

The differences between offshoring and outsourcing



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OFF-SHORING is moving a part or whole of a process from home country to another country but to a unit of the same company. It usually involves setting up a process in a country where the firm also has its unit. [1] e. g. MNCs having their offices in multiple countries may be involved in off-shoring processes. IBM, HP off shoring to India to make use of the talented engineer's pool. For many years international trade has just been about trading completed products across the globe. But due to technology and transportation ease, it has lead to tasks being off shored thus adding value to global supply chains. [2]This is usually done to reduce cost, increasing pool of innovation; expanding into new markets, recruiting for special skills in every country, thus developing a strong human resource and various such reasons.

OUT-SOURCE on the other hand involves one company doing a task for another. [1] Outsourcing may not only aid cost reduction but also help in achieving operational excellence. eg payroll outsourcing to HR consultancies . E. g. Accenture. [4]This helps in resourcing the operations from the best work pool in the desired functional area.

Figure 1

OFF-SHORE OUTSOURCING is like a combination of the two. It involves both, getting another company from another country to perform a task or process of a firm. Globalisation has been the key driver to such activities. Earlier such activities were performed by relatively low skilled workers. These activities were primarily seen in manufacturing industries but now it has explored into service sector and attracted high skilled work. Increased competition , need

for reducing cost, skilled and cheap workforce has driven globalisation, but these also attract high effort and risk thus making it advantageous and disadvantageous at the same time. eg Massachusetts General hospital in USA offshore outsourcing interpretation of CT scans to radiographers in India.

[1]

We will hereon discuss primarily on OFF-SHORE OUTSOURCING. The discussion would consider two parameters, firstly the advantages and disadvantages of Off-shore outsourcing on Western economies like UK USA and emerging economies like India, China, Brazil, Kenya and secondly its effect on the respective workforces.

Offshore outsourcing is beneficial for the western economies in various ways, such as the production or service providing costs are high in these economies owing to the high living cost, area cost, transportation and telecommunication cost. Thus if companies from these economies move off-shore and outsource their production or services task it would cost them less, this would also give them a strong grounding for competing globally. E. g. Loake UK based shoe manufacturer offshore outsources its process in France India and then the final assembly takes place in UK. The cost saved can be invested in home country. Off-shore outsourcing also helps western economy companies in expanding their clientele in new unharnessed markets with great potential, their thus the company grows globally E. g. The western universities get major funding through international students from India and China due to outsourcing, attraction of students by various educational advisor companies like Edwise(India), Chopras(India). Microsoft has offshore outsourced its IT work to India; this has led to increased <https://assignbuster.com/the-differences-between-offshoring-and-outsourcing/>

recognition of Microsoft there and thus increased sales. Off-shore outsourcing also fosters round the clock working, harnessing the time zone differences. E. g. Many USA firms outsource their system management to Indian software engineers', thus when the companies close down in USA the computers can be updated or fixed via software engineers in India (K Dice India Pvt. Ltd.)[9] due to the approximately 12 hr difference in time zone. [1][3][7]. Offshore outsourcing may also boost innovation. Flexibility, off load work: You can create capacity for higher margin work in internal sources. This of course creates flexibility in the company ensuring the optimum utilization of the available resources within the company. MachroTech offers you an offshore outsourcing model which combines the best of its onshore and Offshore Software Outsourcing resources, to provide you with the flexibility to operate your business flawlessly [7]. Western companies can benefit from operational excellence by outsourcing specific consultants to bring out high performance . e. g. PWC, TCS are being outsourced by companies to carry out financial or HR consulting. Thus western economies can benefit from various offshore outsourcing like software development, managing HR tasks like pay rolls, legal outsourcing, R&D, interpreting CT scan, medical transcription, accounting (PWC), data entry etc.

