

**SUPPLY CHAIN DYNAMICS, AGILITY  
AND RELATIONSHIP MANAGEMENT:  
BSS 421**



**WEEK FIVE :OUTSOURCING,  
SUBCONTRACTING AND BUSINESS  
PROCESS MANAGEMENT  
BY**

**DR. MARY KAREI KIBUINE**

# RECAP OF LAST WEEK'S TOPIC



Last week we discussed supportive production processes namely ;

1. Total Quality Management
2. Business process re-engineering
3. Principles and elements of each process
4. How each process is related to supply chain dynamics

## Last week's Task



1. What is the difference between quality control and TQM?
2. Why is lean and Agile manufacturing driven by TQM?
3. Why does BPR occur when there is merger or alliance of businesses?
4. Does economic down turn cause BPR ?
5. Why is BPR associated with anxiety in an organization?
6. If BPR was to happen in an organization you may be working for, how prepared would you be?
7. What effect does BPR have on supply chains?

# Possible solution to Last week's Task Cont'd



1. **Quality control** focuses on looking for defects in products or system and correcting it. TQM focuses on getting it right the first time. It is preventive
2. **Lean and agility production are driven by TQM** because of focus on quality, cost and waste reduction. It also produces goods from perspective of the customer.
3. **BPR occur when there is merger or alliance** because of change in organizational philosophy, to avoid duplication of work force or processes. When merger occurs new aspects of doing work are introduced.

## Possible solution to Last week's Task Cont'd



**4. Does economic down turn cause BPR ?** Not always. It may create opportunity for an organization not doing well. In such times the organization reassigns roles in parts of organizations posting less performance and add new lines of business or phase out the former business line.

**5 .Why is BPR associated with anxiety in an organization?**  
There is always some effect on positions in the organizational structure. Top management rarely share the changes to be introduced before the final phase

## Possible solution to Last week's Task Cont'd



**6. If BPR was to happen in an organization you may be working for, how prepared would you be?**

Employees should keep upgrading their knowledge , skills and competences. They should learn new ways of work they do as well be being creative

**7. What effect does BPR have on supply chains?**

In most cases the when BPR occurs business exits the supply chain or the members of a supply chain may not fit in its new supply chains. If business is a key player in the supply chain many other businesses die with change.

# Objectives of this Week's Topic



- Describe outsourcing as a supportive business process..
- Describe subcontracting as a supportive business process.
- Describe business process management as a supportive business process.
- Explain the relationship of each process to supply chain dynamics.

# Introduction to Out Sourcing



- Yingying et al. ( 2021) traces ideas of outsourcing to Adams Smith
- Troacă & Bodislav ( 2012) explains that from America context outsourcing is from the terms “ Outside sourcing”- getting resources from outside the business.
- Both acknowledge that In the 1940s onwards outsourcing was low but it increased beyond the 90s.

# Introduction to Out Sourcing Cont'd



- Outsourcing can be defined as giving another organization authority to handle various aspects of business that is not core to the business.
- A buyer can outsource the whole activity or planning and management only while the work is performed internally.
- Out sourcing can also involve management of simple duties or auditing long term planning by external suppliers.

# Reasons for Outsourcing



1. Utilize the economies of scale of the supplier to in order costs for the buyer.
2. Pooling of the risks. The uncertainty risk is shared between the buyer and supplier.
3. Reduced capital investment in non core activities. The buyer does not have to invest in the infrastructure or equipment with no long term use.

# Reasons for Outsourcing Cont'd



4. Help the company to focus more on the core competencies or the core activities.
5. Reduce staff costs and staff management problems. The service provider is involved in managing their own staff.
6. Improve the consistency and quality of services provided to the customer. If the service provider is an expert they can provide consistent and quality services.
8. Access operational expertise of the service provider. The service providers in most cases are very specialized in what they offer.

( Lysons & Farington 2006 pp 404-406:  
Troacă & Bodislav , 2012 pp 53-57)

# Advantages of outsourcing



1. The relationship between the buyer and the service provider has more customized offering which contributes to the strategy of the firm. Business to a larger extent is outsourced to those with more expertise compared to the buyer.
2. The service provider is able to handle the logistical operations in a more specialized manner because of the capability and resources that available.

