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Contextualizing Outsourcing and Development from a Theoretical and Practical Perspective

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Abstract

For some time now more rigorous and extensive debates about outsourcing and development have taken place. This has occurred due to unfavourable policy formulation and implementation which has resulted in the increased poverty levels and low economic growth rates that are believed to characterise developing countries. However, changes from 'neoliberal' philosophy and zeal about specifically market-driven approaches have created room for more informed discussions to take place. This study evaluated contextualizing outsourcing and development from a theoretical and practical perspective through the use of secondary data collection method. The findings suggest that there is a relationship between development and the practice of outsourcing. Domestic and offshore outsourcing strategically executed can yield successful outcomes. Key aspects that should be considered to ensure successful outsourcing outcomes are outsourcing relationships, ensuring post-purchase satisfaction, managing the change process, reduction of transaction costs, managing distribution channels, securing the correct type of resources and selecting the appropriate outsourcing model to adopt. The International Division of Labour has led to the creation of job opportunities in developing nations as well as knowledge and skill transfer and job loss in developed countries.

Keywords: *Outsourcing and Development.*

1. Introduction

Outsourcing involves the act of moving some of an organisation's internal activities, decisions and responsibilities to outside provider/s [1] locally or internationally. Development is considered equivalent to progress. 'Development', today, is also approached and measured in terms of non-monetary dimensions in Human-centred Development, the Sustainable Livelihoods Approach and the Capability Approach among others. In the 1990s, work on human-centred development was taken up in part by various international development organisations. Such perspectives suggest that development requires a focus on people rather than concentrating on economic growth [2]. These humanist perspectives consider alternative dimensions of development and emphasise the need to build human resources and capacity, to have more decentralised and participatory types of development policy, and to efficiently and effectively utilise the numerous institutions and establishments of civil society. This relates to the Basic Needs Approach and a variety of literature based on 'alternative' development thinking in which, for example, concepts such as gender, eco-development, and participation are emphasised.

There is appreciation that poverty does not only involve poor living standards, but also the lack of choice and capability. This may be understood as a new development paradigm in itself, which is referred to as the Capability Approach. The Sustainable Development Paradigm is specifically applied to understanding new dynamics associated with rural development.

It is necessary to evaluate and explain how at present and in the future development can be achieved and what challenges could hinder development. This study considers how both practical and theoretical aspects of outsourcing and development need to be considered and examined in order to comprehend the effects of domestic and offshore outsourcing.

Many are critical of how outsourcing leads to job loss and worker alienation, but in a global economy where control of the entire supply chain is an increasing rarity; it is important to consider exactly how developing economies enter into such practices.

There is a need to increase economic activity in developing countries in order to attain increased productivity which in turn will result in development.

There are several key factors that motivated this research on contextualising outsourcing and development from a theoretical and practical perspective. The first is the need for increased understanding on how development theory and policy can be linked with outsourcing. It is our view that there are theories and current approaches in development theory and policy that can be used to shed light on the relationship between outsourcing and development. This is derived from the fact that successful outsourcing outcomes can result to some level of development. In the past outsourcing has been observed to reap benefits such as cost savings. However, in recent times the benefits are more likely to be productivity, flexibility, speed and innovation in developing business processes and accessing new technologies and skills [3].

The second reason why it was deemed important to conduct this study on contextualizing outsourcing and development from a theoretical and practical perspective is that there are theories and models of outsourcing that explain aspects necessary for possible successful outcomes of an outsourcing venture.

The third factor that motivated this study is the fact that unemployment levels in developing countries such as Kenya are high, which means that human capital is underutilized. The unemployment rate in Kenya is 40%. This means that the population of unemployed citizens in Kenya is 40% [4]. Thus, the concept of offshore and domestic outsourcing is considered as a possible way of creating jobs in developing countries.

This article is presented as follows: Section 2 addresses linking classic development theory and policy with outsourcing while section 3 addresses current development theory and policy approaches and outsourcing. Section 4 describes outsourcing theories while section 5 examines outsourcing models. Finally, section 6 concludes.

2. Linking classic development theory and policy with outsourcing

Development theory is a combination of theories about how desirable change in society is best achieved. Development theory can be divided in two: development theories that specifically deal with the social and economic occurrence of 'underdevelopment' and 'development' and those that are based on problem-solving. Furthermore, the focus of both of these approaches is based specifically on economic, social, political and/or cultural factors. To some extent, these approaches overlap with one another. This section links Modernisation theory, Dependency theory, Structuralism and Ricardian theory with outsourcing.

