

Outsourcing

by Nick Southey

Lesson focus: To learn and practice vocabulary relating to outsourcing and to discuss the implications of this practice.

Level: Upper intermediate

Time needed: 90 minutes

Number of students: 4+

Key vocabulary: *outsourcing, off-shoring, to contract out, in-house, payroll, core competencies, a call centre, headhunting, freelance, a bid, redundancy, to make redundant, to lay off, to redeploy, severance pay, tenure, staff turnover, know-how, competitive advantage, a tax haven, a workforce, economies of scale*

Procedure

This lesson focuses on vocabulary that is very specific to the topic of outsourcing, some of which the students are unlikely to come across in any other situation. Any businessperson should already be aware of the concept and perhaps even some of the vocabulary as the English words are often used when speaking about the topic in other languages (e.g. Spanish HR executives use the word 'know-how' in Spanish). The idea itself is very simple – companies which have traditionally carried out a business process in-house contract the process out to an external supplier. One example is that nowadays it is rare for a big firm to employ a cleaner. Instead it contracts an external company to send cleaners into the company. Whilst the concept is simple, some of the issues it raises are not.

① Write the word 'Outsourcing' on the board. Elicit meaning from students. Put students in pairs and give five minutes to come up with advantages and disadvantages of this practice. Bring groups together and discuss as a class.

② Give a copy of the handout to each student. In pairs, they complete the cloze with the words in the box. Check answers as a group.

Answers: 1) Contracting out; 2) Business processes; 3) In-house; 4) Non-vital functions; 5) Core competencies; 6) Know-how; 7) Production; 8) Service; 9) Off-shoring; 10) Call centre.

③ In groups or as a class, discuss which business processes have been outsourced in your students' companies and in particular in the HR department. Elicit reasons why some processes are more suitable for outsourcing than others (e.g. repetitive, time-consuming processes are very suitable, processes dealing with confidential information may not be). Decide together which of the business processes in the box for Exercise 2 are very suitable for outsourcing (e.g. *data entry, cleaning, payroll*) and which are not (e.g. *product design, Research and Development*).

④ Put students in groups and give each group a set of the cards from Worksheet 2. This stage deals more in-depth with the benefits and costs of outsourcing than in the initial discussion. Each member of the group takes turns to read a card out. The group decides if the card describes an advantage or disadvantage and then divides the cards into two columns. When they have finished, tell the groups to select the most important advantage and disadvantage from the columns. Compare decisions as a class.

⑤ Separate the students into four groups. If you do not have enough students to do this, you can discard some of the role-play cards and have two or three groups. Each group receives a role-play card with a Human Resources business process that is under consideration for outsourcing. The group reads the card and has five minutes to prepare arguments detailing why their process should not be outsourced. Bring the groups together. Each group presents their arguments to the class. Encourage students not only to defend their process but also to give reasons why the other groups' processes are more suitable for outsourcing. The HR Director (i.e. the teacher) has to make the final decision as to which process will be outsourced, based on the arguments.

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Outsourcing is becoming a more and more popular way for firms to cut costs and focus on what they do best. What are the main advantages and disadvantages of outsourcing for companies and their staff?

Exercise 1

know-how call centres contracting out off-shoring
 non-vital functions business processes
 core competencie service in-house production

Outsourcing, also known as _____(1), is the practice of hiring an external company to perform _____(2) that until now have been done _____(3). The benefit of outsourcing is that it allows firms to free time and skill currently devoted to _____(4) and to concentrate on their _____(5). At the same time, the company takes advantage of the specialist _____(6) of the contracted firm which is expert in that particular process. It is also a very effective way of cutting costs. Some estimates claim that by outsourcing certain processes, a company can save up to 70% of its running costs in that area. The practice can be separated into two sections - _____(7) outsourcing, for example when an external company is contracted to manufacture electronic components, or _____(8) outsourcing, for example when the external company is contracted to do the administration of a company's payroll.

When the process is outsourced to an external provider in another country, the practice is known as _____(9). A famous example of this in Britain is that nowadays if you telephone the _____(10) of most major companies, wanting to speak to customer service, you may actually speak to someone in India who does not work for the company at all.

