

**Global Outsourcing Strategies: An International Reference on Effective Outsourcing Relationships** edited by Peter Barrar and Roxane Gervais, Gower Publishing, England, 2006, pages 322, price £ 75

The book “Global Outsourcing Strategies: An international reference on effective outsourcing relationships” contains 22 chapters divided into 5 broad sections. The theme of the book is on importance of management of outsourcing. According to this book, traditionally, outsourcing has tended to be seen as cost reduction tool with a limited scope. But now, outsourcing is regarded as means of achieving major change in performance, agility and customer services. While conventional outsourcing was to facilitate better, faster and cheaper completion of work; transformational outsourcing is about helping to create a new business model and a new management approach. Shared risk and reward is an important feature of modern outsourcing. Differing from conventional belief this book stresses principal motives for outsourcing as technological and strategic and not cost reduction. Part 1 of the book is on the nature of outsourcing. Part 2 addresses the ways in which outsourcing influences change in the organization. Part 3 analyses the ways in which outsourcing has impacted on the workplace including trade unions. Part 4 focuses on legal and relationship issues relating to outsourcing and part 5 provides few case studies on outsourcing. In short, this book is very comprehensive and explores different facets of the outsourcing process, such as contract negotiation, the risks involved in outsourcing, the need for service level agreements, the critical requirements to sustain outsourcing relationships, ethical issues, legal issues, *etc.*

The opening chapter of Part 1 presents a cost benefit analysis of outsourcing. The authors examine the concept of outsourcing from a firm’s perspective with a focus on its specific governance costs. This chapter points out that competition is normally the crucial driver that reduces the production costs. However, internal production units may not be subject to much competition. Therefore, outsourcing of some of

the products may lead to rise in efficiency and thus cost reduction. To overcome various difficulties and costs associated with implementation of outsourcing, a specialized department to deal with outsourcing may be created in the firm. In the second chapter, authors outline the nature of outsourcing. This chapter defines outsourcing and lists major theoretical perspectives that researchers have used in studying the process. It correctly points out that most definitions of outsourcing are too broad and do not capture the true complexity of outsourcing phenomenon. It presents a summary of existing studies on outsourcing and points out that principal source of data collection for majority of the study is questionnaire based surveys. Furthermore this chapter points out that research on the outsourcing is still in its early stages and indicates that a relatively unexplored area of research is the relationship between the firm's life-cycle stage and appropriateness of its outsourcing strategies.

Chapter 3 focuses on major drivers and future directions in the outsourcing sector. This chapter examines the effect of these drivers (globalization) and a more demanding consumer on the economy. Chapter 4 investigates the ways in which outsourcing has evolved over the years. Part 1 concludes with the fifth chapter which examines the recent developments in global information technology sourcing. This chapter proposes best-practice factors that could lead to a better outsourcing relationship and also presents a table indicating challenges associated with outsourcing such as; late delivery, corruption, accusations of fraud and incompetence, *etc.*

Part 2 of the book addresses how organizations change as a result of contracting out services. Chapter 6 provides an overview of the ways in which a company can benefit from insourcing needed skills rather than outsourcing services. This chapter illustrates the usefulness of a Global Laboratory Network (GLN). GLN involves finding a university, national lab or person with technology competencies in a country in which one does business. In the subsequent chapter, authors provide a comprehensive assessment of how outsourcing is affected by corporate competitiveness strategy, innovation and productivity growth. The study

points out that, there is a positive and significant correlation between wage growth and growth in outsourcing. An analysis of Swedish firm-level innovation survey data has been covered in this chapter.

Chapter 8 is very pertinent from the point of view of workers. Over 200 supervisors and Junior managers from UK companies were interviewed to gain their perspectives on outsourcing. Trade unions have conveyed employee anxiety and resistance during period of outsourcing. The limited knowledge that workers have about their employment rights during the outsourcing process has been highlighted. Unambiguous process of outsourcing through better information mechanism and a well managed outsourcing effort is necessary for the benefit of both the company and employees.

Final chapter of this section examines the impact of outsourcing on employees and looks at their organizational commitment levels, among other factors. This chapter cautions that outsourcing may sometimes lead to detrimental impact on the employees. As a consequence, much of the possible strategic value of outsourcing that could have created a competitive advantage will be lost. The key aspect in this chapter is that outsourcing should only be considered when it clearly contributes to the firm's core objectives.

In this context, even though not directly related to outsourcing in manufacturing sector, it is pertinent to mention that studies point out that besides possible job loss due to contracting out jobs; workers in the firms which accept outsourcing contract may also suffer. For example, a survey points out the vulnerabilities for laborers in India's Business Process Outsourcing (BPO) sector (Ramesh, 2004). According to this survey, firms often terminate the job to get rid of long-term commitments towards employees. Furthermore, odd working time conflicts with the natural rhythm of human body resulting in increased healthcare costs besides affecting personal and social life. Workers are not entitled for national / religious holidays, as the firms work with clients' calendar. The study also observed that workers develop poor eating habits, smoking,

excessive drinking of coffee, *etc* to cope up with the psychological and physical stress.

