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Understanding IT Outsourcing and Potential Effects on Countries

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***Abstract*: As a growing number of firms outsource more of their services across geographic and temporal boundaries, one is faced with a corresponding need to examine the long-term ramifications on business and society. Some persons are convinced that cost considerations should reign as the predominant decision-making factor; others argue that outsourcing means permanent job loss; and still others believe outsourcing makes US goods and services more competitive in the global marketplace. We assert that if outsourcing options need to be analyzed in detail with critical objectivity in order to derive benefits for the concerned constituencies.**

***Keywords*: Boundaries, Decision-making, Global marketplace**

1. Introduction

The term outstanding was introduction in the mid-1980s. however, the idea of hiring someone else to do specific job or of diving labour has existing for hundreds of years. In business, outsourcing can be found everywhere; whether big or small, simple or complex. During the pre-1900's, the outsourcing was primarily focused on labour intensive production tasks and business activities outside the companies' core competitive, such as outsourcing printing press, food preparation and janitorial work hiring the seasonal migrant farm workers and so on.

In industry society, outsourcing began with manufacturing. In order to reduce the cost after the Great Depression, manufacturers began to think of outsourcing complex production process from end-to-end vertically. Most large manufacturing firms have had outsourcing relations for decades, such as the relationship of the automobile industry to many different producers of metal. glass, rubber and electrical products. By the end of the 1930's, two-third of ford's production came from outside sources. As a global outsourcing in the post-war economy, the cost savings and productivity benefits are achieved. Thus, many companies began turning over some or all of their production processes to business partners. Today, contract manufacturing is the norm in industries ranging from electronics to telecommunications to biotechnology, and outsourcing of primary supply chain activities has been common in industries. Some outsourcers even offer services, such as assembly, packaging and distributions, to ship customer's goods anywhere in the world. By these means, outsourcing helps companies deliver new products to markets more quickly, provide a cost-effective way to stay with the up-to-date technology and latest procedures, and concentrate on enhancing core business ability and increase global reach. Consequently, more and more companies in manufacturing industry began to outsource parts of their business. A survey released by Accenture pointed out that nearly half of companies in Europe and the USA are considering outsourcing in their procurement.

Outsourcing not only affects the composition of international trade but may also change the pattern of trade. In the international trade literature one of the main driving forces behind outsourcing is the existence of differences in factor prices across national borders. Unskilled labour intensive stages of production tend to be shifted to unskilled labour-abundant developing countries, while more technologically advanced stages remain in skilled labour-abundant developed countries. As a result, the increasing use of international outsourcing enhances the integration of developing countries into the world economy.

Global outsourcing is increasingly perceived as a 'must-have' core competency across numerous industries. It is becoming a key competitive weapon that most business must master. The world is full of entrepreneurs and nations trying to get into the outsourcing game. The USA and some European countries, such as the UK and Germany, are the main importer in global outsourcing market. Developing countries such as India, China and Russia, etc., become the largest exporters in global outsourcing market.

2. Type of global outsourcing

Global outsourcing mainly includes near shore and offshore outsourcing. Near shore outsourcing is a practice of getting work done or a service performed by people in neighboring countries rather than in your own countries. Many companies in the USA for example, outsource work to Canada and Mexico. It benefits from close cultural compatibility, language and similar time zones. It can be a strong solution for companies if they operate in a single geographic location or required niche services. However near shore outsourcings show localizing tendencies, which do not meet the needs of fast development in technology and business. Given global influence, interconnectedness, and economic integration, the globalization is inevitable. These are many reasons for companies to conduct offshore strategy such as low labour cost and flexible working schedule: 24/7 operating time. Such cost saving will bring more benefits to companies. However, arguments on offshore strategy still exists. Loss of future talent, intellectual assets, and organizational performance is a major concern.

With the low cost, educated labour pool, and other advantages, offshore outsourcing has become the main stream of global outsourcing. All companies that do business inside the country or overseas have to compete with potential rivals from every corner of the world. Naturally those companies are seeking to save cost by moving some functions to low labour cost regions for short-term companies priorities. They also want to increase staffing flexibility and expend the global market share by hiring local staff and accessing regional markets for longer-term strategic goals, so that they can quickly respond to business opportunities. According to international data corp. in Framingham, Massachusetts, spending on offshore outsourcing will increase from less than $5.5 billion in 2000 to more than 17.6 billion in 2005.

3. Pros and cons of global outsourcing

Companies outsource their business activities based on various reasons. The big-picture answer is to create or maintain a competitive edge. For global outsourcing, the reasons can be as follows: reduce cost and delivery time, improve quality and reliability, increase exposure to worldwide technology, use recourse that are not available internally, gain access to materials only available abroad, establish a presence in a foreign market, maintain sufficient flexibility to respond to market conditions, reduce the overall amount of specialized skill and knowledge needed, make capital funds available for more profitable operations, and combat the introduction of competition to the domestic supply

Financial effects of outsourcing or cutting cost is the primary factor of global outsourcing. The initial decision to outsource is often made on the basis of costs. The main attraction of outsourcing is cost cutting in the advantage of the external service providers. By accessing a service provider who has lower cost structures that are derived from the outsource organization’s singular focus and are economies of scale, the organization reduce internal costs. The outsourcing institutes estimates that average, outsourcing saving range from 9-15%. A recent study found that in the USA. Costs saving by outsourcing jobs overseas had exceeds $100 billion. Another survey by Accenture, which entailed interviews with more than 800 executives in health, manufacturing, retail and travel businesses in the USA and Europe, found that an overwhelming majority (86%) said that cost cutting is among critical areas of outsourcing.

Operation within three years, more than doubling the 22% of respondents who said they currently outsource aspects of procurement. Besides, 31% of the largest companies surveyed said they presently outsource some aspect of procurements, while another 36% said they plan to do so in the future. Conversely, only 15% of smaller companies said they outsource procurements functions today, while another 34% said they intended to do so in the future.

4. Conclusion

Global outsourcing changed the world’s economics and political environment in a large degree. The impact of global competitive and outsourcing has brought about some of the most controversial changes in world’s economies. Technology is eliminating borders and bringing the world ever close together. In other world is shrinking and national borders no longer restrain labour markets. By global outsourcing, corporations move more and more jobs overseas in a continual effort to seek out low cost without boundaries, that is to say, to move labour and technology across international borders.

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