Due to globalization and linking of economies across the globe, this would result in benefits for the emerging economies too. Majorly, the GDP of exports increase in the emerging economies . Their local currency becomes strong . Foreign direct investment in these economies increase. This leads to development of these economies. Poverty and malnutrition is on the verge of eradication in these economies.[8] Other not so direct effect of offshore

outsourcing over emerging economies are adopting new mannerisms, developing English as a primary business language thus reducing linguistic issues, increasing the standard of living of people in emerging economies. Off-shore outsourcing may also be from emerging markets to developed economy market serving as offshore outsourcing destination. E. g. Nasscom the premier trade body and the chamber of commerce of the IT-BPO industries in India has offshore outsourced its financial reporting to McKinsey (UK).[5][6]

As it has been mentioned earlier Off-shore outsourcing also has its own disadvantages, for the western companies or the emerging market companies it would mean loss of control over the production or service. This may be because the offshore outsourced company may not work diligently. This will lead to production losses or unsatisfactory service to the customers. With time zone difference follows the problem of communication, transparency of work. Linguistic barriers and cultural misfits all these impacts business on the long run. [10] With offshore outsourcing increase, the imports to the western countries increase thus increasing trade deficit. [3] Off-shore outsourcing also brings along various risks:

Project execution risks that would mean loss of full transparency in how the work is being done. Whether the personnel offshore or company offshore is working diligently and not showing a slack behaviour towards their duties. Intellectual Property risks that pertain to sharing the sensitive details and technological details of the company with the outsource destination company. This usually leads to counterfeiting of pharmaceuticals, luxury products etc. and thus this may lead to less sales for originally producing

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companies and greater sales for the companies that outsource since they have the technical know-how and produce and sell the same goods at a lower rate. Various other legal risks are also seen [11].

Now to discuss about the advantages and disadvantages due to offshore-outsourcing in western company and emerging market countries with respect to their workforce. As far as offshore outsourcing is concerned any company when involves any other company in its process has to deal with organisational culture change, thus workforce have to accept the change and move on or else they might be laid out.

Western economy workforce has some advantages. If it gets some of its task outsourced like it may help the employees in moving to higher jobs, higher salary, higher standard of living, good incentives. [1] According to Rajan and Wei(2004)the number of jobs that loose on outsourcing are gained back due to insourcing[3]. Employees can choose to work in rotational shifts, thus giving them flexibility in working hours, since offshore outsourcing provides round the clock working options. English being their own language they have fewer language troubles, since it's the basic business language.

But offshore outsourcing has major disadvantages for the workforce of the western countries because the basic minimum wage in these countries are higher than in emerging market companies thus mass layoffs are happening. To retain their jobs the western company employees have to work at lesser pay, what makes matter difficult is that in these countries cost of living is very high and thus low salary will lead people to poverty.

According to AT Kearney's 2011 Global Services Location Index (GSLI) the top three positions in outsourcing destinations are occupied by India, China, and Malaysia [13]. So automatically outsourcing brings in many advantages to emerging economy workforce. It brings great employment opportunities to these emerging economies. This is due to availability of skilled and yet cheap labour. This helps in increasing the standard of living of all the people, this leads to happier family life, better educated kids, more hygiene, health, socially conscious people helps the country and its economy as a whole. Knowledge base of the people increase. Due to outsourcing companies working round the clock, it gives rise to rotational shifts this leads to flexible working hours, and thus there's job that suits to everyone's timing. There is a lower chance of brain drain. The workforce is more dedicated, and thus the results are great. This leads to motivation and better working. [3] The developing country workforce learns the western style of working, thus becomes more organized, independent and goal oriented.

There are a few disadvantages too for the workforce of emerging economy companies like due to time differences between the home and host country , employees may unwillingly have to work at rotational shifts. eg TCS employees join the company at regular

office timing but the work begins only in accordance to the country that has outsourced work at TCS , thus long working hours. Thus the workforce works under stressful condition. They get paid lesser than their western country counterpart. Emerging market companies usually have unhealthy or unethical working environment . E. g. Tesco, ASda Primark outsourcing to

Bangladesh but using child labour and unhealthy conditions. [14] Linguistic issues, cultural misfits also pose to be de-motivating for the workforce.

Thus offshore outsourcing tries to reduce the difference between the emerging and western economies, creating the world a knowledgeable, friendly, culturally one place to live in. Although everything has its pro and cons, it's the riskier thing that fetches more. So I consider offshore outsourcing very lucrative.