What Future Emerging Outsourcing Countries Should Companies Evaluate for Expansion?

Alice Ying Nga Luo  
_Cornell University_

Yiyang Fang  
_Cornell University_

Follow this and additional works at: https://digitalcommons.ilr.cornell.edu/student

Thank you for downloading an article from DigitalCommons@ILR.

Support this valuable resource today!

This Article is brought to you for free and open access by the ILR Collection at DigitalCommons@ILR. It has been accepted for inclusion in Student Works by an authorized administrator of DigitalCommons@ILR. For more information, please contact catherwood-dig@cornell.edu.

If you have a disability and are having trouble accessing information on this website or need materials in an alternate format, contact web-accessibility@cornell.edu for assistance.
What Future Emerging Outsourcing Countries Should Companies Evaluate for Expansion?

Abstract
[Excerpt] With the rise of globalization and rapid advancements in technology, companies have looked at alternative measures such as outsourcing to keep capital and labor costs low, increase efficiency, improve revenue and profitability, gain competitive business advantages, focus on core business and reduce risks. Also, outsourcing can help companies tap into unexplored territories and talents that the increasingly globalized workforce has to offer. The role of human resources professionals is to decide what and how to source, and manage supplier coordination and development. In this research paper, these questions will be answered: 1) how to make outsourcing decisions, 2) how to manage outsourcing decisions, and 3) what are the potential markets.

Keywords
Human Resources, HR, India, Poland, outsourcing, globalization, multinational corporations, MNCs

Comments
Suggested Citation

Required Publisher Statement
Copyright held by the authors.
Companies have established low-cost country operations in India and Poland over the last two decades. What future emerging outsourcing countries should companies evaluate for expansion? What demographics exist in those regions and what types of roles would be best placed there?

Executive Summary Research Question

Introduction

With the rise of globalisation and rapid advancements in technology, companies have looked at alternative measures such as outsourcing to keep capital and labour costs low, increase efficiency, improve revenue and profitability, gain competitive business advantages, focus on core business and reduce risks. Also, outsourcing can help companies tap into unexplored territories and talents that the increasingly globalised workforce has to offer. The role of human resources professionals is to decide what and how to source, and manage supplier coordination and development. In this research paper, these questions will be answered: 1) how to make outsourcing decisions, 2) how to manage outsourcing decisions, and 3) what are the potential markets.

Making Outsourcing Decisions

It is important for human resources professionals to understand how to make outsourcing decisions because these decisions can have both negative and positive impacts on overall corporate culture and strategy, supply chain management and employment relations. In addition, bad outsourcing decisions can have determinant effects on recognising, developing and retaining human capital within the firm. There are 4 conceptions of boundaries that can help make outsourcing decisions:

1) **Efficiency** (Exhibit 1): companies need to consider minimising “governance costs”, which are costs of searching, negotiation, monitoring, coordination and dispute settlement in business transactions since outsourcing decisions are more efficient where the governance costs are acceptably low.

2) **Power** (Exhibit 2): according to resource dependency theory, companies seek to “avoid coercion and gain power over external forces”. This means that when companies make outsourcing decisions, they need to maximise their strategic control over crucial external forces through internalising sources of environmental uncertainty like reducing dependence on a single exchange partner.

3) **Competence** (Exhibit 3): this is based on the resource-based of the firm implying that when making outsourcing decisions, companies are advised to match their organisational resources with environmental opportunities. In other words, they should use their resources to gain competitive advantage through outsourcing activities to “maximise the value of the firm’s resource portfolio”.

4) **Identity** (Exhibit 4): companies need to be concerned about their managerial cognition and organizational identity when making outsourcing decisions. There should be “cognitive frames used by managers to shape their actions and interpretations”, and “shared norms and values that are unique to their organisation” to achieve coherence between their organisation’s identity and its outsourcing activities.

