

ETHICS IN OUTSOURCING

---Mrs. Vanita Malik

Abstract

Outsourcing is recognized as a competitive strategy for success. Many companies use outsourcing based on expertise and cost-of-labor advantages. Some common examples of outsourcing include manufacturing of components, computer programming services, tax compliance and other accounting functions, training administration, customer service, transportation of products, benefits and compensation planning, payroll, and other human resource functions. Companies that decide to outsource do so for a number of reasons, all of which are based on realizing gains in business profitability and efficiency. However, companies have concerns about the ethics of outsourcing practices at the vendor location.

This paper highlights the ethics in outsourcing. While there are positive and negative aspects of outsourcing, it is important to reconcile these discrepancies in order to make an educated decision as to whether or not it is ethical. The use of outsourcing therefore surrounds a handful of ethical issues. Companies looking to outsource should check the track record of the vendor and their technical competencies. The core concern of outsourcing ethics is confidential information security. Companies need to be concerned about the security systems in place and about the safety of electronic data storage. Questionable practices like hiring underage employees, overworking them, placing them in dangerous and unhealthy work conditions, barring them from forming unions and paying them poor wages further stimulate ethical controversy. In a final analysis, it is evident that the three different types of outsourcing known as on-shoring, on-site off-shoring, and off-shoring have both positive and negative aspects about each of them.

Keywords: outsourcing, ethics, vendor, on-shoring, on-site off-shoring, off-shoring, profitability

Outsourcing Defined

Outsourcing non-core activities helps companies save considerably on costs and improve profitability. Outsourcing work is recognized as a competitive strategy for success. However, companies have concerns about the ethics of outsourcing practices at the vendor location.

Outsourcing is the practice of hiring an outside firm or individual to perform contracted work as an alternative to paying employees to do it. Many companies use outsourcing based on expertise and cost-of-labor advantages. Business Process Outsourcing, or BPO, known as outsourcing, is considered to be one of the most controversial business practices today. The use of this process is complex and can vary in many ways. It is most easily defined as a, "work arrangement made by an employer who hires an outside contractor to perform work that could be done by company personnel" (Britannica.com). Each of the three different types of BPO relate specifically to a different business practice.

The Three Types

The idea of outsourcing began with the practice of **onshore outsourcing**. Companies started using outside businesses, or subcontractors, to perform services such as accounting, marketing, and other services that are important to the company. These subcontractors are domestic or onshore.

Some businesses started to then realize the value of the **on-site offshore model**. This type of outsourcing is very similar to onshore, but rather than using already established domestic subcontractors, foreign labor is brought to the domestic location. An example of this is the green card employment system within the United States that allows foreign workers the right to work in the US for a certain amount of time.

Some businesses saw a value of taking these two models one step further: **offshore outsourcing**. It is the most controversial of the outsourcing models. It is understood to be

"sourcing any part of an organization's activities to a location outside the company's home country." Some criticized this practice and others raved about it. Many times, the advantages outweighed the disadvantages. It is speculated that a U.S. business manager can cut their overall costs by 25-40 percent. Some say that the practice of offshore outsourcing helps stimulate both the economies of developing countries and of companies that bring their businesses overseas. Criticisms of this model have led to many ethical dilemmas regarding outsourcing.

The Ethics of Off-shoring

While outsourcing has become a business standard in the United States and in other technologically advanced countries such as Japan, its implementation has brought forth many questions as to whether or not it is ethical with regards to its impacts on the jobs of United States and Japanese citizens. In order to make an educated decision regarding whether or not off-shoring or on-site off-shoring are ethical, a thorough investigation of both sides is required.

Positive Aspects of Off-shoring

Those who argue for the implementation of this business practice are of the opinion that when a product or service can be produced more cheaply overseas, it makes more sense to import it than to produce it domestically. Often it is less costly for a corporation to manufacture its products in countries where labor is cheaper. Therefore, it appears to be the best thing for the corporations to do in order to maximize profits and to keep shareholders happy. Also the increasing demand for corporate social responsibility is a large argument for off-shoring in that corporations are providing jobs and salaries for people in developing countries.

