Outsourcing: A Review of Trends, Winners & Losers and Future Directions

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Abstract

The primary objective of this paper is to analyse the outsourcing trends in last one decade and to forecast the future on the basis of past studies. In this paper concepts and trends about outsourcing has been discussed on the basis of past studies. An extensive amount of literature review has been done to obtain the objective. This paper demonstrates the previous literature and findings. Outsourcing has become inevitable and virtually many of the multinationals are outsourcing to utilise scarce in-house resources. In this research it is being observed that owners of the companies are the prime winners in outsourcing and off shoring situation. Further, a detailed review of literature indicates that along with many other motives cost factor cause major influence in outsourcing decisions. There is an ultimate outcry over the jobs going overseas from industrialized nations such as United States, the UK and the western World. However, the net economic gains for these countries are growing, and outsourcing to an offshore destination will be on the rise for the foreseeable future. The emergence of new players would challenge India's position in IT services and multinationals would make best of the new low cost destinations.

Key Words: Outsourcing, Offshore, Cost Reduction, Multinational Corporations.

1. Introduction

Outsourcing has been in business literature for many years and it has been observed that firms are outsourcing to leverage production to achieve economy of scale and lower the cost, for instance 30-40% of Nokia mobile production has been outsourced (Shy and Stenbacka, 2005). However, the current wave of outsourcing is subject to Information Technology revolution which enabled the process (Aird, Sappenfield, 2009).

This is a review paper regarding outsourcing in which wide range of information on outsourcing is being provided. All relevant key issues, emerging trends, future direction and finally conclusion is being discussed. This research is worth doing to understand and evaluate the importance of business done in International dynamic environment and working with cross cultural teams as a result of offshore outsourcing arrangements.

The literature review has been conducted in order to bring the valuable information into analysis and discussion. The focus in this section is on the importance of the outsourcing both in service and manufacturing industry. Three views have been discussed which have been cited extensively in outsourcing literature. These are Transaction Cost View, Competence Based View, and Relational View (Mehta et al., 2006).

The second main part of the project is analysis and discussion of the outsourcing trends, who gains and who loses and the rationality of outsourcing decision, and long term strategic implications for the firm.

Finally conclusion is a logical flow of the whole project into a comprehensive and a meaningful final part which enables readers to gain an insight of the outsourcing industry, its importance and some issues.

2. Literature Review

What is Outsourcing and Off shoring? Definitions and Meanings

"Outsourcing refers to the practice of transferring activities traditionally done within a firm to third party providers within the country or "off-shore" (Sen and Shiel, 2006). Offshore outsourcing is an old phenomenon and many of the multinational companies strategise to bring the operating cost down. Outsourcing is handing over one or many of the business processes to an outside vendor or the utilization of outside available services provided by third party to carry out business activities is the outsourcing strategy (Scott-Jackson et al., 2005; Boer et al., 2006; Barthélemy, 2003; Elmuti, 2003 ; Sparrow, 2005; Kakabadse & Kakabadse, 2005 and Sharma and Loh, 2009).

Business Process Outsourcing according to Mehta et al. (2006) is that an external service provider can be given operational ownership of the company's business for one or more than one activities. Barthélemy and Quélin (2006) noted that the companies often discontinue in-house production system to minimize the operational cost including goods and services and benefit from an outside service provider which is known as outsourcing. The firms seeking a BPO strategy can also outsource back office functionalities to an outsider at relatively lower cost. Although there are number of benefits associated with offshore outsourcing have been studied by different academia and research institutes but there are also key issues of BPO , for example cultural and linguistic issue, quality of service and customer satisfactions, which will be discussed later in this section.

Ang and Inkpen (2008) and Manning et al. (2008) suggest that there is a difference between outsourcing and offshoring or offshore outsourcing such as outsourcing refers to benefit from the services provided by another firm and offshore outsourcing means to benefit from an outside vendor in the different location of the world.
Over the past few years, many of the organization, medium to large size corporations are heavily relying on an outside vendor to maximize operational efficiency by focusing on the core competencies. The core competencies are not to be outsourced, for example, the company can only outsource IT activities if they are not a part of core competencies. However, Mehta et al. (2006) cited that even in recent outsourcing strategies, the companies have outsourced their core business activities.

Outsourcing decision is variable to the type of the business entity and the structure of the corporate but the cost factor has been dominating and overall lower global cost advantages cannot be ignored (Kakumanu and Portanova, 2006). According to Narayanan (2009) there are four strategic reason to outsources respectively, improved cash flow, improved control of payment, scalable staffing and to improve overall business performance. The competition in the world of technology has risen and it is far too difficult for the companies to remain competitive when the competition has lower prices. Outsourcing decision is not solely to bring the cost down but the fundamental objective of the business is to gain and maintain competitive advantage. Low prices and high quality is the demand of the customers and today, customers have even more choices than in the past. Gupta (2009) presented a 24-knowledge factory concept that firms can take an advantage of the global talent by following the sun. For example he explains in the contact centre work done in different locations and the calls can be transferred to the centre operating at the particular time of the day.

According to Jiang and Qureshi (2006) companies going for an outsourcing decision also evaluate the cost factor and if the reduction of the present operating cost is achievable through outsourcing then the available resources can be reinvested to gain and maintain competitive advantage. However, Kremic et al. (2006) say that many of the firms today are deciding to outsource setting aside the cost factor to focus on core competencies. Despite the potential risks of outsourcing for example, security issues, cultural problems firms hope to benefit from the lower cost.

The importance of outsourcing can be understood by taking into consideration the example of Procter & Gamble (P&G), Pilot study case, when the company outsourced its Java Programming to Manila, Philippines, and Poland and saved about $ 28 million which is a significant amount in terms of cost saving and profit maximization (Corbett, 2004). The overall corporate strategy is to minimise operating costs but it is not necessarily a mean of gaining completive advantage because marginal cost might be higher than it used to be.