Managing Outsourcing Relationships

As mentioned, the constantly-changing business and economic environment with political uncertainty and technological advancement can either help or hinder outsourcing activities, therefore, it is essential for companies to manage their outsourcing relationships tactfully. In other words, there must be processes and structures in place to ensure the alignment of the strategies and objectives of all parties involved in the outsourcing activities. There are five basic elements for healthy and sustainable governing structure of outsourcing relationships: 1) outsourcing organizational structure, 2) communication channels, 3) control and monitoring frameworks, 4) performance metrics, and 5) problem-solving mechanisms for breakdowns in the governing structure.

To further help companies manage their outsourcing relationships with different external and internal parties, they need to consider the three dimensions shaping the nature of governance structures:

i) Interdependency of a process with other processes of an outsourcing activity

ii) Process complexity on how difficult to understand and measure an outsourcing activity
Strategic importance of a process of an outsourcing activity to a company, in terms of its impacts on competitiveness

Example: Merrill Lynch’s restructuring of its wealth management work station platform was high process interdependence, complexity and strategic importance compared to Qatar Airways’ outsourced revenue accounting and recovering processes because they are low process interdependence, complexity and strategic importance.

Potential Markets

Germany

Strengths: Germany's manufacturing industry represented an estimated 30.2% of its GDP in 2015 (Table 1)\(^1\)\(^0\). It is known to have a highly skilled workforce because it had the highest percentage of its population employed in the labor force among all the EU countries with an estimated percentage of 55.8 in 2015. It also had the lowest estimated unemployment rate of 4.8% in 2015 (Table 2)\(^1\)\(^0\). It is recognized as the world’s largest and most technologically advanced manufacturer of industrial and chemical products\(^3\).

Weaknesses: Germany has one of the highest energy and labor costs in the world including non-wage labor costs. Also, it has weak demographic figures and an ageing population. There are stringent compliance awareness and regulations for businesses to follow in Germany\(^2\).

China

Strengths: China has the largest population and the largest labor force in the world (Table 3)\(^1\)\(^0\). It has moved to a more market-oriented economy in recent years and has played a major role in shaping the global economy over the last 40 plus years. It is the world’s largest exporter of goods and the largest trading nation in the world\(^10\).

Weaknesses: Unexpected and unplanned regulatory actions on specific issues can abruptly disrupt Chinese cashflows. Some of the obstacles may be faced by businesses are bureaucracy, especially at provincial government-level, and a lack of transparency\(^6\).

Japan

Strengths: Japan, with the 11th largest population and 5th largest economy by GDP in the world, has prospered with over three decades of overall real economic growth. It had an estimated unemployment rate of 3.4% in 2016 (Table 3)\(^1\)\(^0\). In October 2015, Japan and 11 other trading partners reached an agreement on the Trans-Pacific Partnership, a pact that promises to open Japan's economy to increase foreign competition and create new export opportunities\(^10\).

Weaknesses: Japan's corporate tax burden is moderately high compared with other East Asian countries. A high overall cost structure makes its market entry and expansion expensive for foreign investors. It is at a high risk of natural disasters including earthquakes and tsunamis\(^8\).

Indonesia

Strengths: Indonesia ranked the 5th in the world’s population and the 9th in its GDP. It is a leading economy in Southeast Asia. During the recent global financial crisis, it joined China and India as the only G20 members posting economic growth. With the nine other ASEAN members, it will continue to move towards participation in the ASEAN Economic Community, though the full implementation of economic integration has not yet materialized\(^10\).

Weaknesses: Corruption remains a major problem. Indonesia's excessive bureaucracy makes it a difficult place to do business. Among Asian economies, Indonesia has the longest period to start a business. Labor laws are also considered excessive\(^2\).

South Korea

Strengths: South Korea ranked the 29th in the world’s population and the 14th largest world economy by GDP. It had an estimated unemployment rate of 3.6% (Table 3)\(^1\)\(^0\). Its economy grew rapidly in the 1960s. During this period, it became a leader in the world’s exports (6th in the world) and imports (10th in the world) (Table 4)\(^10\).

