OUTSOURCING VS INSOURCING: BEST FOR YOUR ORGANIZATION?

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ABSTRACT

Research was focused on this viable issue of all top management team cross countries & sectors (Outsourcing vs. Insourcing). The processes of Outsourcing or Insourcing are having its own advantages & disadvantages. Organizations are having strategic questions of adopting outsourcing or insourcing process in the organization. Outsourcing or insourcing both are involving information outflow from the organization to other party. We all know the criticality of the information flow, that’s why this bid decisions have its implication to the organization strategic planning, growth & competency.

Information’s are the lifeblood of any organization. Damaged or lost data can cause disruptions in normal business activities leading to financial losses and lawsuits. The Information systems, which comprise hardware, software, data, applications, communication and people, help an organization to better manage and secure its critical corporate, customer and employee data. Decision of outsourcing or insourcing has its Strategic implication to the organization.

Key Words: Outsourcing, Insourcing, decision factors, business & profitability.

OBJECTIVE OF THE STUDY

- To study the outsourcing & insourcing as sourcing techniques as a guide line for manager to take decisions
- Focus on the factor study which makes decision makers more knowledgeable while taking sourcing techniques
- To understand the implication of the decisions in long run

METHODOLOGY

The study was be based on secondary data, exclusively relies on the publications and the reports of the study teams and committees of the government of India and from individual researches, along with various journals & websites, research papers, articles etc.
1. INTRODUCTION

Globalization and the easy access to information and communication technologies allow firms to organize their activity and decide their business strategies in a global framework. One of the most important decisions facing any business is the question of whether to produce some product or to purchase it from an outside.

There are increasing signs that this accumulated wisdom might be inadequate in shaping appropriate insights for contemporary practice. The traditional governance logic has been turned upside down by utilizing other mechanisms, such as sourcing arrangements, strategic alliances, roles, teams, processes, and informal relationships, as the primary vehicles through which business executives orchestrate their organizational architectures.

Today's organization must grapple with the unrelenting challenges associated with: acquiring current technical knowledge; attracting, retaining, motivating, and leveraging a workforce; distilling the confusion amid a proliferation in products, services, and vendors; and, contracting and managing a variety of relationships involved with selective outsourcing. Increasingly, the providers of products and services are being viewed as both arms-length suppliers of cost-effective technology and as vibrant business partners with an unlimited potential to enhance a firm's and business capabilities.

The decision to outsource or insource enterprise-wide activities related to the acquisition, deployment, and management of organization represents one of the more complex choices facing a firm's managers. On the one hand, insourcing requires management to commit significant resources to a course of action, the effects of which may be costly to reverse, while forgoing numerous advantages associated with the marketplace. On the other hand, insourcing may be required for a firm to accumulate resources necessary to generate or maintain a competitive advantage.

While the increasing rapidity of technological change and the increasing dispersion of knowledge suggest an increased role for outsourcing in the economy, the relationship between governance choice and performance is dependent on the distribution of relevant capabilities and the degree to which performance is driven by autonomous or systemic innovation.

Empirical evidence suggests that carefully crafted outsourcing strategies increase the overall performance of the firm. Outsourcing is generally considered as a very powerful tool to cut costs and improve performance. Through outsourcing, firms can take advantage of the best outside vendors and restructure entrenched departments that are reluctant to change. Outsourcing can also help focus on the core business.

In same time Insourcing is having long term impact on the organizational growth.US president also realize this fact that insourcing is the path for sustainable growth of the country.

1.1 Statement & decisions are given below

“What has been almost entirely absent from this discussion about outsourcing is the converse dimension of globalization. This process is called ‘insourcing,’ Insourcing is long team strategy for an organization, US President has also said as following for the long team sustainable growth:

President Obama’s March 4 Press Conference & Memo

“We will stop outsourcing services that should be performed by the government, and open up the contracting process to small businesses. We will end unnecessary no-bid and cost-plus contracts that run up a bill that is paid by the American people. And we will strengthen oversight to maximize transparency and accountability.”

