

Outsourcing: Textbook and Article Summary and Analysis

Name:

Institutional Affiliation:

### Outsourcing: Textbook and Article Summary and Analysis

Outsourcing is defined as the procurement of a value creating activity or a supporting function from an external supplier. In essence, it is using other organizations for functions essential to the company operation strategies. Outsourcing is done because it increases flexibility for the organization. An organization is able to better control its operations when one of the functions is designated. Another reason for outsourcing is that it mitigates significant risk to the company. The risk is somewhat transferred to another party. Another advantage is that it reduces capital invested significantly by acquiring external services. Careful analysis is however required before any outsourcing function. Choosing the right organization to outsource to is almost as important as outsourcing itself. Essentially, organizations outsource the functions that they cannot create value from, themselves. It is used for value chain support functions. Consequently, outsourcing benefits a company by securing some competitive superiority as well as introducing valuable support function. It is rare that an organization is able to produce all its necessities for competitive advantage. Only core competencies are handles while other activities that may lead to overextension are outsourced. Delegating functions to external organizations presents disadvantages like the potential to reduce an organization's ability to innovate and a significant loss of jobs in the organization. Indeed, careful analysis, research and verification is required before any outsourcing decisions are made. (Strategic management inputs, textbook, 2007).

The decision to outsource presents various advantages and disadvantages as well as creating a significant impact to an organization. The first major advantage of outsourcing is that it no new employees are needed. Contracting a job to another company leaves them with the decision to source for labor. In this way, a significant amount is saved on training, remuneration and various employee benefits. Another advantage to outsourcing is that it leads to exposure to a wide talent pool to benefit from. The hiring process for companies gives access to a limited talent pool. However, outsourcing ensures that an organization gets a wide pool of people from numerous parts of the world. Third, outsourcing allows organizations to get valuable talents for affordable prices. In this way, the labor cost for the company are reduced significantly. On the other hand, one major disadvantage of outsourcing is relinquishing control. Outsourcing requires that significant power of execution is handed to the contracted company. Another disadvantage is that it could lead to barriers in communication. The ability to communicate effectively is hindered by differences in time zones, secure internet connections and varying preferred communication methods. Thirdly, another disadvantage of outsourcing is that quality expectations are likely not to be met by the external contractor. Consequently, outsourcing should be controlled in a way that it does not impact company culture. The core principles of an organization should not be lost in outsourcing activities. (Forbes, Patel, 2017).

Outsourcing has some core advantages that when used correctly usually secure the competitive stands for organizations. One, outsourcing lets an organization focus on their core competencies that allow for quality of service maintenance. It is the reason for outsourcing activities that have no potential value creation. Two, outsourcing not only saves on labor costs but operating and research and development costs as well. Thirdly, by saving on costs, outsourcing allows an organization to focus on areas that lead to increased efficiency for core company functions. Four, outsourcing allows an organization to keep operational control while still saving on any operating expenses. This is the importance of dictating the terms of any outsourcing contact. Apart from offering flexible staffing options, outsourcing allows an organization to develop itself and its staff internally. A sixth advantage is allowing continuity and significant risk management in a company. Finally, outsourcing provides an option of saving significantly on the bottom line. (The Balance Small Business, Bucki, 2019).

Various factors affect the nature of outsourcing. Outsourcing can take many different shapes including foreign outsourcing, activity outsourcing and industry specific outsourcing. For this reason, political declarations have a significant effect on the outsourcing trends used by organizations. Different administrations set different policies on the trends allowed in business transactions. An instance is the Trump administration that put a short leash on organizations ability to outsource to foreign countries. In this way, about three trends of outsourcing have emerged. The first noticeable trend is repatriation. Repatriation is the instance where a company pulls talent to itself. As opposed to expatriation, repatriation dictates that most of the talent be used in home countries. Essentially, repatriation disallows the advantage to use cheap labor from developing regions. One caveat of repatriation is where a company can acquire the required talent from the home county without looking elsewhere. Another trend noted on outsourcing is a growing need for top-shelf, cutting edge skills. Companies are looking to source talent from pools that are emerging. Examples of emerging pools are crypto currencies, block chains and machine learning. The rapidly transforming digital landscape is becoming the reason for most organizations to look for outside talent. Remaining abreast in the digital revolution is becoming increasingly important for companies. A final trend is the rise of referral power. Companies are depending on other organizations for the right directions to suitable outsource services. Referrals are therefore becoming the main source of insight for companies in similar fields. The emerging outsource trend will be dictated by the undisputed laws of demand and supply. (Forbes, Frazzetto, 2018).

Offshore outsourcing has been the major trend in the business of outsourcing. However, various polies from political influences are forcing companies to consider alternatives to their outsourcing needs. For this reason, companies, especially technology companies are moving toward onshore outsourcing. In the United States particularly, companies are using local software

development companies to source for the talent they require. In this way, the trend is leading to a significant shift in strategy by various software development companies. The growing need for onshore outsourcing companies is leading to active searches for local talent. Technology development companies like Techtonic and Nexient are moving across states to different institutions in order to recruit talent from universities. The recruited teams are taken through rigorous training and then absorbed into the companies. In this way, outsourcing companies are increasing their talent pools by going to talent hotspots across the nation. The offshore outsourcing numbers have fallen by about 8% to show the rising trend for acquiring onshore outsourcing services by American companies. (The New York Times, Lohr, 2017).

