How were any problems not touched on in the previous questions managed by the supplier?
18.	Would you use the supplier's services again? Why or why not?

Source: Bragg 2006: 32.

The geographical distance between outsourcee and supplier can be important in some cases, and become a determining factor when emergency actions are required, when the outsourcee has several business units spread over several geographic areas where the outsourcee is not present and would thus be forced to turn to sub-suppliers from a local firm, and when transport times are such as to compromise the rapid buildup of inventories in certain geographic areas with regard to sectors having strong sales volatility.

Even the age of the outsourcer candidate is of great importance.
In general, new firms are flexible, offer better services and frequently innovate, but they are also the most vulnerable. Those who have been in the market for some time can have greater financial stability but are often slow to innovate and are not very flexible.

7. The contract negotiation

There are different procedures for drawing up the contract, the most frequent of which we will now summarize.
After having chosen a group of potential outsourcers the firm sends each a "Request-For-Proposal" (RFP), in which some information are requested as: information on the firm and sector, activities to outsource, recourse to sub-suppliers, length of contract, transfer of personnel (Bragg, 2006).
The information obtained from the RFP is only the starting point for the selection of the outsourcer and stipulation of the contract.
The contract must be specific enough to clearly regulate every key aspect and at the same time flexible enough to allow the parties to face the consequences of unforeseen events without conflicts arising.
In particular, the contract must define the evaluation criteria for the performances and what will occur if these criteria are not fulfilled. It must establish whether or not the supplier can, in turn, use sub-suppliers. Many contracts provide for arbitration in order to resolve disputes.
In order to effectively start the negotiation the firm must understand where and to what extent the supplier earns a profit.
Even if the fundamental parameter for outsourcing is not price, if the competition among suppliers is effectively arranged then the prices offered are low and the margins reduced.
There are various tactics potential outsourcers can adopt to win the contract.
Frequently the contract contains only those clauses relating to the essential services in the platform of basic services, and additional costs are incurred for each contingency service not included in the platform. The firm responds by trying to broaden the platform and clearly defining the prices for the contingency services.
At other times the supplier renounces profits for an initial period, offering modest prices, only to ask for price adjustments later on when the outsourcee has reduced its capacity to backsource, having given up carrying out the outsourced activities. In order to make it less convenient for the outsourcer to rescind the contract, the supplier imposes high penalties for withdrawal. The outsourcer, in turn, can respond by imposing short-term contracts with low penalties for an early withdrawal.
Arjun and Subhajit, after demonstrating how widespread and serious the controversies are, especially in offshore outsourcing, present the results of a comparative analysis of the procedures adopted by a sampling of firms in order to evaluate risks and of the policies adopted to select the offshore partners.
Moreover, the authors recommend undertaking preventive due diligence for each phase of an outsourcing agreement (Arjun and Subhajit 2007: 21-46).
When the outsourcing concerns the production of goods or the supply of services, firms often turn to pilot programmes, where the supplier identifies a limited group of customers and agrees on a period of time – which can vary from 30 to 90 days – during which the customers use the service according to the agreed upon standards.
The supplier that wishes to purchase the services to give back in outsourcing generally supplies the services during this trial period at zero cost, or at a very low cost.

8. The transfer of activities and functions to the outsourcer

A plan agreed upon by the two parties – linked to the outsourcing contract – establishes the time frame and mode for the transfer of the outsourced functions.

The preliminary information for the outsourcer's personnel and the latter's involvement is important in this phase. Often there is recourse to a project team whose aim is to manage the transfer.

For simple activities, such as maintenance, the transition can be swift. However, this is not the case for complex activities. Too fast or hurried a transfer may not allow the outsourcer sufficient time to thoroughly learn about the activity to transfer.

The firm that turns to outsourcing generally starts by outsourcing a function (or part of a function) that has a modest impact on its economic results and on the organization, in order to reduce the negative impact of performances that do not meet expectations.