# Advantages of outsourcing Cont'd



3. Outsourcing can be used as a source of competitive advantage. The agreement between buyer and supplier and the execution is always unique between one organization and another,
4. The buyer does not have to invest in warehouses, vehicles and excess inventory. This is important when a business is small or when it is not possible to foresee the future expansion.
5. The company is able to develop positive relationships with a member of the supply chain which has a cascading effect when the outsourced business creates opportunities for additional business where sourcing is done from other members of the supply chain.

# Reasons for outsourcing and advantages of outsourcing



## References

1. Lysons, K. and Farrington, B. (2006) pp 400-405. Purchasing and Supply Chain Management. Pearson Education, London
2. Troacă V.A & Bodislav, D.A, 2012. "Outsourcing. The Concept," Theoretical and Applied Economics, *Asociatia Generala a Economistilor din Romania - AGER*, vol. 0(6(571)), pages 51-58.
3. Yingying, C,P., Shishu, Z., Albert, J,. ( 2021) Outsourcing: Overview and Trends DOI - 10.5772/intechopen.98333

# Subcontracting



- Subcontracting is a type of outsourcing and is mainly found in the construction industry or projects.
- Lysons & Farrington ( 2006)pp406-407 distinguishes the two concepts ;  
Unlike outsourcing the contracting involve work done on non permanent basis. Once the project is over the relationship between buyer and seller ends.
- In outsourcing the buyer can always do the work but in subcontracting the buyer does not have the capability of doing the work.
- Subcontracting is therefore outsourcing of work won by a main contractor.

# Reasons for Subcontracting



1. Insufficient financial resources to provide facilities to perform the function by the main contractor.
2. Lack of (production) capacity internally where it is required by buyer. E.g. production of tiles in construction.
3. If a contractor Lacks time to complete assigned work to meet a deadline.
4. Lack of expertise for the work contracted because of emerging issues.
5. If a specialist sub-contract is more cost effective compared to contractor.
6. The buyer may specify that a certain portion of work be done by a specific subcontractor.

# Factors To Consider When Sub Contracting



Kowshik & Deepak( 2017) p367 identifies the following issues;

1. Major specialization of the subcontractor indicated by work done before, number of years worked etc. The subcontractor should be able to provide evidence of the expertise. This is important because of cost implication if work done is satisfactory.
2. Nature of work force such as whether permanent or not. Skill sets of workforce. Motivation etc. The skills and competences available in the subcontractor's firm should be visible in order to aid in decision making on the awarding the contract.
3. Adequacy of quality and quality ascertaining procedures. Subcontract should provide evidence of work done before for purpose of assessing the standards of work.

## Factors To Consider When Sub Contracting cont'd



4. Production capacity where required. A subcontractor should have the equipment and people capable of delivering what is being out sourced.
5. Financial status of subcontractor. A subcontractor should have money to ensure that work can start. Payment in contracted work is done in portions and in most cases there is no payment is done in advance.
6. Whether subcontractor owns necessary equipment and level of adequacy. In some contracts the equipment is specific and it is not easily available.
7. If the subcontractor is licensed or not. There are compliance issues in the event that the obligations are not met. In such a case there is legal basis of to address the issue.

# Mitigating risks in Outsourcing and Sub Contracting



1. An individual office must be responsible for all contracts. The buyer and seller must identify individual employees who are consulted from time to time by the seller.
- 2.
3. From outset, work requirements must be clearly established. Both buyer and supplier must know very clearly of what the work entails and the specification which form a base for performance indicators.
4. An understanding must be reached as to the quality and workmanship required.

# Mitigating risks in Outsourcing and Sub Contracting

## Cont'd



4. There should provision for compensation for any spoilage or partially finished work subject to accepted conditions of trade. Both buyer and supplier must know the consequences of failure to meet the part of the obligation. Clear indicators must also be set and documented.
5. If buyer provides tooling and equipment it should be on loan basis to prevent any misunderstanding in the event the tools or equipment's get damaged.

# Mitigating risks in Outsourcing and Sub Contracting

## Cont' d



6. Inspection arrangement needs to be agreed before implementation of the contract.

7. Procedure and documentation should also be clearly established .

8. The limit of the sub-contractors liability for damage to persons or property in respect of claims arising from the contract should be clearly defined.

