

## Outsourcing and business competitive advantage.

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### Abstract

Competitive advantage is the most significant task in business management. Until the sixties of the twentieth century, companies developed almost all activities and processes internally, without resorting to external suppliers, following the Fordist production model. This model no longer responded to the new scenarios driven by globalization, digital technologies and strong market competition since the 1970s. The changes in the environment forced companies to change organizational models and more efficient strategies. One of these strategies was outsourcing (subcontracting). A legal figure that evolved at great speed in different economies of the world, from the outsourcing of auxiliary and complementary activities and processes to strategic outsourcing (since the 2000s), leading to the achievement of competitive advantages for the user business organizations. The main objective of the research was the analysis and proposal of strategic outsourcing, in its modalities of Business Process Outsourcing (BPO) or Knowledge Process Outsourcing (KPO) in the competitive advantage of business organizations. This is a legal-formal or dogmatic study, under the qualitative research paradigm or interpretative paradigm, using the conceptual-inductive method and the hermeneutic method, to describe and explain in depth the legal figure of outsourcing in its strategic outsourcing aspect. The results were obtained from secondary empirical sources or factual facts, from outsourcing companies (the outsourcer), which provide services at a global or international level, information from the doctrine, as well as from doctoral thesis.

**KEYWORDS:** *Strategic Outsourcing, competitive advantage, Outsourcing of Business Processes, Outsourcing of Knowledge Process, outsourcer.*

## RESUMEN

La ventaja competitiva es la tarea más significativa en la gestión empresarial. Hasta los años sesenta del siglo XX las empresas desarrollaban interiormente la casi totalidad de actividades y procesos sin recurrir a proveedores externos, siguiendo el modelo fordista de producción. Ese modelo ya no respondía a los nuevos escenarios impulsados por la globalización, las tecnologías digitales y la gran competencia en los mercados. A partir de los setenta, las transformaciones del entorno obligaron a las empresas a cambiar modelos organizacionales y estrategias más eficaces. Una de esas estrategias fue el *outsourcing* (tercerización o subcontratación). Figura jurídica que evolucionó a gran velocidad en distintas economías del mundo, desde el *outsourcing* de actividades y procesos auxiliares y complementarios al *outsourcing* estratégico, (desde los dos mil) conducente al logro de ventajas competitivas para las organizaciones empresariales usuarias. La investigación tuvo como objetivo primordial, el análisis y propuesta del *outsourcing* estratégico, en sus modalidades de Outsourcing de Procesos de Negocios-BPO (siglas en inglés), o el Outsourcing de Procesos de Conocimiento –KPO (siglas en inglés) en la ventaja competitiva de las organizaciones empresariales. Se trata de un estudio jurídico-formal o dogmático, bajo el paradigma de investigación cualitativa o paradigma interpretativo, para ello se empleó el método conceptual-inductivo y el método hermenéutico, para describir y explicar a profundidad la figura jurídica del outsourcing en su vertiente de outsourcing estratégico. Los resultados fueron obtenidos de fuente secundaria de fuente empírica o hechos fácticos, de empresas de *outsourcing* (el *outsourcer*), que prestan servicios a nivel global o internacional, información desde la doctrina, así como también de tesis doctorales.

**PALABRAS CLAVE:** *Outsourcing* estratégico, ventaja competitiva, *Outsourcing* de Procesos de Negocios, *Outsourcing* de Procesos de Conocimiento, *outsourcer*.

## INTRODUCTION

No doctoral theses related to the research topic have been found at the national level; similar ones have been found in Europe. The topic of strategic outsourcing in its modality of BPO and especially in KPO in the country and Latin America is in vertiginous development, especially in Colombia. The very reasonable interest and determination to investigate this legal figure of great relevance in business practice and management, taking into consideration the complex and complicated current scenarios, characterized by uncertainty, turbulence, threats and especially by the great competition in the markets in all industrial sectors, is very reasonable.