Theoretical Perspective on Outsourcing Trends

According to Manning et al. (2008) the next wave of outsourcing will be largely affected by low labour cost and global talent hunt in order to focus on the business core competencies. Companies can focus on core competencies by outsourcing non-core, non-strategic operations to an outside provider.

- Transaction -Cost View

This view supports the cost factors of outsourcing strategies in the organization. The services or production can only be outsourced if the strategy brings about cost benefits for the organization.

Cost reduction is the most important driver of outsourcing (Sparrow, 2005; Sahgal and Malhotra, 2005; Kremic et al., 2006; Kakabadse and Kakabadse, 2005, wang et al., 2008*;* Sharma and Loh, 2009; Herath and Kishore ,2009). Because the differences in wage level in different countries can leverage the over head cost of the company and the company can also benefit from the expertise available across the globe. For example, many of the US based companies have outsourced their IT operations to India to cut the cost.

- Competence - Based View

At the introductory stage of Business Process Outsourcing (BPO), the companies outsourced their non core business activities in order to focus on the business core competencies. According to Leavy (2004) focus strategy of outsourcing enables companies to concentrate on their core competencies and then the companies can outsource their non-core competencies. During the growth and development of BPO industry, businesses also started to outsource their human resource and finance functions apart from traditional contact centre outsourcing. The general tendency was to outsource only non-core business processes to an outside vendor but this phenomenon has been changed and now companies are also outsourcing their core business processes to gain and maintain competitive advantage Mehta et al. (2006).

- Relational View

The success of the outsourcing lies in happiness of both client-vendor relationships. The relationship and the terms of contract should be mutually understood and accepted by both client and vendor (Webb and Laborde, 2005). Both, client and vendor need to identify the areas of conflicts before a project and a contract can be documented and the relationship should be an enabler to achieve mutual benefits by creating a synergistic opportunity that can last longer (Friedman and Giber, 2007).

Despite the number of success stories of outsourcing, there are an astonishing number of contracts failed over the past few years. Mehta and Mehta (2010) describe that about 78% of the Client-Vendor (C-V) relationship reaches the point of failure in the long term leaving client to bear the cost.

Beugr´e and Acar (2008) describe that inter-organizational partnership is not solely risk free environment because of the difference in socio economic environment, geographic, cultural and moral values, ethical issues and government regulations. Mehta et al. (2006) believe that relational view of outsourcing is a source of creating value through partnership. According to Saxena and Bharadwaj (2009) the relational concept of outsourcing is significant for the competitive advantage because both, client and vendor share knowledge and expertise and make investment needed to robust the process for long term relationship. In the typical conceptual relational approach, client needs to cut the cost and maximise process efficiency as vendor claims to do so whereas vendor also seeks a business growth and long term strategic client retention for the profit maximization by creating a win-win situation (Saxena and Bharadwaj, 2009). In this approach, both (Cleint and Vendor) must be benefitted equally otherwise project will be a failure. According to Kakabadse and Kakabadse (2005) in future emphasise will be on creating and maintaining client and key trusted supplier relationship for the sustainable competitive advantage.

What to Outsource? Offshore Outsourcing: A Changing Scenario

Mehta et al. (2006) describe that firms usually outsource front-office processing middle office processing, and back-office processing. Jiang and Qureshi (2006) believe that in the competitive global economic, responses to the economic conditions in terms of outsourcing is an important strategy.

In outsourcing decision, the critical and focal point is what to outsource and the extent to which the outsourcing could be carried out in order to gain and maintain control over the vendor and business activities. Multinational companies are outsourcing contact centres, data entry, finance and accounting, human resource services and everything else that involves little attention and management involvement (www.unctad.org). Barthélemy (2003) mentions that the outsourcing decision can be made by taking into consideration the business core competencies and only the less important work is worth outsourcing to focus on the core business. The satisfaction of the customers is an ultimate outcome of outsourcing besides cost benefits. For instance, a company's strategy to outsource its supply and logistics to third party is subject to vendors abilities to deliver the products on time and safely. In case of failure to deliver the products and services on time, the company would lose customers and a bad word of mouth can spoil company's reputation. However, Wu and Park (2009) argue that core competencies, if they do not contribute the expected return on investment then can be outsourced.

Geographic Importance of Outsourcing

Any multinational company can start its operations worldwide by creating a single strategic unit or by outsourcing its certain business operations to outside service providers. The growing concern of geographies in terms of controlling and security issues has also been in debate among the business curricula and researchers and authors have frequently been looking at the mixed opinions about this issue. According to Bradbury (2005) on some offshore locations, cost has been rising and the differences of cost would be less significant in few year times because wages in developing countries would rise.

According to Tadelis (2007) the outsourcing decision is influenced by market conditions across the globe and geographic distances are common factors which can add up to the hidden cost of outsourcing to an offshore location whereas companies decide to outsource to bring the cost down. In case of US companies outsourcing to India for example, could have to bear travelling and other management costs.

Outsourcing: Controlling and Security Issues

According to Swatrz (2004) security and privacy risk is greater when off shoring takes place and companies send most sensitive customer information to the vendor. The supplier's inability to maintain confidentiality is a question mark for outsourcing particularly to an offshore destination. According to Sparrow (2005) outsourced projects pose a serious security threats especially in case of customers data protection and firms other confidential matters. For example Satyam accounting scandal in India left future investors scratching their heads for the time being (Reuters, 2009). In case of the UK Metropolitan Police, when it decided to outsource IT and communications systems, the contract was not awarded to any of the offshore service providers for security and system requirements reasons (Sparrow, 2005).

Cultural Problems

Some million dollars contract have been failed because of the cultural issues when the management deliberately kept quite on the ongoing problems or did not even dare to speak about the problems and the cultural differences between Asia and the West could bear severe consequences (Ramingwong and Sanjeev 2007).

