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Understanding the Complexities of Outsourcing Practices in a Less Developed Economy

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Abstract: **The purpose of this research was to understand the complexities of outsourcing in a less developed country. In order to understand this concept, the research sort to identify problems involved in outsourcing in a less developed country. These problems included: Lack of experience with outsourcing, a lack of service provider for a particular activity/lack of expertise with an outsourced task, lack of innovation, lack of quality, lack of government support, and finding a trustworthy vendor. This research has made us to understand the importance of outsourcing to the growth of a country. Possible solutions were proposed such as: An organization choosing a service provider with experience in outsourcing, awareness created by the government to educate the society on the benefits of outsourcing to creating employment and bringing growth to the economy, a service provider if not an expert yet can dedicate time to learn more and improve its craft, proper screening be made by organizations to get reliable and trustworthy vendor to perform their activities, the government can also support improve local service providers by granting incentives, the government can also place restrictions on offshore/global outsourcing to help local/onshore outsourcing strive.**

Keywords: **Outsourcing,**

I. INTRODUCTION

Outsourcing emerged in the 1950s, but it wasn't until the 1980s that it began to be perceived as an attractive business strategy. The growth of outsourcing in the 1980s was largely driven by ''focus on core competency'' strategy that was developed in the 1970s. Since then, outsourcing has had a significant and positive impact on businesses and in most cases helping them compete effectively. The growth and evolution of outsourcing has created new areas of possibilities which have allowed various organizations to restructure their operations. Outsourcing is now an important consideration in strategy formulation, and it can fundamentally change the way a business competes and structure itself.

Why do senior managers sometimes prefer to entrust outside firms with critical tasks? The fact is, senior management often finds outside firms more cost-effective. It is vision, function, and economics that drive the need for outsourcing (Harkins, 2004)

Most developed and developing countries have great economies today mainly because of outsourcing. a developing country like Singapore is outsourcing. Even the former prime minister of Singapore- Lee Kuan Yew said '' if your opponents outsource and you do not, then you are most likely to be out of business'' (Correnti 2014). There are many reasons why a firm outsources a function. These include lack of abundant resources, the need for better skills and management, to share risk, increase flexibility, globalization, and also to save cost when outsourcing is properly implemented. These costs may include high taxes, high cost of energy, imprudent government regulation, production and labour costs. In less developed countries. The practice of outsourcing is not really a trend due to the economy's low development rate.

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This article aims at understanding the complexities of outsourcing practices in a less developed economy and the researcher aims at identifying these complexities and how to fight against or prevent them. This article is structured as follows. In the next section, we will have a literature review, then main findings and solutions and lastly the conclusion.

II. LITERATURE REVIEW

2.1 Concept of outsourcing

Outsourcing is the distribution of some set of business processes to an external service provider expert. It is also the contracting out of both foreign and domestic business processes, which an organization may have formerly executed domestically to another private organization from which the procedure is bought back as a service. It may also include offshoring. When dealing with services, the GAO (2004) describes outsourcing as the acquisition of services from a company that can either be another domestic company or an offshore supplier. Baumanis and McGee (2008) describe outsourcing as the practice of free trade because free trade generates more jobs than it destroys

One of the main benefits of outsourcing is that it allows companies to focus on core competencies. At the same time, a tea of foreign workers works in-house or through a third party provider. The first step in outsourcing is for a business to choose an outsourcing partner.

After choosing the ideal outsource-based company, its time to identify the services you need help with and define the contract's terms and conditions, timeline, and cost structure. Below are some points an organization needs to consider before selecting a third party service provider;

- Choose areas of opportunities and outline what can benefit you
- Critically assess your strengths and weaknesses- look for what you are bad at, then outsource it, making sure that the service provider is up to the task, or has the ability to handle it.
- Decide what is on the table-make sure that if your organization is outsourcing critical issues or task, it should be to a specialized partner.
- Shortlist providers that meet your requirements- you can do so by preparing a request to see how capable they might be, and eliminate those non eligible.
- Consider human elements such as trust. It is important to make sure they have the right workers, in terms of skills.

