# TRADITIONAL OUTSOURCING MODELS TRANFORMED BY THE PANDEMIC COVID-19

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*Abstract:*
*Pandemic COVID-19 has exposed weaknesses in the traditional outsourcing model. The new direction of organizations in this " new normal " has to change their outsourcing arrangements into the future. Key learnings from the pandemic are likely to shape the way the entire global economy approach to business environment interconnected with social environment. Therefore, while COVID-19 has impacted the entire global economy, organizations that have outsourced core business and operational functions have been particularly exposed.*

*Key words:* outsourcing, new strategy, technology, continuity

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## 1. CONTEXT DELIMITATION

The worldwide lockdowns imposed to protect the population affected the organizations that have outsourced core business and operational functions.

It's premature to estimate the impact of the pandemic on outsourced operations because of the fact that COVID-19 pandemic is not stopped and there are a lot of countries that support large Business Process Outsourcing (BPO) sectors.

Aspects of the traditional outsourcing model have been proven to be imperfect, and companies now can build more elastic frameworks to protect against similar situations.

COVID-19 has affected every industry, forcing companies to revise budgets, amongst many other operational matters. Due to companies' risk exposure, they strive for financial stability, focusing on revenue and outsourcing non-core functions

In an effort to develop greater agility and resilience in business, companies are increasingly looking to reduce the risk of Covid-19 through outsourcing.

Research from Opinium and LiveArea suggests 28% of businesses are looking to outsourcing as a Covid-19 survival strategy. The same research shows that the areas of business most likely to be outsourced are IT (37%) and marketing (32%). From sales to recruitment, outsourcing provides an unlimited number of opportunities to help companies to work smarter.

Therefore, companies need to take advantage of areas they can use to improve efficiency and reduce costs in order to allow more time and human resources to focus on generating revenue activities.

Being more efficient while increasing productivity will become the interest of many companies in the future. Advances in technology have helped forward-looking companies to benefit significantly from outsourcing services for quite some time now. This is particularly relevant for small and medium-sized companies, which they are missing the resources for internal auxiliary departments.

New opportunities have emerged as a result of lockdown COVID-19, therefore it is vital for companies to re-evaluate their strategies and operations.

Although cloud technology has a rapid scalability, the pandemic COVID-19 causes the ability of cloud service providers (CSPs) to deal with an acute increase in demand. The deciding factors and regulators have made clear that the possibilities of recovery and stability elements are an important area of focus during this pandemic. Considering this a main sector, companies should review and update business continuity plans to avoid service interruptions or instant access to further cloud capacity.


## 2. RECONSIDERING THE MODELS

The following domains justify consideration in the context of future outsourcing agreements.

### a. Business continuity and disaster recovery

The old model of business continuity planning (BCP) was supported by the demand to have multiple physical backup sites that can be deployed quickly in the event of an incident. This generally implies that workers or systems in one location can be easily transferred to another location (somewhere nearby) to ensure continuity. This is predominant in the context of BPO agreements that are largely dependent on remote workforce. Even if multiple physical locations are an important part of BCP and disaster recovery, it will not provide effective protection in the context of a global lockdown, as demonstrated by COVID-19. Going forward, companies will need to get comfort with the fact that their business includes mechanisms of work on a broad basis and that these mechanisms have been and can be stress tested on a regular basis.

### b. Remote working as the " new normal "

It seems more and more likely that there will be some form of remote working agreements for the foreseeable future. This adds to the importance of including adequate information and data security requirements in their outsourcing agreements. In most cases, security mechanisms related with remote workforces have focused on physical security, but from now on the focus will need to include logical security mechanisms. At the same time, companies will have to have effective mechanisms to control the level of performance of their service provider's workforce. This could include requiring service providers to electronically monitor the amount of production of individuals or to structure production-oriented arrangements so that delivery risks, and risks associated with low efficiency on a remote environment, are moved to the service provider. In the future companies will require to their service providers to provide a detailed plan that sets out how remote work will be implemented and how performance risk will be managed when it is needed.

### c. Broad review of outsourcing strategy

One of the basic advantages of outsourcing functions is the potential to use a skilled and knowhow workforce in a region with a lower cost base.

The risk of this strategy is that it reduces the level of control that a C-suite can exercise over the outsourced function and it depends on perfect communication and confidence.

Although the benefits of outsourcing due to reduced costs attract the attention of decision makers, great care must be taken in the supply chain because of the robustness and resilience. In conclusion is a C-suite issue and is likely to require extensive analysis of the organizations' outsourcing strategy, especially in terms of critical functions.

At the same time, it is necessary for companies to pay special attention to the critical functions already outsourced and which must be brought in-house or on-shore.

There will also be an acceleration of investment in business automation to reduce dependence on human capital (and therefore susceptibility to pandemics). The action towards automation was necessary during the pandemic, being felt especially among companies with substantial outsourced functions and operations. This trend of automation in outsourcing can create an opportunity to bring functions back in-house while managing to maintain the continuity of business.

### d. " Big bang" BPOs may be a thing of the past

Organizations use business process outsourcing (BPO) to accomplish a wide range of objectives using different relationship profiles.