In part 3, the book highlights the ways in which outsourcing has impacted the workplace, and the changes that will continue to occur within the workplace, due to the dynamic nature of the outsourcing process. Chapter 10 explores the effects of outsourcing on international trade flows. It points out one way of measuring outsourcing is by calculating the amount of imported intermediate inputs within each industry. Authors provide cross country tables on share of imported to total intermediate inputs. The study indicates that there is no single measure to capture the phenomenon of outsourcing and various studies define it differently. This chapter presents the findings of studies that examine the usefulness of outsourcing to small and medium sized enterprises and the hindrances that may limit their engagement in such activities.

In chapter 12, authors delve into the economic rationale for outsourcing activities, especially the impact that outsourcing has on wages and employment. Various institutional and legal reasons can also affect the outsourcing decision. For example, employment protection legislation decreases the discretionary power of management to adjust a firm's employment level at will. Authors observe outsourcing at both firm and international level, and point out instances of outsourcing increasing wage inequality and decreasing labour demand. However, this chapter cautions against the total acceptance of these findings due to the differences between measurement and theory. In this context, a study explains outsourcing as a process in which the innovating firms introduce a product in the domestic market, which is later shifted to other countries where it is cheaper to produce (Bhagwati, Panagariya and Srinivasan, 2004). In this process, even though home country may lose low wage jobs, it will gain high wage jobs due to increase in efficiency.

Direct and indirect influences of outsourcing on trade unions are investigated in chapter 13. It correctly points out that the effects of outsourcing cannot be approached in a homogenous way because of the

heterogeneous nature of legal and negotiated framework of countries. The existence of well established legal structures is essential for smooth functioning of any contract. The chapter also provides evidence from the automobile industry on the trade union's attempt to negotiate and maintain an element of control on the outcomes of an outsourcing process.

Subsequently the chapter indicates that companies outsource some of their activities for short-term and strategic motives. While short term motives includes cost reduction, obtaining new technology etc, strategic motives include concentrating on the core business. Chapter 14 is very unique in literature and deals with outsourcing and accounting practices. Transaction costs, controlling and monitoring costs are important in outsourcing agreements. The outsourcing company's profitability tended to decrease in the event year but increase in the subsequent year. The capital structure and risk profile change as a result of outsourcing. The change in liquidity ratios of outsourcing companies indicates that current resources are used to cover the payment of outsourcing contracts, including set-up costs.

Part 4 deals with legal, control and relationships issues pertaining to outsourcing. Legal issues are key components on which companies should focus to ensure successful relationships between themselves and those to whom they outsource. Chapter 15 discusses the requirements relating to confidentiality and treatment of personal data, dispute management, *etc.* It advises that a procedure must be detailed in the contract for enabling changes in the outsourcing contract. Authors point out a critical fact that legal system relating to outsourcing is in their infancy. The chapter ends by highlighting that a well-constructed contract can contribute to a successful outsourcing relationship. Next chapter examines the risks involved in outsourcing and point out a balanced contracting model may create mutual dependence between buyer and supplier and thus reduce the risk of noncompliance. Chapter 17 acknowledges that service-level agreements are necessary in any outsourcing relationship. The service-level agreements deal with the compensation to be paid in the event of failure to fulfill the contracts.

Chapter 18 presents a detailed overview of critical requirements that are needed to build and sustain an outsourcing relationship and stresses the importance of concept of partnership mentality. Partnership mentality can be defined as ‘the parties’ attitudes and behaviors that motivate them to move together to attain their objectives. These attitudes include cultural compatibility, commitment and mutual trust. The degree to which buyers and sellers are compatible in these components will determine their ability to jointly work and carry on outsourcing contract. This chapter compares outsourcing to marriage, which requires mutual commitment to make a relationship work. Next chapter of this section examines ethical issues within outsourcing such as fair trade, social responsibility and codes of conduct, which are meant to encourage more ethical behavior. This includes ban on child labour, issues regarding payment of minimum wage, *etc.* In order to protect themselves from allegations of social responsibility, organizations need to look into these issues and know the background of companies with which they do business.

Part 5 provides a few case studies that will feature the specific processes involved in outsourcing and the different results that arise from such processes. Chapter 21 outlines a practical guide for public-sector managers who are considering outsourcing a government activity or service. The final chapter presents an in-depth assessment of an outsourcing relationship between two companies.

On the whole, the book is a substantial contribution to the existing literature on outsourcing and is very topical. It includes rare literature on the topic like outsourcing and challenges to accounting practices and importance of ethical issues, the concept of partnership mentality, *etc.* The book includes number of well presented tables providing data and statistical results of various studies. It contains number of case studies which added its worth. It points out that international outsourcing was one of the strongest components of international integration in recent years. It also proposes future areas for research like relationship between the firms life cycle stage and appropriateness of its outsourcing strategies.

The scope of the book largely confined to manufacturing sector. In this context it may be mentioned that, the recent literature on outsourcing is synonymous with service sector outsourcing from developing countries to developed countries. This book does not contain any significant study on emerging players in the outsourcing like India, Ireland, *etc.* Case studies are mainly on Western countries like Australia, UK, *etc.* Characteristics of outsourcing in these countries may be different from features of service sector outsourcing in developing countries which are growing rapidly. To conclude, the book is very exhaustive, informative and useful for researchers and institutions having interest in outsourcing.

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