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Insourcing: Reversing American Outsourcing in the New World Economy

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insourcing:

reversing american outsourcing in the new world economy

Andrew Sikula, Sr., Chong W. Kim, Charles K. Braun, & John Sikula

PENDULUM SWINGS AND GLOBALITY

Politics and economics swing like a pendulum. So do life, health and human emotions. What is a popular belief and value during one period of time may not be in another. Even deep-seated religion is subject to fluctuation. These flows of nature and humankind apply to the marketplace as well. Abundances and shortages of supply and demand come and go for all goods and services. This phenomenon as it applies to the insourcing vs. outsourcing issue is the subject of this commentary and analysis.

We now live in a new world economy of global interaction and wholeness. Events in any part of the earth can and do almost instantaneously affect all other parts of the globe. High speed digital electronic communications have greatly helped to speed up this interactivity.

For decades now, economists have convinced us that we live in one international marketplace in which global laws of supply and demand determine consumer behavior. Also, increasingly recognized is the fact that politics, culture, ethics and science are now global as well. Mankind, morality, nature and the weather follow certain absolute laws and set patterns. They may be displayed differently in various locations at any point in time, but they are all universals with some common principles. The talk over the last many decades on relationism, situationalism and human specialty and uniqueness has been overdone. In truth, human beings have more in common than they have differences, and different lands and cultures are more alike than disparate.

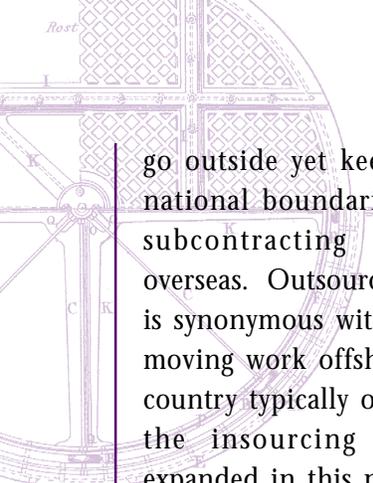
Having said this about human and geographical similarity, we still need to recognize the pendulum

swing between extremes within common production and manufacturing life cycles. This article discusses the human resource pendulum swing between insourcing and outsourcing work effort and accomplishment.

INSOURCING DEFINITION

Insourcing is when an organization uses especially internal labor and personnel, but other resources as well, to supply the operational needs of its enterprise. Insourcing is a management decision made to maintain control of critical production or competencies. Insourcing is the opposite of outsourcing which is the process of firms shifting work outside of its borders.

In recent decades in our increasingly global environment and marketplace, insourcing has taken on an expanded definition. It now often means letting work



go outside yet keeping it within national boundaries rather than subcontracting to suppliers overseas. Outsourcing today often is synonymous with offshoring or moving work offshore to another country typically overseas. When the insourcing definition is expanded in this manner, it is an extension of a company's workplace and workforce without transferring the project management and decision-making control to an external provider.

Insourcing is akin to the "promotion from within" concept. Labor and personnel still constitute the bulk of both core competencies and operational expenses for most organizations. Keeping employees trained, developed, motivated and happy at work are pivotal characteristics of well-run, successful enterprises. This is often best achieved when workers are given internal opportunities for professional growth and personal advancement. Promotion from within is the manner in which this becomes possible. In-housing promotions and advancements usually make the majority happy. The outside hiring of personnel, especially into key, well-paid organizational positions, often demoralizes loyal staff members who have often waited years for a chance to advance themselves within their current employment structure. Inside promotions usually result in a chain of internal other promotions from within which spread new life, enthusiasm and additional vigor among many dedicated and

aspiring current coworkers and colleagues. As an example, Ashland University in Ohio within the last three years has gone inside for most of its key position openings including University President, Seminary President, Provost, Graduate School Dean, Education Dean, Business Vice President and Facilities Vice President.

INSOURCING EVOLUTION

Insourcing vs. outsourcing as resource decisions have always been under close examination. However, the last three decades have seen a great expansion of the outsourcing phenomenon. In the early 1980s, organizations in the United States and elsewhere began delegating their non-core functions to external organizations which specialized in providing a particular product, service or function. Initially, outsourcing was done in an attempt to save on labor costs as many unionized companies found it cheaper to produce their products in non-unionized, underdeveloped countries, even though other raw material transportation costs might increase. This first started for unskilled labor jobs but quickly spread to technical labor, white collar positions, and then to professional services. Eventually, sometimes even entire departmental work units were shifted overseas. Areas of organizational operation once thought to be almost sacred, or at least extremely critical, began to

appear in India, Indonesia, Japan, Vietnam, the Dominican Republic and elsewhere. Examples include accounts payable, billing, training, engineering, manufacturing, customer service, technical support, sales/ordering, and others. Clothing companies such as Levi Strauss and shoe companies such as Nike and Reebok often have manufacturing, marketing and distribution all done on foreign soil. International call centers now often perform air travel, hotel reservations and tele-marketing. Outsourcing overseas has even spread to highly specialized medical fields including clinical records, disease diagnosis and the reading of x-rays. In the minds of many, the idea that anything and everything can be outsourced became a possibility.

