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Outsourcing in Business: Pros and Cons

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Abstract

Outsourcing has become the latest mantra for companies to stay ahead of competitors in this highly competitive environment. Outsourcing is the business practices of hiring a party outside a company to perform services and create goods that traditionally were performed by company's own employees and staff. It is practice usually undertaken by companies as a cost-cutting measure. Generally companies outsource functions that are non-core to their business. This paper aims to analyze the concept of outsourcing, types of outsourcing and merits and demerits of outsourcing. Data for this investigation collected from secondary sources like Journal, Internet.

Keywords: Outsourcing, competitors, cost-cutting, core activities.

Introduction

In modern life, where competition among businesses rapidly increase, one of the instruments that will give possibility to open access to nearly every resource that offered in marketing is Outsourcing. Outsourcing is cost effective strategy used by companies to reduce cost by transferring portion of work to outside suppliers rather than completing it internally. It is a process of contracting a business function to specialized agency. It is way to enter in international business. Outsourcing is a type of contract between an organisation and a specialized agency to perform some task on behalf of the organisation. Thus lead to essential reduction of expenses because each part work on that it can do best without applying addition effort and without investing for learning new activities.

According to Power et al. outsourcing is made up of two words –"out" and "sourcing"; sourcing refers to "the act of transferring work, responsibility and decision to someone else". Companies must source out work because there is other, who can do it cheaper, faster and better. In brief outsourcing can be defined as the process of delegation of its house operation to third party, who can do it better, cheaper and faster.

Objective of study

- To study the concept of outsourcing
- To study the various types of outsourcing
- To study the pros and cons of outsourcing.

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Research methodology and data collection

The paper mainly concern with higher education system in India. Data for this investigation collected from secondary sources.

- **Secondary sources:** secondary data was collected from books, journal, internet and from various websites.

Forms of outsourcing

- **Onshore Outsourcing:** It refers to procurement of services and goods from someone outside the company but within the same country. This form of outsourcing is also called internal outsourcing.

- **Offshore Outsourcing:** It is defined as the procurement of services and goods from someone outside the country. This form is also called international outsourcing. This term include both intra-firm international outsourcing (by which foreign supplier of inputs is still held by the firm), and distance international outsourcing (by which foreign supplier of inputs is still independent of the company that uses inputs).

Types of outsourcing

- **Professional outsourcing:** professional outsourcing includes any type of specialized, professional services. This includes accounting and administrative jobs. It is very common type of outsourcing for e.g. you have hired an accounting firm to handle all your finance as opposed to hiring an in house accountant.

- **IT outsourcing:** IT outsourcing refers to the practice of seeking technology related resources of an organisation for all or part of an informational technology function.

- **Manufacturing outsourcing:** Manufacturing outsorcing consist of hiring people outside of the company to assemble parts of, or build an entire product. Labour is often among any company's largest costs. **Outsourcing** parts of production line to a third party in a lower cost leads to a significant decrease in production cost.

- **Project Outsourcing:** Sometimes companies have trouble managing one of their projects or even just completing a portion of specific projects. In such a case companies can outsource project. These outsourcing services can be contracted to either manage entire project or complete portion of projects.

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Pros and Cons of Outsourcing

Pros of Outsourcing

- **Cost saving:** There can be significant cost saving when various activities of business is outsourced. Employee compensation cost, office space expenses and other manufacture setup cost are eliminated and free up resources for other purpose.

- **Focus on core business:** many researchers agree on fact that by handling over noncore activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning.

- **Sharing risk:** one of the most important factor in any business is risk. Outsourcing certain components of your business process helps the organization to shift certain responsibilities to the outsourced vendor. Since the outsourced vendor is a specialist, they plan your risk-mitigating factors better.

- **Reduced Operational and Recruitment costs:** Outsourcing eludes the need to hire individuals in-house; hence recruitment and operational costs can be minimized to a great extent. This is one of the prime advantages of offshore outsourcing.

- **Access to highly qualified personnel:** By outsourcing companies have the possibility to access to highly qualified personnel, who may not be available to the client organisation and fully exploit the suppliers' investment, innovation and capabilities.

- **Flexibility:** outsourcers' contracts and jobs of their employee depend on the degree of flexibility to reflect changing business environment.

Cons of outsourcing

- **Loss control:** whether you sign a contract to have another company perform the function of an entire department or single task, you are turning the management and control of that function over to another company.

- **Hidden cost:** Although outsourcing work is generally considered cheaper, you must also be aware of getting ripped off. You will sign a contract with the outsourcing company that will cover the details of the service that they will provide. Anything not covered in the contract will be the basis for additional charges. Also, there will be legal fees to be paid in order to retain a lawyer to review the contracts and make any required changes.

- **Threat to Security and Confidentiality:** Intellectual property and confidential data must be protected when non-company employees are being used in an outsourced capacity. If you have payroll, medical records or any other confidential information

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that will be transmitted or used by the outsourcing company, there is a risk that the confidentiality may be compromised.

- **Impact on Employee Morale:** The act of outsourcing could signal that employee's job is also at risk and will eventually be eliminated by being given away to the outsourcing company. This will reduce the morale of employees.
- **Synchronizing the deliverables**: In case you do not choose a right partner for outsourcing, some of the common problem areas include stretched delivery time frames, sub-standard quality output and inappropriate categorization of responsibilities. At times it is easier to regulate these factors inside an organization rather than with an outsourced partner
- **Language issues:** there might be minor issues when you want to outsource your work off-shore, as you might not coordinate due to language problems.

Why companies outsource

The following are the most common reasons for companies to outsource.

59% – Reduce or control costs

57% – Focus on core functions

47% – Solve capacity issues

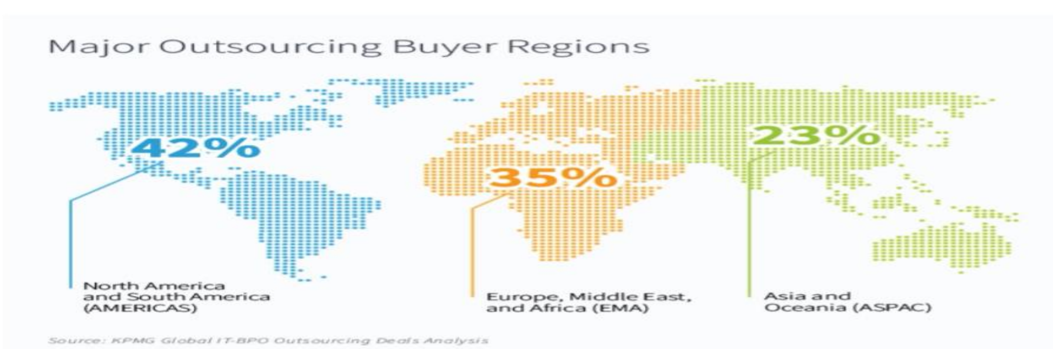
31% – Improve service

28% – Gain access to expert talent and knowledge

17% – Manage business environment

17% – Accelerate organisational transformation

(Source: Deloitte 2016 Global Outsourcing Survey)



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Conclusion

Outsourcing became one of the most widely used modern business practice. However, it has both advantages and disadvantages. Comparing pros and cons of the concept of outsourcing, we see that the balance tilts in favor of micro level benefits of implementing this concept, while at the macro level we can speak of the balance between the losses suffered by the advance Economics. While character of work in which the company operates and aims that it sets changes, outsourcing can also change and brings benefits or risks to client company. From our analysis it is obvious that outsourcing is good for business because it reduces cost but it also some cons like security issues, loss control from business.

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