

In-sourcing Versus Outsourcing

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Abstract-*This paper focuses on the outcome of outsourcing and in-sourcing operations for the companies, and what are the reasons that push business to decide outsourcing some part of their products. In addition, this study compares the features of in-sourcing and outsourcing to show the aims of each approach and the effect they have on businesses.*

Keywords- *In-Sourcing; Outsourcing; Partial Outsourcing; Strategic Development;*

1. INTRODUCTION

The choice of an effective strategy that organizations need to decide on is related to the key issues that are relevant in the business environment in the present time. The increase of the effectiveness of the businesses' core activities is ensured by the reorganization of the organizational structure of an enterprise, the transition to an active policy of innovation updates, the ability to adapt to market changes through the allocation of non-core businesses and the organization of outsourcing. Therefore, outsourcing can be regarded as one of the method of solving the problem of strategic development for businesses. It allows companies to restructure the production, optimize the structure of the external relations of the organization and focus on targeted market segments.

The difficulties that businesses can face with during the operational activities are related to the development of new products, difficulties in entering new markets, and the inefficient use of resources on the one hand, as well as the lack of the infrastructure of the maintenance on the other hand. The developed market infrastructure can provide support to companies on the basis of outsourcing strategies and create conditions for their effective work.

The organizational management strategy based on outsourcing plays a special role for small businesses. Large companies have the ability to independently carry out the entire range of economic activities, as well as hire well-paid professionals and develop new markets. Small enterprises are limited in the choice of means and tools of new technologies, the attraction of financial resources, and access to information, and, consequently, the strengthening of their competitiveness. Thus, companies need to decide whether to carry out the business process in-house or refuse from the execution of business processes, and delegate them to specialized organizations.

2. IN-SOURCING

All In-sourcing is an extension of a company or a department for additional loading of existing facilities or assets. It allows enterprises to reduce the cost of unused capacity. An example of in-sourcing is when the company

that has the building as a facility decides to rent it at the market price. It can be depositing of third parties' goods for the period when the storage is not used, which makes in-sourcing seasonal.

The information required for the consideration of the decision to go with in-sourcing is the following. First is the cost of the activity and its practical capacity. Second is the information on the actual capacity, load level, and, therefore, the cost of unused capacity. Finally, is the data on the alternatives to the sale of unused capacity and economic parameters. In-sourcing allows organizations to reduce the cost of unused capacity or extract additional profit from a competitive advantage (Silverstein, DeCarlo & Slocum, 2007)[9].

In-sourcing is a promising direction these days but it will not be able to become a mass phenomenon due to the following reasons. First, in-sourcing requires significant investments and resources during the transitional period and after that. It is the reason why in-sourcing is not attractive for the medium-sized business, as well as it is not attractive for other businesses. Second, in-sourcing allows IT companies to switch to a qualitatively different condition by starting making money on an open market as an example. As a result, the leadership of IT services can only act as a driving force for such a transition. Finally is the global crisis that forces many companies to invest significant funds in the development of in-sourcing strategies. This step does not belong to the main production and its largely progressive nature is not in compliance with high risks that in-sourcing can offer.

Several factors can support in-sourcing in situations when internal division can be competitive and continually improve its effectiveness. These are possible when the function of in-sourcing is basic, the department has the capability of a constant growth to attract the best professionals, and a division can expand at the expense of attracting new clients in the future.

3. OUTSOURCING AND ITS FUNCTIONS

Today outsourcing is one of the most interesting and rapidly developing approaches to business. The essence of

this new management strategy is to decide on the most profitable way in business. Leaders of world businesses use obvious and tangible benefits of industrial specialization and physical boundaries of the company. Thus, the company waives its own business process and acquires services for its implementation from a third-party contractor.

The basic concept of outsourcing comes down to three basic principles. First is that everyone should do the business he is able to concentrate on. Second is that the decision of related tasks can be entrusted to those who better deal with them. Finally is that the distribution of such performance saves a customer's money and brings income to the executor. Outsourcing allows any company to receive all necessary professional services under flexible contractual terms, save the dynamism, have low fixed costs and gain additional potential for growth these days (Mohr, Sengupta & Slater, 2009)[7].

