Outsourcing: meaning, evolution, and scope

[Science](), [Biology]()

The predominant supply chain model for several decades was vertically integrated. Each member of a supply chain was considered part of the same industry. Automobile manufacturers purchased parts from automotive parts manufacturers, and then sold completed cars to automobile dealer. All the ancillary activities that support the supply chain directly or indirectly were included within the automobile manufacturer.

Steadily, however, products became complex and the scale of operations increased and management of entire operations within one corporation became less feasible. This resulted in the increasingly widespread use of outsourcing and has resulted in vertical disintegration of corporations and supply chains. As travel andcommunicationbecame easier in the 1970s and 1980s, and as the gap in wages between developed and developing countries increased, outsourcing began to move offshore.

Outsourcing as we know it largely emerged in the 1980s as a response to economic downturn. Companies considered outsourcing as a way to reduce costs and remove non revenue-producing or non-core assets off the books and place them in a service provider's books, in return for payment of a recurring service charge (Brown, Wilson 2005). In the early days of development of services outsourcing as a business tool, many companies were understandably reluctant to outsource core functions, preferring to outsource peripheral functions.

However, astechnologybecame more sophisticated, companies realised that, in order to retain state-of-the-art levels within their organisations, there was benefit to be had in the contracting out the technology-related services to specialist suppliers, for example, assigning software programming tasks to certain software giants headquartered in India. Companies see advantage in hiring a technology partner in order to stay ahead of the game. Nowadays, it is unusual to find a large company which has not, to some degree, concluded outsourcing arrangement with a supplier, in some way or other (Carmel, Tjia 2005).

The advanced industrialised economies of the United States, Japan, and Europe are the principal candidates for origination of outsourcing transactions. For decades, the U. S. industry has outsourced blue-collar jobs to the lower wage countries. In the last one or two decades, that trend has included white collar jobs as well. Economic development in Japan and England and Europe in the past few decades too has generated anenvironmentthat has fostered outsourcing practices. In addition, some developed Asian economies have both the experience and the location advantage in outsourcing to China and India.

Taiwan and Korea are the prime examples. The buzzword is that geography is becoming history. In the age of the Internet, a company's location hardly matters. In the past, the educated and skilled labour from low-cost countries immigrated to the U. S. During the past fifteen years or so, faster communications and improved information have allowed companies to easily send information-oriented work to any location on the globe. Ultimately, countries with relatively low-paid but well-educated workers will benefit greatly.

In addition, the country of origin of the outsourcing benefits on the whole, and not the just the private companies (Brown, Wilson 2005). ... [G]iven global cost disparities among countries, outsourcing will continue to play an important role in business decision making. (Groppelli 2006) The popularity of outsourcing has increased dramatically in recent years. Globalisation increases a firm's sensitivity to flexibility and agility. For about two and a half decades now, a steadily increasing number of firms have placed intense emphasis on outsourcing.

Operations that are not central to the company's primary functions are subcontracted. Companies shop around to contract suppliers that best fir their overall strategy. Outsourcing is done to reduce the needed capital for investment and control cost, enhance market position, create networking, and allow senior managers to better deal, with major priorities. Firms, large and small, are also looking for additional benefits that revolve around flexibility, creativity and meeting customer needs in a timely fashion.

Outsourcing and co-operation among firms has become a worldwide phenomenon. Some firms recognise that sustaining their competitive advantage requires that they focus on only those activities that are critical to their success (e. g. , design, marketing, etc.). Contracting suppliers to perform production, accounting, legal services, and other functions, including research and development, has become the norm (White, Barry 1996). Drug companies, for example, traditionally conducted all their own research activities (e. g. , discovery, drug testing, etc.).

In recent years, specialised small companies have emerged to design research, contract doctors and patients, analyse data, and process papers and necessary documents for obtaining drug approval. Smaller R&D outsourcing providers cannot of course hire the great scientists that are needed to push basic research ahead, but there is usually a good deal of much less intellectually demanding work in fields of research which can be handled by them (Kobayashi-Hillary 2004).