2.1 Modernisation Theory

Modernisation theory is a convergence of evolutionary and functionalist theory. In the 1950s and 1960s Modernisation theory was the foundation for the prevailing macro development rhetoric. Modernisation is considered to be the gradual evolution from 'traditional', to more 'progressive' or 'modern' societies. The objective of this ideology is the formulation of a 'modern' industrialised urban-based nation. Modernisation theory provided Third World nations with a guideline on how change could be achieved, in other words, on how industrialised nations had supposedly achieved development. Modernisation has also been defined as the process of change towards different types of social, economic and political structures that emerged in Western Europe and North America from the seventeenth to nineteenth centuries and thereafter spread to other European nations and in the nineteenth and twentieth century's to South America, Asia and Africa [5]. The term Modernisation theory has its roots in the historic evolutionary explanation of social change [6].

Emile Durkheim, Karl Marx and Max Weber theorised the changes initiated by the industrial revolution. There are two concepts that continue to influence current modernisation discourse globally. The first is that of regular 'social change' and the other is the idea of 'development' [7]. Modernisation theory tries to explain how society is meant to 'progress' and what variables influence that progress and how communities react to that progress.

Rostow's classic 'Stages of Economic Growth' together with the writings of Eisenstadt and Smelser, can be considered exemplary examples of modernisation thought. Rostow argued that for a nation to become modern, it had to go through five systematic phases. The first stage is referred to as the 'traditional society'. In this stage the economic system is considered to be stationary and the prominent economic activity is agriculture with traditional methods of cultivation. The second phase is referred to as the 'preconditions required for take-off'. It is characterised by increased rate of investment as economic activity increases. The third phase is the 'take-off stage' which is characterised by dynamic economic growth. The fourth phase is referred to the 'drive to maturity' which is characterised by continued investment in economic activity. At this stage new forms of industry are established. Consequently, according to Rostow, social and economic prosperity result. The drive to maturity is considered to start approximately 60 years after take-off. Lastly, there is the high mass-consumption stage in which consumers are offered a range of products and services [8].

The concept of outsourcing can be linked to Rostow's model which is characterised by increased rate of investment. Industralisation can foster dynamic development which can be attained through increased economic activity. Outsourcing initiatives may allow for increased productivity and efficiency. However, this is a complex and challenging venture to accomplish in totality because of the complexities that surround successful outsourcing outcomes which need to be critically evaluated such as evaluating outsourcing providers' performance and the stability of the micro and macro business environment among other variables.

2.2 Ricardian Theory

David Ricardo documents that Rricardian theory measures economic progress in terms of the amount of output produced by the economy of a country. The shortcomings of Ricardian theory have caused economists to investigate other meanings of growth and development. Many have come to challenge a key assumption of Ricardian theory which is that an economy's potential is determined by its resources and technology. Development economists view this assumption as 'far-fetched' and are rather of the view that it is more realistic and practical to say that the problem of developing nations, is not the lack of potential but the lack of 'know-how' on how to achieve economic potential [9].

What hinders development is not a lack of resources or technology but a failure to utilise to the maximum the resources and the technology which are readily available. This is an indication that suitable strategies need to be selected by governments and companies so that increased productivity levels may be achieved. This can be further achieved through the appropriate allocation of resources and the adoption of suitable technology for production purposes. In the case of outsourcing for instance, knowledge on outsourcing needs to be readily available to organisations. This will help them make better decisions about what function to outsource and how to go about outsourcing. Outsourcing strategically executed could facilitate in achieving to some extent the much needed productivity levels required to foster economic growth and investment in a nation.

2.3 Structuralism

The Structuralism approach to development emphasises the need to consider structural features when engaging in economic analysis. The Structural approach began with the work of the 'Economic Commission for Latin America' (ECLA). Past Structuralism models emphasised 'internal' and 'external disequilibria' which come from the productive structure and its interactions with the dependent relationship Third World nations previously had and some continue to have with First World nations.

Recent additions made to structuralism economics have highlighted the significance of institutions and distribution amongst productive sectors and social groups. The Structuralism approach to development has highlighted the dependency condition that characterises developing nations thus illustrating the need to explore Dependency theory which was essentially considered a follow up to the Structuralism approach. Furthermore, the Structuralism approach to development argued that in the International Division of Labour, Latin American nations played a minor role in specializing in the manufacturing and export of raw materials and food. Structuralism economics' main aim was to provide more workable structures of domestic and national economies in order to assist governments to plan for national development [10]. Structuralisms held the view that Third World nations could only handle obstacles through adequate and organized state action. Developing nations needed to accelerate the process of industrialization, and reduce their dependence on trade with developed countries, and instead increase trade among other developing and transitional countries.

