

# Advantages and disadvantages of outsourcing

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## Keywords

Advantages, Disadvantages, Outsourcing, Business Benefits,

## Abstract

*Outsourcing is most commonly known as off shoring. It is a good system for many Thai industries. Yet, outsourcing has both advantages and disadvantages. This research was aimed to investigate major advantages and disadvantages of promoting outsourcing in flow of business and economics of Thailand. By using selective sampling technique, the samples of this study were 20 managers and directors in the selected 20 small and medium enterprises in different types of industries of Thailand that have been known for applying outsourcing system. The majority of selected companies located in Bangkok and Bangkok vicinity. The qualitative technique of in-depth interview and small group discussion were utilized with sample groups. The findings revealed that the majority of the respondents agreed that the advantages included expertise, the ability and time to concentrate on core process, risk-sharing, and cost reduction such as recruitment costs and operating costs. The disadvantages of using outsourcing included risk of exposing confidential data and technology, wrong partners, lack of customer focus, and many hidden costs.*

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## 1. Introduction

With the globalization, many companies do not have to produce every things on their own. Outsourcing is one of the best ideas that allow many companies to focus on what they do best and outsourcing what others can do better, faster, cheaper, and higher quality. Outsourcing is one of the successful business concept becomes an increasingly popular organization management strategy (Koszewska, 2004). Outsourcing is a modern management adopted in responding business units' requirement of enhancing competitiveness and many experts agreed that it is the most powerful manpower management (Tracy and Wierseman, 1995) (Jones and Sasser, 1995) (Sharp, 1997). Outsourcing is nowadays the most popular business concept applied in many companies and many industries around the world (Shy & Stenbacka, 2003). However, there still is a lack of confident in value perception in many industries of developing countries towards this type of business concept. Moreover, the understanding of outsourcing in Thailand is still confined within a small group context. However, the concept is increasingly important that outsourcing has been applied in many countries in ASEAN Community under the concept of economic integration, with a belief that economic integration will facilitate ASEAN Economic Community to enhance an even higher competitive advantages over other regions, to attract more intra-regional investments and trading, and to have high ability to sharing the expertise in various types of industries in creating more quality products and services. Outsourcing is known to be a reduction of costs of raw materials and labor, resulting in reduced production costs. Moreover, by integrated the system of outsourcing mobility in productions of goods and services between countries in ASEAN Community, it can increase the level of competitive for all nations.

## 2. Literature Review

In the past, outsourcing is most generally known as off shoring. Certainly it is a good business concepts as well as a good system for many Thai industries. Yet, outsourcing has both advantages and disadvantages. In fact, outsourcing can be defined as the operation of shifting a transaction to external supplier domestically or internationally with a long term contract with good relationship between the two partners (Quelin & Duhamel, 2003). Outsourcing originated in America, the useful ideas spread to all over the world (Vining & Goberman, 1999). The success of

many firms and many industries came from the competitive tools and business concepts of outsourcing (Gilley & Rasheed, 2000). At present, the large trading partner countries such as U.S.A and Japan have adopted outsourcing policy in many business units of their industries with vital signs that outsourcing is a significant mechanism in increasing their level of competitive, improve business core competency and reducing production costs, whereas protecting businesses from seasonal uncertainties which can lead to a less stability of production quantity (Wells, 1996). Even though outsourcing economically benefits to businesses in many ways, there still are many arguments that outsourcing causes some setbacks such as issues concerning quality of finished goods, late delivery of goods, and skills of labors. In other words, there are advantages and disadvantages of outsourcing. Nowadays, outsourcing concepts has been accepted as part of business partnership development with evident business cooperation all over the world (Kim, & Mauborgne, 1997).

### 3. Research Methodology

In order to find the advantages and disadvantages. The qualitative research technique was utilized to seek more insight information from the experiences of managers and directors in various business. The purposes of this research were to investigate major advantages and disadvantages of promoting outsourcing in many companies of different industries in Thailand. By using selective sampling technique, the samples of this study was set as 20 managers and directors in the selected 20 small and medium enterprises in different types of industries of Thailand that have been known for applying outsourcing system for at least five years. The majority of sample groups of selected companies have their head quarter in Bangkok and Bangkok vicinity. The qualitative technique of in-depth interview and small group discussion were utilized with sample groups. The 20 informants must have at least five years of direct experiences in the areas of outsourcing.

### 4. Findings

Table 1

Advantages	Percentage
1. Expertise and fast delivery	89
2. Concentrating on core process production	82
3. Risk-sharing	91
4. Cost Reduction- operating cost, and recruitment cost	90

Table 2

Disadvantages	Percentage
1. Risk of exposing confidential data and technology	86
2. Synchronizing the deliverables	84
3. Many Hidden costs	91
4. Lack of customer focus	90

From table 1 the findings revealed that the majority of the respondents agreed that risk-sharing is the most important factor of the advantages of outsourcing, then cost reduction such as operating cost and recruitment cost, expertise and fast delivery, and concentrate on core process production. In addition, table 2, revealed that the majority of respondents agreed that the major disadvantages of outsourcing were many hidden cost, then lack of customer focus, risk of exposing confidential data and technology, and synchronizing the deliverables.

### Advantages of Outsourcing

- (1) Expertise and fast delivery: Most of the times tasks or projects are outsourced to others who specialize in the particular field. The outsourced vendors must have specific equipment and technical expertise, most of the times better than the ones at the

outsourcing organization. This means the tasks should be completed faster and with better quality and prompt delivery.

- (2) The ability to concentrate on core process rather than the supporting ones: Outsourcing the supporting processes allows the organization more time to focus on company's core business process or job assignment.
- (3) Risk-sharing: This is the most crucial factors determining the outcome of a campaign is risk-analysis. Outsourcing certain components of many company's business process that helps the organization to shift certain responsibilities to the outsourced vendor. The outsourced must have ability to plan your risk-mitigating factors better
- (4) Reduced cost such as Set up cost, Operational and Recruitment costs: Outsourcing reduces the need to hire individuals in-house; hence recruitment and operational costs can be minimized to a great extent. Therefore, the time and many costs can be safe and focus on something else.

### **Disadvantages of Outsourcing**

- (1) Risk of exposing confidential data and technology: Whenever an organization outsources HR, Payroll and Recruitment services, it involves a risk if exposing confidential company information as well as technology to a third-party. For example, if you allow outsourcing, soon there is going to be imitation products.
- (2) Synchronizing the deliverables: If you choose a wrong partner for outsourcing, some of the common problem areas include stretched delivery time frames, sub-standard quality output, defects, and inappropriate categorization of responsibilities. At times it is easier to mitigate these factors inside an organization rather than with an outsourced partner.
- (3) Many Hidden costs: In general, the concept of outsourcing is cost-effective but at times the hidden costs involved in signing a contract while signing a contract across international boundaries may pose a serious threat.
- (4) Lack of customer focus: An outsourced vendor may have to serve many companies and multiple organizations at a time. Therefore, they may lack a complete focus on your organization's tasks and job assignment (Wongleedee, 2016).

### **5. Future Studies**

In this research, only small and medium sized entrepreneurs in various industries, both managers and directors, were selected as the sample. Similar research may be conducted with companies of large business sizes, as well as in other locations. Further studies for outsourcing may need to use both qualitative method and quantitative method in order to gain more insight information.

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