

Outsourcing Manufacturing and its Effect on Canadians: Formal Report



Outsourcing Manufacturing and its Effect on Canadians: Formal Report

Jane Smith and Group.

Business Communications CS 220

Professor Jennifer Andersen

Tuesday, March 17th, 2015

MEMORANDUM

Date: January 20th, 2015

To: Jennifer Andersen

From: J. Smith and Group

Subject: Outsourcing Manufacturing and its effect on Canadians.

Statement of Problem: Companies that outsource Canadian manufacturing jobs to other countries is regarded as a negative impact to the Canadian economy. However, if done properly, outsourcing can positively influence the Canadian manufacturing industry.

Statement of Purpose: Our research is going to show the positive effects that outsourcing can have on the Canadian economy. It will include manufacturing companies that choose to outsource and how it has influenced the success of their company, and how that has affected the Canadian economy.

Sources and Method of Data Collection: We will be gathering secondary sources and data for our research from the Confederation College online database, Confederation College Library, articles from credible news sources, the interview participants affected by outsourcing as well as the academic documents accessible from Universities and Colleges.

Tentative Outline:

- 1) Background
 - a) History
 - b) Purpose
- 2) Effects of Outsourcing
 - a) Organizational
 - b) Social
 - c) Economical
 - d) Competition
- 3) Foreign Relations
 - a) Skill Sets
 - b) Regulations
 - c) Impact

List of Assigned Tasks to Do:

Work on and complete Memo	All Members
Type Memo	Jane
Research Background	C.
Research Effect of Outsourcing	Jane C.
Research Outsourcing & Foreign Relations	T.
Improvement and Recommendations	All Members
Conduct Interviews	All Members
Monitor and Track interview responses	T.
Compiling graphs and charts	Jane
Compiling report	C.
Create Power Point	All Members

Tentative Work Schedule:

Start Memo	January 13, 2015
Hand in Memo	January 20, 2015
Work Plan	January 20, 2015
Create Survey Questions	January 20, 2015
Survey Questions Due	January 27, 2015
Progress Meeting #1	January 27, 2015
Conduct Research	January 27 – February 3, 2015
Conduct Interviews	February 3, 2015
Create Rough Draft	February 17, 2015
Teacher Feedback	February 24, 2015
Progress Meeting #2	February 24, 2015
Formal Report Rough Copy Due	March 3, 2015
Bind Report	March 6, 2015
Formal Report Due	March 10, 2015
Prepare PowerPoint	March 17-24, 2015
Practice Presentation	March 25-30, 2015
Present Report	March 31, 2015

Before we can continue with our research, your approval is essential. Please provide us with feedback on this subject matter on, or before January 20th, 2015. Thank you for your time and consideration.

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INTRODUCTION

Through the years outsourcing has spread from one small job function of an organization to much larger roles within an organization. Now when the term outsourcing is used, people automatically think of a tactic a company or organization uses to cut jobs and save money. Although this is one reason outsourcing is done, it is not the only version. Outsourcing is defined by Bengsston and Dabhilkar (2008) as “having activities that were formerly done inside the organization now performed by an external supplier” (pg.4). Examining the roots of outsourcing and how it grew to form relationships across international borders will help create an understanding of why this is practised. Any strategic move an organization takes to stay ahead of competition, while still increasing revenue, there are positive and negative effects. Job losses and job creation are the two major areas that individuals feel the effect of outsourcing, and will be discussed in more detail.

Background and History

Originally outsourcing became prominent in the business world in the early 1970's although it was around as early as the 1950's (Davis & Davis, 2012). Typically it was used to hire out services such as payroll (Davis & Davis, 2012). The strategy was to allow companies to focus on their main strengths within the organization and contracting out the weaker areas to other companies that had the skill and expertise (Davis & Davis, 2012). As outsourcing became a regular practise among companies the range of partnerships grew (Davis & Davis, 2012). Two categories of outsourcing were formed, onshore outsourcing and offshore outsourcing (Davis & Davis, 2012). Onshore is a partnership between two or more companies within the country whereas offshore is a partnership across national borders (Davis & Davis, 2012). According to Charles E.

