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Outsourcing and Organizational Design: a Note Applied to Corporations

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Abstract. Outsourcing as a cost-reducing strategy is becoming more popular among corporations. Globalisation has fuelled it, as corporations must compete in an international-based strategy. In this paper, some clues to implement this technique are drawn. Given its characteristics, it is widely accepted that this strategy, born in the United States, will be rapidly spread in this decade throughout the actual EU-15.

Resumen: La externalización de servicios (outsourcing) como estrategia reductora de costes está siendo cada vez más popular entre las empresas. La globalización económica ha impulsado su desarrollo al tener que competir las corporaciones actuales en estrategias basadas a escala internacional. En este trabajo, se dan algunas claves para implementar esta técnica en las empresas. Dadas sus características, se acepta generalmente que esta estrategia, nacida en los Estados Unidos, se extenderá rápidamente a través de la actual UE-15 durante esta década.

1 Introduction

Globalisation and outsourcing are walking hand in hand in our times. Born in the United States in the 1980s, this technique was popularised after the so-called “Kodak Effect”. Modern corporations must expand constantly their efforts to continuously growth to survive. As a result, human resources are affected and flexibility is needed to correctly carry on with this cost-reducing strategy.

Outsourcing, however, is much more than a mere cost-reducing strategy, as it has social, psychological and economical consequences. Being well considered in work is one of the keys to correctly treat human resources. A salary received not to survive but live. In this sense, outsourcing must guarantee that workers’ conditions of living will not be drastically deteriorated.

In this process costs and labour flexibility play a key role. In fact, labour flexibility is a cornerstone in the strategy; as if it exists outsourcing will be applied successfully. We shall profound in these social and economic aspects in the next paragraph.

2 Outsourcing, reduced costs and labour flexibility

Outsourcing as a cost-reducing strategy is becoming more popular among companies as human capital formation is increasing labour skills in organizations. Only first-order competitive advantages can be hold when highly motivated professionals are sufficiently rewarded. Not every private corporation has this human resources policy. Only the top companies have this strategy in consideration. That is why they keep their highly skilled professionals into their working teams for a long time. As a result, leadership is maintained. Only reducing costs is not the right way. One of the clues is to treat better and to incentive human capital resources according to their value. This strategy, and not the mere reducing costs, should be kept in mind if corporation wants to compete successfully in a global and high competitive world.

Given its advantages, outsourcing will change corporation’s structures while more flexibility is attained. In fact, only flexible workers will be able to face with increasing competition in a global competing world. As a result, higher specialization and education¹ will play a key role to maintain leading positions to corporations.

¹ Relationship between education and outsourcing will is studied in Arndt (1997), Feenstra & Hanson (1999), Kohler (2001) and Egger & Stehrer

We are assisting to a new type of corporations that will change Western socio-economic structures and will increase competition in a Darwinian effort to survive. Not only well-prepared workers are needed to carry out production with economic efficiency. Human resources must be adequately paid accordingly to their efforts and results. If not, and given labour market flexibility, they will rapidly work in another corporation.

Outsourcing permits to carry out this process with success, as new Small and Medium Enterprises (SME) will be created in the short-term. This strategy will permit them to focus on activities wherein competitive advantages are strong. Moreover, joint ventures can be created if they shared knowledge with highly competitive technological partners (Table 1). So, outsourcing is much more than a mere costs reducing, as competition can be rapidly increased in a short-term strategy.

TABLE 1
REASONS TO OUTSOURCE

Focus on strategies	23%
Technological partner	16%
Liberalize human and economic resources	14%
Costs reduction strategy	12%
Higher services level	8%
Reduce risks	7%
Control management costs	6%
Short-term benefits	6%
Others	8%

Source: Computing (2002, 21)

This strategy, however, can only be implemented for certain periods, and not for a long time if costs continue over time. An adequate “know-how” and human resources is the key to be long-run competitive, not reducing costs. So, in order to establish a long-run strategy for success is to reduce costs and gain or to expand new market niches at the same time. If not, outsourcing can be a lost opportunity.

Another key to have success in applying outsourcing is employability, defined as the capacity to maintain an employment (De Castro *et al*, 2002: 450), that is, the capacity to move in a proper way in the labour market to develop per-

(2001). However, these studies are scarcer for less developed countries (Feenstra & Hanson, 1997).

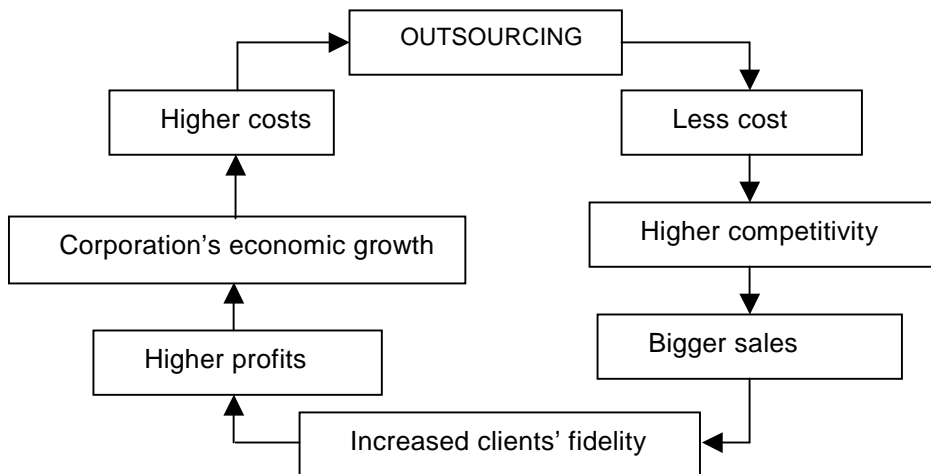
sonnel potential, thanks to a sustainable employment (Hillage and Pollard, 1998: 11). So, successful workers must constantly be adjusted to corporations' goals.

The scope of this technique is to create a virtuous circle wherein interact social and economical variables (Figure 1). Correctly conceived and designed, it will permit to carry out a successful conquest of new market niches close with a constant costs reduction. The union of these variables will end into a higher efficiency degree.

Not every corporation will have these reducing costs in the agenda. Third-world companies, primarily those working in an international basis, will face an ethical problem derived from outsourcing: social dumping. Problem derived from the absence of trade unions' protection and the State's inability (corrupted in most times) to watch over its citizens. As a result, corruptions problems are formed that are difficult to erase in societies become accustomed to this anomalous situation.

So, in these countries a structural political problem persists what pollutes the economic structure as a whole. Only when this problem is solved, the economic structure will be correctly developed. If not, the deterioration process will further erode the socio-economic structures as a whole and political and economic instability will be rapidly expanded. In this situation, outsourcing cost-reducing policies will have no effect.

FIGURE 1
OUTSOURCING VIRTUOUS CIRCLE



3 Conclusion

Outsourcing is called to be protagonist in the next years among modern and competitive corporations. In this process, human resources will play a key role, as they must accept this cost-reducing strategy. Only corporations that will offer new ways to expand workers' creativity will be successful in applying this technique. Outsourcing is not a mere cost-reducing plan. Its social and economic consequences will change the scope and objectives of the more competitive and internalised corporations. In this sense, the trade unions' cooperation is needed. If not, constant labour fights will be created, and it will diminish chances to survive in an economic hostile world.

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