

THE IMPORTANCE OF OUTSOURCING IN THE PRODUCTION PROCESS IN THE GLOBALIZING WORLD

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ABSTRACT

In the globalizing world market, there are conditions of global cooperation and integration where competition and transformation are more demanding than ever before. In this respect, the fate of companies is determined by their ability to act and adapt. In this respect, it is necessary to act quickly, think creatively and adapt to changing conditions in a timely manner in order to survive in the conditions of high competition. For this reason, more and more companies in the public and private sectors are choosing to outsource their non-core business. Due to this basic fact, especially multinational companies are increasingly turning to outsourcing. The main reason why this strategy dominates, especially in the pharmaceutical industry, is that companies and governments sometimes have to cooperate to protect human health. Cooperation in the field of expertise and know-how in this sector and mutual exchange of knowledge and experience are of great importance. Outsourcing in the fields of production, distribution and consumption in the sense of global sharing of resources is becoming more and more common. This concept is gaining popularity especially in the healthcare industry. However, outsourcing has both advantages and disadvantages. In this respect, it is important to evaluate the outsourcing strategy with a holistic approach. In this study, outsourcing is examined with a pluralistic approach in this context. In this study, as an example of the increasing importance of outsourcing on a global basis, the pharmaceutical industry is considered as a basic example.

Keywords: Global Production Process, Outsourcing, Production, Costs, Know How, Globalization.

KÜRESELLEŞEN DÜNYADA ÜRETİM SÜRECİNDE DIŞ KAYNAK KULLANIMININ ÖNEMİ

ÖZ

Küreselleşen dünya pazarında, rekabetin ve dönüşümün hiç olmadığı kadar talepkâr olduğu küresel iş birliği ve entegrasyon koşulları var. Bu açıdan şirketlerin kaderi, hareket etme ve uyum sağlama yetenekleriyle belirlenir. Bu açıdan yüksek rekabet koşullarında ayakta kalabilmek için hızlı hareket etmek, yaratıcı düşünmek ve değişen koşullara zamanında uyum sağlamak gerekmektedir. Bu nedenle, kamu ve özel sektörde giderek daha fazla şirket, temel olmayan işlerini dış kaynaklardan temin etmeyi seçiyor. Bu temel gerçek nedeniyle özellikle çok uluslu şirketler giderek daha fazla dış kaynak kullanımına yönelmektedir. Bu stratejinin özellikle ilaç endüstrisinde hâkim olmasının temel nedeni, şirketlerin ve hükümetlerin bazen insan sağlığını korumak için iş birliği yapmak zorunda kalmasıdır. Bu sektörde uzmanlık ve know-how alanında iş birliği ve karşılıklı bilgi ve deneyim alışverişi büyük önem taşımaktadır. Kaynakların küresel paylaşımı anlamında üretim, dağıtım ve tüketim alanlarında dış kaynak kullanımı giderek yaygınlaşmaktadır. Bu kavram özellikle sağlık sektöründe popülerlik kazanmaktadır. Ancak, dış kaynak kullanımının hem avantajları hem de dezavantajları vardır. Bu açıdan dış kaynak kullanımı stratejisinin bütüncül bir yaklaşımla değerlendirilmesi önemlidir. Bu çalışmada dış kaynak kullanımı bu bağlamda çoğulcu bir yaklaşımla incelenmektedir. Bu çalışmada dış kaynak kullanımının küresel bazda artan önemine bir örnek olarak ilaç endüstrisi temel bir örnek olarak ele alınmıştır.

Anahtar Kelimeler: Küresel Üretim Süreci, Dış Kaynak Kullanımı, Üretim, Maliyetler, Know How, Küreselleşme.

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INTRODUCTION

Global markets require competitiveness at all levels. In this process, especially supply chain structuring has a significant impact on business performance and the continuation of commercial activities. The supply chain is understood as an integrated system that synchronizes business processes. Its ultimate goal is to increase the operational efficiency, profitability and competitiveness of the company, including its supply chain partners. This fact is especially important for companies to use outsourcing.

Outsourcing is one of the most common business models used by companies to reduce costs or increase efficiency. It is the exclusion of some activities and operations of an organization that are not of strategic importance, that is, leaving some activities to those who need to do it faster, better and cheaper. The main reason for outsourcing the production process to a third party, partially or completely, in a particular region or country is to reduce costs, while at the same time transferring the work to more skilled and flexible firms for the process at hand and making it the core business. Overall, outsourcing is increasingly sought after as an increasingly popular business model for many companies, organizations, and institutions as part of a successful business strategy.