As the scope of BPO explodes, relationships are the key to creating value in an expanding universe.

Based on the above statements, companies are expected to consider eliminating single-source models for certain critical functions to the advantage of multi-source from vendors in a range of different geographic locations, each of which is able to approach if another provider is unable to perform.

The single source approach has two strong points in which the customer negotiates a low overall price and has a single point of contractual liability. The focus was on result that has often been that the service provider uses the lowest cost, sometimes without taking into account terms of quality and risk. Also, the supply chain becomes opaque and the customer is not aware of how the service provider will operate in the event of a pandemic.

The advantages of a single source model must be carefully thought against the lack of supply chain strength and the inherent exposure it brings.

### e. Re-thinking governance and control structures

Strong management of processes and mechanisms are the based to the successful implementation and operation of outsourced agreements.

These processes are based on moving physical activities to online communication, and allow high mobility of the organization's representatives and quick access to information. The concept of physical proximity is particularly relevant in an agile delivery context that depends on the close and continuous interaction of team members.

Companies will need to reconsider how traditional governance models can work effectively in a remote work context. One of the directions that companies had to follow in the early stages of COVID-19 was that they were forced to relax some of their strict governance agreements to adapt to the changing work environment. Being agile in this pandemic context has been a benefit to these companies. However, a clear balance must be struck between weakening governance and completely eliminating governance and control structures.

It would be to the advantage of companies to have a structure on levels of governance and controls that can be easily clicked up or down depending on the circumstances and which has been predetermined and tested for stress in the context of online labor.

**f. Increased contingency planning of the "worst case"**

At the beginning of the pandemic, priority was given to existing force majeure clauses or arguments based on current circumstances. Where the emergence of COVID-19 could be said to be a force majeure event, the impact has often been that the service provider has been relieved of its contractual obligations.

From the client's perspective, a more advisable effect is a potential relaxation of obligations from an agreed performance baseline, rather than a complete release from all obligations.

In the future, special attention is expected to emergency planning (even in the context of low probability, high-impact events), which then translates into variable performance obligations and pricing structures that are specified in the outsourcing agreement, so that there is complete clarity on performance.

In the same time, companies should also ask the potential service providers to provide details of "worst case" modeling when responding to bids from large-scale outsourcing projects.

## 3. CONCLUSIONS

"The impact of the pandemic caused by COVID-19 on companies will be multidimensional, affecting supply chains, human resources, revenue, reputation and compliance. "Mapping" these effects is extremely important in the context of rapid changes in government and public policy. Equally important are monitoring how the pandemic will interact with these four megatrends - globalization, technology, demography and the environment - and assessing their impact across the organization." conclude Bogdan Ion, EY Romania & Moldova Country Managing Partner, EY CESA Chief Operating Officer.

By outsourcing, companies can create an additional source of funds, by eliminating expenses from non-core activities, thus allowing opportunities for growth and innovation. In addition to saving time and money, which usually attracts all the attention, outsourcing operational functions allows access to the newest technologies and systems, as well as best practices in certain activities.

Given that technology will grow exponentially and disruptively in the coming years, investing in high technology may not be an option for most companies, but outsourcing will give them access to the newest technology available and therefore allow them to remain competitive and relevant.

Not only because of COVID-19, businesses today face a rapidly evolving landscape, including regulatory changes, continuous advances in technology and more sophisticated approaches by authorities. These challenges lead companies to rethink the right combination of internal and external resources in the efficient management of key operational processes with visibility, flexibility, transparency and control.

Outsourcing eventually offers great benefits to business owners. The process allows them to build a team of skilled professionals without adding the expenses of full-

time employees, as well as additional office space and equipment. Through outsourcing, shareholding and top management can focus their time, attention and resources on the core competencies of their company and spend their time setting new goals and finding ways to achieve them.

Although COVID-19 has had a significant impact on traditional short-term outsourcing agreements, a strong and sustained demand for long-term outsourced services is expected in the future as part of accelerated digital transformation activities within companies.

Working with an experienced outsourcing provider helps companies overcome productivity challenges, streamline operations and add additional resources that may be lacking in-house.

An organization's outsourcing and supply chain strategy has greater C-suite and board attention than in the past, and there will be an expectation on GCs and legal teams to be familiar with these strategies, and to ensure that the organization adopts appropriate risk mitigations to enable it to survive future pandemics and other black swan events.

By taking into account and addressing the above points, companies will be able to increase the toughness of their outsourced agreements. GCs and legal teams have an important role to play in helping to guide this thinking.

In conclusion, the concrete measures that companies can take are related to the challenges that companies must overcome. One of the most complex challenge is obviously human capital, which is the most important resource of a business in times of crisis.

In an unprecedented situation, companies can take a number of measures that can prevent or reduce the negative effects of the COVID-19 pandemic:

- optimal redistribution of a company's staff responsibilities within an experienced external team;
- the use of newest technologies that adapt to the remote working mode.

In times of crisis, these measures allow companies to achieve business objectives, at professional standards of conformity and reporting, saving time and reducing costs.

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