Chapter 1.19
Scales and Dynamics in Outsourcing

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INTRODUCTION

Outsourcing is used to describe the situation where a firm decides to subcontract assembly and/or service functions to an external supplier, either locally or abroad. When activities are subcontracted abroad, the term *offshore outsourcing* often applies. While offshore assembling activities have taken place for some time, the phenomenon of outsourcing services abroad is quite new. Several factors have contributed to these altered circumstances. First, the development of information and communication technologies (ICT) implies that services can, to a great degree, also be located at arm's length or elsewhere in the *flat* world (Friedman, 2005). Second, institutional changes have opened access to *new* markets for goods and services as well as skilled labor, for instance in Eastern Europe and China. Third, the increased competition through globalization pushes firms to adapt quickly to new contexts and to achieve efficiency in order to maintain competitiveness.

Recent trends show that companies in all sectors outsource a growing number of assembling and other services abroad to exploit the wage gap between developed and less-developed countries (and regions). This is especially the case for large transnational companies (TNCs) but also applies increasingly to smaller companies. Improvements in transportation and lower tariffs reduce the trade costs of intermediate products and services. At the same time, the potential impact on job losses in developed countries has unchained a heated debate on the advantages and disadvantages of offshore outsourcing.

As firms are reconstructed to take advantage of outsourcing and offshore outsourcing as a means of improving flexibility and concentrating on information and knowledge-intensive core functions, they create or become involved in networks of relationships. In these increasingly complex and multilevel networks, the nodes are other firms to whom functions are externalized or inputs of goods and services are subcontracted.

These networked organizations, which vary in size and geographical scope, may be very flexible, as the network could easily be rearranged by releasing some nodes while integrating new ones. The chosen solution again depends on the economic and market context.

DEFINITIONS

Outsourcing involves the transfer of specific activities that have usually been undertaken in-house, to another company (Greaver, 1999). This means that a company decides to contract out some, normally noncore, activities to concentrate on core activities as a means of lowering production costs and optimizing the use of available resources.

Variations in terminology (offshore outsourcing, business process outsourcing, ICT outsourcing, international sourcing, cosourcing, backsourcing, multisourcing) are frequent (Millar, 2002). Nevertheless, international regulatory institutions are attempting to homogenize the data collection process to facilitate international comparison studies.

Several typologies on the transfer of some of a company's activities exist (Table 1). Of these, the Organization for Economic Co-operation and Development (OECD) and United Nations Conference on Trade and Development (UNCTAD) typologies are the most well known. Basically, the location of the transferred business activities (in the home country or abroad) and the organizational forms (outsourced to third parties or kept under own management) are used to define the different typologies. The typologies embrace a wide range of situations, as assembling activities and services can be contracted within national borders (domestic outsourcing), can involve foreign affili-

Table 1. Typologies on the transfer of a company's activities (Sources: WTO, World Trade Report, 2005; UNCTAD, World Investment Report, 2004; Kirkegaard, 2004; OECD, 2005)

		Internal to the enterprise	External to the enterprise	Within the home country	Across borders
Kirkegaard	Outsourcing		X	X	
	Offshore outsourcing		X		X
OECD	Domestic supply	X		X	
	Domestic outsourcing		X	X	X
	International insourcing	X			
	International outsourcing		X		X
WTO (adapted from OECD)	Captive onshore outsourcing	X		X	
	Noncaptive onshore outsourcing		X	X	
	Captive offshoring	X			X
	Noncaptive offshoring		X		X
UNCTAD	Intrafirm (captive) offshoring	X			X
	Outsourcing		X		X

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