This all began to change around the turn of the millennium and as we entered the 21st Century. Unhappy customers, especially in regard to foreign-based call centers, started the outsourcing reversal. Overseas scandals, global economic recession and terrorism fueled the embers. A lack of control both in terms of company operations and national security strengthened a turn to insourcing. "Speed to market" became a much more important competitive sales advantage as long distances and transportation costs increasingly offset lower labor expense. Also, in the United States, we are beginning to see a resurgence of national pride, an increased concern for safety, and a desire to

return to older traditional work patterns and ways of accomplishing tasks. All of these factors have resulted in a new wave of insourcing and a decline in the popularity and practice of outsourcing. Outsourcing is still a robust theme and practice, but it has lost its momentum.

INSOURCING DETERMINANTS

There are many reasons why the resourcing pendulum has begun to significantly swing back toward insourcing and away from outsourcing within America and elsewhere. We will briefly mention eight determinants below. They are easy to understand and do not need prolonged elaboration. The eight insourcing factors or determinants roughly in order of importance include: (1) communication; (2) employee morale/loyalty; (3) control; (4) security; (5) transportation; (6) innovation; (7) customer satisfaction; and (8) speed to market.

Communication

It is obviously easier to communicate with someone who is nearby rather than far away. Although computers and digital electronics have made it much easier to communicate with distant colleagues and partners, distance still is a significant barrier to communication. Time differences and various time zones are part and parcel of the communication distance problem. Insourcing reduces or

eliminates this obstacle. Considerable time saving is achieved when resource supply chain components are local or internal. Since time is money, expenses can be minimized and profits maximized more readily with neighboring or nearby resources. Communicating is a human interaction, and although it can be aided by computers and electronics, most communication is initiated, received and acted upon by human beings. People communicate more efficiently and effectively when geographical space is lessened.

Employee Morale/Loyalty

Worker motivation and dedication are enhanced when employees know that their work efforts are appreciated and rewarded. Keeping work and promotions inside an organization reduces employee turnover and lowers employee training and management development expenses. Promotion from within costs much less than outsourcing in terms of advertising costs, travel expenses for interviewees, and especially in terms of negotiated salaries. People who know that they will have a chance to move ahead professionally and get promotions over time within their own organization can be life-long, productive assets to an organization. On the other hand, letting work that was formally done inside now go outside of company walls almost always will lead to unhappy employees who start to feel that their work careers

may be in jeopardy. The fear of losing one's job and economic insecurity result when companies outsource management employment opportunities.

Control

Control is exercising restraint, direction and command over people and resources. Holding things in check and supervision are easiest to achieve and maintain when production and distribution factors or inputs are nearby. Work products or services need to be regulated and quality checked, and insourcing makes such requirements easier to achieve than does outsourcing. Administration and guidance can be better accomplished and more economically implemented, especially in regard to human oversight, if managers are local instead of regional, national and/or international.

Security

Security is an extension and expansion of control. Security involves safety and freedom from danger and risk. Security eliminates doubt and anxiety and brings about protection and confidence. Security involves precautions taken to guard against crime, theft, attack, sabotage and/or espionage. Security enhances assurance and attempts to guarantee against loss. Security is vital at the personal, corporate and national levels. Insourcing helps bring about security to societal levels and becomes more difficult as resource supply chains

are outsourced. Security is becoming more important at all social strata, as we now live in an increasingly insecure world, where violent terrorist attacks are daily events throughout the world. Homeland security is currently viewed as the number one priority for our national government by most Americans.

Transportation

Goods and services must be delivered to customers. With goods, and with services to a lesser degree, physical distance separates where a product is made from where it is consumed. This space interval may be thousands of miles, especially when offshoring is involved. Even domestic conveyance of items may involve long transport. For example, the average distance a food item purchased in the USA travels between production and consumption is 1,500 miles. The transfer of items across seas can be extremely expensive, and now foreign piracy has become an additional expense and concern. Insourcing can significantly reduce product transportation delivery problems and costs.