“President Obama, March 4 Memo”

Presidential Memorandum says:
The March 4, 2009 Memorandum forces closer scrutiny in several areas:

• Save $40 Billion – by reducing contractor spending by 7%. Identification of wasteful, ineffective, and inefficient programs
2. DIFFERENT SOURCING METHOD

Whereas domestic service provisioning is typically assessed on the basis of infrastructure leverage, domain expertise or process knowledge, offshore service provisioning is primarily assessed on the cost basis for consistent quality of service, and capacity to leverage global resources. Managing the complexities of the global delivery model requires a deep expertise in the local environments and experience with cross-border business operation, making the evaluation of whether to outsource a project or leave it in-house very different from a purely onshore sourcing decision.

Insourcing – producing goods or services within an organization
Outsourcing – purchasing goods or services from outside vendors
Also called the “Make or Buy” decision

Decision Rule: Select the option that will provide the firm with the lowest cost, and therefore the highest profit.

2.1 Decision Model

A decision model is a formal method of making a choice, often involving both quantitative and qualitative analyses
Managers often use some variation of the Five-Step Decision-Making Process

* Feedback at each Step
2.2 Decision Process

Any decision made by an organization must assess the technology & demand trends of the market & business in the point of view of competitors, competency cost etc. Alignment of the company requirements with congruency of long term planning must be followed. The flows of information for decision maker are given below:

Decision hierarchy

2.3 Assessing Trends for the Decision on Sourcing

■ What is my relative position?

Organization must analyze the self-position & critical factors for the current position in the business. Self-evaluation in terms of core focusing area for the organization is necessary. Areas can be as following:

■ Cost
■ Quality
■ Delivery / Responsiveness
■ Technology
■ Cycle times

■ Is this considered a core/critical current or future competency?

Decision maker must see the organization point of view regarding decision factor in terms of focusing for current or future competency building.

■ If behind, can we catch-up / surpass?

The decision need to revolve around the fact of criticality of the decision to be made. How the outsourcing or insourcing decision will impact

2.4 Strategy Alignment through Business Planning

All the major operations of the organization need to have alignments for smooth & beneficial decision making. Any decision of Outsource or insource must be not in contradiction of any operation of the organization.
2.5 Information Relevance in Decision Making

- Relevant Information has two characteristics:
  - It occurs in the future
  - It differs among the alternative courses of action
- Relevant Costs – expected future costs
- Relevant Revenues – expected future revenues

Type of information

- Quantitative factors are outcomes that can be measured in numerical terms
- Qualitative factors are outcomes that are difficult to measure accurately in numerical terms, such as satisfaction

Additional Cost

- Are just as important as quantitative factors even though they are difficult to measure
- Incremental Cost – the additional total cost incurred for an activity
- Differential Cost – the difference in total cost between two alternatives
- Incremental Revenue – the additional total revenue from an activity
- Differential Revenue – the difference in total revenue between two alternatives

3. OUTSOURCING

The guiding principle of outsourcing has been the transfer of a process or function, that is typically not a core competence of an enterprise, to an organization that has expertise in that area, allowing the enterprise to effectively utilize its resources in its core areas of business.

3.1 This principle has dual objectives

- Save on cost of operation by acquiring services from a team more productive that the internal resources (based on their expertise, or their ability to leverage infrastructure across multiple clients); and
- Improve quality and value of operation by acquiring services from an organization with best practices in managing that business activity.

Any outsourcing contract will ultimately be about either or both of these two objectives.

In the absence of any of these characteristics, outsourcing can only be more expensive and less valuable than an internal operation. Furthermore, making improvements in existing processes, whether incremental or transformational, creates process stress that can be risky for the enterprise. Since each of these characteristics require large investments in time and resources, it is not surprising that, over the last two years, many seemingly well-structured outsourcing deals have failed to meet expectations.
3.2 Outsourcing Decision- Full / Partial

If the sourcing decision is in favor of Outsourcing, then also the decision must by regarding Full operation or partial operations need to outsource. The decision maker need to decide the part or area need to be outsource to be more effective in terms of efficiency, cost & competency.

