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THE FUTURE OF OUTSOURCING

Outsourcing is the contracting out of a company's in-house function to a preferred vendor with a high quality level in the particular task area. Outsourcing is one of the fastest growing trends in business. Large-scale organizations such as Telstra (especially for their Internet and Pay-TV divisions) have launched onto outsourcing due to the almost immediate opportunity of savings and quality improvement. Outsourcing can impact many elements of an organisation in a positive or negative manner. Areas such as structure, corporate culture, cost centres and labour have the most tendency to react to outsourcing developments.

Employees of organizations don't benefit from outsourcing as they are at a risk with becoming redundant. This occurs as another group outside the organization who have similar skills and competencies that can perform the same tasks replace existing workers. This treatment of employees can trigger a collapse in confidence and morale from all other employees throughout an organization as they view fellow employees leaving due to job replacements. Therefore in the future lasting employees will feel uncomfortable in an organization that is constantly outsourcing with fears of losing their job. In order to prevent this morale downgrade management may choose to cross-train redundant employees so they can fit in another suitable position, where it may be for expansion or increase labour productivity.

Another aspect that may be impacted by outsourcing is the hierarchical structure. If a certain department is run from outside such as Human Resources, i.e. recruitment is controlled by an outside body, this makes the 'HRM' division to be removed from the organization and hence its formal structure. Advantages of clearing a structure can give senior management the prospect of re-using and expanding into locations that have been previously outsourced. The departmentalisation of the structure might have to be altered to correspond with the changes caused from outsourcing.

Outsourcing does not eliminate decision-making and the need for managers to control. Rather, managers must continuously monitor and evaluate the outsourced functions to ensure that partners are as a whole beneficial to the organisation.

Outsourcing is very controversial and affects every part of business from manufacturing through to design, software development, financial control, logistics management, customer support and sales. Outsourcing has been praised as cost-effective, efficient, productive and strategic, but also condemned as evil, money-grabbing, destructive, ruthless, exploiting the poor.

Outsourcing incentives are huge and can lead to falls in service costs of 50-60%. Up to half of the \$19 trillion spent every year by European companies on sales and administration could be outsourced, yet only 8% had moved according to IBM.

China is now seeing 100% salary inflation at top end and India is not far behind acute shortage of experienced business leadership. Some companies are now thinking of moving operations to places like Pakistan (50% lower costs and over 200,000 IT graduates looking for work), Bangladesh or Vietnam. Changes are happening very quickly.

Outsourcing can generate weeks of hostile media coverage, widespread protests and industrial action. The issue is so sensitive that decisions are usually taken behind closed doors at the most senior levels in the organisation, and only announced after much careful research into how the proposals are likely to be received.

If handled badly, business process outsourcing can damage corporate image, weaken a brand, unsettle customers, and result in lower quality of products and services. But when handled well, the results can be good enough to save a failing corporation.

If you want to save money fast and take everyone with you, you have to convince those involved that the world will be a better place as a result. A good example of this has been tensions over relocating call-centres and software support from countries like the UK and the US to India. More than 230,000 jobs are being lost each year in America as a result of outsourcing, but many economists believe that a similar number of new jobs are being created at the same time.

Union members have protested that jobs are being destroyed in an immoral way, not only because communities are hit back home, but also because they argue the new jobs created in other countries pay very little and exploit the poor. They have often driven vigorous campaigns at work and in the media, designed to block the process.

This has happened because many of the corporations concerned have failed to tell a good news story in a convincing way, to explain why business process outsourcing will result in a better future in a broad sense - not just for shareholders. Corporations may differ, but when it comes to outsourcing to a developing country, the "better world" promise is nearly always identical.