

The impact of outsourcing on global business

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ABSTRACT. *As the organizational performance has becoming more critical and excellent than previous days, today's rising competition require global business to improve with the day. Through human resources functioning and effective management, business is hoping to perform the greatest efficiency. As one of the most popular method, outsourcing has always been considering as a way to utilize strength and maximize the competencies. By market research in labor-intensive and capital-intensive production, an efficient resource allocation enable companies to have better organizational performance. In macro terms, the accumulation of business and companies' cooperation create the global market.*

KEYWORDS: *outsourcing, global business, labor cost, capital, resources allocation*

1. Introduction

As the outsourcing is becoming one of the most well-known strategy plan for companies to gain greatest interest from both specialists and world resources. It has increasingly attract attention from researchers. This paper mainly serves on analysis the impact of outsourcing for purpose, discussing the disadvantage and contribution that outsourcing has brought to our global market. It will begin by discussing the relevant data and theoretical analysis as an introduction, then looking into significant empirical research work to address the future development of outsourcing.

2. Positive cyclical nature of outsourcing

Generally, job outsourcing increases the competitiveness of the United States companies in a large extent Through expand the market to overseas branches, outsourcing decrease the labor cost by hiring employees in relatively less developed countries. The potential emerging markets usually provide more opportunities than other mature market in developed countries. Since people in developing countries usually have lower living standard, they are more people willing to work at lower

salaries compared to the developed countries. Nowadays, there is around 25% small business are using outsourcing to lower the manufacture cost, improving it's company efficiency while there is more than 50% of business conduct offshore teams, connecting with their clients. Through lowering prices in the global market, outsourcing give many companies a chance to increase operation meanwhile focusing on unique businesses. Take the united states as an example, united states depend on outsourcing larging since it needs to balance the imports good amounts with the revenue lost. As a typical example that can't rely on the internal sales, it has to seek cooperation with other countries, sustaining the growing business. From the prospective of other countries, they are likely to see a boosted economy since the foreign direct investment are flowing to capital, labor, technologies, and other industries. Such cyclical nature are usually under the prediction of macroeconomics. With more financial support, these countries will grow up into bigger player in the global market, earning more market share. They can also afford more exports from the United States, then stimulate the United States economy in the reverse.

3. Impact of outsourcing

The improving technology and production facilities are the cornerstone for the outsourcing. Since nowadays people are able to communicate over telephone, jet airplane offers delivery in one or due day, the efficient inventory control has all lowered the expense in transportation. With the help of artificial intelligence, the coordination costs have also be reduced dramatically, providing a more cost-effective and on-time way to work from any corner in the world. Rushed to spin off now become a trend for almost all big companies.

Actually, some well-known and large companies are also top buyers of outsourcing including UPS and FedEx featured with logistics, IBM with information technology and one of the top computer manufacturing Lenovo. Nike already open countless retail store and own shoes and clothing factory all over the world. Compared with outsourcing design and marketing like Nike, Apple is mainly outsourcing its hardware manufacturing. Since late 1970s, as the United States decided to open its market to China, Eastern Europe and India. The increased competition actually left no choice for the business in the United States, but to find a better way out to keep their business exists. When it comes to shareholders, it was common that many factors business were on the hand of family-owned big cooperation.

Brucocoleri et al. (2019) have analysis the effect of the outsourcing on the product recall magnitude. In this article named '*The magnitude of a product recall: offshore outsourcing vs. captive offshoring effects*', there is a distinctive differentitaion between offshore outsourcing and capital outsourcing. It clearly indicates the offshore outsourcing has larger impact on the magnitude since it reduces the recalled product number while still increase outsource capital.

As competition increased, we have seen a rising personal ties from owners to their workers, creating more opportunities for those start-up businesses.

Nevertheless, outsourcing has always been a controversial topic for global economy, not only with its purpose to utilize the cheaper labor force but also with its job loss in domestic countries.

3.1 Increased efficiency from outsourcing

C.K. Prahalad and Gary Hamel believes that outsourcing is the best way to practice resources utilizing (Prahalad and Hamel, C.K. Prahalad and Gary Hamel believes that outsourcing is the best way to practice resources utilizing (Prahalad and Hamel, 1990; Jae, et al. 2000; Dominguez, 2006). This is mainly because it enables company's refocusing at the resources ins-house activities through mundane activities. Generally, no matter the business is sole proprietors or large corporations, business can always use outsourcing to help the company's growth and expanding. While lowering the expense as much as possible, it can still expand at a rapid speed. Through tying up the financial resources with adjustable labor force, companies can focus on the core sector to ensure the expense is saved, leading the whole company to success at the first place. Refocusing the resources in domestic country can largely save the efforts and relevant expense without any loss in product quality or customer service.