Rost Innovation

Innovation is the introduction of new products, services and methods. Innovation involves novel conception, design, creation and invention. It was once thought that this research and development (R&D) requirement for sustained business advantage could best be

achieved using an array of employed international professionals. Some evidence suggests otherwise. Today, most business experts believe that insourcing R&D produces better results than outsourcing same. The United States has always been the leader in introducing new products and services to the world, and this is still the case. Although foreign countries may more cheaply copy, produce and improve American invented products, the USA still retains an edge in innovation and creating new things.

Customer Satisfaction

U. S. employers sometimes have had to learn the hard way that happy customers are often more concerned about quality rather than the price of goods and services. This is especially true of products or goods as well. For example, many companies have seen a big increase in unhappy customers as a result of outsourcing technical services, often to India. Especially in regard to call centers, such corporations have underestimated the negative impact that customer dissatisfaction can have on the bottom line. Also, there is a movement to "Buy American" products, and this movement has both formal organizational bodies as well as unorganized individuals supporting the "made in the USA" purchasing philosophy.

Speed to Market

Price and quality are not the only factors affecting buying decisions. Increasingly important is speed to market or how quickly one might have a purchased good or service in hand. In many cases, speed to market is more important than price and/or quality. Common examples are pharmaceutical purchases. However, sometimes even very big ticket items are involved. Immediate occupancy can affect a home purchase, and the delivery date of a new car often determines who gets the sale. We live in an egocentric world where immediate gratification and current pleasure are important considerations for many overeager consumers. Insourcing enhances the speed to market consumption criterion because it helps eliminate delivery delays.

OUTSOURCING WEIGHTS

There are, of course, also reasons why companies have used outsourcing in the past and will continue to utilize it. We will next list the eight main determinants of outsourcing decisions, again in an estimated descending order of importance. These are easy to comprehend and they do not need individual commentary. Eight outsourcing factors or determinants are: (1) labor cost; (2) management delegation; (3) simplicity; (4) expertise; (5) competition; (6) quality; (7) adaptability; and (8) tax advantages.

A few general comments about these eight variables should suffice. Both management delegation and simplicity involve the belief that some unskilled and other professional personnel labor can be performed more economically by workers in undeveloped or underdeveloped countries where wages and salaries are considerably lower than in the United States. There is also the belief, which is erroneous, that this delegation of work elsewhere will make domestic operational matters easier or simpler to manage. Combine these considerations with the often mistaken idea that increased competition will result in hiring the most expert resource suppliers who will produce a better product and service – and presto, you have a rationale for outsourcing. And if things do not go well, you can change the whole thing or arrangement tomorrow or next year (the adaptability advantage). Also, there are both legitimate tax advantages for outsourcing as well as (many believe) other hidden or illegal monetary gains to be had when offshoring activities are involved. Figure 1 (see page 8) summarizes and shows the factors or determinants of both insourcing and outsourcing expressed as weights on a scale.

In reality, insourcing vs. outsourcing is neither an either/or nor a black/white decision. It is not necessary to do only one or the other. An organization can insource and outsource at the same time. By insourcing and outsourcing simultaneously, an

enterprise can have the best of what both offer in an attempt to obtain a sustainable competitive advantage. We might appropriately label this combination of insourcing and outsourcing as “rightsourcing”. However, it is nonetheless true that organizations collectively are seeing a trend away from outsourcing and back to insourcing as the resource supply pendulum shifts to the other direction from where it has been for the last three decades.

INSOURCING EXAMPLES

Americans and others are experiencing a return to the insourcing of supply chain resources. Internal suppliers of goods and services have come about, especially during the last eight years plus, because of declining economic conditions worldwide and a growing concern for homeland security caused by terrorism throughout the world. We will give some examples of enhanced resource insourcing at the personal-individual, professional-institutional, and governmental-national levels.