In conclusion, structuralism did not reject the industrialisation path to development. It rather rejected the unregulated synergy with the global capitalist economy as a means of attaining development. Structuralism approaches to understanding development can be grouped in 'smaller' theoretical positions. Below we consider Dependency theory and International Division of Labour as two related yet separate theories.

2.3.1 Dependency Theory

Dependency thinking helped in the development of First World nations. This type of development is referred to as 'dependent development'. Dependency thinking begins from the idea that resources are moved from the poor and underdeveloped countries to a developed nation which resulted in the accumulation of wealth in the developed countries at the cost of Third World countries. Dependency theory suggests that not all nations develop in similar phases of development. Dependency theory further suggests that underdeveloped countries provide natural resources and cheap workforce for First World nations (this could be understood as offshore outsourcing), without which First World countries could not have had the standard of living which they enjoy today [11].

Developed nations are now engaging in offshore outsourcing, in other words shifting jobs to developing countries. Offshore/offshoring outsourcing refers to the relocation of functions to any foreign country, regardless of whether the outsourcing provider is considered to be 'external' or 'affiliated' to the organization. This means that 'offshoring' refers only to international relocations [12]. Consequently, developed countries are left with fewer job opportunities. On the other hand, developing countries gain job opportunities, increased economic growth as well as knowledge and skills. Offshore outsourcing has brought about heated discussions in developed countries and is a complex issue to challenge and resolve. In the past however, developing countries heavily relied on funding from developed countries. This was obtained through the Structural Adjustment Programs (SAPs) that were insisted on by the World Bank and were meant to aid developing nations [13]. The SAPs eventually failed to facilitate development and were therefore dissolved.

The dependency syndrome cannot be ignored as it continues to prevail to some extent in that First World countries continue to depend on labour from developing countries to achieve maximum returns and economic growth. Thus, Dependency theory can be modified to incorporate the dependency of developed countries on those that are considered to be still developing.

2.3.2 International Division of Labour

Globalization has to do with world cultural flows [14], which result in increased cultural connection and increased global culture. It has also led to a global society where countries have assumed different roles in the International Division of Labour that is part of the global capitalist project, secured in industrialism [15].

Recent changes in the trend of global production have been motivated by trade liberalisation, technological improvements and economic transformation. Theories of comparative advantage suggest that differences between countries determine what they produce. Nations which have a large pool of skilled manpower manufacture goods that require skills. It is important to evaluate whether there is a relationship between specialisation, outsourcing and wages. It can be argued that, if outsourcing is associated with specialisation gains arising from an increase in the division of labour, domestic outsourcing tends to increase wages for both unskilled and skilled labour. The relative demand for unskilled workforce in, for instance, Western Europe and the US has declined through international specialisation [16]. Outsourcing is considered biased towards activities that are intensive in the use of unskilled labour. The comparative advantage effect is due to specialisation gains which result from the exploitation of capability differences across nations.

The International Division of Labour is related to when the stages of manufacturing are no longer scheduled to national economies. This has led to a trend of transfer (global industrial shift) in which production processes are shifted from First World nations (for example the USA, Europe and Japan) to developing countries in Asia (for example China, Vietnam and India) and Latin America. This has occurred because the cheapest countries to manufacture and assemble components with low-cost labour-intensive parts for the manufacturing process are moved to the developing world where costs are relatively lower than in First World nations.

Companies take advantage of transportation and communications technology as well as splitting and destination flexibility of production. Since 1953 to the late 1990's, the industrialised economies' share of global manufacturing output declined from 95% to 77% whereas the developing economies' share output has more than quadrupled from 5% to 23% [17]. This has resulted in companies engaging in offshore outsourcing. Hence, First World nations establish company branches in developing nations thus creating job opportunities in developing nations as well as knowledge and skill transfer as previously explained in Dependency theory.

The opportunities used to obtain gains from the division of labour are minimised by the extent of the market. The extent of the market is determined by the efficiency of transportation. As far as outsourcing is limited by transportation efficiency, the level of outsourcing will to some extent reflect the division of labour [18].