Negative Aspects of Off-shoring

While off-shoring has many positive ethical aspects, there are many arguments against this business strategy. Many argue that the considerable profits to be made from off-shoring are retained by the rich, while the middle class pays higher taxes and lose purchasing power. The

negativity United States citizens feel regarding the loss of many job opportunities and the additional wound exacted as a result of the discrepancy as far as income taxes are concerned contribute a great deal to the opposition toward the principle of off-shoring.

Negative Aspects of On-site Off-shoring

The negative aspects of on-site off-shoring are similar to those of off-shoring. While jobs are closer to home with this model, they are still being held by workers who are not citizens of the company's home country and the model is still contributing to the home country's citizens' loss of jobs.

Because these two specific types of outsourcing focus on sending the jobs of a company overseas from the country in which it originated, the ethics of decreasing job opportunities in the company's home country comes into question. The labor in the countries to which companies send their jobs is cheaper and more abundant, but whether this business strategy does more harm than good needs to be evaluated.

On one hand, many people are of the opinion that off-shoring not only benefits the company by maximizing revenue and increasing shareholder profits, but that it also helps those in impoverished countries by providing jobs for those who would otherwise be out of work. On the other hand, citizens of a company's host country become frustrated with the prospective of off-shoring because it threatens the availability of jobs and its only marginal benefits are not enough to validate its implementation. While there are positive and negative aspects of outsourcing, it is important to reconcile these discrepancies in order to make an educated decision as to whether or not it is ethical.

Ethical dilemma in Offshore Outsourcing

Outsourcing is a strategic business decision. However, ethics and outsourcing continue to be burning issues where quality, control and cultural differences are a few concerns.

Quality of Service

- **Fall in Service Quality:** There is concern that services delivered from half-way across the globe might not meet quality expectations. Companies looking to outsource should check the track record of the vendor and their technical competencies. Companies that outsource have often had to face resistance and complaints about a drop in quality when moving jobs. Outsourcing relationships now define quality as one the main deliverables, among others. One of the pitfalls of failed outsourcing relationships is not being able to identify the right partner for a company's outsourcing needs. There are a few so-called outsourcing providers who charge rock-bottom prices that have attracted companies. While a few of these sweatshops might succeed in the short term, companies dealing with them have had bitter experiences with low quality output, mismanagement of resources and security issues, etc.

Work Environment

- **Poor Work Environment at Vendor Location:** Companies have to impose stringent standards on the work conditions at offshore locations. They need to conduct intermittent audits on the work conditions and review the HR policies of offshore vendors. Below-par work environments and shoddy HR policies are two reasons that critics use to describe how 'body shops' have sprung all across India to meet outsourcing demands from the West. However, barring a few, outsourcing providers in India employ world-class work environs and systematic HR processes.

Security Concerns

- **Security Concerns:** The core concern of outsourcing ethics is confidential information security. Companies need to be concerned about the security systems in place and about the safety of electronic data storage. Data security measures need to be put in place, whether a

company is planning to outsource or not. Confidentiality agreements, firewalls, SLAs and solid infrastructure are some parameters one needs to look at when entering into an outsourcing arrangement. Past customer references and experiences can also give you insight into how risk-proof an outsourcing vendor might be.

Cultural differences

- Cultural differences between the West and Asian countries are huge, and are often a cause for worry in an outsourcing relationship. But these can be bridged by understanding the cultural sensitivities and how they can affect the outsourcing relationship.

Conclusion

In a final analysis, it is evident that the evolution and development of outsourcing into three different types known as on-shoring, on-site off-shoring, and off-shoring have both positive and negative aspects about each of them. The use of outsourcing surrounds a handful of ethical issues. Benefits of outsourcing can come at the expense of the worker and instead benefit consumers, shareholders, and the privileged. However, developed countries are able to provide employment, strengthen the economies of developing nations, and provide opportunities for foreign employees in those countries to gain new skills and advance their education. In addition, there are reports that corporations such as Nike and smaller companies in Japan subcontract with other companies to hide their unethical manufacturing or technological factories overseas. Questionable practices include hiring underage employees, overworking them, placing them in dangerous and unhealthy work conditions, barring them from forming unions and paying them poor wages stimulate further ethical controversy. Consumers have the power to strengthen factory conditions in offshore outsourced operations. If consumers refuse to buy products manufactured by a company that does not comply with acceptable working conditions and standards, those organizations can face extinction. Without consumer support, the most influential corporations

cannot exist. It is important for consumers to recognize what kind of companies they are purchasing their goods from and why.

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