

CRITICAL DRIVERS AFFECTING STRATEGIC ALIGNMENT OF OUTSOURCING SERVICE PROVIDERS AND THEIR CUSTOMERS IN THAILAND

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Abstract

Outsourcing represents one of the key issues to have emerged in manufacturing strategy. The paper addresses the perspectives of outsourcing option and the impact of outsourcing on a firm's competency. The paper provides a theoretical framework based on the perception gap between the organisations willing to outsource some of their activities (customers) and the outsourcing providers. The paper reports the results of a wide survey comprises 213 responses from Thailand firms. The research identifies the main drivers affecting the outsourcing in Thailand.

Keywords: Driver, outsourcing, perception gap

1. INTRODUCTION

Outsourcing is an arrangement of co-operative inter-firm relationships, which should be based on mutual trust between partner organizations for improving the performance of the inter-firm transaction (Smith, Carroll & Ashford 1995). The outsourcing option has become a feasible proposition in virtually all organizations (Hurley & Schaumann 1997). The growth in outsourcing over the last two decades has been unprecedented (Kakabadse & Kakabadse 2002). A recent analysis highlights the extent of such growth identifying the size of outsourcing contracts, with some as large as US\$ 7.5 billion (Kakabadse & Kakabadse 2002).

There is a gap between a customer and service provider when drivers considered by customers as critical for an effective outsourcing partnership are significantly different from those perceived by the service providers (Bowon, Kyungbae & Taesik 1999). As a result, extending the conceptualization of trust in the literature can postulate another linkage between inter-firm trust and the perception gap (Farnham 1989) and suggest that a large perception gap has a negative impact on inter-firm trust that cause customer dissatisfaction (Bowon, Kyungbae & Taesik 1999).

The identification of the determinants of customer satisfaction is a central concern for service management academics and practitioners (Matzler & Sauerwein 2002). It is an essential prerequisite for the management of service quality. For service providers, it is crucial to know which drivers add value and increase satisfaction, which of them merely fulfill minimum requirements and minimize dissatisfaction and which do both. Only then can they make better decisions about how resources should be allocated to different drivers in order to improve quality and satisfaction. Hence, there is a gap in the literature surrounding

outsourcing drivers influencing the strategic alignment between service providers and their customers in service outsourcing. This gap in particular has not been investigated adequately in the existing literature. This research considers the outsourcing in Thailand and address the following research question: What are the critical drivers affecting the strategic alignment of outsourcing service providers and their customers in Thailand?

2. OUTSOURCING DRIVERS

Although definitions of ‘Outsourcing’ differ from author to author (see Table 1 for a representative sample), the essence of these definitions is that outsourcing refers to the concept of looking for expertise to handle certain business functions outside the existing firm (Embleton & Wright 1998). Table 1 illustrates the main outsourcing drivers as addressed by literature.

Tabl1 1: Outsourcing drivers

OUTSOURCING DRIVER	REFERENCE
<i>Focus on achieving key strategic objectives</i>	Foster & Muller 1990; Richardson 1996; Trunick 1989
<i>Development of competitive advantage</i>	Foster & Muller 1990); May 1998
<i>Focus on core business</i>	Beulen, Ribbers & Roos (1994); Quinn & Hilmer (1994
<i>Improve service level</i>	Lear-Olimpi 1997).
<i>Improve capacity utilizatio</i>	David (2002)
<i>Increase flexibility.</i>	Maurice & Greaver 1999)
<i>Reduced time to market/lead time.</i>	Jussi & Carlos 2002); Maurice & Greaver (1999)
<i>Access to technical talent</i>	Maurice & Greaver 1999
<i>Access to handle geographical distance</i>	Bradley 1994b; 1994c); Raynor (1992)
<i>Provide cash infusion</i>	Maurice & Greaver 1999
<i>Increase in supply chain flexibility/agility</i>	Ghausi 2002
<i>Assist benchmarking</i>	Razzaque & Sheng 1998; Rothery & Robertson (1995
<i>Access to technology</i>	McCarthy (1996); Trunick (1989)
<i>Facilitate training and education</i>	Ann (1994); Maurice & Greaver 1999).
<i>Increase innovation</i>	Maurice & Greaver 1999
<i>Improve quality</i>	Maurice & Greaver 1999
<i>Facilitate business process re-engineering</i>	Rothery & Robertson (1995)
<i>Enhance product diversification</i>	David 2002; Reve (1990)
<i>Improve cost control</i>	Lacity, Hirschheim & Willcocks (1994)
<i>Reduce costs.</i>	Maurice & Greaver 1999)

The above mentioned 20 outsourcing drivers are based on a review of the relevant literature concerning an overview of outsourcing, the service quality method, and the outsourcing drivers that influence the service providers and their customer relationships. The objective of this research is to find out the critical outsourcing drivers from these outsourcing drivers that affect the strategic alignment of outsourcing providers and their customers in Thailand.