Cultural differences have been heated debate in the business world; the literature is full of cross cultural management issues and strategic management decisions. Hofstede (1980) describes culture as collective programming of mind and he identifies five cultural dimensions which are highly welcomed in the business world. According to Sparrow (2005) people from different parts of the world come across to work together as a result of offshore outsourcing and bring valuable individual and cultural differences into management scenario. Language, social and cultural values, religion, beliefs, work ethics, social and political system are challengeable scenarios in offshore outsourcing strategies. Language skills, however, can be learnt and improved over the time but the context in which particular words and phrases are used may be misleading or accent can be misunderstood. According to Carmel and Tjia (2005) offshore outsourcing refers to working with perhaps an entirely different workforce with traditional cultural and moral values, the ways and means of communication and organizational structure based on typical cultural values which can possibly create a host of problems for the client as far as communication and controlling and monitoring is concerned. Cultural problems not only occur from the different nationalities but the company structure is also significant.

It as an Enabler of Outsourcing

Information Technology has enabled the companies to do business worldwide faster than ever. Companies have been outsourcing to cost effective benefits and also to reach global markets by hiring global talent pool (Ghodeswar and Vaidyanathan 2008). Overwhelming demand of global talent pool is an edge for global competition for the firms making timely decisions and IT is not a driver to offshore neither it will keep the companies onshore but merely an enabler of the strategy and process (Aird and Sappenfield, 2009). The truths of outsourcing, however, are for instance global talent, available services at lower cost, tax incentives and the company's strategy to focus on the core competencies of the business.

Dynamics of Outsourcing Trends

According to Thangavelu et al. (2008) from service industry to manufacturing offshore outsourcing is growing rapidly. Carmel and Agarwal (2002) describes four stages of outsourcing trends which are discussed below.

- Business Process Outsourcing (BPO)

"Business process outsourcing (BPO) refers to the delegation of one or more information technology enabled business processes to an external service provider" (Mani et al., 2010). On the other hand Information Technology Outsourcing (ITO), which usually takes place to cut IT cost down and firm's strategy to focus on strategic core competencies (Wang et al. 2008).

Despite the economic downturn which affected badly the world economy and especially the industrialised nations, the outsourcing is expected to grow. A positive growth can be observed throughout 2001-2009 as the revenue of $14.7 billion dollars has been recorded in 2009 against the fiscal year 2001 which generated $ 1.6 billion dollars of revenue and also during 2005-2006 only India exported services worth $6.3 billion (Niranjan, et al. 2007). According to Sia et al. (2008) in first half of 2007, despite the criticism, outsourcing has increased 6%.

- Knowledge Process Outsourcing (KPO)

"KPO involves high-end processes like valuation research, investment research, patent filing, legal and insurance claims processing, medical diagnostics, and clinical trials" (Sen and Shiel 2006). The importance of KPO is overwhelming in highly competitive environment and firms can seek the niche of services from outside providers to gain and maintain competitive advantage. Therefore, the vendor's capabilities to perform well in outsourcing deal should be dealt mindfully because vendor's inability to perform will affect client's performance to achieve competitive advantage (Shi, 2007).

Despite many advantages**,** intellectual property of the firm can be at vendor's disposal that can be a competitor in the industry in future or otherwise, it can be leaked to the competitors.

- Multi Sourcing

Multi-sourcing is relatively a recent trend to diversify risk and seek more potential benefits as a result of sourcing. A potential risk of losing a control over business in outsourcing contract can be minimised if not diminished in a successful multi-sourcing strategy. Usually, with one vendor, contract is lengthy and risky as well. For example failure or bankruptcy of vendor would put client at risk. The client firm can get rid of poorly performing vendor as a result of multi-sourcing strategy. Sharma and Loh (2009) say that the "multi sourcing" allows companies to benefit from a variety of suppliers, for example ABN Amro selected five vendors for its $2.24 billion service outsourcing contracts.

Outsourcing: Potential Risks and Pitfalls

Along with benefits of outsourcing, authors have also mentioned the potential risks which should be considered while outsourcing (Leavy, 2004; Aron et al., 2005 and Mehta et al., 2006) There are three main risks involved in outsourcing which are discussed below:

Operational Risks

According to Beasley et al. (2004) and Aron et al. (2005) operational risks are declining quality and increasing cost, selection of wrong vendor and inefficiently defined Information Technology needs for the projects.

Strategic Risks

Aron et al. (2005) describes strategic risks as vendor's deliberate actions towards client. Herath and Kishore (2009) noted that the threat of intellectual property theft in vendor's hands is a biggest risk because in future vendor may be in the same industry. There are also some long term risks for the companies for example, outsourcing might create a dearth of expertise required to perform the function in house in future (Aron et al., 2005).

Other Risks

Sparrow (2005) also identifies some potential risks such as difference between client-vendor culture, loss of privacy and control. Security and protection of the intellectual assets becomes harder when they are outsourced to another vendor (Kakumanu and Portanova, 2006). The cost of the contract can go higher if the terms and conditions of the contract are not very well defined and performance measurement is not established against some set standards

Whereas, Willcocks et al. (2004) believe that as a result of outsourcing, there is a risk of losing internal know-how of the business process. Ramingwong and Sajeev (2007) believe that cultural differences are potential risks in outsourcing for example Indian culture bears high power distance (Hofstede, 1980) as compared to its counterpart in America where PDI is lower. Mahmoodzadeh et al. (2009) argue that a lack of strategic plan and a poor contract are also a part of risks in outsourcing.