Davis (2012) “These types of arrangements are often referred to differently, depending upon the distance between the domestic service buyer and the international service provider” (pg.57). What makes this phenomenon seem relatively new is the fact that it affects a broad range of jobs that used to be considered off-limits to distributing across international borders (Martin, 2006). What is particularly significant is that off-shoring is moving up the ladder from low-skill jobs to high-level technical occupations, and even scientific work (Martin, 2006).

There are many different reasons that a company may be outsourcing to other companies in or out of the country. The largest and most common reason is to reduce costs on economy of scale (Bengtsson & Dabhilkar, 2008). Another reason can be that the company may not have the resources available within or are avoiding the risk of investment (Bengtsson & Dabhilkar, 2008). The increasing reason for outsourcing is more strategic and requires the company to focus on their core competencies and outsource their weaker competencies to those who have the required skill set (Bengtsson & Dabhilkar, 2008). Each motive is to benefit the company in cost and productivity, while specific motives are beneficial to the organization, society and individuals.

When looking at outsourcing to reduce cost on the economy of scale there are two main areas that are frequently outsourced, manufactured parts or goods and technical services. Still most organizations services still have to be provided on-shore and within the organization itself (Goldfarb, 2004). If the trend of outsourcing increases and Canadian companies progressively send business segments to be produced by their foreign affiliates or other firms off-shore, financial gains are likely to flow across the economy in terms of lower component prices for companies, lower final prices for consumers, and higher living standards, both in Canada and in developing countries (Goldfarb, 2004). Due to the cost reduction with transportation and lower

tariff barriers it has become more efficient to trade manufactured parts across national borders (Goldfarb, 2004). The manufactured parts are typically more efficiently produced in foreign countries compared to manufacturing them locally, and importing these goods will likely improve the economic welfare overall (Goldfarb, 2004). Intermediate components to products will be imported and then finalized with the rest of the components before being re-exported (Goldfarb, 2004). Due to major changes in information and communication technologies, service jobs such as data processing, call centers, and software programming are moving en masse to low-cost countries (Martin, 2006). The declines in telecommunications costs and the ability to digitize service functions now allow companies to outsource call center and IT services off-shore (Goldfarb, 2004). Even though outsourcing has positive effects on the economy there are also some down falls. One of the largest barriers to outsourcing, as a cost effective tactic, being beneficial to the economy is that it may reduce the drive to increase wages competitively because they can pay workers less money to perform the same duties in other countries (Goldfarb, 2004).

Some jobs are lost from companies moving sectors abroad, in the end as manufacturing skills and output skills increase, the supply demand increases and jobs are created in other companies (Goldfarb, 2004). The ability to outsource jobs may prevent a local job loss by keeping companies competitive in the global market (Goldfarb, 2004). As companies outsource production off-shore or domestically, some workers may lose their jobs (Goldfarb, 2004). However, in the long term, lower production costs reduce the price of the company's goods or services, this increases the consumers' purchasing power increasing the economy's welfare (Goldfarb, 2004). This in turn increases the demand increasing output of the services and goods and providing jobs in other companies (Goldfarb, 2004). The new jobs that are created may not necessarily be in the same sectors or department that had experienced the short term job losses

(Goldfarb, 2004). Overall the number of jobs lost to outsourcing is minimal compared to the natural rate of job replacement in the job market (Goldfarb, 2004). Therefore the economy must consider the fact that the job market is dynamic, in that jobs are constantly being created and destroyed (Goldfarb, 2004).

Purpose of Study

There has been a large and common misconception around the term outsourcing. It has been seen on social media and news through political decisions that affect Canadians livelihood. A large number of Canadians view outsourcing as a negative strategy a company uses to save money. This is not always the scenario, originally outsourcing was done very differently and continues to be done for other reasons than cost efficiency. Even though outsourcing is a small percentage of organizations overall operations there is not a lot of positive feedback portrayed in society. Through our research we are going to show the positive effects that outsourcing can have on the Canadian economy and organizations and discuss how outsourcing can and should be done properly.