In the globalizing world, foreign trade has now become an integral part of economies. The cooperation of local and global companies and stakeholders, especially FDI and Outsourcing, is gaining importance in order for foreign trade to function better. Thus, delays such as long distance and timing, especially legal obstacles, are quickly resolved through local partners. Thus, Ricardo, Heckscher-Ohlin theories and Leontief model approaches are more meaningful. Outsourcing is especially popular in the pharmaceutical industry. Because this sector not only expresses the health status of a country or region, but also produces drugs that are in demand worldwide.

Theoretical and Conceptual Framework

Outsourcing is seen as an opportunity to overcome the difficulties faced by companies in goods and services markets where globalization has peaked, uncertainty has increased and most importantly, competition has spread to all areas. Therefore, all business processes are increasingly delegated to an external value-added partner. As a result, company boundaries are disappearing, and new forms of organization are emerging. In an outsourcing project, it is important to find suitable partners, strategies, procedures and forms of cooperation for the company involved. However, there are also risks associated with outsourcing. A company and

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its corporate resources are exposed to numerous threats, such as floods, natural disasters such as earthquakes, major risks that arise unexpectedly such as war or pandemic (Aron, Clemons & Reddi 2005).

The occurrence of such an event can result, for example, in the failure of employees, IT systems, buildings, operations or suppliers, and the company being no longer able to perform some of its business processes. The collapse of business processes can cause significant harm to the company, such as financial losses, damage to image and related legal consequences. In particularly serious cases, the occurrence of such an event can lead to the bankruptcy of companies. The potential benefits of outsourcing come from not only increasing the company's profitability, but also securing the company's long-term viability. In the best case, a failure in business processes can be prevented, or at least business impacts can be mitigated, by taking appropriate countermeasures.

In the globalizing world, developments in business, politics, science and technology, social and cultural values, demographic, and ecological structures force all companies to make a radical change. The trend of change means that the old facts in the understanding of production and sales management have lost their importance and new approaches have been dominant in the field of management. The developments in the last 20 years have radically changed the importance and scope of the production and distribution phenomenon, especially in the pharmaceutical industry. While considering the idea of outsourcing in this context, it is important to systematically evaluate the idea of outsourcing and its place in the business world.

Outsourcing encompasses many activities and applications. Some carry fragmentary and small opportunistic strategic characters. The main reason for the increasing importance of outsourcing is that it is the fastest way to provide competent service in increasingly complex and rapidly changing markets. Considering the rapid development of information and communication technology, outsourcing offers great advantages especially for routine work.

This article aims to examine the benefits and risks of outsourcing and to offer solutions to the problems arising from outsourcing. The research questions of the study are:

- What is the relationship between outsourcing and globalization?
- What are the advantages and opportunities associated with outsourcing?

Outsourcing and Globalization

Outsourcing is the use of third-party companies to focus more on their core activities, reduce their costs, make their fixed costs variable, benefit from the investment and creativity of the relevant supplier, and accelerate time to market. In other words, using one or more related assets of an existing business is the act of transferring them to a business. For outsourcing deals to be successful, the partnership must be based on mutual trust and respect. If there is no such understanding in the relationship, it usually ends in failure. The success of outsourcing depends on the actions of both the service provider and the service provider. In other words, outsourcing is the procurement of a product or service that was previously produced in-house from another company. In outsourcing, some of the company's ongoing internal activities and decision-making rights may be transferred to one or more external suppliers, depending on an agreement (Çiçek & Özer 2011).

In direct proportion to the flexibility offered by outsourcing, which is rapidly spreading in parallel with globalization, companies can now reduce or completely eliminate the factors that cause problems on a global basis. Today, 65 percent of companies in the United States outsource their HR departments. Outsourcing has many benefits for human resources. The first of these is to reduce the workload. For example, if a training program is implemented for company employees, the HR department is responsible for researching and identifying the most suitable training companies, deciding and arranging the training place. However, if the job is done by a consultancy firm, possible mistakes are prevented, and time is saved (Efendioğlu 2007).

Outsourcing is a resource management tool. In the new global world of the 21st century, it is seen that there is no one-size-fits-all business model and new management methods, and approaches are constantly evolving. In the context of international competition, companies follow new management strategies to increase their competitiveness. It can achieve more efficient and profitable results by focusing on its fields of activity and transferring the remaining functions to other companies, namely supplier companies. Thus, outsourcing has become one of the most important production and resource management practices in the globalizing world (Yarlıkas 2010).

Outsourcing is actually based on Ricardo's theory of absolute and comparative advantage. Accordingly, in order to be more efficient and effective on a local or global basis, companies transfer some of their less efficient activities in the production of goods or services

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to another company that is more active in this field. Thus, while the company concentrates on its main field of activity, it can be more competitive in the global market by cooperating with outsourcing suppliers. Thus, companies can obtain more profitable results by using outsourcing in order to reduce their deficiencies in areas such as lack of resources, know-how and management. This also allows companies to offer more goods and services at a lower cost. In addition, outsourcing in the pharmaceutical industry is very important in terms of the production and sales processes of drugs (Knoke 2003).

