Research on Advantages and Disadvantages of Service Outsourcing

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Keywords: Cost Optimization; Outsourcing; Transaction Cost

Abstract: Outsourcing is not a new concept, but research, practice and analysis in different contexts. Outsourcing was originally introduced in developed countries to use high-skilled, low-cost labour in developing countries, mainly in areas such as manufacturing and information technology. Therefore, the main idea is to optimize the cost structure of different industries in developed countries. When outsourcing began to gain momentum in developing countries, this trend changed, while in countries where operating costs were already lagging behind, the problem of optimizing costs was challenged. The purpose of this paper is to analyze the relationship between outsourcing as a concept and cost optimization as the goal of outsourcing. Potential research areas, such as how outsourcing is suitable for telecommunications and other technology-related services, are also proposed.

1. Introduction

within a specific company and within the supply chain to improve the long-term performance of the companies and the overall supply chain" (Mentzer, DeWitt, Kebbler, Min, Nix, Smith & Zacharia,2001) [1]. Outsourcing is a key factor in the management of the upstream supply chain, and practice and fine-tuning have been carried out over a period of time through various research, practice programmes and lessons learned. Outsourcing is a question to be discussed according to the definition of Gilley & Rasheed (2000). Sen & Shiel (2006) defines the outsourcing as a "Outsourcing refers to the practice of transferring activities traditionally within the company to third-party suppliers within or outside the country", and Lei & Opt (1995) defines it as the source of the "on the outside" manufacturing component and other value-added activities. The outsourcing has been studied in different contexts and contexts, from different parts of the world, the industrial sector, and even the culture and the race. For decades, the literature has been focused on the IT industry. According to Dolye (2000) [2], total expenditures for outsourcing have reached $1 trillion by 18 years ago. Kremote, Icmp Tukel and Rom (2006) explained three main reasons for outsourcing upstream activities. The company has outsourced a long time to control rising costs.

1.1 Purpose of Study

Outsourcing was originally introduced to curb rising costs. Companies in developed countries use outsourcing to different parts of the world to target activities to companies in developing countries to reduce costs (Troaca&Bodislav,2012) [3]. The purpose of the study is to examine the effectiveness of cost reduction, in other words, to optimize costs through outsourcing. At present, the company focuses on strategic goals, although it is ultimately associated with outsourcing when outsourcing is a strategic advantage. In this context, the researchers intend to link the reasons for outsourcing decisions to cost-cutting targets, focusing on developing economies and technology-related industries. Therefore, this paper attempts to link these two factors, cost optimization and outsourcing through empirical research.

1.2 Methodology

Based on the literature review, this paper analyzes and analyzes the relevant theories combined with previous studies and cases. The main source of information for this study is journal articles, but it does not prevent actual cases around the world from being associated with cost theory. The literature covers a wide range of background, industry and various economies, but systematically reduces to some commonalities. All kinds of theories are related to outsourcing decision-making, but this paper focuses on keeping the cost-related theory consistent with outsourcing decision-making and keeping it consistent with the goal. As a concept file, it uses deductive methods, and the author also publishes future areas related to cost accounting and outsourcing.

2 Outsourcing as a Concept

2.1 Defining outsourcing and examining the evolution

International outsourcing has always been the main research topic in the past. It may vary depending on components to subsystems and even completed products (Bettis et al., 1992; Feenstra and Hanson,1996) [4]. Scholars also associate core competencies related to defining outsourcing, proposed by Sharpe (1997), which is considering the activities of different suppliers that do not belong to the core competitiveness of the company. Geely and Gilley&Rasheed,2000 position it as "something that originally came from within, or something that may have been bought internally, even though it was decided to go out." H ä t ö nen&Eriksson (2009) [5] defines three times in which outsourcing evolves over time. Outsourcing is a phenomenon that originated in the 1950s, but it was not until the 1980s that the strategy was widely adopted in organizations. Since then, the strategy has evolved from a strictly cost-focused approach to a more cooperative approach, in which costs are only one, usually secondary, decision-making criteria. In the strategy formulation process, three broad and somewhat overlapping but very different stages can be identified: The Big Bang era, the trendy era, and the age of organization with reduced barriers.

2.2 Objectives of Outsourcing

The researchers provided different goals for the company to look at the outsourcing. Kremic et. Al (2006) explains three broad categories of companies looking for outsourcing: cost, strategy and politics. However, the main focus here is the first two factors, while the level of attention to political objectives is low. They described how the costs and strategies contributed to the decision-making, mainly outsourcing in the private sector, and, of course, how political reasons were the same for the public sector. In addition, the term "political" in the original document refers more to the governmentundefineds politics.