Scope of Study

The research will include local manufacturing companies in Thunder Bay that choose to outsource. We will draw attention to how it has influenced the success of the companies, and how that has affected the economy. The report will review how outsourcing can be done positively as well as negatively. Our focus is to bring awareness to those who only view outsourcing as a negative concept. Through secondary sources the history and overview of outsourcing will be discussed. We will be basing our findings from local manufacturers within Thunder Bay and comparing those findings to our secondary sources to compare and contrast the effects of

outsourcing on the community at large as well as the organization. Finally, through secondary sources we will portray the foreign relations with local organizations and their off shore relations.

Sources and Methods

Primary data was gathered from Interviews with employees of two manufacturing companies located in Thunder Bay, Bombardier Inc. and Resolute Forestry Products. Through the college we were given consent forms to have participants fill out describing what our project was for and how the information we collected would be used. We then contacted each organization asking for recommendations on who we could contact for interviews. We asked each participant to sign the consent form allowing us to collect data. We narrowed down our outsourcing topic to manufacturing, in Thunder Bay our two largest organizations that support the city's economy are manufacturing organizations. From this we determined to contact three employees from one company and two from the other. We began our interview process on February 3rd 2015, this included contacting the organization then separate employees who were knowledgeable in outsourcing. We completed our final interview on February 17th 2015. Our secondary sources we collected were through the Confederation College data base, online journals and news articles.

DISCUSSION OF FINDINGS

Type of Products Outsourced

The way that Canadians view outsourcing is nominally dependent upon the type of product that is being manufactured. In a general context, manufactured goods can be defined as either a specialized or commoditized product. A specialized product is developed or designed for a special activity or function and is dependent on specific skills, knowledge or abilities to be manufactured correctly. Whereas a commoditized product is widely available and can be interchangeable, it is not dependent on a specific location, or skill in order to be manufactured. Figure 1 below shows that the research finding of local manufacturing companies create more specialized products than commoditized.

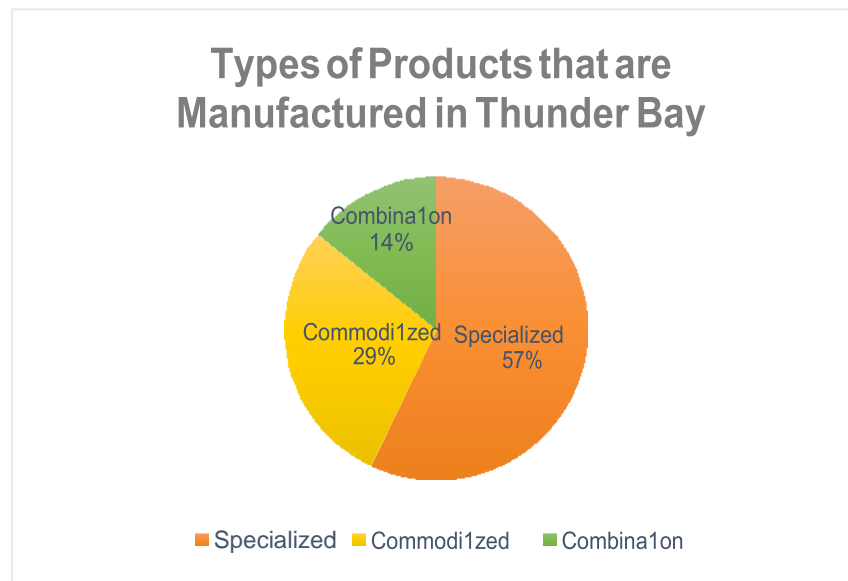


Figure 1: Type of manufactured products in Thunder Bay.

In accordance to research findings, Canadians have a positive view on outsourcing manufacturing if the product that is being outsourced is a specialized product. The negative

condemnation associated with outsourcing is much more prominent when the product is commoditized. The significant data supports these findings and can be seen in Figure 2 below.

