Outsourcing

Outsourcing is an agreement in which one company hires another company to be responsible for a planned or existing activity that is or could be done internally,[1][2] and sometimes involves transferring employees and assets from one firm to another.

The term outsourcing, which came from the phrase outside resourcing, originated no later than 1981.[3][4][5] The concept, which The Economist says has "made its presence felt since the time of the Second World War",[6] often involves the contracting of a business process (e.g., payroll processing, claims processing), operational, and/or non-core functions, such as manufacturing, facility management, call centre/call centre support).

The practice of handing over control of public services to private enterprises, even if on a short-term limited basis,[7] may also be described as "outsourcing".[8]

Outsourcing includes both foreign and domestic contracting,[9] and sometimes includes offshoring (relocating a business function to a distant country)[10] or nearshoring (transferring a business process to a nearby country).

Offshoring and outsourcing are not mutually inclusive: there can be one without the other. They can be intertwined (offshore outsourcing), and can be individually or jointly, partially or completely reversed,[11] involving terms such as reshoring, inshoring, and insourcing.

#### IT-enabled services offshore outsourcing[edit]

Growth of offshoring of IT-enabled services, although not universally accepted,[43][44] both to subsidiaries and to outside companies (offshore outsourcing) is linked to the availability of large amounts of reliable and affordable communication infrastructure following the telecommunication and Internet expansion of the late 1990s.[45] Services making use of low-cost countries included

• back-office and administrative functions, such as finance and accounting, HR, and legal

• call centers and other customer-facing departments, such as marketing and sales services

• IT infrastructure and application development

• knowledge services, including engineering support,[46] product design, research and development, and analytics.

## Reasons for outsourcing[edit]

While U.S. companies do not outsource to reduce high top level executive or managerial costs,[58] they primarily outsource to reduce peripheral and "non-core" business expenses.[59] Further reasons are higher taxes, high energy costs, and excessive government regulation or mandates.

Mandated benefits like social security, Medicare, and safety protection (OSHA regulations) are also motivators.[60] By contrast, executive pay in the United States in 2007, which could exceed 400 times more than average workers — a gap 20 times bigger than it was in 1965[58] is not a factor.[citation needed]

Other reasons include reducing and controlling operating costs,[61] improving company focus, gaining access to world-class capabilities, tax credits,[62] freeing internal resources for other purposes, streamlining or increasing efficiency for time-consuming functions, and maximizing use of external resources. For small businesses, contracting/subcontracting/"outsourcing" might be done to improve work-life balance[63]

Security

Reduced security, sometimes related to lower loyalty[109] may occur, even when "outsourced" staff change their legal status but not their desk. While security and compliance issues are supposed to be addressed through the contract between the client and the suppliers, fraud cases have been reported.

In April 2005, a high-profile case involved the theft of $350,000 from four Citibank customers when call-center workers acquired the passwords to customer accounts and transferred the money to their own accounts opened under fictitious names. Citibank did not find out about the problem until the American customers noticed discrepancies with their accounts and notified the bank.[110]

Information technology

Richard Baldwin's 2006 The Great Unbundling work was followed in 2012 by Globalization's Second Acceleration (the Second Unbundling) and in 2016 by The Great Convergence: Information Technology and the New Globalization.[111] It is here, rather than in manufacturing, that the bits economy can advance in ways that the economy of atoms and things can't: an early 1990s Newsweek had a half page cartoon showing someone who had just ordered a pizza online, and was seeking help to download it.