

The Various Aspects of Outsourcing

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Abstract

The document mainly talks about the various aspects of outsourcing, include the factors affecting outsourcing, the risks in outsourcing, the benefits associated with an outsourcing effort, the models in outsourcing, personnel issues in outsourcing, the costs of outsource and the impact of it.

Keywords: Outsourcing, Costs, Benefits, Risks, Influence

I. INTRODUCTION

With the development of the world economy, information technology and corporate strategy, outsourcing has been greatly changed, and the strategic position of outsourcing is improving continuously. So we need to learn, understand, and master outsourcing. What's the outsourcing? In brief, outsourcing refers to the completion of the work done within the enterprise by purchasing a service product from third party providers.

What kind of knowledge we should know? in this document, I will answer the following questions:

- What are the determining factors that may lead to a decision to proceed with outsourcing? What factors might lead the manager to not consider outsourcing?
- What are the risks associated with outsourcing? And what methods can be used to alleviate the risks?
- What are the benefits associated with an

outsourcing effort?

- What models can be applied for outsourcing project? Evaluate the models pros and cons. Where do the costs originate in an outsourcing agreement, and what are some examples of the dollar impacts that might be expected?
- What are the implications to the business organizational structure by using an outsourced IT department as well as the potential personnel issues which may arise?

II. METHODS

i. The factors affecting outsourcing

A firm may outsource none, some, or many of these functions. I thought three key factors influence outsourcing decision:

1. Centrality of the functions to the firm's core competency;
2. Risk liability and control;
3. Cost/service tradeoffs in operations;

i.1 Centrality of the functions to the firm's core competency

A firm's core competency is very important for a firm. The decision makers should think deeply, determine if the project which the firm want to outsourcing is the core competency or not, if it is, then it'd better not to outsource. Because core competency is the foundation of a company's survival.

i.2 Risk evaluation and control

Risk determines whether an outsourcing project is successful or not, if the risk is too high, the failure of the outsourcing project will have a high probability. And if we have a good risk evaluation and control, the probability of success would be nice. So risk evaluation and control play a important role in decision.

i.3 Cost/service tradeoffs in operations

Cost is an important factor in outsourcing. If the cost is too high, it called "The loss outweighs the gain".

ii. Risks of Outsourcing

ii.1 The definition of risk of outsourcing

The risk is a kind of possibility that the environmental and conditional uncertainty of outsourcing and the impact that stakeholders can not accurately predict or control lead to a discrepancy between the final results and the expectations of the stakeholders.

ii.2 The risks associated with outsourcing

Many people have studied the risk associated with outsourcing at home and abroad. James Brain Quinn, Frederick G. and Hilmer

stated the three main risks of outsourcing include:

- The risk of losing critical capacity or development ability.
- The risk of losing the interactive ability in stages of research and development, production, marketing.
- The risk of losing the control of the docking contractors.

Robert Klepper and Wendello. Jones summarized the risks of IT outsourcing. They are

- The primary risk faced by companies is out of control. When something is outsourced, companies can not control things directly so that companies may not get feedback quickly and can not make improvements in time.
- Uncertainty is the inherent risk faced by companies.
- Companies will face many potential pitfalls. such as, the misunderstanding of information technology leads to the core role of information technology resources or business being outsourced.

Liu Jingjiang, Liu Guihua (2004) thought the risks of IT outsourcing mainly include: The subcontractor becomes a new competitor; the subcontractor fails to carry out the contract; the subcontractor extracts the profit from the supply chain.

Yang Juan, Liu Qiang and Yang Jing (2004) believed that the risks of outsourcing are the risk of losing control, the risk of uncertain distribution of income, the negative impact of outsourcing on employees.

Wang Min (2001) thought that the lack of effective communication is one of the biggest

risks of outsourcing.

From my perspective, the risk of outsourcing divided into two parts. One of them is from the perspective of outsourcing result. In this part, the risks of outsourcing mainly are the contractors can not meet the require of the enterprise for information technology, communication problems between companies and contractors, the cost of outsourcing may exceed the value gained by outsourcing, etc. All this factors may lead to the failure of outsourcing. Another is from the perspective of company itself. In this part, the risks of outsourcing mainly are outsourcing may weaken the ability of R & D and innovation to lose competitiveness, the contractor may be a potential competitor, less communication with customers, easy to lose customers, etc. All these factors can influence the company development.

ii.3 Management can be used to alleviate the risks

The basic idea is to have controls in place that minimize the negative consequences of a bad outsourcing agreement, known as risk management. Risk management consists of three closely related actions: Risk identification, Risk analysis, Risk control.

- **Risk identification:** Different outsourcing project has different risks, so we should identify the types of this outsourcing project, list the possible risks as much as possible, then arrange the risk list, remove the items that are not possible.
- **Risk analysis:** After identifying the risks, the next action is to collect information, then analyze if it possible to reduce the

risk.

- **Risk control:** There are two categories of controls: preventive and corrective. Preventive controls mitigate a threat from exploiting the vulnerabilities of a project. Corrective controls require addressing the impact of a threat and then establishing controls to preclude any future impacts.

iii. The Benefits Associated with An Outsourcing Effort

There are many benefits associated with an outsourcing effort, such as:

- **Improving efficiency:** In general, firm is not adept in the aspect that firm want to outsource, so if they not outsource, the efficiency will not be high.
- **Getting access to specialized skills:** The subcontractor usually has its own unique technology, Contacting more with the subcontractor, it's equivalent to get access to specialized skills.
- **Saving on manpower and training costs:** Some employees do not have the ability to do the project, so if not outsource, there must have some training costs.
- **Improving speed and service:** More people do it, so it can improve speed and service.
- **Offload non-core function:** It can help firm specialize in core competency, improve quality of service, and offload non-core competency.

iv. The Models in Outsourcing

To be defined

v. Personnel Issues in Outsourcing

To be defined

vi. The Costs of Outsource and The Impact of It

To be defined

III. CONCLUSION

To be defined

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