

THE BENEFITS AND DRAWBACKS OF OUTSOURCING IN THE GLOBAL ECONOMY

CS Ruchitra Kaparan,

Asst. Professor, Department of Commerce, Graphic Era Hill University,
Dehradun Uttarakhand India

ABSTRACT

The study analyzes the pros and cons of outsourcing in the international business world. Many companies now use outsourcing as a strategy for cutting costs, boosting productivity, and gaining access to niche skillsets. Quality assurance, management oversight, reliance, local employment, and geopolitical and regulatory threats are some of the difficulties that may arise. This paper's goal is to give a thorough comprehension of the effects of outsourcing on firms and the global economy by investigating these aspects. Offshoring is another name for outsourcing. Many Thai businesses may benefit from this strategy. However, they are also benefits of outsourcing. The purpose of this study was to examine the positive and negative effects that encouraging outsourcing would have on the economic and commercial activity in Thailand. This research used a sampling approach to choose 20 businesses in Thailand, all of which were small or medium-sized businesses, and all of which were well-known for their use of outsourcing. In a general equilibrium model of outsourcing and trade, we investigate the factors that determine where work is subcontracted to be done.

KEYWORDS Outsourcing, Global economy, Trade, Advantage

INTRODUCTION

In business, "outsourcing" is contracting out work to a third party, which may be another company or an individual, and can be situated anywhere in the world. Outsourcing entails engaging a third-party service provider, either temporarily or permanently, to carry out the outsourced tasks. The idea of outsourcing developed as a way for firms to take use of other organizations' knowledge, tools, and savings to save costs, improve productivity, and concentrate on their core strengths. IT services, customer support, manufacturing, HR, accounting, and many more business processes are just some of the many that are amenable to outsourcing.

As a result of the intense competition in today's market, many businesses have turned to outsourcing in order to save money while still producing a high-quality, marketable end product. Both parties benefit greatly from the current arrangement since they can focus on strengthening their respective areas of expertise and exploring new avenues for growth. Costs associated with making the final product are greatly reduced as a result of each component doing what it does best with little input from the rest of the team and no need to train for new sorts of work.

BENEFITS OF OUTSOURCING IN THE GLOBAL ECONOMY:

1. One of the main motivating factors for outsourcing is the possibility of financial savings. Businesses sometimes outsource to nations with cheaper labor expenses in order to hire talented workers for much less money than they would be able to find in their own country. Wage, infrastructure, and overhead expenditures may all see substantial savings as a result of this.
2. Second, outsourcing improves productivity and concentration by releasing in-house resources from tasks that aren't important to the business. Companies may improve their operational efficiency and devote more time and resources to strategic activities that directly contribute to their competitive advantage by outsourcing non-core functions such as customer support, IT services, or manufacturing.
3. The third benefit of outsourcing is that it allows you to have access to specific expertise that may not be readily accessible in-house. Companies may increase the quality of their goods and services by forming partnerships with external service providers, giving them access to a larger pool of qualified workers from all over the world.
4. Outsourcing gives companies more leeway and scalability, which is a major benefit. They may easily adjust production levels to meet fluctuating market needs without incurring substantial outlays of capital. This flexibility may be especially useful for young companies and established small firms seeking to grow without spending much on new facilities or additional staff.

LITERATURE REVIEW

Nidhida Lin (2020) Research driven primarily by the transaction cost economics and resource based view has cautioned about the negative effects of global sourcing (e.g., hidden costs, hollowing out effect) which might offset its potential gain, leading to a failure to achieve expected outcome and capture the value created in global sourcing activities. We contend that the main cause of this problem is the gap between a company's global sourcing strategy and the value that it really receives from its global sourcing efforts. This research looks at how the approach used to global sourcing affects the bottom line and new product development outcomes. We conduct a fuzzy set qualitative comparative analysis on 235 companies that outsource business services globally in order to determine the configurations of global sourcing strategy (relating to (1) disaggregation, (2) the distribution of activities, and (3) the governance structure) that result in strong financial and innovative performance. Based on the data, it seems that the global sourcing strategy that results in strong financial success and the global sourcing strategy that results in strong innovation are quite different. Most studies only look at one or two aspects of global sourcing, but we show that it's important for companies to think about the whole picture when developing their strategy. This includes things like how dispersed their business services are, how centralized their governance is, and how much disaggregation there is in the process.

