Outsourcing business functions is nothing new in the business world, and is actually a very common and well-established practice, although whether it's a wise decision depends on the concrete circumstances.

On the other hand, outsourcing core business functions is generally quite dangerous, because you can end up falling into a rather disadvantageous scenario, as demonstrated in the following example.

**Situation**

A company has its headquarter in a very well-developed city(so its various expenditures will be much higher), and 3 branches in 3 different other much, much less developed cities(so their various expenditures will be much lower) all being very far away from the headquarter, where each branch runs a core business function outsourced by the headquarter:

Branch A runs most of the back end for the core business of the whole company

Branch B runs the 24 hour call center and most of the customer support services for the whole company

Branch C runs most of the software testing and sales activities for the whole company

Of course, each branch is also responsible for expanding the markets in their respective cities, and they're allowed to take a large portion of the profits from those markets by running their own business, in order to motivate and reward them for more effective and efficient market expansion(they'll also take a small portion of the profits from the core business of the headquarter so the branch will still have the incentive to keep the core business running).

Back to the headquarter, it runs most of the front end for the core business of the whole company(and takes a large portion of profits from the core business), and is responsible for finding new customers and maintaining existing ones, even though the headquarter will also take a small portion of the profits from the business owned by its branches.

**This seems to be a decent setup that can significantly lower long-term expenditures and raise overall profits, but actually there's a big problem: The headquarter will likely have less and less control over its branches, which will be more and more powerful due to its own businesses growing over time.**

**Problem**

So, if you were the head of a branch, and you can frequently pretend to obey the headquarter while actually ignoring its orders, will you focus primarily on the core business of the headquarter, or the business owned by the branch?

**Needless to say, you'll choose to work on the latter most of the time, and will only work on the former when it delays too much, because you can take a large portion of the profits from the latter but only a small portion of those from the former, and not working on the latter will mainly hurt your branch while not working on the former will mainly hurt the headquarter.**

As time passes, the branches will become more and more independent from the headquarter, because they'll rely on more and more on their own business and less and less on the core business of the headquarter, whereas the headquarter will become harder and harder to control the branches, because its situation will become more and more dire while those of those branches will become better and better.

**By the time the business owned by those branches become mature enough for those branches to totally ignore the core business of the headquarter, it's when the headquarter will be forced to submit into those branches**, because the headquarter still needs those branches to keep its core business running, and now it's already too late to try to take back control from those branches or migrate those outsourced core business functions from those branches to somewhere else(or just taking them back and let the headquarter run all those functions itself).

Normally, the headquarter should be the one controlling its branches but not the other way around, however the control can indeed be reversed if the headquarter does outsource its core business function into its branches, so how to prevent that from happening in the first place?

**Solution**

**The simplest solution is, of course, never outsourcing core business functions to begin with, but sometimes it has to be done to keep the expenditures low enough by utilizing resources in less developed cities, therefore some other ways have to be found to somehow even out the odds.**

In the short term, when a branch's just established, the headquarter should find the most trustworthy ones to run its branches in the first place, and they have to be almost absolutely trustworthy for a long time(whether it's because they've such high integrity or the headquarter has their key weaknesses on its hands), to ensure that they won't betray the headquarter so easily even when their self-interests will be more and more inclined to do so.

In the medium term, when a branch becomes able to take care of itself, a system should be implemented to mitigate the potential conflicts of interests among the headquarters and its branches, like when a branch starts to ignore the core business function outsourced from the headquarter, the branch should take a larger and larger portion of the profits from the core business of the headquarter and smaller and smaller portion of those from the business owned by that branch, and when it's more important to expand the market assigned by that branch, the opposite adjustment should be made accordingly, so the branch will be more rewarded for focusing on what it should focus on at any moment.

In the long term, when a branch starts to intend to become independent, the core business function outsourced to it should also be outsourced to a new branch that is far from being able to stand on its own feet, so the headquarter won't have to totally rely on the former branch(albeit the whole mitigation process can take years), probably even at the hefty cost of having to open a new branch, which would be also responsible for opening yet another market.

Of course, even these measures won't last forever, because eventually the headquarter can have so many branches(even when some of them will be sub-branches of other branches) that it won't be able to control anymore, but at least the risk of outsourcing core business function won't be as unmanageable as before, and nearly no company can last forever anyway.

**Evaluation**

So far it's all about outsourcing core business functions from the headquarter to its branches, but how about outsourcing them to foreign and popular companies(with excellent reputation) specialized in such functions? It really depends on the functions and the companies planning to have them outsourced, like outsourcing a crucial database to companies running database centers is already quite different from outsourcing a 24 hour call center to respective companies, because different functions have different risks associated to them, and their respective companies can have different reasons to go against your best interests.

For instance, while outsourcing a crucial database to a normally good company is usually wise, that company can also be interested by powerful and resourceful hackers(due to its high popularity and excellent reputation), so that company can be more prone to be targeted by sophisticated attacks, therefore although that company should also have quite a good defense against such attacks, once an attack succeeded, the database being outsourced can become totally compromised.

Whereas outsourcing a core business function to an unknown company in a foreign country can have some other risks, like asking one such company to write the cross-platform front-end of a mobile app for you, and you can end up being effectively blackmailed by that company, perhaps the app will be stable at the beginning of production but have more and more bugs later on(so you'll have to pay more and more money to ask it to fix the bugs), and perhaps you can even end up having to give it a hefty sum so you can take back the codebase of that front-end and fix all those artificially created bugs yourself(of course you'll also have to hire some new employees to do that).

On the other hand, just because outsourcing a core business function can be dangerous, it doesn't mean one should never do so, because **sometimes the resource and technical requirements for running that function can be much higher than what a company possesses in the foreseeable future, and this restriction alone shouldn't always mean a company shouldn't even have a try on such function**, it's just that outsourcing a core business function, no matter how big and strong a company is, should be a **very serious(and perhaps irreversible) decision that can never be taken lightly**.