Usually, there are various outsourcing business models to choose from depending on the sort of service required. Some common types are;

→ LOGISTICS OUTSOURCING- this is when a company uses an eternal provider (aka a third party) to handle various supply chain functions like warehousing, transportation, freight forwarding, planning, reverse logistics and material supply.

→ IT OUTSOURCING- the use of external service providers to effectively deliver IT-enabled business process, application service and infrastructure solutions for business outcomes.

→ BUSINESS PROCESS OUTSOURCING- it is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics.

→ KNOWLEDGE PROCESS OUTSOURCING- it is the outsourcing of core information-related business activities which are competitively important or from an integral part of a company's value chain. It requires advanced analytical and technical skills as we as high degree of specialist expertise.

The most wildly outsourced activity is legal work (59 percent), followed by shipping (41 percent), computer information systems (36 percent), and production and manufacturing (31 percent). Twenty-six percent of the executives interviewed currently outsource at least one financial function; 42 percent expect to outsource at least one financial function in the next three years (Struebing, 1996).

2.2 Pros and Cons of outsourcing

Pros

There are several reasons why a firm considers outsourcing, ‘’according to Kevin Moran, senior vice president with Fidelity Institution Retirement Services’ Benefits Centre. He describes them as follows (McCarthy, 1996):

- . Outsourcing allows companies to refocus their resources on their core competencies or business.
- Corporations can buy technology from a vendor that would be too expensive for them to replicate internally
- Outsourcing lets companies re-examine their benefit plans, make them more efficient, and save time and money while improving efficiencies.
- Companies outsource to improve the benefit plan service level to their employees by making the information more consistent and more available.
- A final possible reason is to reduce costs, certainly over the longer term.

Other reasons include:

- Cost saving, which requires choosing an expert that performs the outsource function more efficiently than your organization can.
- Reduce staff, or minimise the fluctuation in staffing due to change in demand.
- Gain benefits by outsourcing non-core activities.
- Free employees from tedious tasks in order to allow them concentrate on core activities.
- Gain access to external skills and technologies. Of course this is only true if the other party brings new skills and innovative technologies.
- Outsiders are prone to providing quality services than workers in-house.

Cons

- The organization lacks control over activities outsourced.
- Communication problems may arise, especially with two different time zones involved, and lack of a steady internet connection.
- Possible delay in perform certain activities which may cause a disruption in the supply chain.

A less developed country is a country listed by the United Nations that exhibits the lowest indicators of socioeconomic development. This concept originated in the late 1960s and the first group of least developed countries was listed by the UN in its resolution 2768 (XXVI) on the 18 November 1971.

A country is classified among the least developed countries if it meets three criteria.

- POVERTY – adjustable criterion based on Gross National Income (GNI) per capita averaged over three years. As of 2018, a country must have GNI per capita less than US$1,025 to be included on the list, an over US$1,230 to graduate from it.
- HUMAN RESOURCE weakness (based on indicators of nutrition, health, education and adult literacy).
- ECONOMIC VULNERABILITY (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters).

LDC criteria are reviewed every three years by the Committee for Development Policy (CDP) of the UN Economic and Social Council (ECOSOC). There are a total of 46 countries that are still listed as least developed countries by the UN as of November 2021. In Africa there are 33 countries, 1 in the Americas, 9 in Asia, and 3 in the Oceania.

2.3 Theoretical framework

2.3.1 Transaction cost economics, by Lacity and Willcocks (1995)

It reports that a firm's decision to outsource its logistics services is founded on minimizing the sum of its transactions and production costs.

The principle of this theory is that outsourcing to a logistics service provider will take place when there is a possibility to reduce transaction cost.

2.3.2 Economic growth theory, by Aissha Ciara (2023)

According to this theory, in order for a less developed country to achieve economic growth, she should be able to grasp at any business solution which is able to increase cash circulation, increase employment rates and attract investment.

In relation to outsourcing, if properly practiced in a less develop country, most of the above benefit for economic growth can be achieved. Research has shown that outsourcing is fast becoming and in some countries is already a trend and a necessity even. So if there are many organization in need to outsource and service provider ready to perform those activities, then a less developed country can likely increase its GDP in a couple of years.