Rima Zitkiene et.al (2018) As a management phenomena, outsourcing is gaining traction and interest from academics and business owners alike. While outsourcing is becoming more common among businesses, the reasons that drive its adoption among service providers have gotten less attention in the academic literature. The goal of this article is to examine the factors that are driving the trend of outsourcing in the service sector in more detail. To have a firm grasp on the problems at hand and to zero in on the most important aspects influencing outsourcing's utilization in the service sector, we combed through the relevant literature in the subject. An examination of the literature reveals that both external and internal variables influence the diffusion of outsourcing. Strategic and economic considerations are the primary internal variables influencing the expansion of service businesses' usage of outsourcing.

ABIDEMI AKINYEMI (2016)In addition to concerns that rising imports of services may reduce employment and salaries, the topic of outsourcing services from the United States to developing countries like India has been widely discussed in the media and amongst Americans this year. Using a production equilibrium model, this article calculates the extent to which India's booming services exports have cut the country's unemployment rate and made India a more prosperous nation. From what we can see, exporting these service sectors has helped boost India's GDP and reduced unemployment. As an alternative to focusing on India, this econometric study looked at the American manufacturing sector using a fixed effect panel dataset covering the years 2006 through 2013. In contrast to popular belief, the research concluded that the need for skilled employees in the United States is not affected by the influx of imported services or the outsourcing of commercial operations to other countries. Results from a regression study comparing the economies of India and the United States indicate that outsourcing is beneficial to both nations in the long and short terms.

Ahmed O. Al-Mutairi,(2015)Benefits and drawbacks of outsourcing are presented and discussed in this study to help readers have a better grasp on the topic. The importance of specialist maintenance outsourcing to modern businesses is highlighted. The purpose of this study was to test the premise that outsourcing maintenance in manufacturing organizations had more positive outcomes than negative ones. The survey's overall results disproved the hypothesis that there are more benefits to outsourcing than drawbacks in the manufacturing sector. Jubail, the biggest industrial city in the Middle East, is a key contributor to the Kingdom's economy because of the manufacturing sector. In addition, the biggest petrochemical corporation in the Middle East and the fourth largest in the world are headquartered here. The study's findings show that outsourcing maintenance has been an important support system for Jubail's industrial sector. The study's findings have facilitated educated decision making among all parties involved in outsourcing maintenance. If there is a possibility of benefit for the organization, managers should think about outsourcing maintenance. It is suggested that the government create categories for contractor qualifications based on predetermined parameters. There has to be more research done in academia and forward-thinking forums on the topic of outsourcing maintenance. The author has created a statistical poll, and the respondents are high-ranking executives, engineers, and technicians from illustrious Jubail-based manufacturers. It is encouraging to hear that most manufacturers outsource maintenance, and that most of those who do so also suggest doing so.

Eighty percent of those polled in Jubail Industrial City said they would advocate outsourcing to others in the manufacturing industry. The author also encouraged more research on the connections between outsourcing and upkeep.

Dr. Ahsan Habib (2011) In the business world, outsourcing is not a novel idea. This has been happening since the early 1900s. By focusing on what you do best and outsourcing the rest, you can increase your market share, productivity, and profits. When business processes are unified across national and cultural boundaries, we speak of globalization. The term "globalization" refers to the practice of conducting business with a global perspective, as opposed to the more traditional approach of approaching foreign markets from the perspective of the home country. In general, globalization entails a shift from the local to the international level, as well as a combination of international, offshore, and global activities. (Cable, 1999). Thus, developed nations like the United States outsource a great deal of white-collar and blue-collar work to developing nations in the hope of increasing their profit and market share. From financial gains and intellectual property rights to political stability and the allocation of resources at lower costs, this report examines the many factors that have led General Electric to outsource during the recession.