An important difference between the comparative advantage effect and the division of labour effect is that the comparative advantage effect will be skill biased and thus would primarily benefit the abundant factor in a country whereas there is no reason to anticipate that the division of labour effect to be skill biased. Therefore, analytically, it is not correct to differentiate between the two effects, considering that foreign outsourcing usually results in a combination of the two impacts. This would be the case if, for example, foreign outsourcing, in part, is made up of activities relocated to nations with varied skill abilities and in part, functions outsourced to nations with similar skill capabilities. Domestic outsourcing is assumed not to be skill biased and could as a result; only affect productivity and salaries to the degree that it affects the division of labour. Domestic outsourcing basically affects salaries if there is a division of labour effect. Hence, domestic outsourcing is expected to be more beneficial for unskilled labour than offshore outsourcing. Offshore outsourcing tends to reduce salaries for low and medium-skilled manpower while, salaries of highly skilled workforce rises. By contrast, domestic outsourcing tends to increase salaries for low and medium-skilled labour, while there is no significant impact on highly skilled salaries [19].

In conclusion, the International Division of Labour promotes economic activity and skill transfer to nations that create an environment that encourages international trade as well as offshore outsourcing. What could hinder the implementation of the International Division of Labour are unfavourable policies governing investment, particularly in offshore outsourcing.

3. Current Approaches to Development Theory and Policy and outsourcing

The failures of classical development theories brought the emergence of new theories and approaches to explain how development could be achieved. For instance, the introduction of favourable policy formulation, institutions and community ties (social capital) in fostering development have been considered. This section looks at Neo-liberalism, Social Capital, and the Capacity Approach.

3.1 Neo-liberalism

Neo-liberalism, which is also referred to as 'market liberalism', is a dominant view of development. It is particularly witnessed in the industrialised West as well as in some influential international bodies in the development field such as the World Bank and the IMF. The advocates of this view can be traced back to supporters of the 1950s of 'free enterprise', who trace their scholarly descent back to Adam Smith.

Neoliberal policies advocate for market forces (the impact of demand and supply on trading within a free market) and commercial activity as the most efficient way of supplying goods and services. Furthermore, Neo-liberalism discourages government intervention into ‘economic’, ‘financial’ and ‘social’ concerns [20].

In Tony Blair’s speech on ‘Globalization and Neo-liberalism’, in September, 2000, he argued that 'Globalization' and 'Neo-liberalism' are similar phenomena but only in a limited sense. The neo-liberal philosophy views a country as a business enterprise. A country markets itself as an investment destination instead of simply selling export products. Proponents of Neo-liberalism consider free markets and free trade to allow creative entrepreneurial initiatives that with time will enhance society. This is believed to ultimately result in individual freedom and the appropriate allocation of resources [21].

The capitalist crisis of the past 25 years which is characterized by reduced profit rates led to the revival of ‘economic liberalism’ by the corporate elite. This is what makes Neo-liberalism 'neo' or new [22].

A significant change has occurred due to Neo-liberalism which has replaced the economic theories of John Maynard Keynes (1936) and his followers. Keynesianism was viewed as the prominent theoretical structure in economics and economic policy-making between 1945 and 1970. This was eventually replaced by a ‘monetarist’ approach which was pioneered by Milton Friedman (1962) and Friedman and Schwartz (1963) [23]. Neo-liberalism, however, is at the fore-front, particularly in macro-economic policy-making today. Neo-liberalism can be related to outsourcing in that less harsh regulations (for profit-making companies) can foster lucrative domestic and offshore outsourcing initiatives that can increase a nation’s economic growth.

In conclusion, a significant feature of neo-liberalism is the regulation of the market.

3.2 Social Capital

Social Capital refers to for instance, the family, friends and colleagues who make up an important asset for an individual. Social Capital can be used in a crisis situation and at the same time enjoyed and used to influence material gain. Communities that are wealthy with social groups and public associations would be in a better position to deal with poverty and vulnerability [24] in order to resolve conflicts [25], and/or to explore new opportunities [26].

The new formulation of Social Capital as a term brought about the renewal of interest in academia for an ancient debate in the discipline of social science which is the relationship between ‘trust’, ‘social networks’ and the development of a new ‘industrial’ society. Social Capital theory is known to have gained popularity through the unity of early sociological theory with the explanation of an immaterial type of capital. As such, the traditional definition of capital has been overcome allowing researchers to handle issues in a new way [27].

