11-2019

What Future Emerging Outsourcing Countries Should Companies Evaluate for Expansion?

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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

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November 2019

Executive Summary Research Question

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?

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[9]. 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[4]. 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[5]:

1) Efficiency (Exhibit 1)[5]: 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[5].

2) Power (Exhibit 2)[5]: according to resource dependency theory, companies seek to "avoid coercion and gain power over external forces"[5]. 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)[5]: 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"[5].

4) Identity (Exhibit 4)[5]: 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[5].

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[9]. 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[1].

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[1]:

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

iii) 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)[10]. 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)[10]. 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[7].

China

Strengths: China has the largest population and the largest labor force in the world (Table 3)[10]. 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)[10]. 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)[10]. 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].

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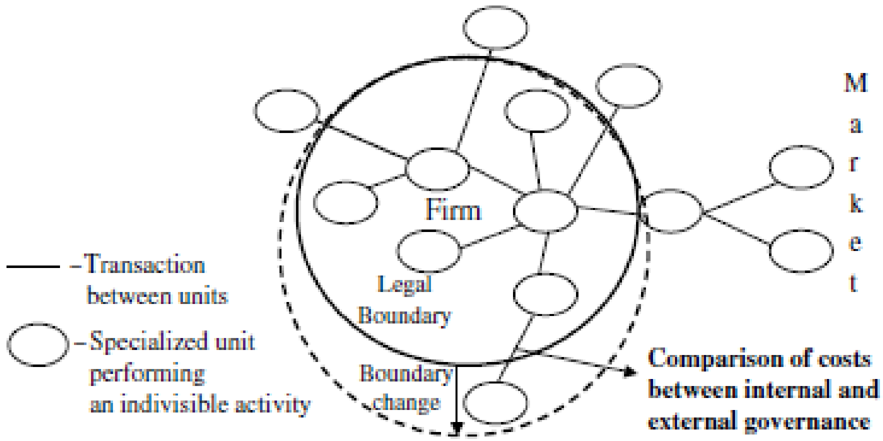
Appendix

Exhibit 1

Figure 1 Boundaries of Efficiency

Strategic logic of setting boundaries at point of minimum cost
(by comparing costs of market and hierarchical governance)



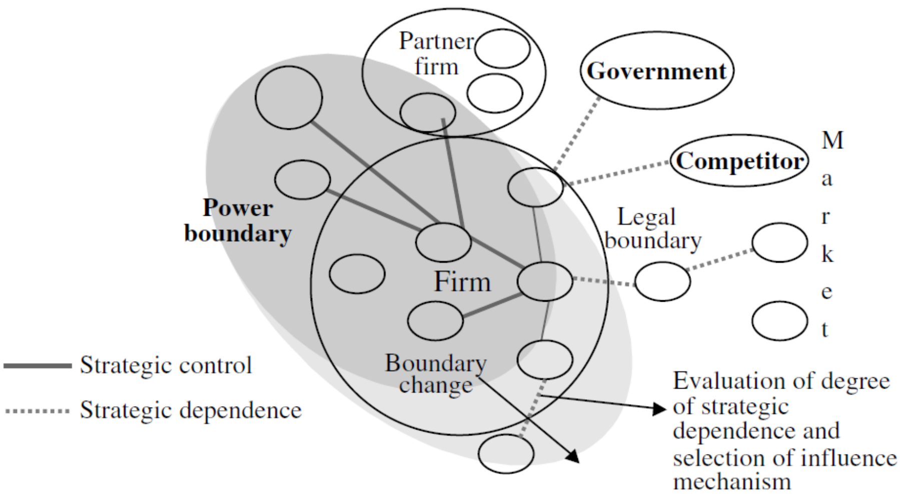
Boundary management is best understood as an accumulation of discrete decisions based on the criterion of governance cost minimization

Eisenhardt, K. M. and Santos, F.E. (2005). Organizational Boundaries and Theories of Organization. Organization Science, 16(5): 491-508.

Exhibit 2

Figure 2 Boundaries of Power

Strategic logic of setting boundaries at point of maximum control over critical dependencies



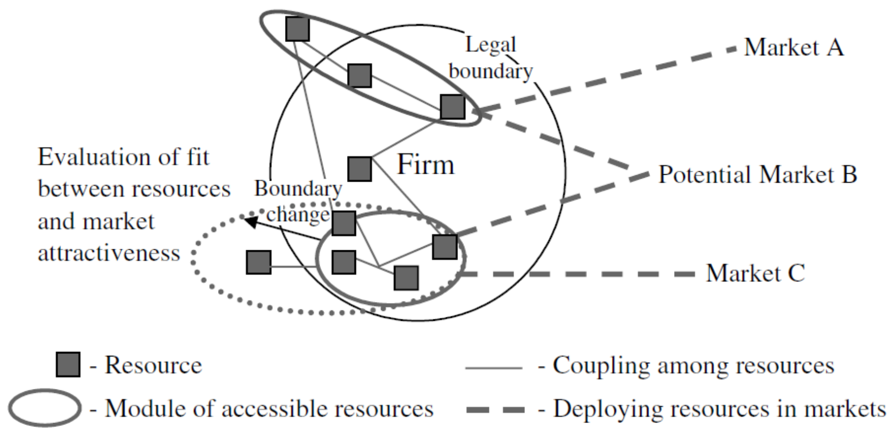
Boundary management is best understood as advantageous management of external strategic dependence relationships

Eisenhardt, K. M. and Santos, F.E. (2005). Organizational Boundaries and Theories of Organization. Organization Science, 16(5): 491-508.

