

# Offshore outsourcing: practical and ethical arguments for and against, from a small business perspective

---

## Introduction

Outsourcing can lead to reduced costs, greater efficiency and enable a business to make better use of its employees, enabling them to concentrate on business-critical and value-added operations. This can lead to a competitive. Offshore outsourcing can further reduce costs due to the relatively cheap labour that can be accessed from other countries, particularly from developing countries. Outsourcing is not always a good option; a business will need to consider carefully whether the benefits of outsourcing outweigh the costs (Business Link, 2009). Businesses should outsource carefully, taking into consideration the quality and skill of the service provider, complexity of management, time differences, communication difficulties and many other factors.

### Definitions according to Wikipedia

**Outsourcing** : the practice of subcontracting a service, such as product design or manufacturing, to a third-party company.

**Offshore outsourcing**: the practice of hiring an external organization to perform some business functions in a country other than the one where the products or services are actually developed or manufactured.

Offshore outsourcing should not be viewed as a simple debate of morality as it a morally neutral economic tool. The morality comes from how it is used and to what end (Cornwall, 2004).

Offshore outsourcing can certainly be done in an ethical way. It is up to the reader to determine what they feel constitutes ethical practice; I do not intend to influence the reader one way or another. Hopefully the arguments I have collated below will help them to decide.

## Arguments for offshore outsourcing

It may not be easy to find local workers with the qualifications, skills, experience and attitude that a business requires. For example, the number of Americans in computer science degree programs fell 32% between 2000 and 2004. There are far more IT positions in the USA than there are IT graduates (Morrill, 2009). Global outsourcing can widen the search.

Businesses exist to make money by making products [or producing services] to sell to consumers at the lowest price possible. There can be a significant cost difference when employing a local programmer compared to employing one in a developing country. On top of this, local workers often require extra costs such as benefits (Morrill, 2009).

Businesses compete in a global economy so why not hire globally? Small businesses must compete with small and large businesses from all over the world. A competitive edge is therefore essential, and employing cheaper labour is one potential way to achieve this due to the extra flexibility small businesses have over larger ones.

Paying local workers a higher salary rather than paying offshore workers a lower one does not necessarily benefit the local economy. Employees want the highest possible salary. The more a business pays its employees, the more it must charge its consumers for its products or services. Customers, however, want the lowest possible price, so from a customer's perspective it is beneficial for a business to pay employees as little as possible as this would lead to lower prices (Stevenson, 2009).

26/12/2009

There are non-financial considerations also. It may be that there is a lack of local access to specific skills or resources. There may be a temporary surge in demand for a product or service (Stevenson, 2009).

Assuming that one considers all people equal regardless of geography, one could argue that it is more ethical to provide an income to a person in a developing country who may benefit much more than a person in a First World country, where ease of access to welfare services and employment is probably much higher. We must not confuse patriotism with morality. This of course assumes that a fair income is provided and that the offshore workers are not exploited.

Assuming a person has the same qualifications, skills and attitude it does not make business sense to pay one person £10 per hour when another will do it for £5 per hour, assuming the consumers do not mind who the company employs.

Businesses can pay offshore workers lower salaries than local workers and still provide them with a fair salary. It is not necessarily that people are willing to work for less overseas. Different economies have different living costs and different currencies have different purchasing powers. For example, 1 UK pound had 87.4% more purchasing power in India than in the UK in 2009 (Central Intelligence Agency, 2009).

Using cheaper, offshore contractors may enable businesses or entrepreneurs to undertake ventures which they otherwise would not be able to (Neitlich, 2005).

Although outsourcing jobs to less expensive workers takes away opportunity from the more expensive workers, it can also provide an opportunity for them to "up their game and take their work to the next level" (Neitlich, 2005) i.e. to focus on more lucrative employment possibilities.

Living in a First World country should not be a qualification in and of itself. If a person wants a higher salary they should produce a higher quality service.

It is a two way street: foreign businesses participate in offshore outsourcing too. In fact, in 2003 Americans sold \$131bn in services to other countries and only outsourced \$77bn in services to other countries. Also, every dollar spent on foreign outsourcing creates \$1.12 of additional economic activity in the U.S. economy (Griswold & Buss, 2004).