2.2.1 Cost Reduction

Low-skilled labor-intensive jobs are transferred to low-cost labour markets such as South Asia, Latin America and Southeast Asia. Still, in the years to come, in addition to reducing costs, there were many other drivers that brought outsourcing into mainstream corporate strategies. (Leavy,2004). According to Leavy, large-scale outsourcing began in the early 1990 s. In theory, when the cost of the supplier is basically low enough, even if the management cost, profit and transaction cost are increased, the supplier can still provide the service at a lower price, and the cost outsourcing (Bers,1992; Harler,2000) can be realized. Domberger&Fernandez (1999) [6], cited by Kremic, Icmeli Tukel and Rom (2006), explains that cost-saving outsourcing may be important. In addition, indirect cost savings, including fixed costs for construction and infrastructure, IT and other administrative and support functions, are also reduced from outsourcing. Some companies want to better control their costs in order to be more flexible (Alexander&Young,1996; Sheehan,1993). Other companies are trying to convert their fixed costs to variable costs. (Anderson, 1997) [7]. Transaction cost economy (TCE) is used to explain the link between cost reduction and outsourcing by many researchers. All companies want to improve their financial performance, and outsourcing provides a panacea for cost reduction. However, the literature emphasizes that for many reasons it is not so simple. Kremic, Icmeli Tukel and Rom (2006) continue to explain these phenomena as follows.

The first reason is that most companies miss the exact cost structure and tend to overestimate savings when developing business models. Domberger&Fernandez (1999) is cited to explain how outsourcing in the IT industry leads to a 9 per cent increase in costs. The second reason is more indirect. It is particularly suitable for the Sri Lankan context that researchers have observed about his experience. It can be classified as social cost, which may lead to contract formulation and supervision, contract finalization, and then procurement, intangible assets, and certain transitional costs that are ignored. This category is the most difficult to quantify, but it can also have a significant impact. Next, Kremic, Icmeli Tukel and Rom (2006) highlighted the impact of poor employee quality as a result of the low preference of some contractors for employee development. All of this ultimately leads to unknown and unknown costs, which shifts profitability analysis.

2.2.2 Strategic Motivation

Prahalad & Hael (1990) introduced the concept of core competitiveness and linked it to outsourcing, which was said to retain its core competitiveness, while looking to outsource the rest. The adoption of an outsourcing strategy can release valuable resources to better focus on core competitiveness. Kremote, Icmp Tukel and Rom (2006) explain how the recent key drivers turn to strategic motivation, such as better focus on core competitiveness and flexibility. In addition to a better focus on the core competitiveness, the strategic-related motives, such as organizational development and the viability of technology. Two important factors need to be considered in the context of the analysis of the environment, taking into account the background of the research that focuses primarily on the technical services sector. According to Kremote, Icmp Tukel, & Rom (2006) [6], the flexibility seems to be a key driver, "not only from the scale of scale but also from the scope of the product or service". They continue to explain this, the "Organizations need to respond more quickly to the customer undefineds requirements, which are seen as a tool to achieve this goal. Outsourcing can also be seen as a way to reduce the organization undefineds risk through sharing with suppliers, while getting the positive attributes of these vendors. The outsourcing of partnerships can make the organization a world-class representative of a whole set of products and services, and these products and services can only be an average." of which is in contact with the virtual organization that is commonly referred to; the functionality is done by different vendors under a single unified protocol, where they provide services in an integrated manner. (Kremic etc,2006). This approach is favoured by the customer because the overhead is much smaller than they have to manage a large number of individual contracts. Taking into account the above factors, it is worth noting that cost reduction is still the main cause of enterprise outsourcing.

3 Theoretical Links to Cost and Outsourcing

Sometimes, contradictory theories point to the link between cost and outsourcing, and cause researchers to be confused (Perunovi, 2007) [7]. He has developed a map of these theories at all stages of the outsourcing process. The key stages of representation are preparation, supplier selection, transition management, relationship and reconsideration. There are different theories at each stage to explain the relationship and interrelationship between them. After analyzing many literatures, Perunovi proposes a matrix to show how many papers are related to each theory at different stages of outsourcing. The matrix points out that transaction cost economics is closely related to all stages and is mainly helpful to the preparatory phase. This means that it plays an important role in deciding whether or not to outsource, and if so, the factors to consider. It also explains the stage of relationship and reconsideration to some extent. The concept of relationship and the theory of core competence are also helpful to the preparatory stage. All other theories are related to one or more areas, but according to Perunovich, this contribution has not been confirmed.

3.1 Transaction Cost Analysis/ Economics

McIvor (2003) explains the preliminary theoretical background of outsourcing as transaction cost analysis. Transaction cost analysis (sometimes referred to as transaction cost economics (Perunovi / 2007) combines economics with management theory to determine the most effective types of relationships that companies should develop in the market when considering outsourcing. McIvor (2003) stressed that "the idea behind transaction cost analysis is determined by the attributes of the transaction, which is determined by some factors. Transactions basically take place between two parties (or more). therefore。The transaction cost depends on two main factors:

the difficulty in the transaction and the background. There are a number of factors that make it difficult to determine the effectiveness of a transaction. The first is limited rationality, which explains that human rationality is subjective. It is limited by the extent to which specific people process information. As a result, it is subject to the same restrictions.