Outsourcing affects a country's economy in various ways. However, the most notable effects to a country is that it leads to increased unemployment. For instance, the United States outsources about fourteen million jobs while about seven million Americans remain unemployed. Supposing that the jobs were brought back to America, about five million people would acquire permanent employment. Another effect of outsourcing is increased cost of products. Essentially, if the outsourced jobs were to be returned, the remuneration requirements would change significantly. One of the reasons for outsourcing is to reduce labor costs. Therefore, the returned jobs would attract higher salaries and in turn, companies would be forced to increase the prices on the goods produced in order to compensate workers. The eventual result would be an increase in the price of goods to the consumer. Most job outsourced by the United States are from the following sectors: technology, call centers and human resources. Concerns on the rise of robots are making people wonder about the nature of outsourcing itself. (The Balance, Amadeo, 2018).

The rapid innovations in technology are making outsourcing the largest economic transformation ever. The transformation is happening in various ways. One of them is that jobs are moving across seas. The various technological inventions are making it possible for companies to have a wide range of talent pools to choose from. In this way, online outsourcing is creating a wave that is carrying many forms of outsourcing capabilities. Online outsourcing is without a doubt changing the way people work. It is allowing a software developer, on his couch in India to work for a start-up company in Kenya. Various platforms and forums are emerging as avenues to discuss about outsourcing potential on the internet as well as acquiring work across the globe. In this way, such platforms and forums are becoming increasingly important as companies sourced for talent on the online. Essentially, online outsourcing is leading to three major transformations in the way business is conducted. One of the ways is eliminating mediation. Disintermediation is being facilitated by the internet, in fact the internet is the sole mediator between employer and potential employees. Secondly, the ability to connect the poorest people to jobs is phenomenal. Impoverished areas are getting the opportunity to look for jobs

with only the internet as the major requirement. The third online transformation to outsourcing is that payment is slowly becoming output based. Employees are getting compensated on individual output as opposed to salary and benefits payment (input payment). The internet is proving an important tool for acquiring the most important form of capital: human capital. (Foundation for Economic Education, Korok, 2017).

Millennials are the people who gained significant skills as the century entered the 21<sup>st</sup> age. Outsourcing has affected millennials significantly by causing a wave of uncertainty in terms of job availability. The lingering question is where job availability will be affected by increased outsourcing trends. The answer given is that most 'back office' jobs like the call centers are the most vulnerable to loss to cheaper countries. However, the main encouragement given is that the amount of skills possessed are the main dictation for job security. The increasing need for advanced skills is the only sure way for millennials to secure most of the available positions. In this way, only the jobs that do not require high level decision making will be outsourced to other countries. In the same way, the high skills jobs are likely to be in demand in the countries that jobs are outsourced to and for much higher pay. The take-away therefore, is that millennials ought to increase their skills because low skill jobs are becoming outsourced at an increasing rate and high skills are the only way to secure lucrative employment opportunities in the twenty-first century where more modes of automation are emerging. (Huff Post, Beaton, 2017).

In conclusion, the seven articles are a fitting enlightenment on the nature of outsourcing. The various advantages of outsourcing show that companies only require to do extensive analysis of the outsourcing potentials. In this way, the major disadvantages observed from outsourcing are mitigated significantly. Further, outsourcing has been seen to have various impacts of different countries' economies depending on their contributions. Contracted countries' economies are improving from job availability while contracting countries are facing huge job losses. A solution observed to be adopted by most of the organizations is onshore outsourcing where jobs are being retained in home countries and allowing companies to actively source for talent in the countries. The rapid rise in technology and the internet is being observed to increasingly impact the nature of outsourcing. Most of the impact observed from the internet is positive. Millennials therefore encouraged to acquire as many high level skills as they can in order to secure jobs in the increasingly automating world.

## References

- Patel, Deep. (2017). The pros and cons of outsourcing. *Forbes*. Retrieved from: <https://www.forbes.com/sites/deeppatel/2017/07/17/the-pros-and-cons-of-outsourcing-and-the-effect-on-company-culture/#6bb8c010562d>
- Bucki, James. (2019). Top outsourcing advantages. *The Balance Small Business*. Retrieved from: <https://www.thebalancesmb.com/top-outsourcing-advantages-2533765>
- Frazzetto, Anna. (2018). Outsourcing In the New Normal: Three Trends Reshaping the Global Industry. *Forbes*. Retrieved from: <https://www.forbes.com/sites/forbestechcouncil/2018/03/21/outsourcing-in-the-new-normal-three-trends-reshaping-the-global-industry/#52f28c6753fa>
- Lohr, Steve. (2017). Hot spot for tech outsourcing: the United States. *The New York Times*. Retrieved from: <https://www.nytimes.com/2017/07/30/technology/hot-spot-for-tech-outsourcing-the-united-states.html>
- Amadeo, Kimberly. (2018). How Outsourcing Jobs Affects the U.S. Economy: Seven Things You Should Know About Outsourcing. *The Balance*. Retrieved from: <https://www.thebalance.com/how-outsourcing-jobs-affects-the-u-s-economy-3306279>
- Korok, Ray. (2017). The Future of Outsourcing: The Largest Economic Transformation Ever. *Foundation for Economic Education*. Retrieved from: <https://fee.org/articles/the-future-of-outsourcing-the-largest-economic-transformation-ever/>
- Beaton, Caroline. (2017). Are Millennials Affected by Outsourcing? Huff Post. Retrieved from: [https://www.huffpost.com/entry/are-millennials-affected-by-outsourcing\\_b\\_58b791f5e4b0563cd36f64f8](https://www.huffpost.com/entry/are-millennials-affected-by-outsourcing_b_58b791f5e4b0563cd36f64f8)