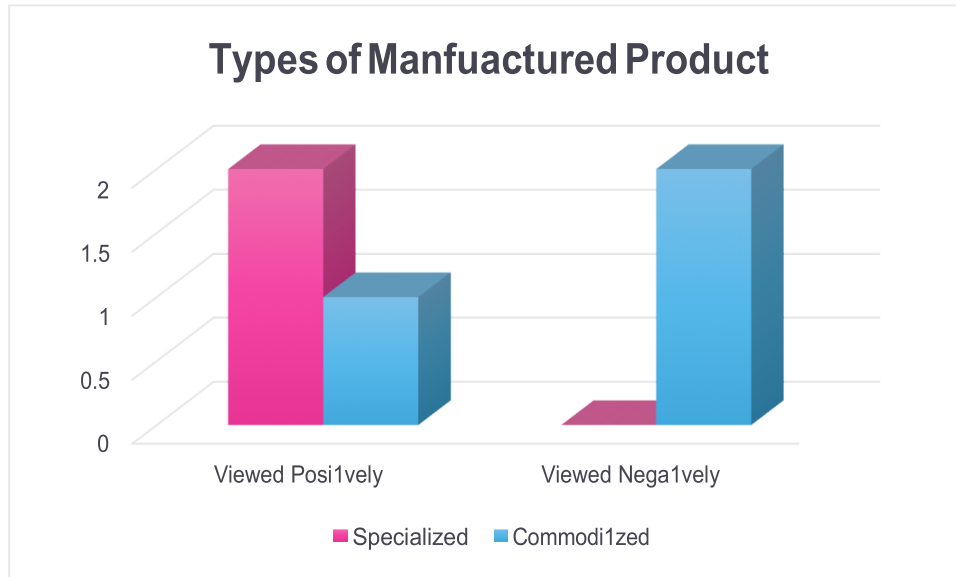


Figure 2: Types of product manufactured and how it is viewed.

Canadians are more accepting of the idea of outsourcing when the type of product being manufactured requires specific skills, knowledge or abilities that cannot be harnessed on site (Davis & Davis, 2012). If another country or region has expertise in the manufacturing of a specialized product, then Canadians can understand why a company must outsource that specific manufactured product. When Canadians have the understanding and rationale behind the decision to outsource it is viewed as a positive alternative. For this reason it is very important that a company communicates the decision and reason to outsource to everyone involved. As stated by one of the participants of the researching findings, “For certain vendor parts (built in Canada) are good for outsourcing because they specialize in that field” (Jones, 2015). However if the product being manufactured is something that doesn’t require any specialized skills or expertise then the idea of outsourcing the manufacturing of that product is not supported by the majority of Canadians and is negatively viewed (Bengtsson & Dabhilkar, 2008).

Areas of Manufacturing Being Outsourced

The largest cost associated with manufacturing is labour and operations (Parliament of Canada, 2004). Since the cost of labour in Canada is high because wages remain competitive across the country, the largest area of manufacturing that gets outsourced is labour and operations (Government of Canada, 2013). Figure 3 below shows which areas of manufacturing are most prominently outsourced at a local level.