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Exercise 2

Which of the following business processes are suitable for outsourcing? Are any of them particularly unsuitable? If so, why?

| | | |
|--|----------------|-------------------------------|
| IT support | Data analysis | Cleaning and Hygiene Services |
| Customer Service | Payroll | Research and Development |
| Recruitment | Product Design | Software Development |
| Marketing | Catering | Employee Data Management |
| Investment Strategy | Headhunting | Legal Services |
| Data Entry | Staff Training | Pension Administration |
| Compensation and Benefits Administration | | |
| Artwork Design and Desktop Publishing | | |

Role-play

Work in groups. Imagine that you work in the HR Department of a large corporation. As part of a cost-cutting drive, the HR Director is considering outsourcing various business processes from your department. Your teacher will give you a card with the name of one process under consideration for outsourcing with some details about how the process is currently done in-house. In your groups, prepare arguments against outsourcing your business process. The groups will then meet to put their arguments forward to the boss (your teacher). At the meeting, you can also suggest reasons why the other groups' processes are more suitable for outsourcing than yours. At the end of the meeting, the boss will decide which business process will be the first to be outsourced.

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| <p>1</p> <p>When a company decides to accept a bid from an external supplier, a contract is signed outlining the conditions of the outsourcing agreement exactly. This means that the company knows how much the outsourced service is going to cost in the long run. This is not the case when the process is done in-house. Therefore, outsourcing makes financial planning easier.</p> | <p>2</p> <p>Customer service will inevitably suffer when a process is outsourced. You cannot expect someone who works for an external supplier to care as much about the service that is being provided as an employee who has worked for the company for years. It is also much more difficult to check the quality of the customer service being provided when it is outsourced.</p> |
| <p>3</p> <p>Outsourcing will obviously lead to redundancies. Companies might try to redeploy employees to other processes or departments but the main reason that outsourcing cuts costs is that companies can reduce the size of the workforce. As severance pay will be much more for those who have worked for the company longest, the first people to be laid off will be those with the shortest tenure.</p> | <p>4</p> <p>When a company outsources certain business processes, the external company has access to a lot of confidential information. A company cannot be sure that this information is treated with the same level of protection and confidentiality as when the process was conducted in-house.</p> |
| <p>5</p> <p>By outsourcing non-vital functions and concentrating on its core competencies, the company obtains a competitive advantage in the market. The division of labour is fundamental to economics. The company benefits from the specialist know-how of the external provider. Doing certain business processes in-house is an inefficient use of a company's human capital.</p> | <p>6</p> <p>Off-shoring dramatically increases employment in developing countries. Salaries in these countries are significantly lower than in developed countries so huge savings can be made by the company. As these savings can be invested in the company's core competencies, productivity is increased in both countries.</p> |
| <p>7</p> <p>Off-shoring inevitably leads to job losses in the West and as the trend becomes more popular, it is harder to find other employment if you are made redundant. Higher, longer term unemployment will obviously affect the national economy. Another issue with off-shoring is that the company avoids responsibility for the conditions of employment and salaries that the workers in the developing country receive.</p> | <p>8</p> <p>As the company that performs the outsourced service is contracted by a number of firms, it can take advantage of large economies of scale. This means that it can offer the service much more economically. As well as this, the quality of the service it provides will improve as it specialises on one business process and increases its know-how.</p> |
| <p>9</p> <p>As more and more companies outsource major business processes, the market to provide these services becomes more competitive. Companies receive bids from a number of firms when they are considering outsourcing a process. The service providers must ensure that their bids are as competitive as possible. This competition leads to cost efficiency and promotes innovation.</p> | <p>10</p> <p>Off-shoring is used by companies to avoid higher domestic taxes. The business processes are often off-shored to tax havens. Even though the company will enjoy lower costs and higher profits, the country where the company is based will lose enormous amounts of tax revenue.</p> |

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Role-play cards

You work in the Payroll and Employee Data Department. Currently, eight people work in this department. Six of the eight people have worked for the company for over fifteen years. The department has a good record and makes very few mistakes. Some of the information you process is confidential. Four of the people in the department have skills that could be used in other departments.

You work in the Recruitment Department. Currently, twelve people work in this department. One of your team has worked for the company for twenty years but the rest are relatively new to the company. Over the past five years, the department has contracted a high percentage of new employees from the top business school in the city. Staff turnover has also fallen by 20%. Two of the department have experience working in other areas.

You work in the Training Department. Currently, four people work in this department who have all been with the company less than two years. The department has achieved excellent results in this period, especially in language training for which you hire very economical freelance teachers. An external firm could probably not provide these services more cheaply. All senior directors have complimented your executive training programme. None of your team expect to be redeployed if the work is outsourced.

You work in the Compensation, Benefits and Rewards Department. Currently, nine people work in this department, eight of whom have worked for the company for over ten years. It is difficult to imagine them working in another area. The department deals with a lot of confidential information and uses software especially designed in-house that you do not want to share with other companies. The benefit system for working parents has been complimented and absenteeism has fallen dramatically as a result of the rewards programme.