

Effects of outsourcing – the positive and negative essay sample

[Economics](#)



Today, outsourcing has become a hot topic for debate. Whether or not to outsource is one of the hardest business decisions a company has to make. In the past 10 years over 800, 000 white-collar jobs have moved from the U. S to countries such as India, Asia, and China. More and more companies are realizing the advantages that come with outsourcing and many see the switch necessary to remain relevant. As with all business decision, outsourcing isn't without consequences. As the number of domestic jobs being shipped offshore increases so too does the rate of unemployment American workers. This paper will analyze the positive and negative effects of outsourcing and how outsourcing affects the economy as a whole.

One of the biggest reasons companies choose to outsource internal business functions is due to cost savings. Business is and has always been about optimizing value for less. One of the best ways to save money is to outsource some of the tasks required in your business to individuals from other countries. Initially the tasks being outsourced by companies were simple in nature. Jobs such as technical support, customer relations, and administrative functions were among the first to be sent overseas. More recently, the number of high functioning and skilled work being outsourced is more prevalent. In Outsourcing America, Ron Hira states that “ Highly skilled, educated labor is far cheaper in many developing countries than it is in the United States.

The savings in labor costs can be as high as a factor of 90 percent, though when one counts the additional burdens of management and coordination across thousands of miles, the net advantage is probably closer to 30

percent. For example, outsourcers charge \$30 an hour for the services of a <https://assignbuster.com/effects-of-outsourcing-the-positive-and-negative-essay-sample/>

programmer in India, whereas they charge \$120 for a programmer in the Midwest.” (Hira 67) While cheap labor can look attractive at first glance, companies must be wary of various offsetting factors. For instance some companies have found problems outsourcing their customer help lines. Companies found that people being helped by these lines weren’t getting the kind of service they required to remain customers. In this case outsourcing didn’t save money because customer dissatisfaction mitigated the cheaper employee costs.

Another way outsourcing can create sustainable value over time is through the use of strategic outsourcing. Companies outsource certain functions in order to gain capabilities that they don’t have in-house. Companies can increase efficiency when outsourcing non-specialized functions overseas to companies that specialize in that area of expertise. Companies are now using strategic capability-sourcing for everything from HRM functions to internal accounting. According to “ Global Outsourcing of Services: Issues and Implications”, “...Global outsourcing is also increasingly taking place in higher end activities or so-called “ Knowledge Process Outsourcing” (KPO’s) that include valuation and investment analysis, market research, consulting, software design, and architecture”. (Rajan 1) Companies are realizing that they can put all time and effort supporting the businesses strengths and outsource their weaker points for an all-around better company. A downside to this outsourcing approach is a decrease in communication and loss of control. When your accounting department is thousands of miles away communication becomes difficult and goals become decentralized.

Companies that choose this approach must conduct extensive research

<https://assignbuster.com/effects-of-outsourcing-the-positive-and-negative-essay-sample/>

before making a decision to outsource. Adopting a strategic view of capability sourcing can greatly enhance company efficiency when done correctly.

As seen above individual companies can benefit greatly from outsourcing but how does it affect the economy as a whole? The debate on whether outsourcing is helpful or harmful to the economy is ongoing and is possibly one of the biggest political issues in America today. Research conducted by McKinsey Global Institute (2003) found that outsourcing with India increases both countries' economies. " McKinsey analysts interviewed several dozen offshore providers in India, divided them into categories based on the type of service provided, and estimated models of cost saving based on the company interviews and interviews and data from government sources and trade associations in India.

McKinsey then combined this information with data on U. S. Total gross gain to the United States of \$1. 12 to \$1. 14 for every dollar of work offshored to India, for a net increase in U. S. income of 12 to 14 cents per dollar of offshore outsourcing. In addition, McKinsey did a similar calculation for India and concluded that India gains a total of \$0. 33 for every dollar of U. S. outsourcing." (Mankiw 42) Though this research suggests a favorable tradeoff, outsourcing still retains a negative stigma throughout America. This is mostly due to the belief outsourcing takes jobs away from America. Mankiw goes on to say " Indeed, gaps in the available data make it difficult to say how many jobs are being outsourced and why. The empirical literature is able, however, to conclude that offshore outsourcing is unlikely to have

accounted for a meaningful part of the job losses in the recent downturn or contributed much to the slow labor market rebound.” (Mankiw 2) Good or bad, outsourcing is not going away anytime soon. As companies are finding better and more innovative ways to incorporate outsourcing the future on where it will takes us remains to be seen.

References

Mankiw, N. Gregory and Phillip Swagel. 2006. The politics and economics of offshore outsourcing. AEI Working Paper Series