This is research under the qualitative paradigm (interpretative paradigm) with the following hypothesis: The adoption and implementation of strategic outsourcing is a source and leads to competitive advantages to national companies. The research hypotheses in the qualitative paradigm play a guiding role for the development of the research, since it is about understanding

and interpreting the legal figure of outsourcing, externalization or outsourcing. Approach in the line of thought of Vasilachis de Gialdino (2014:34) and Hernández Sampieri et al. (2010:366-370). The method used in the research is the Hermeneutic method, essential for research in Legal Sciences. And from the epistemology, the logical coherence of the knowledge of the bounded figure is developed.

The background of the research tangentially related to the research topic can be found in Bustinza Sánchez, Oscar Fernando (2008:273). Doctoral Thesis: “Implications of Strategic Outsourcing in the Determination of Business Performance”. University of Granada. Reaching the main conclusion “(...) This study presents the relationship between the benefits of outsourcing and the impact that such outsourcing relationships have on the competitive capabilities developed by the company (...) concluding that outsourcing favors the development of resources that allow obtaining sustainable competitive advantages when facing the market demand for our services (...). The thesis reveals implications

between outsourcing and business competitive advantage, as well as feasibility and transit of the adaptation to the new scenarios of the principal as a result of the implementation of outsourcing.

The research conducted by Fernández Roca (2009:147) stated “The use of outsourcing is recommended, arguing that it can provide multiple advantages, among others: rationalization of the management of own capabilities and services, cost reduction, transformation of fixed costs into variable costs, transformation of investments into expenses, generation of economies of scale, increase of competitiveness by improving the quality of the service, permanent access to specific resources and skills, as well as the latest technologies, flexibility and innovation to adapt to changes in the organization or the market (...)”. All these advantages obtained by the principal are developed by the outsourcer and constitute competitive advantages for the client company.

Relevant precision on the KPO in the strict sense, is proposed by Ramírez Herrera (2014:432) where he states that “those activities are characterized by the use of knowledge and technical skills in information processing, aimed at providing the client-company with data, analysis, results and solutions of a practical intellectual nature, provided through delegation of functions by the human and technological resources of the provider company and/or artificial intelligences”. When applied to the activities and processes in business organizations, this outsourcing modality leads to competitive advantages for the client.

Ramírez Herrera (2014:598) concludes, “Outsourcing operations are complex market phenomena. In its origin it is a strategic decision of the client-company to decentralize the management and organization of tasks to a supplier”. “(...) One type of strategic outsourcing is that of knowledge and innovation processes regulated by a framework contract that acts as a constitutive agreement of a system of complex and inter-firm relationships that has as its object intellectual tasks of a technical nature and R&D and innovation, provided and acquired as domestic and international services”. The research presented here is focused on BPO and

KPO, types of outsourcing leading to competitive advantages for the principal or user.

National companies have limitations to achieve competitive advantages (Monitor Group) to compete in international and also national markets, the option to this limitation is to resort to strategic outsourcing especially BPO or KPO and to be able to acquire in addition to competitive advantages also develop distinctive or essential competencies of a supplier (outsourcer) with sufficient expertise and availability of various resources, whether economic, financial, logistical, human talent or intensive knowledge. This reason motivated the researcher for the development of the present investigation, thus contributing to the knowledge of the legal figure of strategic outsourcing as an alternative strategy for national companies and to be able to implement in missionary or support processes.

In reference to the objective, it is expressed as follows: to analyze and propose the outsourcing of knowledge processes (Knowledge Process Outsourcing-KPO), and the outsourcing of business processes (Business Process Outsourcing-BPO) as a high possibility and viable option for the achievement and development of competitive advantages for business organizations. The interpretation and in-depth explanation of the legal figure of strategic outsourcing in its enunciated modalities, constitute a source and lead to competitive advantages for the companies that made the decision to implement them. The relevant contribution of the research is to analyze and explain the implications of the legal figure of strategic outsourcing with the development of competitive advantages as a viable strategic option for the implementation of this figure in national companies. The principal or user benefits from the Know How provided by the outsourcer in the development of distinctive competencies or core activities.