III. MAIN FINDINGS AND DISCUSSION

After a careful research, the researchers were able to identify some complexities involved with outsourcing in a less developed country. The researchers shall also devised possible solutions to these complexities.

3.1 Problems in the practice of outsourcing in a less developed country

Below are some complexities in the practice of outsourcing in a less developed country. The below problems were investigated by the researchers and have been clearly stated and explained for the readers.

1. Lack of experience with outsourcing

One problem with outsourcing in the developing country is the fact there isn't much evolution and practice of outsourcing. When you first start working with someone or at something, it might be overwhelming. There is lack of familiarity with best practices, common concepts, and the workflow. This makes it difficult for an organization to convey their vision to another group of people, especially someone you have never worked with before.

2. A lack of service provider for a particular activity/lack of expertise with an outsourced task

A company may need to outsource an activity to an outside provider and finds difficulty in outsourcing maybe due to the fact that that service hasn't been mastered by the locals of the area. This could be due to the fact that the service is difficult to perform, or there isn't any local expert. When a situation like this occurs, the company is now force to look for experts in a more developed country and more expertise on that field. This sometimes is usually a cheaper option to the organization but may also affect cash flow in the less developed economy, thus affecting its GNI.

3. Lack of innovation

Less developed countries as the name entails lack a lot of innovations and new ideas. Their companies think alike, because they are trained in similar ways by similar people. So the is severe lack of creativity. Some organization will like to outsource to providers that give an added value to the relationship, thus they tend to outsource globally to a more innovation international service provider.

4. Lack of quality

A Lack of professional training to perform a particular task could affect the service provided by the outside service provider. If services are not properly performed, it could cause a lot of problems or the organization and even a monetary loss.

5. Lack of government support

Sometimes, outsourcing is hard in a less develop country because of lack of support from the government. Small businesses are taxed very high amounts to run, and thus making some service provider companies to shut down. There also no grant by the government to small businesses to help them grow.

6. Finding a trustworthy vendor

Outsourcing could go wrong in a less developed country if the wrong vendor or service practitioner is chosen to perform a task. With the high rate of unemployment found in a less developed country, it is easy to fall prey of scammers.

3.2 Possible solutions to the problems involved with outsourcing in a less developed country

1) An organization should choose a service provider with experience in outsourcing, some one that can walk them through the process without any situation, a provider who understands the organization. A service provider who doesn't understand the vision of the organization can put more effort into researching and trying to understand the concept and vision on the organization.

2) Awareness can be created by the government to educate the society on the benefits of outsourcing to creating employment an bringing growth to the economy.

3) A service provider if not an expert yet can dedicate time to learn more and improve its craft.

4) Proper screening should be made by the organization in other to get a reliable and trustworthy vendor to perform their activities. This will prevent failed orders, scams and poor quality products and services.

5) The government can also support growing local service provider grow by granting incentives.

6) The government can also place restrictions on offshore/global outsourcing to help local/onshore outsourcing strive.

Outsourcing is a very important tool in the economic growth of a less developed country. Below are the benefits of outsourcing to a less developed country.

- Outsourcing creates employment in large scales. This is because, if more companies are in need of third service provider to perform tasks for them while they focus on their core competency, then there will be many people willing to start providing these services and with growth there is expansion thus employment is created.

- Outsourcing helps increase an economy's Gross National Income. This is because with an increase in outsourcing, especially to onshore service providers, there is more money in circulation in the country.

- Outsourcing helps organizations strive better than competitors if properly practiced. This is because the organization outsources tasks that are not in their expertise to experts to focus in what they are good at.

IV. CONCLUSION

This article was concerned with understanding the complexities of outsourcing practices in a less developed economy. Our main objective was to identify the problem involved with outsourcing in a less developed economy.

In an attempt to investigate these complexities, there was the need to clearly explain the concept of outsourcing, stating its Pros and Cons, the different types of outsourcing. There was also the need to understand how developed country struggle with the problems involved with practicing outsourcing and also the possible solutions.

We can then assert from the investigations that in as much as there are lots of complexities of outsourcing in a less developed country. It is very necessary to incorporate outsourcing to every country, for economic growth.

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