Decision on the factors like:

1. **Products**
   - Technology
   - Manufacturing

2. **Processes**
   - Design Development
   - Process Installation
   - Equipment Service
   - Maintenance

3.3 Factors Supporting Outsourcing

- **Supplier has specialized know-how**: Expert Vendors are available. Better output can be generated in more cost effective ways.
- **Cost considerations favor supplier**: Cost is less in comparison of insourcing by organization in teams of cost incur to build that competency.
- **Firm lacks ability to build item**: Organization is not having competency.
- **Small volume requirements**: Small amount requirement. So it will be not cost effective if organization invests resources to build-in.
- **Firm's capacity constraints**: Firms are not having capability to build-in.
- **Desire not to add workforce**: Employee numbers can be constrain.
- **Uncertain volume requirements**: Requirements are not fixed; organizations are having risk to go into production in-house.
- **Routine item available from many sources**: Easily available venders in market so easy & comfortable to produce in-house.
- **Building requires high capital startup costs**: Startup cost to in-house build in very high compare to outsource.

3.3.1 Advantages

These are the some of the factors which are favorable for the Outsourcing as following:
- Greater flexibility
- Lower investment risk
- Improved cash flow
- Lower potential labor costs

3.3.2 Disadvantages

These are the some of the factors which are unfavorable for the Outsourcing as following:
- Greater possibility of choosing wrong suppliers/distributors
- Loss of control over processes
- Potential for losing “core supportive” activities
- Long lead-times
- “Hollowing out”
India is biggest outsourcing destination in the world and every company in top 10 have a presence in India – However, what is interesting to see would be how many India-bred companies are actually in the list.

Infosys Technologies, the iconic software company ranks 2nd in the list of World’s best Outsourcing companies. The top position is taken by Accenture. In the top 10 rankings there are 2 other India-bred companies – Wipro (4th) and TCS (7th).

4. INSOURCING

Generally speaking, the opposite of outsourcing is insourcing. When a business delegates jobs to another entity, which is domestic yet not a part of the organization, it is defined as insourcing. The in-house entity will generally possess a dedicated panel who will be expert in providing the requisite services. Sometimes organizations choose insourcing because it permits them to preserve more control. Insourcing can also be defined as transferring work from one organization to another organization which is situated within the similar country and not outside the country. Insourcing can also denote an organization edifying an innovative business centre or skill which would focus in a particular service or product. The trend towards insourcing has increased since the year 2006. Organizations involved in production generally choose for insourcing in order to reduce the expenditure of labor and taxes amongst others. What is best for an organization?

If the business has a number of non-core procedures which are taking a lot of time, work, and resources to perform domestically, then it would be sensible to outsource these non-core tasks. Thus, in that situation outsourcing would help to save time, manpower, and effort, and would also help ensure faster times.

If proficient services are required in areas which do not fall under the core proficiency, then outsourcing will be a good alternative as one can get easy access to skill services. For dropping costs and quicker turn around, outsourcing is again a fine option. If the job involves manufacture, then it would probably make more sense for the organization to select insourcing, as one can save on transportation expenses and have improved control over the project.

4.1 Factors Supporting Insourcing

- **Favorable cost considerations:** Organization finds the cost analysis between make vs Buy in favor of Make
- **Desire to integrate operations:** Processes or operations are the integrated part of the system which can not be work or effectively managed in isolation
- **Use available capacity to absorb fixed overhead:** Company had already invested in organization but optimum utilization is missing. Organization can take decision to build for increasing utility & cover the fixed cost.
- **Control over production and quality:** For better quality & production control, the operation must be in-house
- **Design secrecy required:** The confidential or the secrecy need to be maintained, then organization need to have insourcing
- **Lack of reliable suppliers:** Lack of supplies in terms of quality & commitment required to supply. Organizations have to take decision to produce in-house
- **Technical items related to core competence:** Organization have to build long term Core Competencies for the organization.
- **Strategic item or technology behind:** Process or product decision on in-house or outsource depends on strategic decision for the organization or its evolve high end technology related
4.1.1 Advantages
These are some of the factors which are favorable for the Insourcing as following:
- Higher degree of control over inputs
- Increases visibility over the process
- Economies of scale and scope