Kowshik, K. & Deepak, K. ( 2017) ,issues related to subcontracting practices in construction projects.

International Journal of Civil Engineering and Technology (IJCIET)

V 8, (1) pp. 363–369

# Outsourcing, Subcontracting and Supply Chain Dynamics



1. Suppliers may not be flexible to suit lean or agile business. Most of outsourcing buyers are driven by one business orientation mainly mass production in order to enjoy economies of scale. They may not have the capacity to adjust to a buyer with a different orientation from theirs.
2. Suppliers over promise during negotiation but deliver less. Suppliers think of the contract first before thinking about the capacity they possess. During implementation they underperform and they may not have the capability to pay for damage incurred.

# Outsourcing, Subcontracting and Supply Chain Dynamics Cont'd



3. Over dependence on suppliers does harm to the buyer. Outsourcing and subcontracting may be done to same sellers and overtime they get dependent where the seller done business on their terms.
4. Complacency may develop over time. As the seller gets to know the buyer better or get more business from other buyers complacency may arise hurting the buyer's business.
5. Supplier may not have the expected skills. This may be discovered at the implementation stage when the contract is already signed.

# Outsourcing, Subcontracting and Supply Chain Dynamics Cont'd



6. Customers of the buyer do not understand failure from outsourced or subcontracted suppliers. Customers have a relationship with the buyer and they cannot understand when they don't get the expected supplies because of failure of the subcontractor.
7. Where there is trust and buyer supplier collaboration Outsourcing and subcontracting can be used for strategic reasons. This is a powerful characteristics of the relationships. .

# Business Process Management( BPM)



- This is an emerging area and yet it is core to any business.
- Engineering / systems oriented companies have developed BPM
- Business process evolve on its own in majority of the organizations.
- It is analyzing, modelling, measuring , improving and optimizing business processes in order to achieve business strategies and overall goal.
- It focuses on tasks, activities or processes that are performed repeatedly.

# Business Process Management Lifecycle



1. **BPM system** starts by defining the stages involved in a workflow.

2. **Process design**; This identifies areas of weakness and metrics to track progress. All individual tasks within the overall BP are identified and people responsible for each. The tasks are then sequenced in a logical order that has efficiency,

3. **Modelling the process**: A visual representation of the process model is created. It has details, such as timelines, task descriptions, and any flow of data in the process.

# Business Process Management Lifecycle Cont'd



4. **Execute:** A new business process can be tested with a limited group of people involved in doing the work. Feed back helps to assess any challenges and addressing them before rolling to the entire workforce.

5. **Monitor:** During this phase, process is monitored , measured improvements in efficiency and any additional bottlenecks is identified.

6. **Optimize:** Final adjustments to the process to improve business activities and process done.

# Business Process Management Lifecycle Cont'd



Benefits of BPM are ;

1. Increased efficiency and cost savings.
2. Enhanced employee and customer experience.
3. More scalable processes to the whole of supply chains.

BPM is a discipline that is evolving. It has the greatest attention from technology related industries.

Any new technology has a corresponding input to BPM in the process of making related work flow achieve high performance.

Reijers , H.A ( 2021) pp2-5: Business Process Management:

The evolution of a discipline. Computers in Industry ScienceDirect

# BPM and Suppl Chain Dynamics



1. Every form of business approach has a business process
2. Business process become complex with various business orientations starting from craft to agile manufacturing.
3. Mass production is highly dependent on BPM. These are stable and known . Once automated, BP require maintenance only for a long period of time.
4. In lean and agile businesses BPM is very sophisticated and subjected to high variability.
5. Efficient BPM is a differentiator in modern business.  
it locks members of supply chain in the supply chains.

# Summary of the Topic



1. We have discussed outsourcing , subcontracting and BPM as supportive manufacturing processes.
2. Outsourcing is a characteristic of more established businesses.
3. Subcontracting is found even among small business and it is predominant in construction industry.
4. BPM is a discipline that is not well developed in literature

## Task for the week.



1. Why is out sourcing not as prominent as it was in 90s?
2. Why are there many challenges in subcontracting?
3. Which industry would you like to understand its Business Process Management.

-----END-----



*THANK YOU ALL*  
*SEE YOU IN THE NEXT*  
*CLASS*