However, outsourcing is an arrangement of co-operative inter-firm relationships, which should be based on mutual trust between partner organizations for improving the performance of the inter-firm transaction (Smith, Carroll & Ashford 1995). This was supported by Bowon, Kyungbae & Taesik (1999) that strong and productive partnerships between a service provider and its customer are important for effective outsourcing. Such partnerships should be based on strategic alliances between the service provider and its customer, which can be achieved by mutually understanding the perception gap that has an impact on the service

outsourcing business. In the next section, the strategic alignment that influences the service providers and their customer relationships is discussed.

This research seeks to promote a greater understanding of outsourcing and is focused on the perception gap between the supply chain partners with respect to the critical drivers for effectiveness in the outsourcing process in Thailand. Knowing the drivers associated with a significant perception gap enables supply-chain partner to explain why such perception gaps might persist, and eventually to rectify them.

3. RESEARCH METHODOLOGY

The research adopts quantitative approach using self-administrated survey. The questionnaire comprises 20 outsourcing drivers. Respondents are required to rate the importance and the performance of the driver. A likert scale of 7-point is used to rate the importance and performance of each driver. A total of 480 questionnaires were mailed to the respondents for this survey from both outsourcing providers and customers firms. The number of surveys returned due to invalid addresses, changed addresses and so on, was 102 questionnaires. The number of respondents who directly declined to participate in this survey was 126. As a result, the valid mailing addresses for this dissertation were reduced to 378 respondents. Out of the valid mailing addresses, 252 respondents completed the questionnaire. This gave a response rate of 52.5 percent. The response rate from this survey is considered acceptable in a voluntary environment. According to previous literature, the response rate using mailing varies from 41 percent to 53 percent (Jae-II 1996; Mark & Parooj 1998). Among respondents who completed the questionnaire, 39 respondents indicated their attitudes by choosing only one common attitudinal domain “Importance” or “Performance”. These respondents were excluded from this survey, as the researcher required the respondents who indicated their attitudes by choosing both common attitudinal domains “Importance” and “Performance”. Therefore, there were only 213 eligible respondents who passed the post screening questions and these were used for further analysis in this study. Details are presented in Table 2.

Table 2: Successful rate of valid respondents

RESPONDENT	NUMBER	PERCENT
Total mail sent out to respondents (a)	480	100
Return mail (invalid addresses, etc. (b)	102	21.2
Respondents with valid addresses (a-b)	378	78.8
Total respondents completed this survey	252	52.5
Total respondents in this survey	252	52.5
Respondents who did not complete the questionnaire	39	8.1
Eligible respondents in this study	213	44.4

3.1 Respondents Topography

The majority of respondents were from outsourcing customer firms (51.6%) followed by respondents from the outsourcing service providers (48.4%). Respondents were from large organizations with staff of more than 1000 people (21.9%), medium sized organizations with staff around 400-999 people (28.8%) and small organization with staff less than 400 people (49.3%). Thirty four percent of respondents were in a top management position.

4. RESEARCH FINDINGS

All the respondents were asked to rate the importance of 20 outsourcing drivers. The ratings were based on a seven-point Likert scale (1 = no importance to 7 = critical importance). The respondents are also asked to indicate satisfaction with their partner’s performance on these drivers using a seven-point scale (1 = no satisfaction to 7 = complete satisfaction). The analysis of all the drivers distinguishes between the importance of a driver

and its actual performance. Successful organizations require high performance on the important drivers and usually avoid wasting resources on drivers of low importance. Summary statistics of means and standard deviations for the importance and performance of these drivers are reported in Table 3.

