

# Why Outsourcing may not yield positive results

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- Overpromising during the sales process, creating unrealistic expectations on the customer's part  
*At Rigel, what we promise we deliver*
- Inappropriate structuring of the relationship, resulting in a divergence of interests over the life of the engagement  
*At Rigel, our core focus is on Custom Business Solutions. No KPO; No LPO; No BPO. Our tie-up is flexible and scalable to suit our customer business need*
- Lack of attention to transitional details, resulting in relationship problems at the outset  
*At Rigel, our processes have several intermediate measures to verify and see that we & our customer are on the same page. We do detailed documentation and get it verified*
- A lack of flexibility by both parties as business needs and operational requirements change  
*At Rigel, we are adaptive to change and we respond; we do not react*
- Cultural mismatches between the organizations  
*At Rigel, we have 95% customers from foreign countries specially US & EU. We invite customers to visit us so that our team can get the real feel. Our project manager and seniors do visit US & EU to get knowledge about the working style in these countries*
- The use of benchmarking data to defend existing positions instead of generating improvements  
*At Rigel, we believe every mistake gives us an opportunity to learn and improve. We cannot change the past; the future is not in our hands; we have present and let us utilize all our energy to raise ourselves and grow together*
- A high rate of turnover, especially among individuals responsible for managing the relationship  
*At Rigel, we have various resource retention schemes like housing facilities; vacation package; project rotation; domain knowledge sessions to have the same core team execute the project from the start till end. Regular documentation is needed for knowledge transition and in case of uncertainties*
- Implied expertise in relationship management that does not exist  
*At Rigel, we believe in developing relationship which helps us as well as customers in long run*
- Customers failing to think through their business objectives, especially as these change during the engagement  
*At Rigel, we make our solutions stay aligned with customers' business objectives. Our adaptive to change policy along with flexible and scalable engagement, helps to meet the objectives*
- Business leaders use a multidimensional approach when measuring alliance success as opposed to the one dimensional measures (cost savings, relationship factors, or resource access factors in isolation)  
*At Rigel, our top management interacts with customers to understand their business model from all aspects and accordingly propose various solutions and services*
- A variety of financial, supplier competence, responsiveness, relationship, and resource access measures should be used to determine the success of alliance relationships  
*At Rigel, we strive to deliver excellence in all aspects*
- Suppliers should offer more than lower costs to potential strategic customers  
*At Rigel, we provide custom business solution that involves various aspects like quality, innovation, on time delivery, best practice implementation, competitive outcome along with cost effectiveness. We are not the cheapest in the market*

