

Critical evaluation of outsourcing

[Business](#), [Work](#)



Outsourcing is contracting with another company or person to do a particular non-core function. Outsourcing success depends on three factors: executive-level support in the client organization for the outsourcing mission; ample communication to affected employees; and the client's ability to manage its service providers.

The outsourcing professionals in charge of the work on both the client and provider sides need a combination of skills in such areas as negotiation, communication, project management, the ability to understand the terms and conditions of the contracts and service level agreements (SLAs), and, above all, the willingness to be flexible as business needs change.

The challenges of outsourcing become especially acute when the work is being done in a different country (off shored), since that involves language, cultural and time zone differences. The top advantages of outsourcing are: Outsourcing back end operations helps companies focus on core activities, lower costs, increase savings, reduce overheads, increase operational control, raise continuity levels, reduce risk management and bring people with required skills into the company and thereby develop internal staff.

Some of the acute disadvantages are: loss of managerial control, hidden costs, threat to security and confidentiality, lowered quality, bad publicity and ill will for the company due to loss of jobs to the outsourced company and client company performance gets inseparable connected to the outsourcing company's financial performance. Ronald Coase observed that companies will expand until " the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction on the open market.

" That is now known as Coase's Law which argues for outsourcing every IT function that can be delivered more efficiently by others. It has led to CIO's demonstrating how each element of their in-house IT spending has a lower cost than what's available in the marketplace. Farming out some of the labor to countries whose wages is less, is a relatively easier decision than decide whether to outsource a part or the company's entire computing infrastructure!

Acceptance of Coase's Law will force CIO's to prove that the total cost of retaining an extra transaction within the IT budget will be less than asking the competitive market to deliver it by means of network connectivity. This approach to IT management will convert every company from an organization-centric environment to a multi-supplier services environment and set the agenda for IT management for years to come. (Strassmann, Paul A. , 2004, Outsourcing the IT Infrastructure, (Online) Available at: <http://www.strassmann.com/pubs/cw/outsourcing-it.shtml>). Strategic outsourcing decisions at Amazon.

com led it to turn to external suppliers for everything from payroll processing to facilities management for better quality at lower costs. Hence, both Amazon and its partners gained sales and traffic. Amazon's traffic grew 34 % in 2009, compared with 7 percent for overall Internet traffic in U. S. As a result, Amazon had more products to sell on a successful e-commerce site and became a one-stop shopping destination, with a competitive advantage on rivals like Yahoo and eBay. Other than pilots, cabin crew and marketing, British Airlines outsourced everything i.

e. engine maintenance, property, engineering etc and the results of this makeover were higher profits and huge cost reduction in the face of rising cost for airline fuel. British Airlines dramatically cut 24 million from its annual expenditure on IT suppliers and succeeded in pulling out of a record financial loss in 2009. Whether outsourcing is good or bad is debatable and perhaps its advantages far outweigh the disadvantages, which can be circumvented, but it is certain that international outsourcing is not an ethical practice.

Outsourcing can help companies save money but is not the most efficient way of solving problems and hidden costs, which if not managed, can scare companies to go back to the traditional ways of doing business with higher process, managerial and operational controls. While most tangible questions can be answered in favor of outsourcing but the intangible question that remains unanswered is whether companies should retain long term employees at a higher cost to company or outsource the same task to cheaper locations where they can be done just as well?