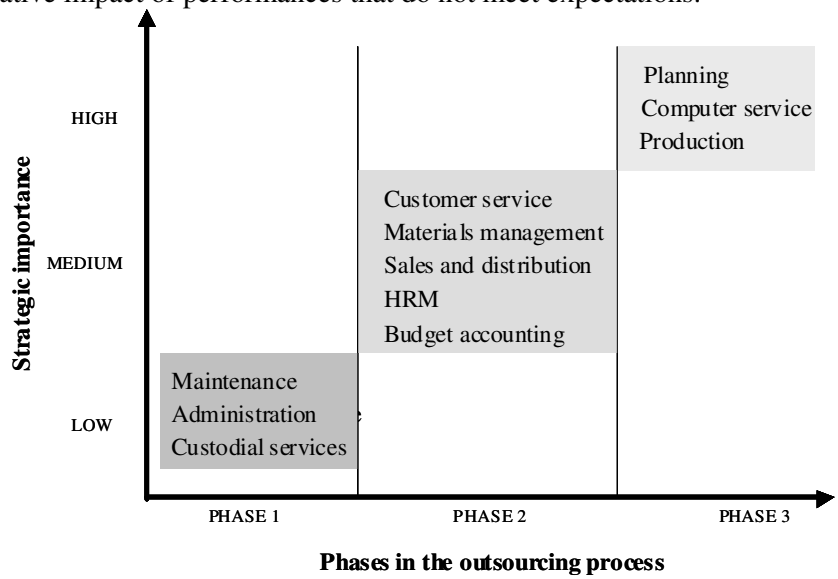

Figure 1 – Time frame for the outsourcing of various functions. Source: Bragg 2006: 30.

There are various approaches in this regard. Following Bragg, an initial approach is to follow the proper procedure regarding union relations by informing the personnel as soon as possible that the firm is considering outsourcing options (Bragg 2006: 32).

In any event, the communication must provide the personnel with valid and convincing reasons for outsourcing since deciding whether or not to outsource a function or activity in any case represents a negative assessment of the personnel who are involved in those functions and activities, which could spur the best employees to leave the firm.

Thus the firm should inform its employees only after the specifics of the contract have been defined.

The difficulties with this way of communicating are evident: 1) it is difficult to hide the selection process from the potential suppliers; 2) there are also negative effects on employees involved with those functions not being outsourced, since the suspicion may arise that the firm is hiding from them decisions that concern them.

The most complex phase is deciding which persons will be transferred to the outsourcer and with what responsibilities and salary.

It is important that: a) meetings be frequently held among the "key personnel involved", and at least once a year for those in charge at the highest levels; b) periodical meetings be maintained even when there tend to be no more problems; c) the persons in charge of communications not be replaced.

9. The choice of relationship to have with the supplier. Forms of direct control over the outsourcer

After deciding to outsource, the problem arises concerning the type of relationship to have with the supplier.

If we limit our attention only to typical outsourcing, then we can distinguish between the following forms: a) outsourcing as a partnership, with direct control over the outsourcer in the form of corporate or formal control; b) the outsourcing of supplies without direct control in the form of a partnership.

The first alternative is preferable when the objects of outsourcing are the strategic functions and activities that fall within the core competencies and the core business; since the outsourcer outsources those functions and processes which are vital for its survival, the firm faces the risk of seeing its organizational structure weakened, so that it is natural that, where possible, it tends to acquire or maintain control over the outsourcer.

In order to maintain control over the outsourcer, the outsourcing firm can enter into an outsourcing relationship in one of the following ways:

A) Setting up a fully-owned company to carry out the outsourced activities. . This is the preferred alternative for banking and insurance groups that are outsourcing complex functions, such as management control, auditing, and the assessment and liquidation of damages.

B) Hiving off, or transferring a business while maintaining total or legal control; this solution leads to the same results as the previous one, but has the advantage of simplifying even more the transfer of assets and personnel as well as creating a better market image.

C) Acquisition of an already-existing company or participatory control in this company; this solution differs from the previous ones in that the outsourcer outsources activities through a supply contract with an outside supplier but, in order to gain control, purchases – in one of the many forms possible – the company in question. The main advantages of this alternative are that it obviates the need to form a new organization – as the outsourcer's organization is still active – as well allows for full control (acquisition) or participatory control (share ownership).

D) Participation in strategic alliances where there is close and wide-ranging interaction among the partners, even in the form of consortiums or joint ventures, following a tendency that has become more marked in recent years. This solution is practicable especially for the outsourcing of functions that require specialized competencies which are jointly carried out by several co-venturers – research and development, advertising, etc. – with the agreement to jointly use the results obtained. Together with the advantage of producing a streamlined outsourcing with limited costs there are those deriving from a limited control and the lack of a need to outsource internal organizational structures.

In recent years new tendencies have emerged in relations between the firm that outsources without formal corporate control and its supplier.

1) Long-term relations. The average length of outsourcing contract has noticeably increased.