From the factual or empirical facts gathered from the outsourcing companies (outsourcer) with global or international performance, it is obtained as results that, the implementation of strategic outsourcing in its modalities of Knowledge Process Outsourcing-KPO (Knowledge Process

Outsourcing) and Business Process Outsourcing-BPO (Business Process Outsourcing), the principal or client develops or acquires competitive advantages, with which it can compete in better conditions in the markets or achieve greater market share.

## MATERIALS AND METHODS

The present research was developed with the protocols of the qualitative paradigm, the relevant and suitable material for research in Legal Sciences was the empirical source documentary analysis (Witker 1995:10-16) of great relevance, obtained from reports and publications of five companies of international performance and one organization of national performance, all of them outsourcing companies that provide strategic outsourcing services in its modalities of Outsourcing of Knowledge Processes and Outsourcing of Business Processes. Likewise, sources of doctoral theses were used, those that were related to our research topic, as well as doctrinal sources on the legal figure delimited, publications in books and electronic media (internet).

The instrument used for the research were documentary analysis sheets (content analysis), where the data were recorded duly structured, which allowed to gloss, understand, analyze, explain and interpret the data collected, arriving at conclusions of great relevance and importance, finding essential elements on the legal figure of strategic outsourcing: KPO and BPO, and implications with the business competitive advantage.

Being research in Legal Sciences, and not experimental, it was decided to use the Hermeneutic method for its ontological character to interpret and explain in depth the legal figure of strategic outsourcing, which revealed its implications with the business competitive advantage, constituting an option and strategic alternative for national companies, so that they can remain and compete successfully in the markets.

## RESULTS

They are obtained from the outsourcing companies: ACCENTURE, Sonda, INNOVAPUCP, KPGM- Business Process Outsourcing, GMD PERU and American KPO. They are evidenced by the design of the process and the success cases in the client. Information analyzed empirically taking as a fundamental basis the data of reality or factual facts on the subject of research, as specified by Witker (1995:10-16).

**ACCENTURE.** Developed highly complex BPO, called combined outsourcing, and achieved results: By bundling Accounting, Finance and Procurement, Microsoft improved internal control and increased efficiency by 35%.

Bringing together the Accounting, Finance, HR and IT functions enabled Thomas Cook to reduce its cost base by £140 million in just 18 months. It also contributed to the integration of Thomas Cook and MyTravel after the merger. Caixa Catalunya used application and infrastructure outsourcing services to lower IT service levels and reduce costs by approximately 30% (<https://www.accenture.com/ar-es/service-bundled-outsourcing-overview-summary>).

The success story achieved for Mondelēz International was to reinvest in areas capable of generating competitive advantages through product development and marketing, as well as the design of a new budgeting process, with KPO modality and a new operational, global design and support unit capable of offering efficient and cost-effective solutions in financial, human resources and procurement issues. In just three months, Mondelēz International had a new operating model. During the first year, the company achieved savings of US\$350 million (<https://www.accenture.com/pe-es/success-mondelez-delivering-savings-zero-based-budgeting>)

**SONDA.** Chilean company dedicated to outsourcing, developed highly complex BPO while reducing operating costs (for the principal), since SONDA has the economies of scale necessary to consolidate highly efficient processes and controlled costs. It has also developed KPO services: Full IT Outsourcing,

this product adds value to the principal or client. (<https://www.sonda.com/es/full-it-outsourcing/>).