# Resource Advantage Theory

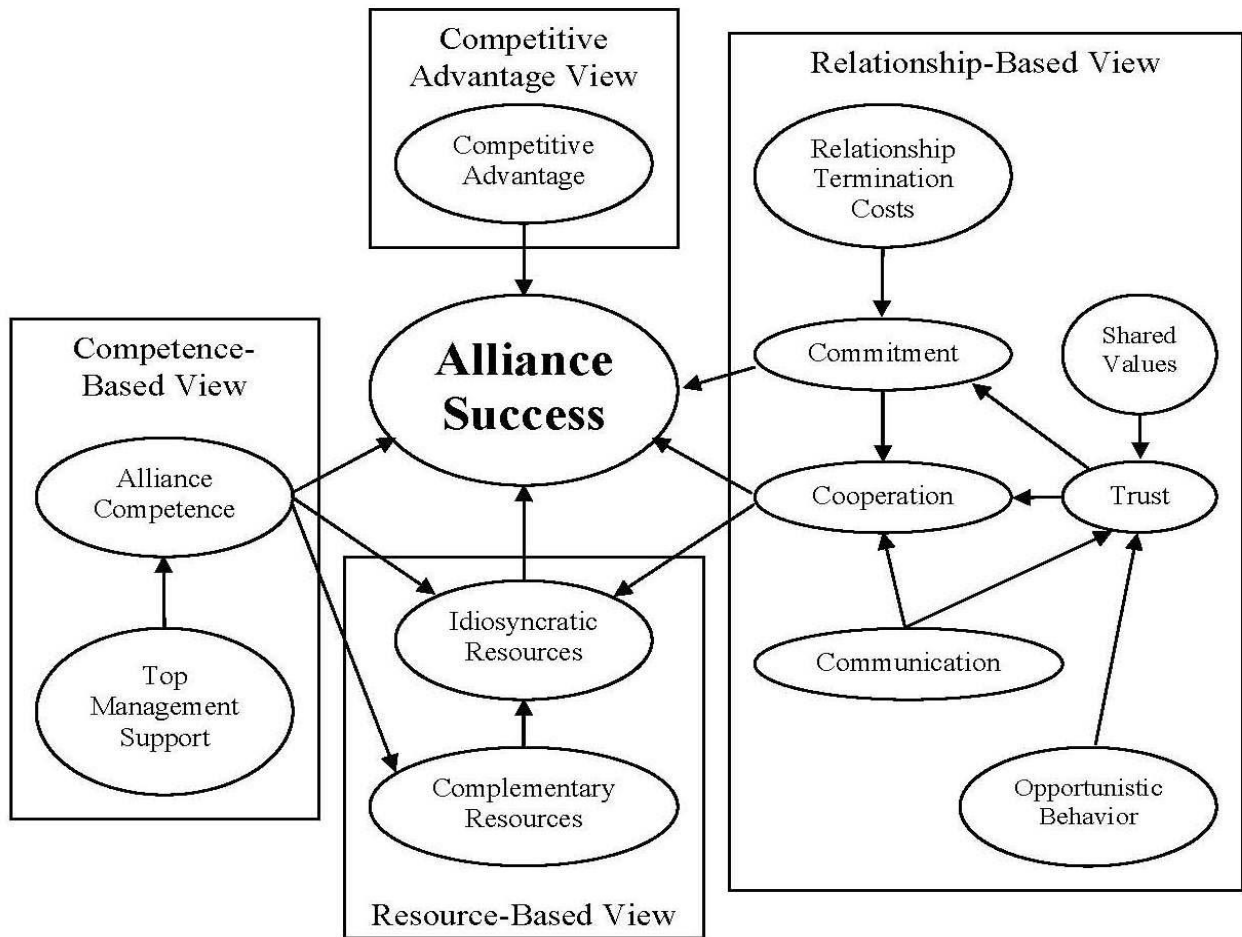
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## *An Integrative Focus on Inputs to Alliance Success*

The goal of many firms when they formulate and implement business strategy is to compete effectively in the marketplace. Hunt and Morgan's (1997) resource advantage (R-A) theory suggests that the way to competing effectively depends on a firm's ability to acquire, develop, and use firm resources to generate and sustain a competitive advantage over its competitors. R-A theory is model of competition that integrates the following views:

1. Resource-based
2. Competence-based
3. Relationship-based
4. Competitive-advantage

The R-A diagram presents the factors of each component theory as a series of behaviors, characteristics, resources, or situations that individually and collectively lead an inter-firm relationship towards alliance success. Each of the component theories that Hunt et al. (1997) incorporate into R-A theory also focus on alliance success as a goal of inter-firm relationships.



### Resource-Based Theory

- A firm becomes more successful than another if it can make more effective or efficient use of available resources than its competitors
- A collection of strategic resources or core competencies. According to researchers, for a resource to be strategic, it needs to meet four criteria. First, the resource needs to be valuable in the sense that it increases the firm's effectiveness or efficiency. The resource should also be rare, or not easily available to competing firms. Third, the resource must be difficult for others to imitate. Last, there should not be any readily available substitutes for the resource
- Proponents of the R-A model of alliance success assert that partnerships are successful when the participating firms give each other access to complementary resources. These resources are precursors that help the partnership generate idiosyncratic resources that give it a competitive edge in the marketplace
- Hennart, Roehl, and Zietlow's (1999) study of Japanese-U.S. alliances, found that these strategic partnerships were more long-term and cooperative than short-term and opportunistic

## *Competence-Based Theory*

- Proponents of the Resource-based view claim that the availability of better resources causes superior firm performance. However, the competence-based view holds that the firm has to be able to use these resources effectively in the market in order to gain an advantage in performance (Freiling, 2004). In other words, it takes a set of core competencies to develop or acquire better resources (Hunt, 2000), manage organizational knowledge (Simpson, 2002), and be competitive (Freiling, 2004).
- For a firm to enjoy superior performance, it must possess the requisite talents and organizational knowledge to use resources effectively and efficiently. In addition, these core competencies have to fit the RB view's four criteria for a strategic resource in order to provide a sustained competitive advantage.
- Hunt et al. assert that a firm's top management must support partnership and alliance efforts in order for it to develop alliance competencies (2002). These competencies involve a firm's ability to choose the right alliance partners and manage alliances better than competing firms. It also involves the firm's abilities to develop better alliance managers than its competitors (Hunt et al., 2002).
- The above figure suggests that alliance competencies contribute directly to alliance success. They also contribute indirectly to alliance success by fostering a partnership's ability to develop idiosyncratic resources