Secondly, lower costs can be maintained at a relatively stable level. It is inevitable that the equipment purchasing sometimes might be prohibitive due to the expense issue or location disruption. Then, the outsource can demonstrate a much cost-effective way to operate business internally. Some simple outsourcing usually includes document files, data collection, telemarketing etc. The company can spend much less in advertising and put the investment in to research and development. It is noticeable that outsourcing reduce both hiring and training expense of employees. Companies have to do a hiring search before the human resources department can give out a specific salary, matching with the labor market. On the other hand, there is always onboarding expense once employees accept the offer. Not to speak healthcare and payroll taxes, accounting for almost half of regular salaries. Companies that cooperate with contractors through outsourcing can minimize such unnecessary cost, bringing larger accounting profit to company.

In addition, we have to mention the overhead costs that existed in almost all companies. To ensure the consumer base and improve the customer experience, outsourcing several vertical tasks are usually very common. It is always be a great choice since the expanding cost is too high when a business handles all operations state by itself. Evolved department over a long period of time sometimes without a good control and management can be the candidates for outsourcing. Not only because the predicted rising cost in such field, but also because outsourcing company may featured with better management skills, saving company from costly restructuring.

Moreover, one biggest advantage will be the flexibility of work. Due to the recent covid-19 pandemic, thousands of people must stay at home to work. We are expected to see a bright future about distant work. Business that has cyclical

demands of labor force can adjust its human resources based on seasons, decreasing the avoidable costs in fixed assets.

The greater level of continuity provided by outsourcing can certainly reduce the employee turnover, especially under uncertain environment. Thereby reducing the risk of operation to a relatively stable level. Finally, the internal staff development can exert a motivated new force to the whole company. At the place where company bring in contractors, it can provide the corresponding available resources to help employees possess the required skills as soon as possible. It may take the original company a longer time and schedule to help them acquire such knowledge. Even though almost all companies only take outsourcing in terms of cost savings to manage the future. There are much more advantages that outsourcing can bring, it can promote innovation, creating more access to up-to-date skills, even give a reposition opportunity of the business in the whole industry.

3.2 Potential damage from outsourcing

The outsourced jobs have reached 3.3 million five years ago, with continuing rising in offshoring. Some economists argue that such practice will hurt the local industry of the United States as long as companies are reversing its capital. This is mainly because the job that already offshore are almost impossible to come back, giving a technological leg to other countries that might even surpass the United States in one day. Lower salaries and costs in operating are increasingly minimize the labor expense in countries like India and Russia. On the other hand, the unemployment rate has risen in the United States and is expected to remain for decades as long as developing countries are still chasing saturation point.

In addition, the loss of intellectual property has always been a big problem. For some high-tech companies that are top leading in the world, their intellectual capital usually more valuable than tangible assets. This is because intellectual capital are build on the enormous time and efforts from highly-skilled workers, representing an important sector of asset in economy advancement. The labor market is also determined by the market supply and market demand, people will seek out and even leave their local countries when there is less job opportunities for their occupation. It turns out that there will be a decreasing number of workers who acquiring the skill, weaken the labor production in the domestic country.

Besides the loss of knowledge, the manufacturing capacity will also suffer from a great loss. Since companies outsource their business to other countries, some fixed assets and facilities will also be removed abroad to ensure the smooth operation. Once the capacity is gone, it might take a country year to repatriate such equipment and cultivate engineers in corresponding field. Moreover, one of the biggest risk coming from the potential breakdown of political relations.

The recent trade war between the United States and China has demonstrate the unexpected tariffs may distort a country's industry. The unexpected levying of tariff can eliminate the existed profits without closing countries' borders. As a result, some foreign investment also put the political issues at the first place.

In the past, it is fairly common to see such practice that build and to run everything themselves for banks electronic trading firms. As time passing, more recently, it seems like buying and outsourcing critical is going to have a more definite trend, being away from that philosophy recently. Looking to outsource for the lowest latency markets now become popular for a rising number of people. The prevalence of all high-performance trading infrastructure was more than before, it's more for competitive advantage. Besides the change in trading, outsourcing also encourage a high-performance trading structure. Since there are more great vendors providing effective solutions, and increasing amount of mainstreams encourage trading. It is more likely a table stake.

Nowadays, the value chains are going to reverse. Take the repeated problems with Boeing's Dreamliner as example, an increasing number of companies now reconsider to source it's labor back into their home country. Such high-tech companies will be suffered from production shrink once it's product safety can't be trusted by customers. So, overseeing quality delays upon arriving has always been taken into outsourcing strategy.

4. Conclusion

Overall, the whole world will expected to continue developing color of outsourcing for different people, particularly the pop-out business and some hedge funds are likely to fin their own way out although the specific or standard vendors that dealing in the space are already good enough.

There is a consistent need for outsourcing and data needs. Besides the driving outsourcing trend for trading firms and banks, other business are looking forward to have quite specific changes. Decision makers of business need more jointly effort to deal with offshoring and outsourcing program, since such model can provide better transparent result and make a clear blueprint for the future control over of the supply chain in manufacturing.

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