Social Capital theory has been used in various forms to discuss superior management performance, increased performance of members of different groups; the value obtained from strategic collaborations (which could include outsourcing firms and client firms) and improved supply chain relationships. Social Capital is viewed as a resource that persons formulate from specific social frameworks which they then use to attain their interests. Social Capital is formed through changes in relationships among actors [28].

The features of Social Capital that facilitate in useful benefits could similarly have the capability to cause negative outcomes. Some of the pitfalls of Social Capital include: creating behaviour that worsens a situation instead of improving the economic performance of a situation; hindrance to ‘social inclusion’ and ‘social mobility’; creating division among community members instead of uniting them; facilitating in increasing crime instead of reducing criminal activities and under achievement of education and health-damaging behaviour [29]. Furthermore, groups which can generate Social Capital can also omit others within a given community [30]. Social Capital can become a hindrance to individuals' actions and choices [31]. For example, there is a particularly high chance that negative Social Capital in urban poverty situations may arise [32].

Social Capital can be a useful tool in outsourcing in that communities can be educated on outsourcing and entrepreneurial opportunities. A community may incorporate the practice of outsourcing to enhance economic development. Through engaging in meaningful collaborations, entrepreneurial activities could be fostered thus benefiting the community at large. Building networks and relationships based on trust are essential for obtaining successful outsourcing outcomes. Hence, positive Social Capital is a useful tool for enhancing economic development.

3.3 The Capability Approach

The Capability Approach theory is a framework that consists of two key standard claims: that the freedom to attain well-being is of great importance and that freedom to attain well-being is comprehended in relation to an individual’s capabilities, which are the individual’s real opportunities to engage in what he/she considers of value. This approach has been developed in particular normative theories, for instance, theories of social justice or what could be referred to as accounts of ‘development ethics’. Furthermore, the Capability Approach has also led to new interdisciplinary literature in the field of social sciences. Consequently, this has resulted in new statistics and social gauges as well as a new policy paradigm in Development Studies, which is referred to as the ‘human development approach’.

The Capability Approach can be traced back to theorists such as Aristotle, Adam Smith, and Karl Marx (see [33]). Economist-philosopher Amartya Sen who championed the approach, and philosopher Martha Nussbaum and other scholars in the humanities and social sciences have greatly developed the Capability Approach. Notably, the Capability Approach was developed as a flexible and multi-purpose framework, as opposed to a precise theory of well-being [34]. This open-ended and underspecified nature of the Capability Approach somewhat explains why the concept 'Capability Approach' was selected and is used today in literature as opposed to using 'capability/capabilities theory'.

Even though there are various philosophical disagreements about the best description of the Capability Approach, it is now generally understood that the Capability Approach involves the following activities: First is the evaluation of an individual's well-being, second that of social arrangements and finally, the structure of policies and proposals based on social change within society. In the above mentioned activities the Capability Approach prioritises people's genuine opportunities to be educated and their ability to enjoy supportive social relationships, happiness and resources such as income or wealth. For a brief overview of how the Capability Approach has been adopted in practice (see [35]).

Academics and policy makers use the Capability Approach in a variety of fields. The approach dominates in Development Studies and policy making, welfare economics, social policy and social and political philosophy. The Capability Approach can be applied both narrowly and broadly [36]. In a narrow approach, the Capability Approach explains what information is required to judge how good an individual's life is. This type of information is necessary for human development. The narrower application of the Capability Approach, which concentrates on the evaluation of individual functioning levels and capabilities, is relevant to outsourcing. Notably, in a practice like outsourcing it is essential to have staff that has skills to perform a particular task for contracted client firms. Capability is achieved through education and experience. Having the appropriate capability ensures competence.

4. Outsourcing Theories

There are numerous theories that are particularly relevant to outsourcing practices and decision strategies. They include: Transaction Costs Analysis (TCA), Agency Outsourcing Theory, Resource Based Theory (RBT), Network Theory (NT), General Systems Theory (GST), Social Exchange Theory (SET) and Expectation Confirmation Theory (ECT).

4.1 Social Exchange Theory (SET)

Social Exchange Theory (SET) is used to explain the relationships that result from outsourcing. SET focuses on the aspect of exchange and is one of the most suitable theories to explain inter-organizational behaviour. SET evolved from the disciplines of economics, sociology and psychology and was developed and improved by [37] with the objective of explaining the social behaviour of individuals from an economic perspective. SET concentrates on the exchange between two parties which involves a relationship of shifting of resources for both actors to benefit. These actors consist of the client firm and the outsourcing provider. Over time, SET has been enhanced by a range of features, ranging from a technical and economic analysis [38] to the psychology of supportive behaviour [39].