## *Relationship-Based Theory*

- Whereas the Resource-based view deals mainly with strategic resources as key to firm competitive success, and the Competence-based view focuses on organizational knowledge as key to superior performance, the Relationship-based view holds that "long-term profits are essentially based on network relationships, or more precisely on resources that are deeply embedded in interfirm relations"
- Proponents of the Resource-based view acknowledge that exchange relationships between firms are a means of achieving "superior resource-based performance" (Duschek, 2004) and the Competence-based view suggests that organizational knowledge is a function of experience and relational interactions between individual agents (Van de Ven, 2004). However, the relationship-based view goes beyond this by asserting that the resources that generate competitive advantages are often composed of "network resources" that bridge the boundaries between firms (Duschek, 2004). Duschek (1998) explains how the existence of network resources opens up the possibility of creating "cooperative core competencies" within the context of interfirm relationships
- Shared values, trust, and open communication strategies all contribute to higher levels of commitment and cooperation in strategic relationships.
- High relationship termination costs encourage commitment because partners wish to avoid the losses involved in ending the alliance Cooperation between partners leads to alliance success indirectly by contributing to the formation of idiosyncratic resources. It also contributes directly to alliance success by motivating the firms in the partnership to work hard towards alliance success.

## *Competitive/Comparative Advantage Theory*

- A simple definition of competitive advantage is something that a firm does differently and/or better than its competitors, that motivates customers to purchase its products or services instead of competitors' offerings (Smith, 2006). In a capitalistic system, this is one of the basic goals of the firm
- Barney (1991) later linked competitive advantage to the Resource-based view by showing how company resources must meet the four indicators of "value, rareness, imitability, and substitutability" in order to generate a sustained competitive advantage
- The relationship between competitive advantage and alliance success is direct and simple in the R-A model. When an alliance provides its members with an advantage over their competitors, it contributes directly to the success of the alliance and its member firms (Hunt et al., 2002). Alliances are also called strategic networks. These networks are composed of firms from different levels of the value chain that cooperate to develop competitive advantages over firms that are outside the network

## *All Four Views Collaboratively Interlink to Deliver Alliance Success*

Although these several theories overlap in many areas as R-A theory tries to combine them into a single, comprehensive theory, a central theme does emerge from the confusion. The visual representation of R-A theory in the figure clearly shows that, no matter where in the diagram one starts, all paths lead to alliance success as the central focus of the theory.

## Measures of Alliance Success

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- The customer's expectation that the alliance will result in improved market standing for their company through competitive positioning and acquisition of new skills.
- The supplier will utilize its competencies, techniques and processes for improving the cost basis, as well as increasing the efficiency of the operation.
- There is a bilateral understanding that a strong relationship (including communication) is required to build a strong alliance.

## Dickson's Prioritized Supplier Selection Criteria

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Dickson research (1966) derived 23 potentially important criteria for supplier selection. Over the years, these main supplier selection criteria have not changed. Below table summarizes Dickson's findings in rank order from most important to least important

- |                                |                        |
|--------------------------------|------------------------|
| 1. Quality                     | 14. Operating Controls |
| 2. Delivery                    | 15. Repair Service     |
| 3. Performance History         | 16. Attitude           |
| 4. Warranties and Claim Policy | 17. Impression         |

- 5. Production Facilities and Capacity
- 6. Price
- 7. Technical Capability
- 8. Financial Position
- 9. Procedural Compliance
- 10. Communication System
- 11. Reputation and Position in Industry
- 12. Desire for Business
- 13. Management and Organization
- 18. Packaging Ability
- 19. Labor Relations Record
- 20. Geographical Location
- 21. Amount of Past Business
- 22. Training Aids
- 23. Reciprocal Arrangements