3. Analysis

Reasons for Outsourcing

A survey of the Earth Institute at Columbia conducted by Bajpai and Nirupam describes that about 70% firms outsource to cut cost (Smith, 2006). Other key drivers of offshore outsourcing include access to global talent pool, focus on core competencies and reaching the global markets, improving service quality, part of global expansion strategy, and to exploit specific advantage of the selected country (Ghodeswar &Vaidyanathan 2008; Sharma and Loh, 2009; Aird and Sappenfield 2009). According to Kumar and Eickhof (2006) outsourcing enables the financial metrics of the company for example Dell earned $28 with every one dollar of investment as it did not own any of the manufacturing plant.

Cost Reduction and Economies of Scale

According to Kakabadse and kakabadse (2005) economies of scale and cost reduction are among the most cited reasons to outsource. They also agree that short term cost saving is the prime motive of most of the western companies particularly to save IT-cost. There are number of other drivers/motivators described by researchers but to achieve operational cost efficiency is the most considered factor so far.

As far as commercial driven outsourcing is concerned, the key driver is employees related cost and the banking industry of US has saved $8 Billion since 2003 (Pai and Basu, 2007). The number of fortune 500 have outsourced to Indian service providers for instance, Infosys, Wipro, Tata Consultancy Services and many others.

A large number of American companies have already outsourced to India especially Information System Outsourcing (ISO) to keep the maintenance and development cost down. According to Anonymous (2009) 79% of the companies have benefitted from the lower cost by outsourcing to an offshore destination.

Technology Advancements

Sahgal and Malhotra (2005) argue that the globalization and technology advancements created a global workforce, with a blend of different cultures and nationalities working for the common objective across the globe. However, according to Leavy (2004) controlling of the outsourced BPO will be central to the organization and risks posed by vendors must be taken into consideration for the success of the projects. Outsourcing now days has been done in almost every sector. From government departments to NGO,s Banks and other Financial Institution, and health care sector.

According to Sparrow (2005) advancement in technology and also rapidly changing business scenarios necessitates firms to adopt new technology without falling behind in competition and it is good to understand the new systems and technologies provided by vendors which later can be in-house after the IT department has developed the required level of skills and expertise.

Focus on Core Competencies

The recent trend or multinationals strategy to outsource non-core business is motivated by the competence based view (Kakabadse and Kakabadse 2005; Sparrow 2005; Mehta et al. 2006; Sangeeta and Bharadwaj 2009; Mahmoodzadeh et al. 2009; Choudhuri et al. 2009, and Wu &Park 2009). The driving forces of outsourcing or offshore outsourcing are most primarily lower labour cost and also firm's motives to focus on core business competences Core competences are however, not easy to identify and certainly poorly defined business to outsource would have an adverse impact on the firms overall performance. According to Windrum et al. (2009) Dell and Tesco, successfully indentified core competences , for example Dell identified (R&D as core competence) and Tesco (Online Shopping as core competence), whereas Dell outsourced buying process of customer, and Tesco outsourced online banking. The research also indicates that poorly defined core competences have been re-in sourced when realised at later stages, for example J.S. Sainsbury, JP Morgan, Cable and Wireless brought the outsourced functions back in-house (Windrum et al., 2009).

A recent trend in outsourcing is to outsource the non-core businesses and emphasise on the core competences (Mehta et al., 2006). However, John (2006) argues that core competencies of the firm cannot be static over a certain period and even in the toughest times, when the economic downturn hits business world, the core competences can create a problem for the firms. In case of pharmaceutical industry, where life saving drugs can be standardised and price standardisation is possible to a certain degree (Kotler & Keller, 2012), is now facing a pricing challenge and the companies are making some outsourcing arrangements. For example Lustgarten and Cherry (2008) describe that 40 % of the clinical drug trials have been outsourced to countries like Russia and other developing nations in 2005 as compared to only 10% of such outsourcing in 1999.

Access to Global Talent

Ghodeswar and Vaidyanathan (2008) argue that "Global Talent" motivates firms to gain and maintain competitive advantage and offshore talent is cost effective as well. Sharma and Loh (2009) also agree that firms aggressively seek global talent for example AOL employed top university graduates in its contact centre based in Bangalore India. Further Sharma and Loh (2009) add that hiring in offshore companies even more selective and these for example Infosys received 1.3 million applications and the company hired 36,700 from such a massive number of applicants. Both India and China have been attractive destination for multinational companies as far as outsourcing is concerned. According to Rao and Varghese (2009) there are 22 million graduates available in India for both public and private companies including 1.2 million engineering graduates, 600,000 doctors and number of graduates produced in India are about 200,000 every year.

Advantages and Disadvantages of Outsourcing

According to Simon et al. (2009) about 65% American companies have outsourced their Information Technologies (IT) operation to an offshore location, not only to benefit from the low cost but also reaching the global talent. There are number of advantages of offshore outsourcing along with potential risks and disadvantages. Below the summaries of both advantages and disadvantages are presented in tabular form with cited references.

Table. 4.6 (a) Advantages

Advantages	References
Cost reduction	Hirschheim (2009), Manning et al. (2008), Shao and David. (2007), Dunn et al.(2009), Sen & Shiel(2006), Sharma and Loh, (2009), Sparrow (2005) , Herath and Kishore (2009), UNCTAD (2005)
Focus on Core Competences	Dunn *et al (* 2007), Mehta et al. (2006), Wu and Park (2009) Kim and Won (2007), Mehta et al. (2006), Logan et al. (2004), Kremic et al. (2006), Chongvilaivan (2009)
Focus on customer relationship	Owens (2010)
Economies of Scale	Dunn et al. (2009)
Quality Improvement	Shao and David (2007)
Increase in Operating Cash Flow	Dunn et al. (2007), Narayanan (2009)
Proximity to Markets	Aird and Sappenfield (2009)
Bringing value to the end customer	Kumar et al. (2005)
Advantage of the Global Sources	Sharma and Loh (2009)
Access to new Technology	Herath and Kishore (2009)
Access to global talent	Ghodeswar & Vaidyanathan (2008) and Simon et al. (2009)