There are large quantities of well educated, motivated and much more affordable labour in foreign countries [than in Canada], with savings as high as 90 percent. (Machado, 2004)

The time zone difference can provide a competitive advantage as a business can effectively work 'around the clock'.

## Arguments against offshore outsourcing

Goods produced by offshore outsourced labour may not be of equal or better quality and yet the cost to consumers may remain the same. "Importing cheap goods has not reduced prices. It may have reduced costs, and it has certainly reduced the quality of goods on sale. But clothes, furniture etc. cost more than they ever did before." (Comment on blog post from Stevenson, 2009)

"Offshore outsourcing ignores the [local] employees and community who helped [the business] reach [its] success in the first place" (Cornwall, 2004). One may consider business success to be more than just profit generation, but also community development.

Consumers may have a negative outlook on offshore outsourcing and so it may be counter-productive for a business to participate in the activity if this is true of their customers.

26/12/2009

Offshore outsourcing means fewer jobs in the country and therefore a weaker economy. The more people who are working in the country, the more money is available to be spent on goods, meaning more jobs are created to make those goods. This is a virtuous cycle which offshore outsourcing can damage (Stevenson, 2009).

"Offshore outsourcing may be the result of a business looking to take advantage of cost arbitrage between the world's haves and have-nots" (Cornwall, 2004).

Due to differences in laws and standards in other countries, offshore outsourcing may make it more likely for inferior, less safe products to be produced and for environmentally damaging production processes to be used (Neitlich, 2005). It may also be easier to exploit foreign workers by paying them a much lower salary than is ethical or supporting their working in unfavourable conditions.

Offshore outsourcing may lead to practical issues such as language barriers, difficulties with time differences and team and project management complexity. It may also be harder to ensure that the outsourced workers have the necessary skills, qualifications and attitudes. It may also be harder to find reliable references for job candidates.

## References

- Business Link. (2009). *Outsourcing*. Retrieved from <http://www.businesslink.gov.uk/bdotg/action/detail?r.s=sc&r.l1=1074404796&r.lc=en&r.l3=1073921035&r.l2=1074456652&type=RESOURCES&itemId=1075410310>
- Central Intelligence Agency. (2009). *GDP - per capita (PPP)*. Retrieved from The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/fields/2004.html>
- Cornwall, J. (2004). *A Missing Dimension to the Outsourcing and Globalizaion Debate*. Retrieved from The Entrepreneurial Mind (Belmont University): <http://www.drjeffcornwall.com/2004/11/a-missing-dimension-to-the-out.html>
- Griswold, D. T., & Buss, D. D. (2004). *Outsourcing Benefits Michigan Economy and Taxpayers*. Retrieved from Mackinac Center for Public Policy: <http://www.mackinac.org/archives/2004/s2004-06.pdf>
- Machado, V. (2004). *Public Policy Forum (Canada)*. Retrieved from IT Offshore Outsourcing Practices in Cnada: [http://www.victorialennox.ca/content/It\\_Outsourcing.pdf](http://www.victorialennox.ca/content/It_Outsourcing.pdf)
- Morrill, D. (2009). *Managing Intellectual Property & IT Security*. Retrieved from <http://it.toolbox.com/blogs/managing-infosec/no-outsourcing-is-not-immoral-it-is-a-fact-of-business-35819>
- Neitlich, A. (2005). *Business, ethics, and morality*. Retrieved from <http://www.sitepoint.com/blogs/2005/12/09/business-ethics-and-morality>
- Stevenson, D. (2009). *Is Outsourcing Immoral?* Retrieved from <http://it.toolbox.com/blogs/original-thinking/is-outsourcing-immoral-35759>

---

This document **may** be copied, republished, redistributed and transmitted without permission although the author would like to be notified via email if it is republished. This document **may not** however be altered, edited or exploited in any other manner for any purpose, without the express written permission of the author. This document is provided "as is" and all warranties, express or implied are disclaimed (including but not limited to the disclaimer of any implied warranties of fitness for a particular purpose). The information in this document may contain errors, problems or other limitations. The author accepts no responsibility for any errors in this document or for any actions taken in reliance thereon. The author makes no representation or warranty as to the accuracy, truth, adequacy, timeliness or completeness, or continued availability of this information.