Pros and cons of offshore outsourcing commerce essay

In the new era offshore outsourcing has emerged as a very important and extensively adapted business strategy. Organisations across the globe consider outsourcing as a pathway to avail benefits of cost and effective resources of the country to which work is outsourced. Many organisation s in western markets offshore outsource their activities extensively to emerging market countries where there are location, cost and resource advantages to gain a competitive edge in the global market.

The distinctive feature of offshore outsourcing is to provide uninterrupted service in order to meet the different time zones and gain customer satisfaction.

“ Off shoring refers to the relocation of outsourced activities across countries. In the process of outsourcing, initially a particular activity is generalized across firms, then the shift of the location of the vendor can cause off shoring.” Chandrasekhar & Ghosh, 2006, p. 92

The main reason for any organisation to offshore outsource their activities is to gain extended benefits and increase net profits. It is also adapted to achieve various cost, product, and differentiation advantages. It is a known fact that companies outsource various activities depending upon the country in which it is good at and this comes from the educational system and standards followed by that country. India, for example is most preferred destinations for the service and IT industries owing to the advantages like cheap labour, effective skills, language consistency and courtesy. Outsourcing is successful and effective cost saving strategy when applied in a legitimate way. For any buy decision, taken by the companies in west the most attractive solution would be to offshore outsource to destinations across the globe.

WESTERN COMPANIES

ADVANTAGES:-

The major advantages for western companies by offshore outsourcing their activities would be tax benefits, cheap labour and increased productivity. It enables the firm to lower supply cost by relocating production to countries where inputs and labour costs are lower. Thomson, the French consumer electronics group, transferred the production of some of its video cassette models from Germany to Singapore to take the advantage of the latter's lower cost base.

Outsourcing services to India is continuously rising because of its various advantages like advanced technology, cheap talented labour, infrastructure and other facilities. Western companies will improve their brand name by customer satisfaction and substantial profits by offshore outsourcing. Microsoft, software giant in USA offshore outsource their customer service and technical support activities to destinations such as India which has no language barriers, good quality infrastructure, stable government policies, supporting labour laws and other favourable factors.

The market for home country products is extended; for example: IT firms in India working for US companies will buy US computers and related equipment. 40% of the fortune 500 companies are strongly interested in the software outsourcing model because the average cost savings by adopting this is in the range of 40% to 70%.

The companies can escape from various laws and restrictions imposed by the home country and hence reduce production costs by outsourcing production channels. It is adapted by majority of the car manufacturing companies.

Ford Motors, USA based car manufacturing company has shifted 70% of their production units to Mexico owing to stringent environmental and emission laws imposed by USA. Free trade across European Union has also favoured many motor companies to shift their production units to Eastern European countries to exploit cheap labour and resources.

DISADVANTAGES:-

The direct relationship between employees and companies are lost due to distance and communication gap. Risk in transferring technology and know-how, this can be copied by its market competitors in the host country. The company faces a potential threat from the employees and competitors as their technical information can be leaked anywhere and spreads like a rapid fire. This has a direct impact on the company’s brand name and sales.

Dell for example, is basically a US based company but its activities such as manufacturing, customer and technical support are outsourced on a global scale. Many competitors took advantage of unmotivated employees, gained access to technical information and manufactured similar kind of products with same features and services. The same is the case with Chinese firms. It is a common sight to find any duplicate of consumer goods of western brands appearing to be exactly same for 80% cheaper price in the Shanghai local “ black market”.

Offshore outsourcing carries the risk of lower quality products and lower standards because of lack of training and effective controls by home company.

EMERGING MARKET COMPANIES ADVANTAGES:-

People always look forward for something new every day! Emerging market companies can grow and create new brand name by satisfying this similar need of flock across different markets in the world. For example, Hyundai motor company is in the process of growing into brand appreciation by its customer as it is determined to achieve the goal of making better quality product. It also builds its image as a top global automobile company by handling every task transparency from the perspective of business ethics.

Foreign direct investment plays an important role by focusing on emerging economies than developed economies. By increase in inflow of FDI by the global company into emerging market the revenue and sales increases thus increase in standard of living. By establishment of Microsoft, IBM and Oracle in metropolitan cities of India, it has enormously resulted in increase in income and spending capacity of people.

Technology and skills are transferred from western companies to the emerging market. This creates waves and builds up competitive spirit in emerging companies thus improved productivity by the emerging market companies is achieved.

DISADVANTAGES:-

Small and medium companies in emerging markets suffer from low revenues and profit margins by presence of highly competitive brands. By establishment of several clothing western brands in India, several yarn farmers to the cloth sellers in the supply chain have shut their doors for business.

It is observed that some companies which emerged has not succeeded due to lack of co-ordination and good relationship with their service provider.

WORKFORCE OF WESTERN COUNTRIES

ADVANTAGES:-

Workforce in western countries builds group and individual learning techniques to promote self awareness and professional development. Employees are trained with World class design and delivery designs and finally from their experience they are improved in learning intervention.

Employees are motivated by providing benefits and incentives for a better performance of the company. McDonalds, for example provides potential benefits to its employees and thus retains its employees to work better for more benefits.

Highly talented and multi skilled employees are given more benefits like increase in salary and bonus facility. The first preference is given to employees who work inside the home other than outside the country. The companies who initially invested in fringe countries of south-east Asia such as Taiwan, Thailand, Singapore and Malaysia are now investing in China due to their highly technical and knowledge skilled labour.

DISADVANTAGES:-

Decline in operation and manufacturing process in home country, which leads to loss of jobs and thus create unemployment in one's own country.

Inefficiency shown in the progress of work and lack of knowledge for which employees expect training for each and every task, thus increases the expenses. Dell computers returned its business help desk from India to North America because of an increase in complaints from its customers about Indian employees as they were lacking in solving complex computer problems.

The workforce of western companies' faces a tough competition on a global scale. They are less motivated because of job insecurity and pay cuts.

WORKFORCE OF EMERGING MARKET COMPANIES

ADVANTAGES:-

Employees desire to work in such emerging companies as their payrolls will be high when compared to local companies. These are large companies in which employees professional life grow faster with attractive salary package.

If one wants to visit the world and have the capabilities to communicate with different kind of people they have an opportunity to work in such field and thus changes their lifestyle. TESCO, for example a U. K. based company which outsources all its payroll, service and supply chain control operations to India. Employees who work offshore for this company are given an opportunity to switch their jobs if promoted to a higher level and get a chance to work in U. K. This is regarded as a dream come true for any typical middle class Indian employee. It creates motivation and lifts the spirits of workforce, hence job satisfaction is achieved.

DISADVANTAGES:-

Expatriate assignments can be very expensive, maintenance cost of expatriates in a host country range from three to ten times the cost of domestic employees with similar responsibilities.

Sometimes employees are not motivated properly which results in failure to achieve the assignment goals and thus reported at disturbing levels. Employees are made to work overtime and not paid properly.

The employees of the western market dependant companies are seriously affected if there is any financial crisis or economy imbalance in that country.

For example, Indian software employees are directly hit by the recession in the USA or UK. If there is no business for the firm the dependant workforces in the outsourced countries suffer from losing out their jobs.