Success story with the Brasanitas Group in Brazil. Outsourcing the IT park by contracting Sonda IT's IT asset management service (Managed Device Services). Achieved benefits for the Brasanitas Group: 83% of the IT equipment obsolescence was resolved in only six months. Brasanitas also obtained a financial gain of 20% by contracting DaaS (Desktop as a Service). The new machines are delivered to customers in a maximum of seven days after approval, reducing the time by 86%. In terms of agility in service via Service Desk and On-Site Support at the points of presence of the Group's contracts, avoiding the need to move IT equipment. Also, the increase in satisfaction of both internal and external customers for services rendered.

(<https://www.sonda.com/es/caso/manufactura/grupo-brasanitas-externaliza-activos-a-traves-de-s>)

**INNOVAPUCP.** Integrated Services Consulting Center of the Pontificia Universidad Católica del Perú. In its Outsourcing line, it provides management and operation services for the support processes of organizations to achieve continuous improvement. The high complexity BPO developed by Innovapucp, we can point out the following: **BPO Accounting.** Improvement of accounting processes. Accounting update. Preparation and presentation of financial statements. Adjustment of financial statements to IFRS. As well as, related to the processes of financial accounting consulting. Administration of spreadsheets.

(<http://innovapucp.pucp.edu.pe/outsourcing.php#acordeon-outsourcing1>). Regarding **Tax Advisors:** tax planning. Tax and labor compliance reviews. Preparation and filing of monthly and annual income tax returns. Tax audits. In the same way, advice on planning and advice during the tax administration's auditing processes.

(<http://innovapucp.pucp.edu.pe/outsourcing.php#acordeon-outsourcing2>).

Regarding **Human Resources:** Recruitment and selection of human talent. Psychological evaluation by competencies and skills Mapping, analysis and evaluation of positions

(<http://innovapucp.pucp.edu.pe/outsourcing.php#acordeon-outsourcing3>). Innovapucp does not publish its success stories, but its main clients (user or client company) are prestigious companies in our country, among them: Aceros Arequipa, Alliance Francaise, Chinalco, Edelnor, Eternit, Lam Sac, Ministerio de Vivienda Saneamiento y Construcción, Pacifico (insurance conglomerate), Telefónica. From which we can deduce the client's satisfaction in terms of the delivery of value and competitive advantages developed by the outsourcer (Innovapucp), for the user.

The results found concordant with what Bustinza Sanchez, Oscar (2008:273) stated the impact of outsourcing on the competitive capabilities of the principal which favors the development of resources for the achievement of sustainable competitive advantages of the principal.

2009:147), the use of outsourcing is recommended as it provides multiple advantages, including cost reduction, rationalization of the management of capacities and own services, as well as the user's ability to adapt to market changes. These are consistent with the results developed by ACCENTURE with Microsoft, Thomas Cook and Caixa Catalunya, resulting in significant cost savings and management efficiencies. As a consequence, the achievement of competitive advantages for the leading.

#### **KPMG- Business Process Outsourcing.**

Transnational company with more than 120 years of experience in the world, and 50 years operating in Peru. It has developed new business models through highly complex BPO implementation, with a wide range of products in its portfolio: Administrative Services (Back Office), Accounting Processes, has a great expertise, "(...) KPMG delivers solutions (...) Outsourcing is a strategy for companies seeking cost efficiency, risk reduction and focus on the business; leaving in the hands of specialists the accounting processes, tax compliance, remuneration, administrative processes and inventory taking, among others. Our professionals will look for improvements in these processes to add value to your business" (<https://assets.kpmg.com/content/dam/kpmg/cl/pdf/2018-01-kpmg-chile-advisory-bpo.pdf>, pag. 2).

For KPMG, the generation of value lies in the following: “(...) Standardization of processes with the application of the “Best Practice” of a world leader in services. Access to local expertise to identify and resolve potential contingencies in an efficient and timely manner. Increased compliance control in reporting processes. Technology solutions to create long-term benefits. Free up internal resources to focus on business support activities and strategies (...)” (<https://assets.kpmg.com/content/dam/kpmg/cl/pdf/2018-01-kpmg-chile-advisory-bpo.pdf>, pag. 2). Thus, adding greater value for the principal means saving costs and increasing benefits and profits for the client company, having a series of world-class processes or accessing new capabilities and resources, which means being ahead of the competition, which undoubtedly constitutes a clear competitive advantage for the user or principal.

