Offshore outsourcing advantages and disadvantages

OFFSHORE OUTSOURCING

Before explaining the potential advantages and disadvantages of offshore outsourcing for various things, I would like to explain few terms like off-shoring, outsourcing and offshore outsourcing. Off-shoring means taking the work or process to some other country, while on the other side, outsourcing means taking help of some other company to do some part of the work or process. Below is the definition of offshore outsourcing.

According to Needle (2010), “ where a firm not only locates an activity in another country but contracts this activity to another firm, it is referred to as offshore outsourcing.” Offshore outsourcing not only helps to reduce cost overheads but also helps in various other aspects which we will be seeing shortly.

WESTERN COMPANIES

As per me the western companies are the companies that are developed, advance and are known world-wide. Apple, IBM, Nike, Airbus are few of the examples of western companies. The potential advantages of offshore outsourcing for western companies are as follows:

Lower cost of labour: When the product is being made in some place were the labour cost is cheaper than the country of companies existence, it really help company to save money by employing cheap labour and even more labour can be hired.

High performance: When labour is cheaper it will directly help company in performance by employing or my making labour work in various shifts and work can be done 24×7 and that will give the company high performance.

Proper use of time zone: Companies can make proper use of time zone difference. For example as cited in Needle (2010), many USA companies use the service of Indian software engineers when their computer systems are not being used.

The disadvantages of offshore outsourcing for western companies are as follows:

Quality of product or service: When the product is produced by some other company in some other place it might not be necessary that they might give the same kind of service to your product or the quality of product might not be the same as the one you are expecting the quality to be.

Communication gap: When two different companies of two different origin works on the product, which might arise a problem were communicating to each other is a problem and that create a communication gap.

Threat to security: When outsourcing services such as taxation and payroll, the service provider will be able to see company’s important data and this might create threat to security of data.

I would like to mention few of examples of Nike and Airbus. Quality Web Solution (2010), Nike as we all known is well renowned shoe making giant from USA, but it no longer manufactures parts of the shoes they need, they have just outsourced the work to some offshore companies, but the sole of the shoe is still designed in USA. Another case I would like to give is that of Airbus. Clark and Smith (2010), as we know that Airbus is well known company in aeroplane making but even Airbus doesn’t make all the parts required in aeroplane, it has outsourced the designing and manufacturing of engine used in aeroplane to Rolls Royce and even when problem was detected in its engine Airbus asked for compensation from Rolls Royce.

Emerging Market Companies

When it comes to define emerging market companies, as per me the emerging market companies are the companies that are not well renowned but developed and have the power and ability to compete with the companies of the world. Zara, Lenovo are few of the examples of emerging market companies. The advantages of offshore outsourcing for emerging market companies are as follows:

Global competitors: Since the company is emerging company and its competition is with the world with western companies, it automatically creates a global competition. Since you have competitors that are making same product as that of you. This not only creates competition for the company but also boost the morale of the company.

More Investors: The Company will be in the state to get good investors to invest in their business. As the company is emerging one and shows sign of good competition and make proper use of product they are working, more and more investor would like to invest their money into the company.

Diversification of business: As the emerging company get proper attention by the consumer and investor, they might create a stage where they would try to diversify their business in various other sectors.

The disadvantages of offshore outsourcing for emerging market companies are as follows:

Government rules and regulations: The Company might face a problem with the rules and regulation of the government that might arise in some cases.

Product launching: The product is to be made keeping in mind the country where the product is to be launched else it will create a problem that the product doesn’t get proper attention by the consumer of the country were the product is launched.

Quality of labour: The labour must be high skilled and proper training must be given else the quality of the product will arise and that will affect the product as well as the company.

I would like to mention couple of example of emerging market companies, one of animation done in Bollywood movies and another of Zara. Before when a movie in Hollywood was made and any animation work needed to be done, the work was outsourced to India. But now the case have changed a lot, now when a movie is made in Bollywood and any visual effect or some animation work is to done in that, the work is outsourced to some companies in USA. Second case I would like to mention is that of Zara. Kelly and Clark (2008), Zara as we know is Spanish based fashion chain retailer. Zara’s most of the products are made in Bangladesh. Zara not being very renowned still give its competitors like Tommy Highflier and GAP a very good fight in the market, and it recently overtook GAP to become one of the top selling fashion brands in today's world.

Workforce for western countries

For me, the workforce of western countries means the employee employed by the companies in the western countries. The problem in employing the workforce in western countries, the salary are on fixed basic and that make the companies to spend more on employee salary and this affect the profit of the company. The advantages of the workforce of western countries are as follows:

Adapt soon to technology: If sometimes there is change in technology, the workforce of western companies can adapt to change in technology sooner when compared to workforce of emerging countries.

The disadvantages of the workforce of western countries are as follows:

Fixed Salary: The salary paid to workforce of western countries is fixed. The salary need to be paid on hour basis with basic hour rate decided by the country. So when it comes to hire a workforce in western countries the salary that needed to pay is much higher than that of workforce of emerging countries.

Here we will again take an example of Airbus. Harrison (2007), we come to know that Airbus will outsource its work and try to cut short the number of workers. By doing so it is going to help company to reduce 32% of its overheads. The example shows us that even hiring western workforce can increase the expenditure of the company as the payment for them is fixed and these cost the company a bit higher than expected.

Workforce of emerging market countries

For me, the workforce of emerging market countries means the employee employed by the companies in the emerging market countries. The problem in employing the workforce in these market countries is that when there is change in technology the employees need to be trained and it might slow down the production process.

The advantage of the workforce of emerging market countries is as follows:

Contract basis salary: The salaries paid in emerging market countries are on contract basis and that means more the employee work more he/she gets the payment. But indirectly it is also increasing the production of the company which leads to more profit for the company.

The disadvantage of the workforce of emerging market countries is as follows:

Not adaptable to change in technology: The workforce in these market countries are not much educated and if there is change in technology the company need to trained the workforce and that slow down the production process. Due to changes in technology, the company need to see that the workforce is given proper training and at faster rate so that the production process doesn't get affected. The training cost also affects the profits of the company.

Let take an example of Tesco. Jobber and Fahy (2009), the clothing we get in Tesco with Tesco's own-label are made in Bangladesh. And we know that Bangladesh is one of the emerging workforce countries. So when the work is outsourced to them it will help Tesco in making more profits as the amount required to do same task in UK is much more when compared to that in Bangladesh. And even salaries to be paid in UK are fixed while that in Bangladesh is contract basis.

Finally I would like to conclude that offshore outsourcing does have advantages for western and emerging companies and its workforce, but on the other side of it, it also have few disadvantages that might create problem at some stage.