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Table. 4.6 (b) Disadvantages

Disadvantages/Risks	References
Social cost in terms of job losses	Aron et al. (2005) Dunn et al. (2009)
Increased monitoring cost	Shy and Stenbacka, (2005)
Loss of loyal employees	Shi (2007)
Transferring the required knowledge to the vendor (Loss of core knowledge)	Shi (2007), Kremic et al. (2006) , Sheehan, (2002)
Loss of Control and Security issues	Wu and Park (2009), Kim and Won (2007), Hahn et al. (2009), Kakumanu and Portanova (2006)
Increased Lead Time in supply chain	Wu and Park (2009)
Possible creation of competitors	Ang and Inkpen (2008)
Lower quality in manufacturing	Gray et al. (2009)
Cultural issues (Mismatch between cultural values and norms)	Ringel (2009) and Simon et al. (2009)

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4.7. Critical Success Factors of Offshore Outsourcing

According to Venables (2006) there are number of blue chip manufacturing contracts have been failed because of the mismatch between the expectations of the client and vendors capabilities. Low cost locations are attractive for offshore outsourcing but often risk mitigation is misunderstood (Bloch and Janes, 2005). Therefore a manager's skill is inevitably important for the success of outsourcing to mitigate the risks and creating a strategic fit between organizational requirements although offshore outsourcing decisions are made by CEOs (Clott, 2007).

Offshore projects are more likely to fail because of miscommunications, less users' involvement and lack of understanding of the business environment by the offshore team (Iacovou and Nakatsu 2008). For many firms, Globalization has created an immense challenge scenario by competing not only the local firms but also firms from the emerging economies. The management gurus and business pundits always trail the best business practices to minimise the cost and increase profitability by staying in competition.

Outsourcing is becoming a strategic choice for the companies. From Business Process Outsourcing, now companies are moving towards even more complex tasks which require a certain degree of expertise to perform business operations. Low wage destinations are still having attractiveness as far as outsourcing is concerned. However, the success of BPO depends upon the degree of integration between outsourced process and in-house processes (Feuerlicht, and Vorisek, 2003). Literature also describes that vendor selection, identifying strengths and weaknesses of vendors' cultural intelligence, identification of key issues in project implementation, addressing legal issues and managing the client-vendor relationship are some of the leading success factors in off shoring.

Outsourcing: Who's Benefit?

"Even the harshest critics of outsourcing agree that it can benefit the firm itself; after all, the firm wouldn't choose buying over making unless it saved money" (Taylor, 2005). The first and fundamental objective was and will be the cost reductions in many organizations. According to Dunn et al. (2009) number of firms has been investigated with a positive operating cash flow after outsourcing which is increasingly associated with the firms outsourcing arrangements with an outside service provider on offshore location. Narayanan (2009) also believes that outsourcing can increase and improve cash flow for the companies. To keep a regular contact with the customers as far as account receivables is concerned, is an important issue. If the company keeps the function in house then it cannot benefit from the lower labour cost or even if the company keeps the function in house then it has to make sure that substantial number staff should be available as per time to make a regular contact with customers. Narayanan (2009) believes that outsourcing of such functions can enable the companies to increase the debt collection ratios and also a frequent communication with existing customer bank of the company may well strengthen the customer relationship.

According to the Chairman of Wipro Mr. Permji, outsourcing is an ultimate source for the American companies to cut the cost by utilising the global talent extensively available at relatively lower price than in the America. However Salonek (2007) argues that low labour cost is not necessarily a key benefit for the client but a balance must be made between the potential risk of project failure, time taken and dissatisfaction of the end users.
According to Farrell (2005) as a result of offshore outsourcing both U.S. and German companies are benefitting from low cost destinations such as India. Farrell (2005) also believes that US is benefiting from offshore outsourcing because many of the outsourcing companies are wholly or partially owned by the US and the job losses accounts only 1 percent from offshore outsourcing.

- Offshore Outsourcing: Winners and Losers

Despite the number of success stories of outsourcing, there are an astonishing number of contracts failed over the past few years. Mehta and Mehta (2010) describe that about 78% of the Client-Vendor (C-V) relationship reaches the point of failure in the long term leaving client to bear the cost. However, Whalen (2005) finds out that the winners and losers of off shoring certainly exist and the prime winners are stockholders and consumers while the workers who see their jobs going overseas are among the losers. Later Harrison & McMillan (2006) also describe owners of the firms as the prime winners of the outsourcing outcomes and employees losing their jobs are the losers. Over and above shareholders are also among the winners and losers. If the company generates positive returns then shareholders will benefit from increased dividends and a negative return simply means that they are the losers.

- Both Client and Vendor as Winners

According to Webb and Laborde (2005) the relationship approach of outsourcing can create success for both client and vendor , however the value proposition as mentioned by Saxena and Bharadwaj (2009) may lead to a win-win situation where both client and vendor wants the value of services to the customer satisfaction and vendor sees the contribution of such values in its own business.

On the other hand, Outsourcing of Information Technology Services (ITS) will bring benefits for the client to improve business competiveness however; this may not be a long term strategic benefit which can add value to the client firm (Chadee and Raman, 2009). Client is the winner when it can benefit from the lower prices, customer satisfaction and competitive advantage. However, vendor is the winner when it can possibly renew the contract before the end date and saves time and money in terms of Request for Proposal (RFP).