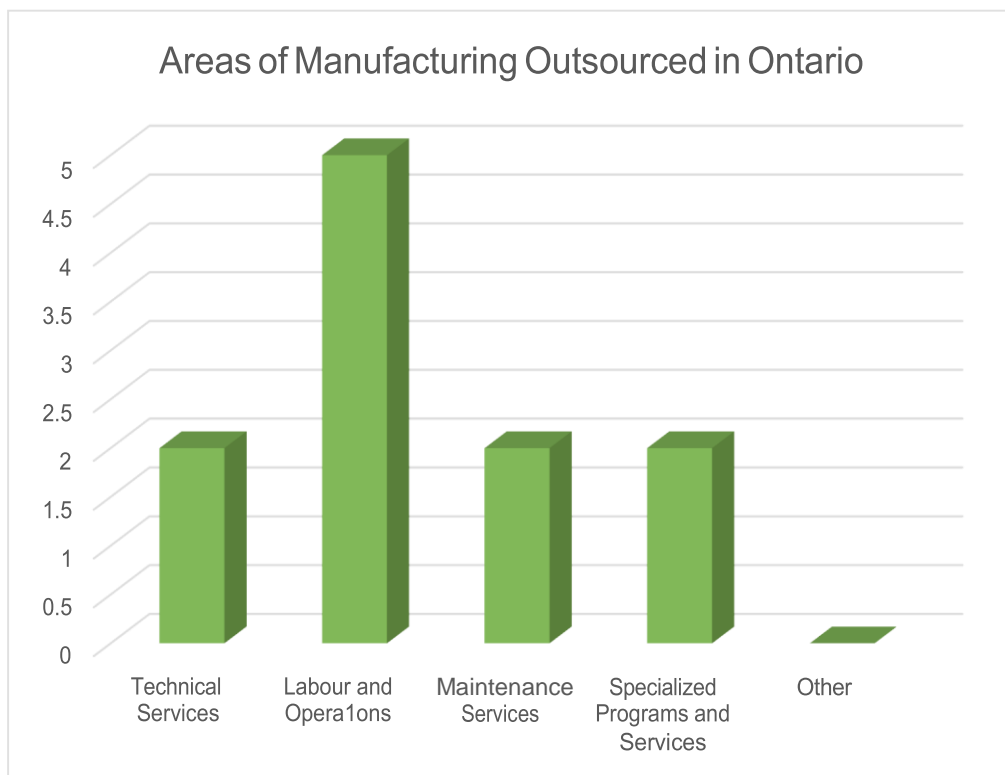


Figure 3: Areas of manufacturing outsourced in Ontario

The research findings support the idea that when a company chooses to outsource their labour and operations it is taking a job away from a Canadian, which is a negative view of outsourcing. According to a participant from the research findings, “The reason (outsourcing labour and operations) is bad is because it puts people out of work in our community that need to support

their families” (Jones, 2015). To ensure Canadians are positively affected by the decision to outsource the reason should not be to solely reduce the cost of labour and operations.

Motives for Outsourcing Manufacturing

In accordance to the research findings, manufacturing companies are more likely to outsource their manufacturing as a motive to reduce cost, this can be seen in Figure 4 below. However, as the significant data depicts, when the companies motive to outsource is strictly to lower cost it is viewed negatively by Canadian.