METHODS

To learn the benefits. As a means of gaining deeper understanding, the qualitative research method was used to probe the perspectives of company executives and directors. The study set intended to discover the most significant gains that may be made by encouraging outsourcing across a wide range of Thai businesses. Twenty managers and directors from a range of Thailand's small and medium-sized businesses (SMEs) known to have used an outsourcing system for at least five years were chosen as the study's samples utilizing a systematic, statistically valid, and non-representative stratified random selection approach.

DATA ANALYSIS

Table 1

Advantages	Percentage
1. Expertise and fast delivery	89
2. Concentrating on core process production	82
3. Risk-sharing	91
4. Cost Reduction- operating cost, and recruitment cost	90

Table 1 shows that the most cited benefits of outsourcing are the ability to share risks with a third party, followed by the opportunity to save money in other areas (such as on overhead and employee salaries), get access to specialized services and faster turnaround times, and focus on the most essential aspects of the production process.

OUTSOURCING WITH UNVERIFIABLE INVESTMENT

down this part, we zero down on the most important general equilibrium interactions that are crucial to understanding how the model works. It's conceivable that in nation i , the demand for components is so high that all manufacturers of finished goods who look there will find reliable vendors. This will be true if

$m^i \geq w^i \mu^i / S^i$, This could be a balanced state if $i = S$, if $i = N$, or both. Furthermore, there may be equilibrium states where only certain providers join the market (where $m^S = 0$ or $m^N = 0$). In our working paper, Grossman and Helpman (2002b), we address all of these options in considerable depth.¹² In this paper, we examine one particular equilibrium, which occurs when outsourcing occurs in both nations but not all final-good producers that conduct searches in both markets are able to identify suppliers whose knowledge is near enough to their own to finalize a supply connection. We call this system a "binding investment constraint" regime since it applies to both nations. The restrictions on contracting have tangible consequences in this context.

For the example at hand, (1) means that the furthest point between an actual, outsourced end producer in nation i and that producer's supplier is provided by

$$r^i = \frac{S^i}{2w^i \mu^i} \quad \text{for } i = N, S.$$

Free-entry criteria (2) and (3) imply (a) outsourcing occurs in both countries and (b)

$$r^i n^i (S^i - w^i \mu^i r^i) = w^i f_m^i \quad \text{for } i = N, S.$$

The clearing requirement for the southern labor market (6) is obtained by substituting (4) and (5).

$$(1 - \beta)(\omega L^N + L^S) + 2 \frac{1 + \alpha}{1 - \alpha} m^S f_m^S = L^S.$$

The first term on the L.H.S. in (7) indicates the labor spent in the south to manufacture the standardized product, and the second term represents the labor expended in all activities by the component suppliers.

IMPACT OF GLOBALIZATION AND EXCESSIVE OUTSOURCING ON THE U.S ECONOMY

Supporters of outsourcing point out that it boosts the economy by opening up new markets and boosting productivity across the board. Yet others say that by eliminating thousands of American jobs, the economy would suffer long-term consequences. Many people worry that if the United States loses its technological and economic edge to other nations, the consequences would be long-lasting and difficult to repair.

There is data on both sides to back up their claims, but the loss of American jobs due to outsourcing has been the more obvious result. According to government data, the United States' GDP has expanded at an annual pace of 3.3% since 2003, even as imports from developing nations have risen. The reduced prices that have been made available to American consumers as a result of outsourcing have contributed to an increase in the country's overall quality of living.

In addition, the savings made by sending white-collar jobs abroad are invested in the growth of American businesses, which in turn generates further employment possibilities. Global Insights conducted another analysis which concluded that "if outsourcing continues, the U.S. economy will be \$124 billion larger in 2008 compared to no outsourcing." The analyses highlight the advantages of outsourcing and the good effects it will have on the American economy.

According to an examination of import pricing data by Business Week, offshoring to low-cost nations results in "phantom GDP" (increases in GDP that do not reflect any real increases in local output). Business Week claims that "the underlying problem is located in an obscure statistic: the import price data published monthly by the Bureau of Labor Statistics (BLS)." This inaccurate information allows for accurate estimates to be made about product improvements and cost savings. The incorrect import price data is used directly and indirectly by the government in the computation of many other significant economic indicators, such as productivity, manufacturing output, and real gross domestic product (GDP).