Who wins-who loses, is a critical question but driving mutual benefits out of an offshore outsourcing contract largely depends on vendor strengths and weaknesses, especially in developing countries. In terms of job losses, according to a report from UNCTAD (2005) outsourcing to an offshore destination affects a tiny portion of the jobs and it creates more jobs in the developed economy. According to Agrawal & Farrell (2003) India has earned about 33 % of the profit as a result of outsourcing, and moreover offshore outsourcing also created more jobs than it has eradicated as a result U.S. companies saved 58 cents for every one dollar in terms of wages after implementing offshore outsourcing. Therefore, it can be said that India enjoys an increase in profit, an increase employment whereas US companies benefit from the lower labour cost and the customer pay less for the similar products and services. According to Thibodeau (2008) many of the companies would be saving about $30 million in future as a result of offshore outsourcing and despite the growth, the overall economy recorded a net gain of IT jobs.

Over the past few years, cost was a major driver of outsourcing (Aird and Sappenfield, 2009; and UNCTAD , 2005) it has been notified that 70% to 80 % firms went offshore because of the low cost and among them saved 20% to 40% of the operating cost. Therefore, in international business context and also bearing into mind the economic theories of the business, cost savings brings the advantages for the client firm in the home country and the potential side for the vendor (host) country, there will be rise in exports, jobs and economic activities adding up to the overall GDP of the country. According to Ma (2006) profit motives multinational companies strategically decide to keep the operation in-house or to gain an advantage of available outside facilities through offshore outsourcing and many firms in the clothing industries are benefiting from the direct lower labour cost on offshore locations

Despite the number of complexities involved in contract outsourcing and possible threats e.g. losing a control risk (Jiang and Qureshi, 2006) or poor service quality (Sen and Shiel , 2006) firms do outsource. At one hand, the client firm can be a loser if the dependency on vendor increases by putting vendor into a better position as far as price negation of the services is concerned. On the other hand client firm will also be a loser if vendor fails to provide negotiated and expected services.

- Customers between Winners and Losers

According to Sharma et al. (2009) poor service quality from offshore call centre is primary concern and some 82% of the UK customers even don't like to speak to someone in an offshore contact centre. Customer are among the winners and losers, if the cost reduction brings the lower prices with quality standards then customers are winners but if the lower prices mean lower quality then they are the losers. Moreover, if their sensitive information has been transferred to such countries where data protection laws are not satisfactory then customers at risk.

- Client as a Loser

Kirkegaard (2005) describes clients as losers in simple terms such as 'in case of a project failure, client firm has to lose money, tacit knowledge, competitive advantage, and long term profitability'. Later Cha et al., (2008) believe that a sharp increase in cost will occur on clients account due to failed outsourced projects and even back-shoring will add cost burdens as compared to cost reduction resulted from previous off shoring. Thus, it can be deduced that failure in offshore contract is a potential risk of an increase in client's cost, however, if the project cost increases due to delays and other issues from vendors side and the long term cost benefits are eliminated then back-shoring decision will be a rational decision.

Vendor as a Loser

In case of project failure due to vendor's inability to deliver the negotiated services then client may withdraw contract leaving vendor to bear the cost.

For example, BskyB and EDS had £48 million outsourcing contract for customer services but EDS failed to provide the satisfactory services and BskyB filed a law suit against EDS claiming £200 million in compensation (Overby, 2010). Under such circumstances, when court rules out to compensate the client, the ultimate outcome for the vendor will be a loss of money and a good name in the industry. This would affect in future contracts as well.

4. Future Direction of Outsourcing

According to Sharma and Loh (2009) in 2009, the growth in business services outsourcing has been remarkable contributing US $ 172 billion and of those services, a quarter have been off shored. In future, it will be a positive growth and some researchers believe that India might lose its global status of IT services. As the cost reduction will be important driver, new destinations will emerge. For example, Overby (2009) identifies Mexico, Egypt, Romania, Bulgaria, Poland, Slovakia, Czech Republic, Belarus, Morocco, Tunisia, Costa Rica, Venezuela, Vietnam, and the Philippines as “Don’t Miss” destinations.

High Competition

Gal (2009) argues that multinational companies are seeking global delivery models and competition is not only between companies but also between territories will certainly rise. According to Sharma and Loh (2009) the European companies are taking part in offshore outsourcing to compete with the UK and US companies, these include companies from France, Germany, Spain, and other continents such as Australia , Canada and Japan. According to Nasscom and McKinsey report (2005), cited in Sharma and Loh (2009) India will have 2.3 million workers in outsourcing industry by 2010. According to Dossani and Kenney (2009) Indian service providers have recorded profit maximization, for example TCS, recorded 42% growth in net profit. Further they add that employment increased between 2000 and 2007, TCS had 17,000 employees in 2000 and it reached 100,000 in 2007, while both Wipro and Infosys had 10,000 each which increased to 75,000 in 81,000 in 2007 respectively.
BPO industry has become even more competitive than in the past. In case of Indian BPO industry, the vendors of outsourcing services are now expanding their wings to cover Knowledge Process Outsourcing (KPO) as it will be a profitable sector.

According to MarketWatch (2008) the growth in KPO, by 2010 is expected to rise from $ 1.2 billion in 2003 to $ 14-16 billion and Indian service providers would probably capture 65-70% of the market. From the call centre outsourcing, the shift towards the business activities like financial services, management services, Research and Development (R&D), analysis of the medical reports and other market analysis are picking up a pace. The literature describes that the BPO growth was due to low labour cost and extensively available service providers in the offshore locations but the growth of the KPO will be considered on the bases of expertise in high tech industry, geographic positioning and market related issues.

The trend in the industry shows that vendors would reach the client on onshore to save client’s hidden costs, whereas client would strengthen the relationship with vendor for long term profit maximization and a focus strategy on the core competencies. Wipro, an Indian based BPO firm has opened a new centre in Australia by end of March, 2010, employing 130 people and it has also been predicted that India’s IT Business Process Outsourcing will reach $ 285 billion by 2020(investing.businessweek.com).

However, in future, there will be a high competition on the prices. Until recent, some contact centre work has already been taken away to Philippine, Vietnam and Malaysia from India (Singh, 2010).