Outsourcing involves the transfer of the authorities to the executor, but the responsibility for the production of certain goods and the provision of some services to business partners. A labor contract is the most close to outsourcing form, which usually means a controlled execution of any particular type of work. At the same time, outsourcing means the transfer of some elements of a company's life cycle. The customer delegates the executor to do one or more business processes under the contract of outsourcing. The key point of this definition is the transfer of control. This condition distinguishes outsourcing from any other form of the interaction between companies.

There are several key advantages that outsourcing can bring companies. Thus, its use allows concentrating an intra-corporate focus on the main goals and objectives of an enterprise. Secondary functions are delegated to third-party firms specializing in their implementation. In this case, the user of outsourcing services can focus their usually limited resources on strategic tasks and the achievement of competitive advantages. Outsourcing also helps to increase the effectiveness of resource use that is difficult to access. For example, it can be service equipment, security areas and others. Outsourcing reduces costs for provided services for a company as it allows transferring them to the executor. Companies that are engaged in research activities carry out production expenses while being busy with the development, marketing, product promotion and other activities at the same time. This burden is transferred to consumers in an increased price for products. A company that provides outsourcing services completes these tasks for less money as usual due to its narrow specialization (Mohr, Sengupta & Slater, 2009)[7].

Outsourcing provides the optimization of business processes. It allows the redistribution of resources in favor of the company's main functions. In particular, outsourcing results in the redistribution of intra directions, such as the development of new parts, into the directions that are directly related to customer service and the

provision of services. This type of activity allows expanding the market segment and ensuring the development of resistance.

Outsourcing companies negate risks by serving a large number of customers. Outsourcers are responsible for the timing and quality of work and services, as well as can be deprived of license for breaching it. Therefore, they are extremely interested in the performance of their obligations. Moreover, latest technologies become available through outsourcing. Outsourcing companies are constantly investing in technology and personnel. In addition, they gain experience in solving similar tasks of their clients.

Outsourcing is a global investment in the development of fixed assets. The decision about the investment is one of the most important and is accepted by companies' top managers. Outsourcing reduces the need to invest in the development of fixed assets related to minor and non-core functions. It can improve businesses' specific financial indicators as there is no need to show a return on the capital investment in certain types of activities.

At the same time, the use of outsourcing by companies is constrained in management practices because of several reasons. These are a risk to transfer too many important management responsibilities, the threat to separate managers from business practices or become dependent on outsourcing companies in terms of timely provided services. Outsourcing leads to the training of the outsourcing companies' specialists, but their personal staff. Therefore, there is always a desire to increase personal staff and train it hoping that employees will be able to bring additional profit. Finally, it is the threat of information leakage (Mohr, Sengupta & Slater, 2009)[7].

Thus, the implementation of outsourcing into businesses involves positive factors and has negative effect. Nevertheless, the impact of positive factor is rather strong so the amount of transferred to outsourcing services is growing rapidly.

4. FULL OUTSOURCING VERSUS IN-SOURCING

Full outsourcing has not been used at early stages of development as there was no proven methodology for the determination of the company's efficiency or its major direction. It was due to the presence of a plurality of communication channels, lack or barriers to enter the Internet and high pace of its development. However, the improvement of the forms of business has led to the emergence of the business process outsourcing concept in the mid-90s, which is shortly called BPO. This concept means the transfer of not individual functions of a department but a specific production or service process in general. BPO considers companies horizontally instead of accepting a traditional way of transferring functions of departments. At the same time, the efforts are directed on the realization of important business management issues. These are the introduction of innovations, acceleration of

the company's entrance to the market with a particular product, an increase in the company's market value through new ways of the organization of the business processes. Additionally, BPO is used for traditional business activities, in particular, the financial management, real estate, the recruitment purposes, administrative functions, separate divisions and documentation (Saxena & Bharadwaj, 2007)[6]. This strategic course cannot be applied in in-sourcing due to impossibility to implement the described above tasks within one company. Full outsourcing requires transferring the entire production to an outsourcing company but not switching between departments within one company.