4.1.2 Disadvantages
These are some of the factors which are unfavorable for the Insourcing as following:
- Requires high volumes
- High investment
- Dedicated equipment has limited uses
- Problems with supply chain integration

4.2 Core Competence
- A firm's long run strategic ability to build a dominant set of technologies and/or skills which enable the firm to adapt to quickly changing marketplace opportunities.
- A skill, process, or resource that distinguishes a company and makes them "stand out from the rest".
- The collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.” (Prahalad and Hamel 1994)

4.3 Implication of Insourcing
4.3.1 Costs - Insourcing Process
1 Incremental fixed costs
   - Equipment investment
   - Factory overhead
   - Managerial costs
   - Purchasing costs
   - Inventory carrying costs
   - Costs of capital & taxes
   - Special personnel

4.3.2 Finding True In-house Costs is not easy
- Costs of Overhead
- Costs of Quality
- Operational Costs
- Capital Costs

5 DECISION FOR OUTSOURCING Vs INSOURCING

Most organizations choose outsourcing because outsourcing offers a lot of advantages. When organizations outsource to countries like India, they benefit from lower costs and high-quality services. Moreover organizations can concentrate more on core functions once they outsource their non-core functions. Outsourcing can also help organizations make better use of their resources, time and infrastructure.

In outsourcing, the outsourcer and the outsourcing partner have a greater relationship when compared to the relationship between a buyer and a seller. In outsourcing, the outsourcer trusts the outsourcing partner with vital information. Outsourcing is no longer confined to the outsourcing of
IT services. Outsourcers in the US and UK now outsource financial services, engineering services, creative services, data entry services and much more.

Most organizations are opting to outsource because outsourcing enables organizations to access intellectual capital, focus on core competencies, shorten the delivery cycle time and reduce costs significantly. Organizations feel outsourcing is an effective business strategy to help improve their business.

If you require expertise services in areas which do not fall under your core competency, then outsourcing will be a good option as you can get access to expertise services. For reducing costs and making faster deliverables, outsourcing is again a good option.

If your work involves production, then it would be more ideal for your organization to opt for insourcing, as you can save on transportation costs and exercise a better control over your project.

6. FINDINGS & CONCLUSION

Following are major findings:

- Sourcing decisions are based on organization’s decision policies, objectives, strategically goals, situation in the business, priorities etc
- No perfect method to selecting sourcing (Outsourcing Vs Insourcing), its situational based
- Both the sourcing technique have its own advantages & disadvantages, decision maker needs to be analysis pros & cons
- For Few situations Outsourcing can be best & for few insourcing
- In some decisions, mix decision of outsourcing as well as insourcing can be beneficial
- Even a country like India is already an attractive market to do outsourcing business, need to balance the long term sustainable growth by developing insourcing competencies in few sectors like manufacturing, medicine, research etc.

Decision for organization of outsourcing or insourcing depends on factors like organizational goals, strategies. Core competencies, type of industry, type of business they are in.

Decision can be made with following points must be taken care as following:

The insourcing/outsourcing decision requires a careful understanding of internal core competencies, both currently and in the future

The decision involves considering total cost, as well as quality, technology, and customer requirements

Insourcing/outsourcing decisions must be aligned with other functional strategies

All projects involve risk, some less and some more. Each of the “acceptable” alternatives should be the object of a detailed risk and mitigation review. You may discover, for example, that the “build” alternative can be broken into smaller phases that will both reduce the risk of a big bang implementation, and give the organization time to adapt to the new, more efficient business processes.

Organizations can even outsource and insource simultaneously. By outsourcing and insourcing concurrently, one can obtain the best of both options and the business can profoundly benefit.

FUTURE SCOPE

Research had reviewed a number of issues and looked at the opportunities and challenges for outsourcing & insourcing. Research had not able to review all the aspect of outsourcing & insourcing sector & process wise. The study can further elaborate on technical depth, focus & experience of the organizations after outsourcing or insourcing. Results of the sourcing decision can be further taken as the research path.
REFERENCE


Websites:

1. http://www.outsource2india.com
3. http://www.nasscom.in