Building Relationships

Jiang and Qureshi (2006) identify that until recent, firms outsourced to cut the operating cost, however, Kakabadse and kakabadse (2005) believe that firms decide to outsource their non-core businesses to an outside service provider primarily an objective to focus on core competencies and also to benefitting low cost offshore locations. Choudhuri et al. (2009) believe that, in future, focus will shift from cost-cutting to value added services particularly in Information Communication Technology (ICT), outsourcing. The focus of future contracts will definitely on value addition, not only the cost factors.

International Association of Outsourcing Professionals (IAOP, 2009) discusses that undoubtedly, in coming years companies will also be focussing on saving some money but they would enhance and strengthen relationship with the vendor.

More Offshore Outsourcing

Outsourcing will be on the rise in future, as said by the Chairman of IAOP Michael Corbett (2009) *"As companies recover from these tough economic times, outsourcing will enable them to emerge as leaders in the new global economy."*

This implies that outsourcing in future will be on the rise because of the competition and consumers are demanding low price products. In manufacturing industry, the future of outsourcing seems bright. According to Owens (2010) the outsourcing allows manufacturer to focus on the core competencies and in case if the demand shrinks, then the firm doesn't have to do more layoffs to keep a balance.

Over and above, if the economy robust in the industrialised nations such as US and Western countries, a possible skill shortage will encourage outsourcing. Gordon (2009) believes that between 2010 and 2020 about 12 to 24 million skilled jobs will be vacant due to skill shortage. This implies a positive growth in outsourcing industry mainly to offshore location such as India where 200,000 graduates are produced every year (Rao and Varghese, 2009), China, Russia and other emerging players in the outsourcing industry.

In 2008, 50% of the US companies adopted offshore outsourcing as compared to only 22% in 2005 and 60 % among them are saying to go offshore aggressively in future (Duke University Report, 2009). The report also describes that skill shortage in the domestic markets and widely available talent across the globe will be the key drivers of offshore outsourcing in future. This implies that, there will be another wave of outsourcing and core business competences might be outsourced to any locations in the world.

According to Choudhuri et al. (2009), future is going to be very competitive. However there are number of opportunities in Knowledge Process Outsourcing (KPO), on the way for instance, Finance, Health care, pharmaceutical, and research and development (Sen and Sheil, 2006). Therefore, number of outsourcing service providers across the globe are offering services in KPO which is picking up a pace. According to Cetron & Davies (2010) outsourcing will be on the rise in future due to cost pressure on the companies, however this may well be continued till a balance between the wage levels of both client-vendor locations.

Near Shore Outsourcing

In future, there is also an emerging trend of near-shore outsourcing. Eastern European Countries for example Hungary, Romania, Poland will be attractive destinations for the Western Europe. According to Gál (2009) Central and Eastern Europe has advantages over India, for example, geographic location, cultural similarities, education and well established infrastructure. However as compared to India, number of talented graduates available in Central Europe is less and they are inexperienced. According to Simon et al. (2009) 70% of the global offshore outsourcing has US contribution and US multinationals are about 80% of Indian service provider's clientele.

Apart from the operating cost factor of outsourcing, companies will potentially like to reduce the hidden cost (Travelling, Controlling) and other offshore outsourcing issues in future. According to Halim (2009) the strategic choice of near-shore outsourcing in terms of manufacturing industry is important for supply chain. He discusses that proximity of the supplier will reduce the shipping cost and lead time, however considering near-shore or offshore depends upon certain other factors such as, government support i.e. tax incentives, infrastructure (roads and communication), cultural similarities and differences, time zone and potential labour skills.

5. Discussion

Ever since the technology enabled the companies to outsource work which involves a computer and software, number of companies jumped into the competition as far as outsourcing to an offshore location is concerned with a prime motive to cut cost. Carmel and Agarwal (2002) considers this a bandwagon effect as well like everyone is doing it. One of the general myths about outsourcing is to pay low wages in low cost destination which is of course not true. The wage rates of offshore IT professionals are higher than their own country.

Between 2005 and 2008, the number of US companies outsourced their business processes was doubled (Duke University Report, 2009). The report also suggests that 60 percent of the companies are willing to expand their current outsourcing activities in future. The key findings of the report also identify that the smaller companies are adept to looking at outside service providers, and they prefer a specialized sects of the vendors. However, the project cost overrun is one of the most important factors of project failure and it has also been notified that outsourcing core competences would leave the firms in vendors' hands which can be a potential threat in future (Shi, 2007)

Over the past 5 years, the trend is seemingly diverse in nature and most of the companies are benefiting from the low labour cost. Numbers of small companies are approaching outside service providers in the call centres and other financial services because they cannot afford to perform such functions at home. According to Sharma and Loh (2009) about 40% of the venture capitalist micro-multinational companies have been benefitting from the service providers abroad. This implies that outsourcing for the smaller firms is an opportunity to save infrastructure development cost at the initial level and the human capital, knowledge and expertise required.

According to Mahmoodzadeh et al. (2009) the technological arena compelled organizations to focus on such business processes which can be performed better in-house and the functions other than that can be outsourced to the eligible vendors. The firms have an increased pressure in the high competitive environment to keep the cost down. When the global economy and especially industrialised economy took a nosedive and the CEOs of the fortune firms became increasingly anxious to survive and thrive through the severe economic problems. Despite the fact that the transaction cost view of outsourcing has been criticised (Mehta et al., 2006) in the economic downturn, cost factor is considerable.