4.2 Relational Exchange Theory (RET)

Rational Exchange Theory (RET) adopts a similar approach to that of SET [40]. RET is founded on the concept that exchanging parties (the client firm and the outsourcing firm) are in mutual agreement. The exchange partners consider the exchange relationship important enough to dedicate resources for the purpose of its maintenance and growth (Anderson and Narus, 1984 and Dwyer, Schurr and Oh, 1987) [41].

The underlying principle of exchange interaction between the involved parties (the client firm and the outsourcing provider) involves shared expectations in the exchange relationship. Such expectations of both parties in the relationship ultimately determine the relationship and the recognised satisfaction of both parties.

4.3 Expectation Confirmation Theory (ECT)

Expectation Confirmation Theory (ECT) evolved from the study of marketing and consumer behaviour. ECT suggests that expectations, together with the expected performance, result in 'post-purchase satisfaction' [42]. Thus, repeat sales and new sales result when consumers are satisfied and outsourcing exchange relationships, the expectations of both parties (the client firm personnel and the outsourcing vendor firm personnel) have to be considered in order to obtain favourable outcomes that are beneficial to all parties concerned.

4.4 Transaction Cost Analysis Theory (TCA)

Transaction Cost Analysis *(TCA) theory* is based on the assumption that firms seek to cut down on business expenses. TCA was originally formulated by Coase (1937) [43] . The theory suggests that investments, including outsourcing, help to reduce transaction costs which in turn reduce the size of the organization, making a firm more productive. The belief that outsourcing helps to reduce transaction cost which results in a reduction in the size of an organisation (this means that there is a reduction of employees, physical assets among other items in the organization. Most of the scholarly literature today uses this economic theory to emphasize the benefit of outsourcing [44].

4.5 Agency Outsourcing Theory

Another economic theory that applies to outsourcing is Agency theory. Agency theory focuses on the impact of outsourcing on employees or 'agents', in particular those who work for the owners of client businesses. According to this theory, as a company grows in size and its channel of distribution employee relations increase, the owners need to increase the number of employees who work as agents so as to support the complexity of the organization. This means that an investment in outsourcing saves an organization time and improves its control over its business operations by shifting non-core activities outside the firm. Thus, a client firm will require fewer employees [45]. In essence there is a reduction in the number of employees [46].

4.6 Resource Based Theory (RBT)

Resource Based Theory (RBT) implies that a company is viewed as a bundle of resources [47]. It suggests that an organization must secure an efficient amount of the correct type of resources from its surroundings in order to survive and improve its operational outcome [48]. RBT considers companies as a collection of a range of resources and capabilities and evaluates why they exist and what determines their magnitude and focus.

RBT has over time provided an important perspective for understanding how organisations compete through their resources and capabilities. Whether a company is able to maintain competitive advantage will be determined by its ability to obtain, mix and distribute resources in a manner that fosters sustainable productivity and/or added value advantage. From this viewpoint, the rationale for outsourcing is that it will maximise value through having access to external resources. Additionally, a resource based view is particularly suitable in evaluating organizational outsourcing. This is because firms essentially use outsourcing as a technique for attaining access to other companies' valuable resources [49]. Thus, RBT suggests that outsourcing is a way for multi-national companies (MNCs) to access complementary resources. This is where outsourcing is traditionally seen to enhance operational efficiency through reducing expenses. RBT suggests that access to skilled manpower and knowledge of resources is an increasingly essential motivator behind outsourcing to developing countries [50].

4.7 General Systems Theory (GST)

General Systems Theory (GST) centres on the organization and the interdependence of relationships. In the world on commerce, GST is used to explain how materials-flow, related activities and information within and outside firms are so complicated that they can be considered only in the view of their collaborations. This school of thought considers outsourcing arrangements with the view that the outcome of organizations is no longer fully dependent on what a firm does internally but is largely affected by the collective outcome of firms linked through business stages and relationships [51].