Weaknesses: its economy has some long-term challenges including a rapidly aging population, inflexible labor market, dominance of large conglomerates (chaebols), and the heavy reliance on exports which comprise about half of GDP. Structural reforms are currently being implemented by the government\(^10\).
References


**Figure 3  Boundaries of Competence**

Strategic logic of setting boundaries to maximize opportunity value of resource portfolio

Boundary management is best understood as process of aligning resource configurations with market opportunities


**Figure 4  Boundaries of Identity**

Strategic logic of setting boundaries to create consistency with identity

Boundary management is best understood as a process of resolving inconsistencies between identity and organizational activities and markets

Table 1: GDP Composition by Sector of Origin (2015 estimated)

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture Percent of Total GDP</th>
<th>Industry Percent of Total GDP</th>
<th>Services Percent of Total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>1.6%</td>
<td>24.6%</td>
<td>70.6%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.7%</td>
<td>19.4%</td>
<td>79.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.6%</td>
<td>30.4%</td>
<td>69.0%</td>
</tr>
<tr>
<td>France</td>
<td>1.7%</td>
<td>19.3%</td>
<td>79.0%</td>
</tr>
</tbody>
</table>


Table 2: Population, Growth Rate and Labor Force by Country and EU (2016 estimated)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>513.9 (3)</td>
<td>0.25% (181)</td>
<td>232.2 (3)</td>
<td>45.2%</td>
<td>9.5% (112)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>64.4 (23)</td>
<td>0.53% (157)</td>
<td>33.0 (19)</td>
<td>51.2%</td>
<td>5.4% (61)</td>
</tr>
<tr>
<td>Germany</td>
<td>80.7 (19)</td>
<td>-0.16% (211)</td>
<td>45.0 (15)</td>
<td>55.8%</td>
<td>4.8% (49)</td>
</tr>
<tr>
<td>France</td>
<td>86.8 (22)</td>
<td>0.41% (160)</td>
<td>30.4 (21)</td>
<td>45.5%</td>
<td>10.10% (118)</td>
</tr>
</tbody>
</table>


Table 3: Population, Growth Rate and Labor Force by Country (Asia) (2016 estimated)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,373.5 (1)</td>
<td>0.43% (164)</td>
<td>806.3 (1)</td>
<td>58.7%</td>
<td>4.0% (35)</td>
</tr>
<tr>
<td>India</td>
<td>1,266.9 (2)</td>
<td>1.19% (97)</td>
<td>501.8 (2)</td>
<td>39.6%</td>
<td>8.4% (95)</td>
</tr>
<tr>
<td>Japan</td>
<td>126.7 (11)</td>
<td>-0.19% (214)</td>
<td>66.0 (9)</td>
<td>52.1%</td>
<td>3.4% (28)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>258.2 (5)</td>
<td>0.89% (126)</td>
<td>122.5 (5)</td>
<td>47.3%</td>
<td>6.2% (71)</td>
</tr>
<tr>
<td>South Korea</td>
<td>50.9 (28)</td>
<td>0.53% (156)</td>
<td>26.9 (25)</td>
<td>52.8%</td>
<td>3.6% (31)</td>
</tr>
</tbody>
</table>


Table 4: Exports and Imports by Country (2015 estimated)

<table>
<thead>
<tr>
<th>Country</th>
<th>EXPORTS</th>
<th>IMPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total [in billions US$] (world rank)</td>
<td>Major Export % of Partners Total</td>
</tr>
<tr>
<td>China</td>
<td>2,143.0 (2)</td>
<td>US 18.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Value (Rank)</td>
<td>Top Trade Partners</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td>India</td>
<td>272.4 (20)</td>
<td>US 15.2%, UAR 14.4%, Hong Kong 4.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>622.0 (5)</td>
<td>US 20.2%, China 17.5%, South Korea 7.1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>148.4 (31)</td>
<td>Japan 12.0%, US 10.8%, China 10.0%</td>
</tr>
<tr>
<td>South Korea</td>
<td>548.8 (6)</td>
<td>China 26.0%, US 5.8%, Vietnam 13.3%</td>
</tr>
</tbody>
</table>