Personal-Individual

In an effort to reduce spending, Americans are doing a lot more for themselves now rather than relying so much on outside service providers. More child and elder care is being done by family members and/or close friends rather than by day care and nursing home agencies. Since Wal-Mart has doubled the cost of

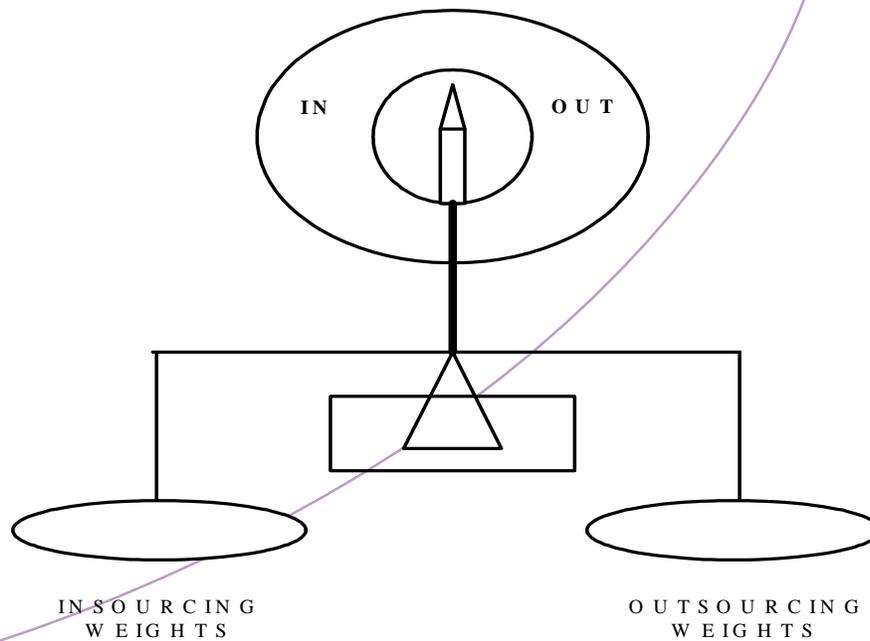
an oil/filter change from \$15 to \$30, many men today are now doing this chore of maintenance on family automobiles. Netflix is booming as people watch more movies at home and fewer in theatres. Fancy restaurant dinners have been cut back as family members eat more meals at home. Haircuts, exercising and alcoholic consumption at home are recently more commonplace. Home elder care is up and hospice residences now typically involve only the last couple days of life. Much of this has been made possible by the high unemployment rate with many people no longer having regular work to occupy their time.

Professional-Institutional

Even professional work is now being performed by regular folk trying to save a buck. Paying a plumber \$75 an hour has incentivized many men and women to fix their own leaky faucets and toilets. Home remodeling is often now done by residents rather than by skilled construction tradesmen. Turbo Tax has enabled many households to prepare their own tax returns rather than rely on outside experts to do the work. Legal Zoom has enabled anyone and everyone to now prepare their own wills, trust, advance directives, power of attorney, and other legal documents without the exorbitant fees of an attorney.

Not just individuals but institutions have also turned to insourcing rather than outsourcing to save money. For example, within healthcare, the hospitalist

Figure 1. Factors or Weight Determinants: Insourcing vs. Outsourcing



- Communication
- Employee morale /loyalty
- Control
- Security
- Transportation
- Innovation
- Customer satisfaction
- Speed to market

- Labor cost
- Management delegation
- Simplicity
- Expertise
- Competition
- Quality
- Adaptability
- Tax advantages

movement is replacing the need for external physicians to make so many in-hospital patient rounds. Doctors and hospitals now hire other doctors who work full time within a hospital to make patient calls converting former travel time to patient care oversight involvement. Universities are using overtime, graduate assistants, adjuncts, full-time temps, term contracts, electronic course delivery, and interims to fill faculty and staff position more as tenured and tenure-track faculty positions decline appreciably in number.

Hourly billing by lawyers and accountants is used less today and may become a relic of history as legal insourcing takes hold. Pre-paid legal service providers are available today for both individuals and institutions.

Governmental-National

At the national level as well, there is evidence of a move away from outsourcing and toward insourcing. Much of this movement is related to U. S. over-reliance on foreign crude oil produced by countries that are

anti-American. The American expansion of natural gas capacity and usage is one such happening. So is the whole Going Green movement as solar, wind and water power are being harnessed more. Recycling is a form of insourcing. Using the National Guard for border patrol and emergency response are governmental-national insourcing examples. Using prison inmates to clean up road sides and fight fires are other government insourcing examples. AmeriCorps and its various internal service projects illustrate

national insourcing. And indeed, the whole movement toward more volunteerism and service assistance to those in need is becoming increasingly organized today and is now supplementing our traditional national and governmental insourcing assistance organizations such as the Red Cross, Salvation Army, Goodwill, Meals on Wheels, veteran service organizations, homeless shelters, et al.

