

Outsourcing: advantages and disadvantages



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Outsourcing, advantages and disadvantages

Write a 2-3 page paper about outsourcing from the perspective of a multinational firm (Yes, this may be a hypothetical firm), be sure to answer the following questions:

1. What are the advantages of outsourcing?
2. What are the disadvantages of outsourcing?

As defined by Chase et al. (2004, 372), outsourcing is an “ act of moving some of a firm’s internal activities and decision responsibilities to outside providers.” Others define outsourcing as the procurement of the organization’s products or services from external sources. Most definitions of outsourcing describe it as referring to allocating or reallocating business activities from an internal source to an external source. The two basic organizations that are involved in the outsourcing agreement are the client firm (the firm that outsources their internal business activities) and the outsource provider (the firm which provides outsourcing services to the client firm). The client firm outsources business activities such as services, manufacturing activities, tasks and jobs.

Outsourcing in an international context refers to the outsourcing activity between nations or between boundaries of two or more countries. It includes global outsourcing which involves many international, external firms.

Although outsourcing is a new concept, it has been practiced before and was referred to as ‘ subcontracting production activities’. Outsourcing in an international context has been known as a major driving force in the business world. The Internet has allowed firms all over the world to provide

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services which were not possible before due to geographical limits. The Internet, together with the WorldWideWeb (WWW) has provided the connectivity that is necessary for the rapid growth of the outsourcing in an international context.

Together with the growth of the Internet and WWW is the growth of international business. The passage of international trade agreements such as the 1993 North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) and other international trade zones that have been established throughout the globe, governments preparing and allowing the greatest expansion of international business, inexpensive computer and communication technology, have been major contributing factors in the enormous growth of international business.

Is international outsourcing desirable or undesirable? There have been many views about outsourcing by multinational firms and a big debate is ongoing across the globe and people are affected by it. Business enterprises greatly support outsourcing but employee unions and politicians oppose it. There are many advantages and benefits that outsourcing can give to the home country's business undertakings as well as to the country wherefrom the services are being provided. Enjoying cost leadership is one of the ways to enjoy sustainable advantage in this very competitive business world. The best way to achieve this is to outsource jobs. Another advantage of outsourcing is to have greater control over the quality of the goods because they can demand from the many suppliers the excellent products/services at lower cost. The client firm has the advantage of deferred payment thereby creating more opportunities to spend their funds wisely and make it more

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profitable. Outsourcing can also drive down wage and production costs.

Another advantage of outsourcing to the client firm is that they don't need to buy raw materials, and stock them and other semi-finished products in the warehouse thereby saving on space, interest payments, godown charges, pilferage, and wastage. There is also a reduction of the number of people that are employed since the production is done in another place outside of the company. This situation also lowers the headache of union problems. The end result is that the client firm can focus on their core business matters and customer relationship management.

Aside from bringing cost savings and an increase in profits to the client firm, outsourcing also brings benefits to the host country in terms of macro-economics.

In Information Technology and other accounting tasks that are being outsourced, management of client firm will experience less capital expenses since they don't have to buy hardware and software, less management problems due to having the outsourcing company handle the staff providing the services.

In terms of disadvantages of outsourcing, the main argument is the loss of jobs in the country of the client firm as the activities performed in the home country or organizations have been transferred to another location/s. Also, the culture clash that happens between the manufacturing client firm with those doing the outsourcing jobs results in each one's rejection of each one's culture. Another disadvantage is the decline in the labor rate and also, trade unionism gets a jolt due to outsourcing. The state has to pay allowances to

the unemployed and all of these disadvantages create problems in society and to the industry side, quality may suffer in pursuit of cost reduction. Another disadvantage is that the client firm will have less managerial control so it will be harder to manage the outsourcing service provider than own employees. The client firm will also tend to depend on the outsourcing provider and if the provider goes out of business for whatever reason, then there is a need to go through a quick transition for another service provider, or find other means so that the business activities will not be disrupted and will go on as effective as it should be. Not all outsourcing can give benefits of cost reduction. Sometimes it can be costly too on the part of the client firm. Other matters related to confidentiality and security issues such as outsourcing processes related to payroll and other confidential information will be known by the outsourcing provider.

It might be noteworthy to consider one comment of a business leader that in order to be successful in business, it is better to cut the wastage than to cut costs. Westerners have also expressed their dissatisfaction and unhappiness of the pronunciation and diction of the call centre agents in India and to add to this, there have been instances of leakage and improper use of customer's data.

Whether the multinational firm will outsource or not, there is nothing conclusive. The firm must perform a comprehensive cost-benefit analysis before deciding on outsourcing. Also, with outsourcing, the days of patriotism and cultural nationalism are gone but what replaces is the satisfaction of the firm's own benefit of maximum profitability.

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