According to Narayanan (2009), the strategic reasoning of outsourcing also includes the scalable staffing because when the economy is not performing well, the demand of the products and services may well be below the breakeven, then companies must decide to make a strategic choice to keep themselves in the business. However, the critics of the outsourcing (Hirschheim, 2009) believe that job cuts in the organization may create a skill shortage in future when economy will be robust and even more critically, they argue on the "what if" scenario of the success factors of an outsourcing contract. If the vendor fails to provide the negotiated services at the projected price then the company might bear an overwhelming increment in the cost to bring the operation back in-house (Cha et al., 2008). It can also be strategic disadvantage for the company if the previously employed workers have been employed by the competitors or vice versa. The potential risk of the loss of knowledge and expertise, especially tacit knowledge cannot be ignored in the firm's longer perspective. Undoubtedly, outsourcing have had a emerged as a most cited industry trends in global economy and economic benefits but number of companies are also regretting on losing the control on quality of the goods and services, efficiency and price (Wentworth, 2003)

Cost saving was the primary motive of the early off shoring growth in outsourcing industry. However, despite this astonishing amount of cost savings, not all of the multinational companies are considering the cost saving strategy as a golden opportunity to outsource. Sharma and Loh (2009) also investigated that firms outsourced for the performance improvement motives saved 3.5 times more than those of cost saving motives only.

In case of manufacturing industry, it has been identified that outsourcing of manufacturing support activities has hardly any positive effect on the performance but it has been learnt that total lead time increases in certain cases because of the complexities of outsourcing deal and supply chain management (Bengtsson and Dabhilkar, 2009). Bandwagon effect is also significant when companies took part in the outsourcing race to cut the cost and create value. The effects of IT outsourcing on client firms have been only discussed in terms of expected benefits and potential risks and pitfalls, however the performance of the organization may also be affected by the outsourcing decision of such services. According to (Wang et al., 2008) 145 UK and US based companies have been surveyed and of which 56 percent did not see any benefits in terms of cost reduction and 23 percent were able to take cost benefits into account, however, 16 percent could not identify any effects. Therefore' firms should not neglect the importance of in-house IT competences and they must create a balance between what has been outsourced and what is left in-house in order to fully benefit from the outsourcing decision. In the case of UK based companies, 60% of FTSE 350 companies pulled out of the outsourcing contract or they re-negotiated before it reached to an end and among these, 50% identified that the quality of service was poor and two fifth said, vendor's inability to meet cost savings agreements were the reason to come back in-house (unison.co.uk).

In 2004, JP Morgan cancelled a $5 billion outsourcing contract with IBM and the company decided to re-hire the employees who were employed by IBM as a contract deal (Cowley, 2004). In this case it can be analysed that when companies have potential to perform then they can bring the operations back in-house. After the merger with Bank One Corp, JP Morgan brought all IT support activities back in-house. Being a big company, the management saw a potential to perform in-house for competitive advantage**.**

6. Limitations and Future Studies

As all research works have some limitations, likewise, this research is also not without limitations. One of the major limitations of this research is that it is based on secondary data. Theoretical discussion and present researcher focussed on reasons to outsource, winners and losers and growth in future. Until recent many companies outsourced to cut cost. However, the future research can be carried out on the political issues of outsourcing and government regulations to discourage offshore outsourcing. What will be the consequences for low wage countries if the client's government regulates not to go offshore? And also it will be worth conducting the research on influence of clients marketing strategies on vendors business. Security concerns in outsourcing and off shoring services is another interesting area which need to be explored more. Along with other major issues tax and auditing of outsourced and offshore services and manufacturing

Conclusions

Outsourcing has become inevitable and virtually many of the multinationals are outsourcing to utilise scarce in-house resources (Pai and Basu, 2007). In this project, a secondary research method approach has been adopted to answer the key areas of the outsourcing industry, for example, outsourcing trends over the past ten years, who wins and who loses and emerging future direction of outsourcing.

"Outsourcing, traditionally known as "make-or-buy" decision, is the act of contracting

internal business activities to outside (either domestic or offshore) suppliers" (Wu and Park, 2009, p225). Outsourcing decision of the firms is influenced by the cost reduction motives at most and number of MNCs outsourced their business processes to an offshore location to achieve operational efficiency (Kakabadse and Kakabadse 2005). There can be as many reasons as the number of companies exists however, In this project it has been observed that companies are also outsourcing despite the cost factor in recent years but still research indicates that the cost will be an important factor to influence outsourcing decision especially in high competitive environment when consumers will demand low prices and high quality. Among other key reasons of outsourcing are, accesses to global markets, access to global talent, and focus on core competences. Three views on theoretical perspective of outsourcing have been discussed which are cost based view, competence based view and relational view. The most recent trend in such perspectives is to build up relationship with an outside provider and share the risk and take necessary steps to invest for further development (Mehta et al., 2006).

However, outsourcing decision is not easy to take because the key question is what to outsource? The firms need to identify core competences before outsourcing them, according to competence based view, but firms also outsource their core competences now a days.

In future, companies will continue to outsource to an offshore location. Despite the number of advantages of outsourcing, there are also some key risk are associated with offshore outsourcing. For example Simon et al. (2009) identify security and controlling issues, Sparrow (2005) argues on hidden cost and loss of knowledge and expertise and more importantly Krishna et al. (2004) argue on cultural problems in offshore contracts.

The literature describes that outsourcing both in manufacturing and service industries have been adopted largely by industrialised nations. Now, Business Process Outsourcing (BPO) is moving towards Knowledge Process Outsourcing (KPO) which is even complex and needs a certain degree of expertise to perform expected services from the clients. Kim and Won (2007) believe that BPO enables multinationals to focus on core competences by outsourcing the repetitive business processes, however, Windrum et al. (2009) argue that not every company defines core competences successfully. Some argue that outsourcing does create winners and losers while some researchers see outsourcing as a win-win situation.

However, winners and losers of such contracts are not easy to define, Gupta (2009) describes mutual benefits of outsourcing whereas Harrison & McMillan (2006) categorise owners of the companies are prime winners and the employees who see their jobs going overseas are among the prime losers.

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