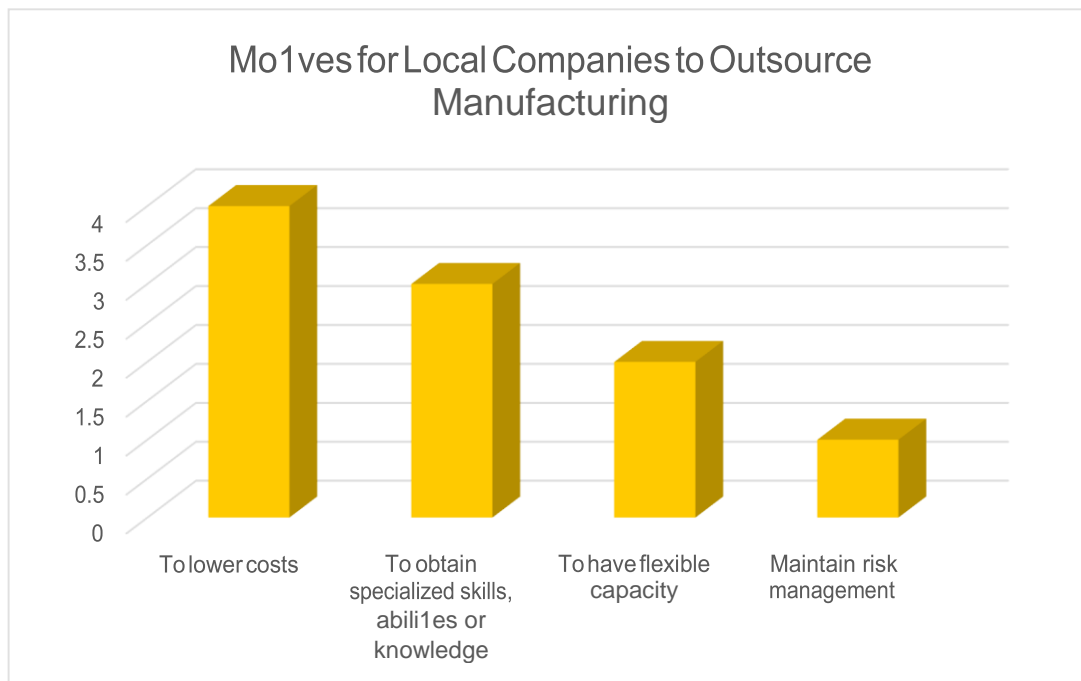


Figure 4: Motives for Ontario Companies to Outsource

The second most likely motive to outsource manufacturing from the research findings is to obtain specialized skills and abilities which can be seen in Figure 4 above. This motive, in contrast to reducing cost, is viewed in a positive way by Canadians. As well, manufacturing companies have gained increased flexibility by outsourcing their production (Hamlet, 2015). If the

outsourced manufacturer has more production capacity, which is the ability to produce more goods than the original manufacturing company, it can respond to increased production requirements more quickly than the original manufacturer (Hamlet, 2015). Instead of the original manufacturer making a capital investment in new equipment to increase its production capacity, which is not economical (Hamlet, 2015). Lastly, if a company is outsourcing a particularly dangerous manufacturing process to help maintain their risk management, similarly to maintaining their flexible capacity, Canadians view this motive more positively than when a company simply wants to lower their costs. The significant data in Table 1 below supports the significant finding of the motives for companies to outsource manufacturing.

Offshore Outsourcing By Sector	Percent of Companies
Manufacturing	53 %
IT Services	43 %
R&D	38 %
Distribution	26 %
Call or Help Centers	12 %
Reasons Why Companies Outsource (Multiple Answers Allowed)	Percent
Reduce or control costs	44 %
Gain access to IT resources unavailable internally	34 %
Free up internal resources	31 %
Improve business or customer focus	28 %
Accelerate company reorganization / transformation	22 %
Accelerate project	15 %
Gain access to management expertise unavailable internally	15 %
Reduce time to market	9 %

Table 1: Motives for outsourcing Manufacturing in Canada from (Bengtsson & Dabhilkar, 2008)

Reducing costs isn't the only reason why outsourcing is used, however it is a motive that people believe is the most predominant among manufacturers. Global business allows individual companies to come together and work towards a common goal, and outsourcing lets companies tap into a large pool of talented skills from all over the world (Davis & Davis, 2012). It is important that companies explain and show how their motives for outsourcing positively affect the company, their employees and society, in order to change the negative stigma associated with

outsourcing. From the research findings, Figure 5 below shows when outsourcing manufacturing is viewed either negatively or positively.