THE FUTURE OF INSOURCING

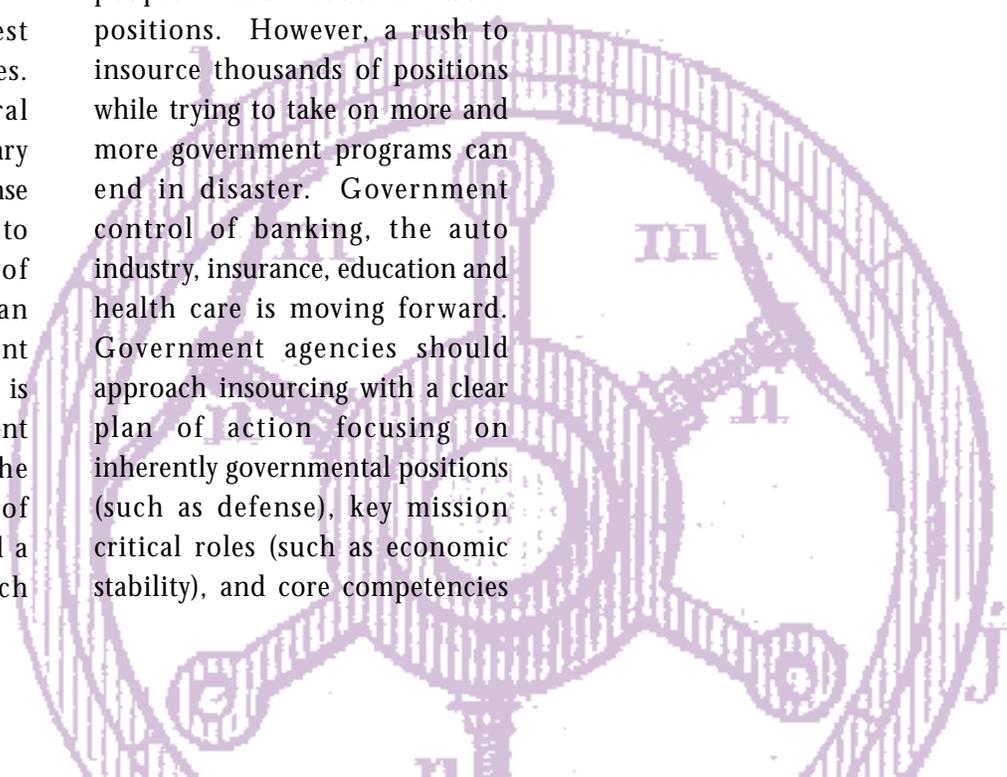
Insourcing is going to expand during the next several years in America, especially at the governmental-national level. In fact, in the minds of many, an overabundance of insourcing at the governmental-national level will cause more problems than it will solve because of high debt financing and the loss of individual freedom issues. Whether or not this will happen remains to be seen, but we are moving in this direction.

Uncle Sam is the biggest employer in the United States. There are 1.8 million federal employees. If you add in military and civilian Department of Defense employees, the number jumps to 4.8 million. During years of Republican rule, there was an effort to move many government jobs to the private sector. This is changing rapidly under President Obama. This past July, the Director of the Office of Management and Budget issued a memo to all Executive Branch

departments strongly suggesting that it would be better to have more federal employees and fewer private contract workers. Accordingly, the Department of Defense is planning to reduce outside contractors and boost internal personnel by 33,400 civilian employees. Intelligence agencies have insourced thousands of contractor jobs already. The Department of Defense is planning to insource 3,200 formerly contracted positions.

Some have said that the government, and especially the military in recent years, has had a research supply chain management mentality of “just in case,” while the private sector believes in and practices a “just in time” philosophy. Clearly, politicians of both parties have committed us and our offspring to more government than we can afford. With President Obama’s call for public service and the current economic downturn, there has never been a better time to attract people into federal work positions. However, a rush to insource thousands of positions while trying to take on more and more government programs can end in disaster. Government control of banking, the auto industry, insurance, education and health care is moving forward. Government agencies should approach insourcing with a clear plan of action focusing on inherently governmental positions (such as defense), key mission critical roles (such as economic stability), and core competencies

(such as leadership). It must be remembered and should be practiced that government can best go about the people’s business by largely staying out of it. The dilemma is obvious. Yes, there is a reversing trend toward more insourcing and less outsourcing, and this is a good movement in the right direction. But it is a move that should predominantly be featured within our culture at the personal-individual and professional-institutional levels and not at the governmental-national one. Otherwise, the uniqueness and promise of our great experience and investment in democracy will be at risk. 



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