Table 3: Importance and performance rating (mean, rank and differences)

Factors	Importance		Performance		Mean difference
	Mean	Rank	Mean	Rank	
A1 Focusing on achieving key strategic objectives	5.30	5	4.16	14	.696
A2 Facilitate business process re-engineering	5.39	3	4.95	3	.439
A3 Focus on core business	5.78	1	5.30	1	.473
A4 Reduced time to market/lead time	4.69	11	4.29	9	.399
A5 Access to technical talent	4.97	8	4.66	7	0.311
A6 Facilitate training and education	3.64	20	3.47	20	0.169
A7 Improve quality	4.72	10	4.26	10	0.453
A8 Enhance product diversification	3.86	19	3.73	19	0.128
A9 Improve capacity utilization	4.46	13	4.09	15	0.372
A10 Development of competitive advantages	5.02	7	4.68	6	0.345
A11 Improve service level	5.07	6	4.72	5	0.351
A12 Increase in supply chain flexibility/agility	4.52	12	4.25	11	0.270
A13 Assist benchmarking	4.38	14	4.25	12	0.128
A14 Access to handle geographical distance	4.09	17	3.89	16	0.203
A15 Increased innovation	4.14	16	3.78	17	0.365
A16 Access to technology	4.87	9	4.42	8	0.453
A17 Increased flexibility	4.27	15	4.18	13	0.095
A18 Reduce cost	5.32	4	4.79	4	0.527
A19 Improve cost control	5.70	2	5.13	2	0.568
A20 Provide cash infusion	3.94	18	3.78	18	0.162

Table 3 reflected the viewpoint of respondents and summarizes the results of the survey in terms of the importance and performance of the drivers. The results reveal that the importance values ranged from 3.64 (this is between 'average importance' and 'high importance') to 5.78 (between 'high importance' and 'extreme importance'). When all the drivers were arranged in order of importance, focus on core business, improve cost control, facilitate business process re-engineering and reduce cost was perceived to be the most critical drivers with mean importance of 5.78, 5.70, 5.39, and 5.32 respectively. Access to handle geographical distance, provide cash infusion, enhance product diversification and facilitate training and education were the four least important drivers with mean importance of 4.09, 3.94, 3.86, and 3.64 respectively.

The level or extent of the performance of those drivers was another aspect that had been investigated. It is very clear that the perception of performance was lower than the importance of each driver. The performance values ranged from 3.47 to 5.30, which corresponded to a 'good' level of practice. Among those drivers, the four best-performed drivers were: focus on core business (this rated much higher than other factors), improve cost control, facilitate business process re-engineering and reduce cost with mean performance of 5.30, 5.13, 4.95, and 4.79 respectively. The worst practiced factors were providing cash infusion, increased innovation, enhance product diversification and facilitate training and education with mean performance of 3.78, 3.78, 3.73, and 3.47 respectively.

There were some interesting similarities between the first four and last three drivers in their importance and performance. Focus on core business and improve cost control were ranked within the top four of both in terms of the importance and performance of the drivers, while enhance product diversification and facilitate training and education were among the bottom three in perceived importance and performance. This indicates that the importance of focus on core business and improve cost control have been well addressed, and this has turned into good performance in practice. Meanwhile, respondents pay least attention on enhance product diversification and facilitate training and education.

Table 3 also reflects the viewpoint of respondents and summarizes the results of the survey in terms of gap score between the importance and performance of the drivers. The results reveal that focus on achieving key strategic objectives, improve cost control, reduce cost and focus on core business were ranked within the top four for the difference in gap score with mean gap scores of 0.696, 0.568, 0.527, and 0.473 respectively, while increased flexibility, assist benchmarking, enhance product diversification and provide cash infusion were among the bottom four for the difference in gap score with mean gap scores of 0.095, 0.128, 0.128, and 0.162 respectively.

In summary, Table 3 shows that focus on core business, reduce cost and improve cost control were ranked within the top four in terms of expectation of importance, perception of performance and difference in gap score between the importance and performance of the drivers. This means that the respondents identify these three drivers as the critical drivers influencing the decisions involved in service outsourcing in Thailand.

5. CONCLUSIONS

This paper deal with outsourcing option and illustrates the results of a survey including 213 eligible respondents from various Thailand industries. The questionnaire lists 20 drivers of outsourcing. Respondents were asked to rate both the importance and perceived performance of each driver using 7-point Likert scale. A driver is critical when there is a significant gap between the expected importance and perceived performance of the driver. The survey shows that the drivers 'core business', 'reduce cost' and improve 'cost control' were ranked the top in terms of expectation of importance, perception of performance and difference in gap score between the importance and performance of the drivers. This means that the respondents identify these three drivers as the critical drivers influencing the decisions involved in service outsourcing in Thailand.

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