4.8 Network Theory (NT)

Network Theory (NT), when applied to outsourcing, considers it as an activity that helps the firm to manage its distribution channel as a single unit through the use of relational contracting (interactive hiring) and network harmonization (the coordination of securing contacts). Different types of NT collaborations are based on the main ideas of economic inspiration, authority and confidence. Additionally, NT theory recognizes that companies in some situations depend on resources managed by other firms. Access to these resources can be achieved only by interacting with these firms, and forming relationships, and consequently networks, across the value channel. NT represents an attempt to develop a resourceful theory of the firm while widening the understanding of benefit from a focus on cost-reduction to incorporation of the management of varying companies' resource base [52]. This perspective is useful to managers seeking to understand, maintain and expand their competitive advantage through their organisations' specific network collaborations for instance collaborations necessary for outsourcing.

5. Outsourcing Models

Outsourcing models can be classified into two main groups: Offshore Outsourcing models and Business Outsourcing models. The diagram that follows illustrates this classification.

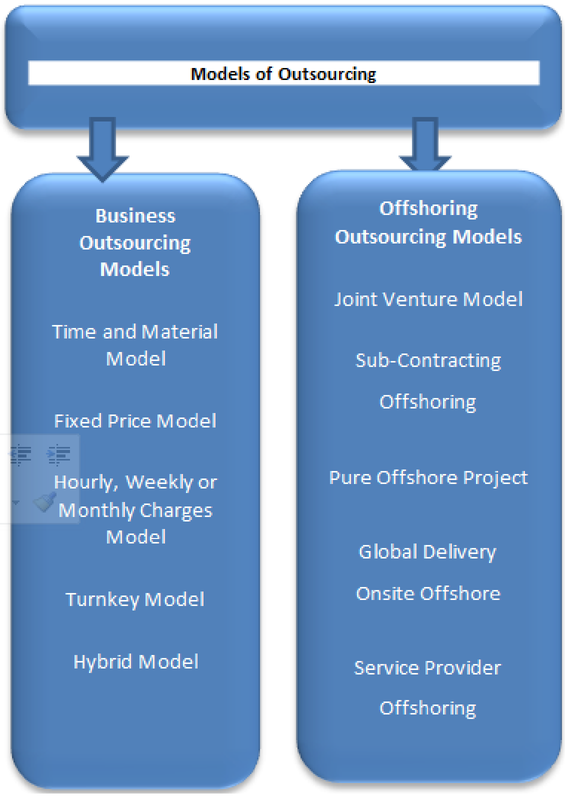

Figure 1: Models of Outsourcing

5.1 Business Outsourcing Models

Business Outsourcing models are adopted mostly in domestic outsourcing. The Time and Materials model is also referred to as the Costs and Materials model. The model is viewed to be relatively popular and is used particularly for information technology application development and maintenance projects which are projects that take a year or longer. This model allows the client firm to pay for outsourced services in installments, in accordance with the payment terms and the contract formulated between the client firm and vendor organization [53]. It is, however, more difficult to estimate the resources that will be required for a project [54].

The Fixed Price model involves a client firm choosing the outsourcing vendor/s with whom they can enter into detailed negotiation that would result in reducing timelines or expenses. Both the client firm and the outsourcing vendor have a clear picture of the requirements and the specific implementation methodology to be adopted. The outsourcing vendor provides a costing model and the client firm can request proposals from different outsourcing vendors on the same or a similar project to be outsourced for comparison purposes. The project in question is outsourced for a fixed price by a client firm [55].

The Hourly, Weekly or Monthly Charges model is viewed as the most appropriate for maintenance and support projects. This type of outsourced project is invoiced on an hourly basis - depending, on the number of hours spent on maintenance or support services provided by an outsourcing provider [56]. Outsourcing firms operate on Fixed Weekly or Monthly Charges model, where there is an agreement of a minimum number of hours of service per payment period. The weekly and monthly charges models are considered cheaper than the hourly charged models [57].

The Turnkey model is commonly adopted in medium and large-sized software outsourcing projects [58].

The requirements and initial software plans and designs are initially provided by the client firm. However, the software is mostly developed in a range of stages. Each stage in the Turnkey project can be based on either a Fixed or Time and Material price model. Payment is made after the completion of every stage based on agreement between the outsourcing provider and the client firm. The terms and conditions of one stage may be different from those of another similar or same project [59]. This mode of payment (per stage completed) is advantageous to the outsourcing vendor who could decide to cease offering outsourcing services if payment is not made after one phase of work has been completed. If the client firm is not happy with the work done in any particular phase, they can also decline to make the payment until the work of a particular phase is properly done. This method encourages commitment by both the outsourcing vendor and the client firm.