Likewise, Fernández Roca (2009:147) reveals that outsourcing generates economies of scale, increases competitiveness by improving the quality of service, which is consistent with the successes of Sonda developed for the Basanitas Group in Brazil, in terms of renewing the IT park by 83% in the short term, financial gains of 20% by implementing BPO of Desktop as a Service, reducing the time of operations by 86%. In the same way, the author's approach coincides with the high complexity BPO developed by Innovapucp, in accounting BPO, tax consulting and human resources, developed for its portfolio of prestigious companies in the country.

The aforementioned author's ideas are consistent with the business models implemented through the highly complex BPO developed by the transnational KPGM. Its product portfolio is wide and varied, developed to generate business value and competitive advantages to the principal (client company) or customer.

**GMD PERÚ.** Peruvian company providing outsourcing services in BPO and IT Outsourcing-ITO (Information Technology Outsourcing), Digital transformation and KPO, operating internationally.

The successful experience of this important Peruvian company: ONP, trusts GMD and awards

Outsourcing service on November 25, 2017. The main objective of this contract is the operation and administration of the National Pension System, as well as the entire IT and telecommunications infrastructure nationwide. “(...) This is one of the company's most important projects, as it consolidates GMD's capacity to execute highly complex and critical projects. As well as its leadership in Peru in providing Outsourcing services. “(...) The work implemented by GMD guarantees that ONP will increase its productivity levels, thus improving its service to all its stakeholders”. (<http://www.gmd.com.pe/novedades/noticias/news-8>).

In this experience GMD combines both BPO and KPO, what is remarkable is the development of complex knowledge and intensive knowledge by the outsourcer (GMD), to make it available to the client, in this case the National Pension Office (Oficina Nacional Previsional-ONP). This means that GMD has invested heavily in the development of highly complex and intensive knowledge. But the most important thing for the user is to satisfy the requirements of its stakeholders. Therefore, the outsourcing modality developed by the ONP leads to a competitive advantage.

**American KPO.** This transnational organization offers the global market knowledge-intensive outsourcing specialized in highly complex products. “(...) We provide Knowledge Process Outsourcing solutions, attending those functions of higher value and knowledge-intensive processes that guarantee greater productivity in the management of business processes. We are experts in KPO, BPO, ITO, Software Factory and Projects.

(<http://americankpo.com/nosotros.html>). As for KPO, the company defines it, “KPO is the outsourcing of the strategic processes of greater added value or specialization of an organization such as: medical services, engineering and design, market research, etc., with which a significant reduction in costs related to the hiring of highly specialized resources is achieved. (...)”. (<http://americankpo.com/serv-kpo-bpo.html>). By achieving cost reductions, this means a clear competitive advantage for the client company.

The company did not publish its success stories, but among its main clients are companies (user or principal) of recognized prestige in Colombia and Latin America: BBVA Provincial, Movistar, Mercantil Banco Universal, Credicar, Instituto Municipal de Crédito Popular, Famisanar. From this we can deduce the client's satisfaction for having achieved competitive advantages.

The results found in strategic outsourcing in its KPO and ITO modalities developed by GMD and American KPO, with implications in the competitive advantages for the user or principal, harmonize with the approaches indicated by Ramírez Herrera (2014:432 and 598), the KPO is a modality of strategic outsourcing characterized by the use of intensive knowledge placed at the service of the user or principal company, with which the latter acquires and develops competitive advantages.

**Acknowledgment:** to the distinguished professor at the Pontificia Universidad Católica del Perú, Augusto Fernandini Capurro, his guidance on the subject was extraordinary.

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