Exhibit 3

Figure 3 Boundaries of Competence

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



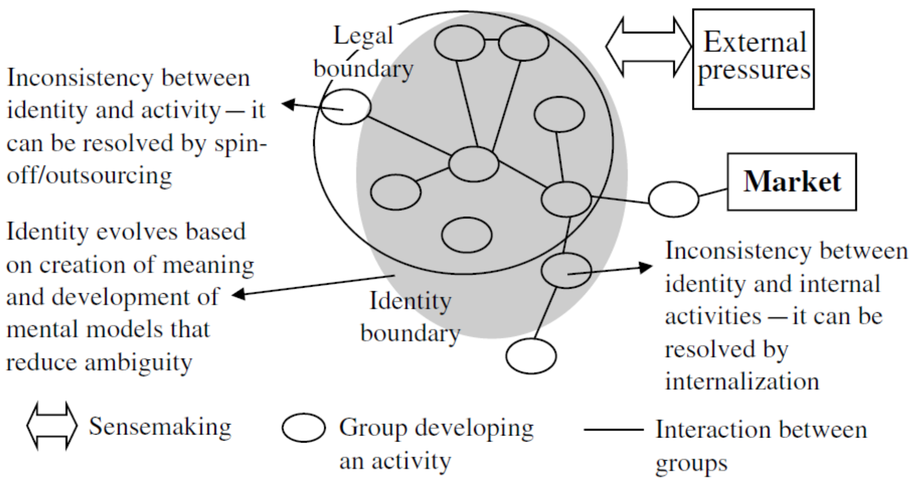
Boundary management is best understood as process of aligning resource configurations with market opportunities

Eisenhardt, K. M. and Santos, F.E. (2005). Organizational Boundaries and Theories of Organization. Organization Science, 16(5): 491-508.

Exhibit 4

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

Eisenhardt, K. M. and Santos, F.E. (2005). Organizational Boundaries and Theories of Organization. Organization Science, 16(5): 491-508.

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

Country	Agriculture Percent of Total GDP	Industry Percent of Total GDP	Services Percent of Total GDP
European Union	1.6%	24.6%	70.6%
United Kingdom	0.7%	19.4%	79.9%
Germany	0.6%	30.4%	69.0%
France	1.7%	19.3%	79.0%

Meric, G., Meric, I., Scarpa, R. and Welsh, C. (2017). A Comparison of the Financial Characteristics of European and Asian Manufacturing Firms. *Studies in Business & Economics*, v. 12, n. 3, p. 112–125, 2017.

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

Country	Population [in millions] (world rank)	Population Growth Rate (world rank)	Labor Force [in millions] (world rank)	Labor Force as Percentage of Population	Unemployment Rate (world rank)
European Union	513.9 (3)	0.25% (181)	232.2 (3)	45.2%	9.5% (112)
United Kingdom	64.4 (23)	0.53% (157)	33.0 (19)	51.2%	5.4% (61)
Germany	80.7 (19)	-0.16%) (211)	45.0 (15)	55.8%	4.8% (49)
France	66.8 (22)	0.41% (160)	30.4 (21)	45.5%	10.10% (118)

Meric, G., Meric, I., Scarpa, R. and Welsh, C. (2017). A Comparison of the Financial Characteristics of European and Asian Manufacturing Firms. *Studies in Business & Economics*, v. 12, n. 3, p. 112–125, 2017.

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

Country	Population [in millions] (world rank)	Population Growth Rate (world rank)	Labor Force [in millions] (world rank)	Labor Force as Percentage of Population	Unemployment Rate (world rank)
China	1,373.5 (1)	0.43% (164)	806.3 (1)	58.7%	4.0% (35)
India	1,266.9 (2)	1.19% (97)	501.8 (2)	39.6%	8.4% (95)
Japan	126.7 (11)	-0.19%) (214)	66.0 (9)	52.1%	3.4% (28)
Indonesia	258.2 (5)	0.89% (126)	122.5 (5)	47.3%	6.2% (71)
South Korea	50.9 (28)	0.53% (156)	26.9 (25)	52.8%	3.6% (31)

Meric, G., Meric, I., Scarpa, R. and Welsh, C. (2017). A Comparison of the Financial Characteristics of European and Asian Manufacturing Firms. *Studies in Business & Economics*, v. 12, n. 3, p. 112–125, 2017.

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

	EXPORTS		IMPORTS	
Country	Total [in billions US$] (world rank)	Major Export % of Partners Total	Total [in billions US$] (world rank)	Major Import % of Partners Total
China	2,143.0 (2)	US 18.0%	1,575.0 (3)	South Korea 10.9% US 9.0% Japan 8.9% Germany 5.5%

		Hong Kong Japan 6.0% South Korea 4.5% 14.0%		
India	272.4 (20)	US UAR Hong Kong 15.2% 14.4% 4.6%	409.2 (11)	China 15.5% Saudi Arabia 5.5% UAR 5.4% US 5.2%
Japan	622.0 (5)	US 20.2% China 17.5% South Korea 7.1% Hong Kong 5.6%	627.3 (6)	China 24.8% US 10.5% Australia 5.4% South Korea 4.1%
Indonesia	148.4 (31)	Japan US China 12.0% 10.8% 10.0%	135.1 (32)	China 20.6% Singapore 12.6% Japan 9.3% South Korea 5.9%
South Korea	548.8 (6)	China 26.0% US Hong Kong 5.8% Vietnam 5.3% 13.3%	428.5 (10)	China Japan US Germany 20.7% 10.5% 10.1% 4.8%

Meric, G., Meric, I., Scarpa, R. and Welsh, C. (2017). A Comparison of the Financial Characteristics of European and Asian Manufacturing Firms. *Studies in Business & Economics*, v. 12, n. 3, p. 112–125, 2017.