Opportunity is another such factor. Human beings tend to be opportunistic, leading them to work for their own benefit. Decimal bargaining, in which the amount of bargaining is sometimes too small, and it makes no sense to obtain all the information that is usually expensive, is another factor that makes the transaction difficult. Therefore, the lack of information can cause difficulties. The influence of information is another major factor. All parties do not have access to relevant information. Even in the case of a smaller bargaining, one party can pay more for the same information, which is very disadvantageous to the other. This asymmetry in the availability of information between the parties leads to bargaining difficulties. Based on certain circumstances, these difficulties and related costs have increased. (Williamson,1985): the first case is designated as asset specificity, where transactions require a relatively high level of investment, specific to the requirements of a given trading relationship. Uncertainty is another situation where the definition and performance of a transaction is sometimes unclear. Frequency means that if certain transactions rarely occur, the relevant cost structure is not accustomed to the parties. This could also lead to higher costs.

3.2 Value chain analysis vs. Core Competence model

Some scholars questioned the value of using the core competency model as a basis for identifying the area of outsourcing, and some of the literature showed that value chain analysis could have a greater impact on the core capacity approach (McIvor,2003) [8]. Before you understand more important content, you need to clarify the basics of core competitiveness. Prahalad and Hael (1990) insisted that the core competitiveness was not an asset in the nature of the substance, but the ability of management to integrate non-physical assets, such as technology or production skills, within the scope of the organization. This is because the asset can always be replicated over time and, if the asset is based, will result in loss of core capability. The value chain of the upstream partner needs to be determined to determine if it is related to the core competitiveness of the partner. If it is not related to such activities, the partner may have to rely on the other party to deliver the results, resulting in a higher margin.

4 Conclusion and Further Research Directions

When we assume that cost is the main cause of outsourcing decisions, the complexity of transactions or bargaining complicates cost estimation and potential savings. TCE / TCA is probably one of the most commonly used theories in explaining outsourcing. This may be the case in many industries, especially manufacturing, where costs are more of a tangible factor, but Lacity&Willcocks (1995) points out that it explains only a small number of procurement decisions related to information technology.

Although many scholars have been outsourcing is studied in detail, but compared with the manufacturers and even IT has become a new field of telecommunications, ahmed et al (2014) conducted a study in Pakistan telecommunications, this is enough agent in Sri Lanka in many factors they outsourcing phenomenon and its effects on Pakistan telecommunication business operating costs for the quantitative analysis Considering the relationship between the factors include key driver, core activities, the benefits of telecom outsourcing, the interests of the consumers need, disadvantage compared to the level of employment, better results were obtained through the strategic planning, performance of the social, financial and moral responsibility risk reduction associated with outsourcing they came to the conclusion that by outsourcing the key driving factors and interests is the key to better use Pakistan telecommunications business reasons.

Ahmed et al. Al (2014) studies the cost impact caused by outsourcing, but there are gaps in some key areas, such as how to identify outsourcing activities in the value chain, how to identify partial outsourcing and complete outsourcing, and how to amplify the relationship between suppliers and type operators and suppliers [10]. In addition, the motivation to reduce costs mainly comes from the first day of outsourcing in the Western world, as many scholars have explained from time to time in literature reviews. In addition, there is no research on service outsourcing, especially in dynamic industries such as technology in Sri Lanka. All equipment suppliers in Sri Lanka, Ericsson, Huawei, ZTE and Nokia are global giants operating in the West, and naturally the cost of setting up outsourcing will be a high-cost effort. This may actually lead to no cost advantage. Despite multiple strategic interests, operators may not seek strategic benefits at the expense of the bottom line in a highly volatile market such as Sri Lanka. However, there is no literature to support this fact.

In addition, Sri Lanka has a unique situation, labor law compared with regional counterparts very strict Troac ă & Bodislav (2012) points out, Although outsourcing may lead to long-term benefits, but there may be adjustment cost in the form of unemployment, especially at the microeconomic level, especially the process, because even in advanced process outsourcing service began as a result, when from the inner package to outsourcing, there may be many problems associated with human resources that has not been adequately addressed in the literature the cost of this will have a profound impact, because layoffs may directly affect the cost.

Therefore, the link between cost reduction and outsourcing decisions still needs to be investigated in detail to summarize the applicability of technology-related industries in developing countries where Labour costs are relatively low.

Acknowledgments

The project was supported by the Guangdong Province Promotional Service Trade Innovation and Development Project (Fund Code: 2160699-87) and the C++ Programming Practice Teaching Reform (Project No. SYJG201803).

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