A Hybrid model is adopted by an outsourcing vendor when, due to the unique nature of the project, a client firm's project may not fit into any particular Business Outsourcing model. In such a situation, an outsourcing vendor offers a combination of some suitable Business Outsourcing models thereby making it a 'Hybrid model'. For instance, a project can be implemented by using the Fixed Price model and the Time and Material model [60].

The Hybrid model is a useful model for complicated and unique projects that require a range of models to ensure that the outsourcing initiative is successfully accomplished. The Business Outsourcing models are meant to help the client organization in attaining efficiency and quality standards of products and services through the aid of outsourcing vendors. An outsourcing vendor selects the appropriate model for a client company to attain satisfactory outsourcing outcomes. Economies of scale are an important aspect to incorporate when adopting Business Outsourcing models. Thus, minimal or no wastage of raw materials or time is essential.

5.1.2 Offshore Outsourcing Models

Offshore Outsourcing models can be considered as a type of business process outsourcing. Offshore outsourcing is the practice of hiring an external establishment to perform some business functions in a country other than the one where the products or services are actually manufactured. Additionally, offshoring functions are performed in a foreign country by a foreign branch or company [61]. The practice of transferring work to a foreign country with higher wages reduces domestic employment and domestic investment. The Offshore Outsourcing models discussed in this section are: Joint Ventures, Sub-contracting of Offshoring, Pure Offshore Projects, Global Delivery Onsite-Offshore models, Service Provider Offshoring and Multi-Vendor Offshoring. The Joint Venture model describes an organization partnering with a local or international company. The Joint Venture model is very popular among technologically advanced organizations that are comfortable in the management of technology enhancement and innovation. Examples are IBM, Microsoft and Oracle which look to offshoring as an expansion of their own division strategies [62].

A Joint Venture (JV), ties up a local organization either by taking an 'equity stake' or establishing an independent firm in which each organization contributes resources to create a 'win-win' outcome [63].

The outsourcing employees, thus, become a part of the client firm's employee team. A Pure Offshore Project, on the other hand, describes a situation where the focus is well defined and the work is conducted with minimal supervision. The Pure Offshore model is not used often but is adopted by organizations that are innovative and seeking to capitalise on international expertise that is not readily available locally. Offshoring of individual projects is done by client companies that have a clearly defined outsourcing programme, which could reduce the risks of outsourcing by dividing the work into smaller, more manageable projects that a firm could outsource to vendor companies [64].

The Global-delivery Onsite Offshore model ensures a high return on investment for the client firm. The model utilises a small team on-site that works with the client firm managers and teams and co-ordinates work with the offshore team which performs most of the work [65].

Service Provider Offshoring refers to when client firms outsource projects, programmes and individual work orders to offshore outsourcing vendors. On the other hand Multi-vendor Offshoring involves the use of a combination of a range of offshoring methods. For instance, the use of Pure Offshore Project model combined with Sub-contracting model [66].

In conclusion, Offshore Outsourcing models should be carefully selected by the management of client firms and outsourcing vendors to ensure that goals are achieved.

Conclusion

Despite the numerous efforts to address how development can be achieved in Africa through emerging development theories, policies and approaches, Africa is considered to contribute less than 1.2% of the world's GDP [67]. All in all the problem of underdevelopment in Africa continues to be pondered in the minds of many. This means that debates and discussions on how sustainable development can be achieved and maintained in Africa continue to be explored.

The effects of outsourcing are a complex ideology to evaluate. However, domestic and offshore outsourcing cannot be ignored as one of the strategic practices that could be adopted by organisations to achieve increased productivity that could result in development, knowledge transfer as well as job creation in developing countries.

Outsourcing theories clearly indicate that there are certain components that successful outsourcing will require. An indication that outsourcing strategically done could result is successful outcomes is evident and therefore the practice of outsourcing cannot be ignored rather companies need to be enlighted that outsourcing has its positive impact if strategically executed.

The models of outsourcing have been classified as either Business Outsourcing models or Offshore Outsourcing models.

It is essential that client firms adopt the appropriate outsourcing models in order to achieve positive outsourcing outcomes.

When prices adjust to those of global markets they no longer reflect domestic productivity, which can result in driving lower-productivity companies in the previously protected sectors to shut down. Outsourcing facilitates in filling in the gap of decreasing protected national industries, improving employment and living standards of society. Rising levels of education and urbanization shows the active role governments play in advancing education as well as in encouraging research and development. This ultimately contributes to social, economic and human development.

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