Forrester Research Inc. claims that by 2015, American businesses would offshore 3.4 million white-collar jobs at a cost of \$136 billion in compensation.

These studies expose the horrible realities of outsourcing and the flawed methodology the government use to determine outsourcing's net benefit to the US economy. This indicates that the economy is entering a false state of prosperity that, if not addressed quickly, will lead to the collapse of the country.

As a result of the recent economic downturn in the United States, the impact of outsourcing has come under even closer scrutiny. Reduced tax revenue, higher outlays for unemployment benefits, and fewer tax returns are further direct consequences of job losses for federal governments.

CONCLUSION

The sample for this study consists only of small and medium business owners, managers, and directors from a wide range of industries. Research along these lines might also be undertaken with geographically dispersed, large-scale corporations. Research on the effects of outsourcing might benefit from combining quantitative and qualitative techniques in the future. We began by investigating the impact of investment technology and labor supply on the optimal site for outsourcing. The percentage of global outsourcing performed by the south, the proportion of global commerce to global revenue, and the proportion of global trade conducted within industries have all increased as the south has grown.

REFERENCE

1. Ahmed O. Al-Mutairi et.al "Advantages and Disadvantages of Maintenance Outsourcing in Manufacturing Companies: With Special References to Jubail Industrial City – KSA" European Journal of Business and Management www.iiste.org ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.7, No.20, 2015
2. Abidemi Akinyemi "Outsourcing To The Developing Countries: Its Impact On Gdp And Unemployment. A Case Study Of India And The United States"2016

3. Lin N. Designing Global Sourcing Strategy for Cost Savings and Innovation: A Configurational Approach. *Manag Int Rev.* 2020;60(5):723-753. doi: 10.1007/s11575-020-00428-5. Epub 2020 Nov 19. PMID: 33230371; PMCID: PMC7674846
4. Rima Zitkiene et.al “The Impact Of Outsourcing Implementation On Service Companies” *The International Journal ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES* ISSN 2345-0282 (online) <http://jssidoi.org/jesi/> 2018 Volume 6 Number 1 (September) [http://doi.org/10.9770/jesi.2018.6.1\(21\)](http://doi.org/10.9770/jesi.2018.6.1(21))
5. Dr. Ahsan Habib “‘American Outsourcing’ The Impact Of Globalization On The Way Organizations Conduct Their Business Overseas, The Case Of General Electric”2012
6. Global Insight Inc., “The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry.” March, 2004.
7. Goldman Sachs, “Offshoring: Where has all the Jobs Gone?” Sept. 2003.
8. Hira, Ron, “Implications of Offshore Outsourcing: Remarks.” Rochester Institute of Technology, Rochester, NY. Jan. 2004.
9. Hirschhiem, Rudy, “The Myths and Realities of Information Technology Insourcing,” *Communications of the ACM*, v. 43, no. 2, February 2000.
10. Horrigan, Michael W, “Employment Outlook 2002-12: Employment Projections to 2012, Concepts and Context.” BLS, Monthly Labor Review. Feb. 2004.
11. Information Technology Associates of America (ITAA), “2003 Workforce Survey.” Paper Presented at the National IT Workforce Convention. Arlington, VA. May. 2003.
12. Kirkegaard, Jacob F, “Outsourcing: Stains on the White Collar?” Institute for International Economics Study Paper, pp 1-19, 2003.
13. Kletzer, Lori G. “Measuring the Costs of Trade Related Job Losses.” Testimony Prepared for the Committee on Finance, United States Senate, July 2001.
14. Kletzer, Lori G. And Robert Litan, “A Prescription to Relieve Worker Anxiety.” Policy Brief, 01-2. 2001. Washington DC. Institute for International Economics.
15. Lacity, Mary, Lesli P. Willcocks, and David F. Feeny, “The Value of Selective IT Sourcing,” *Sloan Management Review*, v. 37, no. 3, Spring 1996.