5. PARTIAL OUTSOURCING VS. IN-SOURCING

Partial outsourcing is the transfer of a specific set of functions to a third party company or a specially created subsidiary. The current trend in the development of wide manufacturing cooperation relations is manifested in the creation of high-value products as partners-companies reduce their own risk in the event of failure of the market by establishing such relationships and redistributing the costs between multiple partners. In-sourcing cannot cope with this task, which is another reason companies apply this advanced strategic course to perform required tasks. The idea that new businesses grow faster, if they are allocated in an independent from the parent company enterprise, is gaining more adherents these days. American Airlines has applied this course to Sabre that is responsible for processing information and reservation of seats in aircrafts (St. Amant, 2009)[10]. It is worth noting that one of the main reasons that encourage companies to expand the scientific and technological cooperation using outsourcing is a high risk of large investments in the development process. The development of a new product lasts five to eight years and more. At the same time, it is difficult to predict the cost-effectiveness of the introduction and implementation of a new product on the market. Thus, the risk of investment in research and development is even higher than in production, although the extent of such investments is very high. The use of outsourcing opportunities allows companies to eliminate the possibilities of the traditional market competition, particularly, price competition, as well as potential threats of innovations and other forms of competitions that can come from third parties (Weele, 2010)[11].

6. IMPROVED OUTSOURCING VERSUS IN-SOURCING

Improved outsourcing is a new direction in the development of this course of business. Companies that transfer many outsourcing functions to third parties derive maximum benefit from it. The increase of competition in the computing market has forced many enterprises to transfer production to regions with lower labor costs, which has allowed improving the competitiveness of

products. According to Hirschheim, Heinzl and Dibbern (2009)[4], the use of improved outsourcing allows companies to focus on the main goals and objectives of the enterprise. It also allows using resources more efficiently. For example, companies that are aimed at the expansion of business or establishment of a new subsidiary can be interested in the attraction of the outsourcing company that provides all sorts of services. In its turn, in-sourcing is possible as a practical implementation of the diversification strategy as it provides companies with a competitive advantage through the development of new functions or activities. Such implementation is possible under the following conditions. Thus, new activities are developed as main business entities in the future, or the company possesses the necessary resources and capacity for growth and development to ensure the involvement of highly qualified specialists. Another option is that the enterprise should be able to attract new customers through the expansion of its activity. These features distinguish in-sourcing from improved outsourcing.

7. CONCLUSION

The interest in outsourcing has been increasing in the recent decades. Outsourcing is a developing and promising form of organization of a company, which has a number of advantages. These are the cost reduction, the concentration of management and staff on core business, the improvement of the quality and reliability of service, the use of advanced technologies, and others. The essence of this approach is that companies are run by only those business processes that create a competitive advantage for them and are most experienced ones.

Companies decide in favor of in-sourcing in case of the presence of the cost of the activity and its practical capacity, the information on the cost of unused capacity, and a chance of selling the unused capacity and economic parameters. In-sourcing allows organizations to reduce the cost of unused capacity or extract additional profit from a competitive advantage.

The term paper has provided an analysis of the feasibility of the use of outsourcing and in-sourcing as strategic approaches to see their contrast and understand the tools that can help companies to decide on the most appropriate method. Thus, full outsourcing is the transfer of not individual functions of a department but a specific production or service process in general and considers companies horizontally instead of accepting a traditional way of transferring functions of departments, which is impossible to do when deciding to go with in-sourcing. Partial outsourcing is the transfer of a specific set of functions to a third party company or a specially created subsidiary. The transfer of operations to subsidiary companies is impossible in in-sourcing as this approach considers only the expansion of the main activities of the enterprise, the use of spare capacity in the main and auxiliary production for the performance of external orders, the provision of storage and development of

information technology and software. The use of improved outsourcing allows companies to focus on the main goals and objectives of the enterprise, while in-sourcing is possible as a practical implementation of the diversification strategy as it provides companies with a competitive advantage through the development of new functions or activities.

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