2) Greater cooperation. The supplier, even if not subjected to corporate control, tends to become more and more a partner, since the costs incurred by the supplier can also be considered as costs for the outsourcer and the innovations introduced by the latter can translate into future

outsourcings of production lines to the supplier. Thus a lengthy and stable collaboration is in the interests of both sides.

3) A large reduction in the number of suppliers. This tendency is common to all sectors and has given rise to considerable risks for the buyer, who can find himself in an undesirable and at times dramatic position of dependence.

4) Greater use of EDI (Electronic Data Interchange) and of other communications technologies.

5) Agreements for the gradual reduction of costs (and thus prices) by the supplier.

6) Agreements for the improvement in the quality of products by the supplier which represent components for the buyer.

7) Supplier involvement in the development of new products.
Obviously the type of relation depends on the market structure and on the types of supplies provided by the supplier.

Table 3, adapted from Cohen, Agrawal and Flaherty, summarizes the characteristics of five types of possible relation between buyer and supplier in an outsourcing context, listed in order of intensity (Cohen and Agrawal 1996; Flaherty 1996: 26).

Table 3 – The characteristics of the different types of relations with the supplier.

"Buy the market"	**"On-going relationship(II)**	**Partnership**	**Strategic Alliance**	**Upstream integration**
· Arm's length (I). · Clear definition of components. ·Interaction via computer (EDI). · Many agreements with competitors.	· Medium-term contracts. · Some information sharing. · Good relations with management · Some agreements with competitors	·Long-term contracts. · Vast exchange of information. · Trust among partners. · Agreements of limited importance with competitors.	· Long-term relations. · Full sharing of information and programmes. · Large scale trust and fusion among cultures. · No agreements with competitors.	· Control of supplier's capital. · Full sharing of information and programmes. · A single culture. · No agreement with competitors.

(I) Simple agreement between buyer and seller, who have no other type of relation.
(II) "On-going relationship" indicates relationships with several suppliers. On a case by case basis the firm chooses the one more suitable for its supplies.

Source: adapted from Cohen and Agrawal 1996; Flaherty 1996: 26.

If the outsourcing relationship creates strong uncertainty regarding the buyer's important objectives, then the relations with the supplier should be very close. In order to reduce uncertainty some firms adopt vertical integration, others strategic alliances. To find the best solution Pyke suggests going back to examining the four main objectives of operational management – costs, quality, delivery and flexibility – citing the example of a clothing company whose main competitive factor is its high product quality (Pyke 1998). Uncertainty about maintaining the quality of the fabric, which is vital for its strategic objectives, suggests it move to a close relationship with its suppliers along the lines of a strategic alliance.

10. Conclusions

Once the firm has decided on outsourcing and the activities that will be involved it must plan its implementation. The most important and complex phase is the choice of supplier, especially if the firm already has a network of relations with outside suppliers, each of whom is specialized in a particular area.

The most important and necessary phases of an outsourcing strategy are the decisions about the objectives to achieve through an outsourcing strategy and the activities to outsource.

In the first phase the firm must assess whether outsourcing is a feasible strategy for the organization given its current strategic objectives. Jennings identifies the following necessary steps (Jennings 1996: 393-405): 1) define the long-term strategy for the function to be outsourced; 2) consider the impact of the decision to outsource on the achievement of the mission and strategies of the organization, including costs, quality, flexibility, and the meeting of deadlines; 3) consider changes in the environment that require a change in strategy.

In the second phase the firm must gather and analyze the information on the products/services to outsource and those to produce in-house and decide which to outsource. In this phase the firm must (Jennings 1996: 393-405): 1) identify the products/services to outsource and the expected performance levels; 2) give a clear definition of these products/services and identify the core competencies; 3) determine the present costs of the products/services it intends to outsource and estimate the potential economies; 4) gather references on the supplier.

The other phases that concern the selection of suppliers, contract negotiation, the transfer of activities, and the relationship to enter into with the supplier require in any case a careful evaluation and must therefore be adequately planned in order to ensure a successful outsourcing strategy.

Notes

"(1)": By "quality" we refer to at least two correlated aspects: 1) the set of characteristics that made a given system/process/object suitable to be used for a particular purpose; this form represents the extrinsic, use, or functional quality; the set of purposes for which the system/process/object can be useful for a particular subject is defined as the use function; 2) the set of characteristics that make a system/process/object conform to a reference sample – either observed or expected – that defines its functioning; this form of quality is defined as the intrinsic, project, or instru-mental quality. However, from these basic notions we can see the difficulty of defining the meaning of quality; this term is fleet-ing, and an understanding of it is normally left to intuition (Mella 2005: 25-52).

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