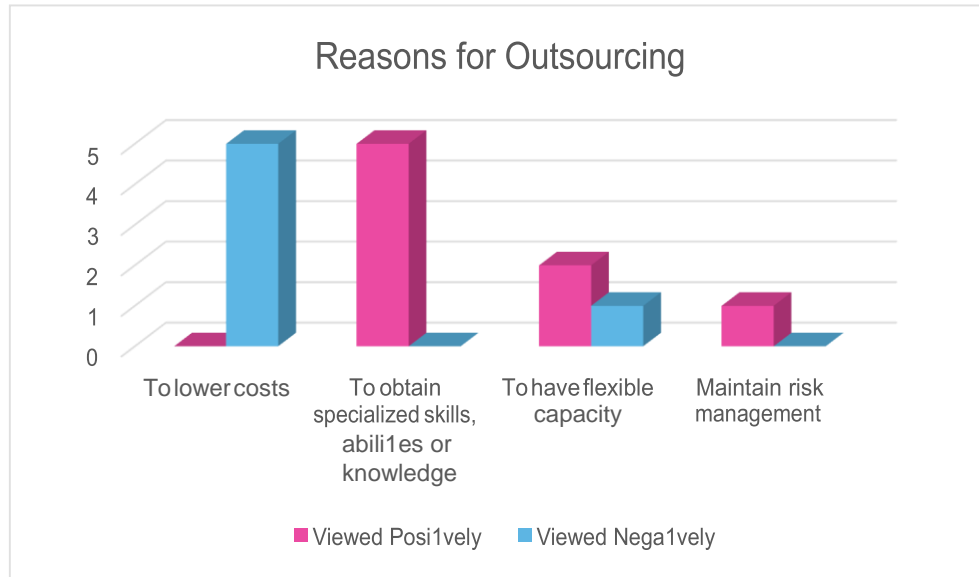


Figure 5: When outsourcing is viewed positively or negatively.

Figure 5 above illustrates when an organization outsources their labour and operations to attempt to lower their costs, it will affect their employees in a negative way. However, when an organization outsources their manufacturing because they are attempting to harness specialized skills, abilities or knowledge in another areas, then employees of the organization have a positive outlook on the idea of outsourcing. There is also a reduction in the negative criticism of outsourcing when the motive involves maintaining risk management and flexible capacities.

Lack of, or ineffective communication by a company about their reason or motive for outsourcing manufacturing is a large contributing factor to the negative association of outsourcing. A company that can explain and express their reasoning for outsourcing to their employees and society will have much greater success implementing outsourcing into their regular business practices (Bengtsson & Dabhilkar, 2008).

CONCLUSION

While a manufacturing business sees outsourcing as a great opportunity to control or reduce costs, free up resources, gain access to talented professionals in a variety of fields, and become a global player, in contrast, sometimes jobs are lost and people are directly affected by this practice and do not support it (Bengtsson & Dabhilkar, 2008). A large number of Canadians view outsourcing as a negative scheme a company uses to save money. Even though outsourcing is generally a small percentage of organizations overall operations, there is a lot of potential for positive feedback to be portrayed in society if outsourcing is done properly. The negative association with outsourcing manufacturing comes when a company sole reason for outsourcing is to reduce the cost of labour and relations. When a company's motives to outsource their manufacturing include obtaining specialized skills or abilities, maintaining risk management or increasing their capacity, Canadians are supportive of the concept of outsourcing. As well, when the products being manufactured are specialised versus commoditised there is much greater support for outsourcing. Canadians have a positive outlook on outsourcing manufacturing if the product that is being outsourced is a specialized product. The negative condemnation associated with outsourcing is much more prominent when the product is commoditized.

As the research findings state, "Every company has a specific reason to outsource. When it becomes a matter of increasing financial gains at the loss of the local economy is when it becomes the wrong thing to do" (Jones, 2015). In order for a company to positively benefit Canadians, when they chose to outsource part of the manufacturing process, it is imperative they outsource for the right reasons and communicate the reason. Canadians will not support a company that only wants to cut costs and put able-bodied people out of work. Presently, public relations and social media support can be a huge influence on the success of a business

(Goldfarb, 2004). Therefore, it is important companies look into all their options before resorting to outsourcing with the wrong motives. Companies must ensure effective communication about their reasons to outsource, to employees and society, in order to receive positive support.

Outsourcing manufacturing positively affects Canadians when the motives are to obtain specialized skill and abilities, maintain risk management, and increase their capacity. Outsourcing the manufacturing of specialized products positively affects Canadians, however, not when the decision to outsource is to reduce labour cost. Canadians are not content with local jobs being outsourced to other countries, but if done in good faith outsourcing manufacturing is viewed in a positive way by most.

RECOMMENDATIONS

In order to ensure that outsourcing manufacturing has a beneficial affect on Canadians, it is imperative that a company does the following to ensure they are making the decision in good faith:

- Do not outsource manufacturing if the sole reason is to reduce the cost of labour and operations.
- If a company chooses to outsource some manufacturing processes in order to harness specialized skills, abilities or knowledge elsewhere, it important to communicate this rationale.
- Do not outsource commoditized products.
- Do not outsource specialized products when the sole reason is to reduce the cost of labour and operations.

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