## Outsourcing Alliance Studies & Success Measures

Author	Outsourcing Context	Measures Used or Implied
Blanchar & Onton (2005)	500 firms across several industries (not specified)	Cost, Customer satisfaction, warranty expense, supplier lead-times, time-to-market, finance and HR manager subjective opinions
Siriwoham (1997)	Alliances between US and Thai companies	Alliance harmony, effective relationship, satisfaction with alliance performance, assessment of learning, shift in competitive strength
Pi & Low, (2005)	Supplier-customer relationships	Quality, on-time delivery, price, and service levels
Ding, Benyoucef, & Xie (2005)	Case study of a multinational textile supply chain	Lead-time, on-time delivery ratio, inventory position, resource utilization, and cost. All measures incorporated into a genetic algorithm simulation
Shyam & Laarhoven (1995)	Logistics alliances in automotive, electronics, and packaged consumer goods industries	Service measures: percentage improvement in order cycle time, delivery windows, on-time delivery, and product availability. Cost measures: transportation, warehousing, inventory, and administration/other.
Richardson (2005)	Third party logistics providers	Cost savings, quality, on-time delivery, and strategy and technical development.
Boyson, Corsi, Dresner, & Rabinovich (1999)	Cross-industry survey of logistics managers and their outsourcing activities	Cost, customer service levels, and competitive advantage.
Lacity & Hirscheim (1994)	Information technology outsourcing	Cost savings, better cost control, focus on core
Rigel & RooferPro (2004)	Alliance of Domain Expert & Technology Provider	Cost savings, focus on core strengths, long term consistent support

Rigel & B2C Jewels (2005)	E-commerce Venture	One stop multi service provider, process centric approach, 24 X 7 support, on time delivery
Rigel & GemFind (2006)	IT Outsourcing Agreement	Cost savings, reliable offshore resources, flexible engagement model, senior management relationship
Rigel & Granduc (2006)	Joint Venture Product	Technology expertise, on demand strategic resources, financially stable

## Success Measures

Factor Analysis Component	Success Measures
Financial Performance Measures	<ul style="list-style-type: none"> <li>- Increase market share</li> <li>- The shift in my company's competitive strength</li> <li>- Increase annual sales growth</li> <li>- Increase return on assets</li> <li>- My company's competitive position has been enhanced due to this relationship</li> </ul>
Relationship Factors	<ul style="list-style-type: none"> <li>- Operate according to similar codes of ethics</li> <li>- Work together to set the service strategy</li> <li>- Use communications tools effectively</li> <li>- Are accountable for achieving specific business metrics</li> <li>- Meet with each other regularly</li> <li>- Collaborate to achieve partnership goals</li> </ul>
Organizational Learning	<ul style="list-style-type: none"> <li>- The customer learning new skills from the supplier</li> <li>- Each company learning new skills from each other</li> <li>- Allow the customer to learn new skills from the supplier</li> <li>- An increase in each company's competitive position</li> </ul>
Supply Chain Cost Savings	<ul style="list-style-type: none"> <li>- Transportation &amp; Warehousing</li> <li>- Inventory &amp; Raw materials</li> </ul>
Supplier Competence	<ul style="list-style-type: none"> <li>- This supplier is more efficient than my company at providing the contracted service</li> <li>- This supplier is more competent than my company at providing the contracted service</li> <li>- Using this supplier gives my company access to talent and expertise that is not available inside my</li> </ul>

Supplier Commitment	<ul style="list-style-type: none"><li>- The supplier committed top management support to building the relationship</li><li>- The supplier committed top management support to maintaining the relationship</li></ul>
Responsiveness	<ul style="list-style-type: none"><li>- How quickly the supplier responds to my requests</li><li>- The quality of the supplier's responses to my requests</li></ul>
General Cost Savings	<ul style="list-style-type: none"><li>- Cost savings</li><li>- This supplier saved money for my company</li></ul>

## About Rigel

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We – Rigel Networks are a **globally** growing Software Company deploying **flexible, scalable**, integrated best practice **client-centric solutions** that imbed **continuous process improvement** and deliver Software services **efficiently and effectively** to significantly **reduce costs** and **meet your business objectives**.

You may visit our website [www.rigelnetworks.com](http://www.rigelnetworks.com) for more details

Quick Facts: 24 X 7 Support | Customers from US, EU, AU | Microsoft Certified Company | 40+ Software Professionals | Web-Desktop-Mobile Software Experience | 5+ years in IT Business | 100+ software projects | Multiple Industry Domain Knowledge

## Contact

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