Chapter 23
Making the Case for Global Outsourcing

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ABSTRACT

Social media and empowered customers have significantly raised customer expectations of quality. Although there are similarities and differences in the approaches taken by management, they share the common goal of delivering a high-quality product and satisfying their customers. The majority of the case study concentrates on how both companies monitor quality, evaluate performance, train employees, and promote continuous improvement in order to achieve best business practices. The review of the literature on global outsourcing and analysis of the case studies provide evidence that economic development creates both short-term operation advantages through increased levels of efficiency as well as long-term social and cultural changes. Operational and strategic managers can use this information when making decisions on where to locate various aspects of their business. In some cases, it may make sense to outsource a particular task, but in other cases an organization may want to offshore particular tasks in order to keep control of the process.

INTRODUCTION

To introduce the strategic need for global outsourcing and some of the recent public pushback associated with following such a strategy, a basic review of some of the pertinent literature, especially concentrating on the growth of globalism, future aspects of outsourcing, evolution and risks of offshoring operations and services, supply chain management, and supply chain management concerns of offshoring operations and services, will be examined. This discussion will be followed by a few case studies highlighting some of the issues these companies face in the global economy in terms of outsourcing.

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Global Outsourcing

Since the Industrial Revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and profits. The model for most of the last century was a large integrated company that can own, manage, and directly control its assets. In the 1950s and 1960s, one of the dominant strategic directions was diversification to broaden corporate bases and take advantage of economies of scale (Mullin, 1996). Even though expansion required multiple layers of management, companies believed that by diversifying they could protect their profits. In the 1970s and 1980s, companies that were trying to compete in the global marketplace "were handicapped by a lack of agility and bogged down by bloated management structures" (Mullin, 1996). In an effort to increase flexibility and creativity, many of these large businesses decided to focus on their core strengths and outsource activities they deemed noncritical.

More and more companies are offshoring portions of their operations to various countries in order to gain a competitive advantage (Mullin, 1996). Offshoring offers companies the opportunity to have certain tasks completed for less labor costs, while still keeping control of the operations (Farrell, 2005). As more companies join the offshoring initiative, the less beneficial offshoring becomes. Not only does an increased amount of overall offshoring decrease the competitive advantage, but also the labor costs begin to rise due to lack of supply in workers (Mourdoukoutas, 2011). A number of authors have examined how the offshoring of processes and knowledge have been affected by economic development and changes in cultural norms; specifically, on how economic development and cultural changes affect the tenor, form, and outcomes of offshoring relationships (Ganesan, Malter, & Rindfleisch, 2005; Gereffi, Humphrey, & Sturgeon, 2005; Grandinetti, Nassimbeni, & Sartor, 2009; Ha, Li, & Ng, 2002; Hallén, Johanson, & Seyed-Mohamed, 1991; Handfield, 1994).

Outsourcing can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources (Ahsan, Haried, Crosse, & Musteen, 2010; Handfield, 2006). Outsourcing can also be known as facilities management, as it is a strategy by which an organization contracts out major functions to specialized and efficient service providers who become valued business partners (Handfield, 2006). Companies have always hired contractors for particular types of work or to level their workload, and they have formed long-term relationships with firms whose capabilities complement or supplement their own (Mullin, 1996). However, the difference between simply supplementing resources by subcontracting and actual outsourcing is that the latter involves substantial restructuring of particular business activities and can sometimes transfer staff from a host company (Handfield, 2006). Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). However, most organizations outsourced those functions for which they had no competency internally (Handfield, 2006).

Outsourcing support services was the next stage. In the 1990's organizations began to focus more on cost-saving measures, and started to outsource functions necessary to run a company, but not directly related to the core business (Handfield, 2006). "Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of 'good housekeeping'" (Handfield, 2006). Outsourcing components was a significant function to help managers improve their finances. Information-Technology, or IT, outsourcing was also a growing area during this time period ("A Look at the history of Outsourcing in America"). Technological advancement resulted in self-service dashboards, which eliminated the number of errors and discrepancies ("A Look at the history of Outsourcing in America"). In the beginning of the 21st century, there was a "boom in technological developments which brought the history of outsourcing

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