As outsourcing relationships mature, companies are shifting their outsourcing strategies entirely from supplier-buyer relationships to business alliances. This often increases the likelihood of establishing successful and stable business relationships, improving outsourcing processes and internal resource planning, and reducing overall business risks. In the global competitive environment, companies benefit from many new strategies in order to survive and gain competitive advantage. Outsourcing is one of the strategies companies take advantage of. The basis of outsourcing, which forms the basis of outsourcing, is that beneficiary companies focus on their core competencies and are supported by outsourcing suppliers in activities other than their core competencies. In addition to the objectives of focusing on the core competencies of the companies that benefit from outsourcing, there are also objectives related to the realization of the other, such as reducing costs, increasing flexibility, reducing risks, following technological innovations, belonging to successful companies, renewing processes, reducing capital expenditures, increasing quality and gaining momentum (Kroes 2009).

Taking advantage of outsourcing strategy provides great advantages for companies and if not managed well, this time there are also negative consequences such as loss of flexibility, loss of control, negative impact on personnel, loss of skills, loss of confidential documents and information kept by competitors. In this case, situations that put the company in a very difficult situation may arise, for example, results such as loss of quality, increase in cost, dependence on the supplier company may occur. Eliminating or minimizing these potential risks that companies may be exposed to is possible with the best management of supplier selection processes and then the business relationship to be established with the supplier company (Zeynep 2000).

Table 2. Comparison of Traditional Procurement vs. Outsourcing

| Traditional | Outsourcing |
|--------------------|-------------------------|
| Standard | Specially for customers |

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| | |
|--|---|
| Mostly one-dimensional, just transport or just storage | Multidimensional transport, storage, warehouse management that complement each other, an integrated system approach |
| The aim is to minimize shipping costs | Reduction of the total cost of ownership to the optimum, taking into account service quality and flexibility requirements |
| 1–2-year contracts | Longer discussion at senior/middle management temporary contracts |
| Need for expertise in a restricted area | Broader logistics know-how and analytics qualification requirement |
| Contract negotiations are short | Contract negotiations take a long time |
| The bond between companies is weaker, service easier to change provider business | The bond between the companies is stronger, it is more difficult and more expensive to change the service provider business |

Source: Bettis, Bradley & Hamel (1992) “Outsourcing and industrial decline.”

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Additionally, cost reduction is a priority in the outsourcing method of business, but there are various other reasons as well. These reasons include flexibility, quick decision-making and risk mitigation. The liberalization process of global markets requires competitiveness at all levels. Supply chain configuration has a significant impact on business performance. The supply chain is understood as an integrated system that synchronizes business processes. Its ultimate goal is to increase the operational efficiency, profitability and competitiveness of the company, including its supply chain partners. Outsourcing is one of the most common business models used by companies to reduce costs or increase efficiency. It is the process of excluding some activities and operations of an organization that are not of strategic importance, that is, leaving certain activities to those who need to do it faster, better and cheaper, and consuming all the resources of the company. available resources, from which the main business is managed. The main reason for outsourcing the process to a third party is to reduce costs, while at the same time handing over the work to more skilled and flexible personnel for the process at hand and making it the core business. Overall, outsourcing appears to be an increasingly common business model for many companies, organizations and institutions as part of a successful business strategy (Sen & MacPherson 2009).

The basic principle here is: "Do what you do best and outsource the rest." This basic motto is the main reason why companies prefer outsourcing. The desire to focus on core competencies. It allows companies and institutions to devolve their non-core activities by focusing on strategic issues that serve their vision. Effective and targeted use of resources such as finance, human resources and management creates an important competitive advantage (Vintar & Stanimirovic 2011).

Outsourcing and Technology

Another issue that should not be ignored in the field of outsourcing is technological developments. Indeed, technological developments have had an impact on their ability to reshape economic theories. In this context, technology is the most important factor that cannot be ignored in the increasing globalization trend and the competitive environment that develops accordingly. Especially the developments in information processing and communication technology require companies to analyze their environment well and act accordingly. Companies that want to gain competitive advantage and evaluate their aspects in a strong and weak way embark on the path of redefining themselves. For this purpose, it is believed that companies that focus on core competencies and outsource other supporting functions will gain competitive advantage. In this respect, outsourcing is a strategy to increase competitiveness by providing activities called core competencies within the company and non-core activities from outside the company. With outsourcing, companies increase service quality, use time effectively, gain cost advantage and benefit from advanced technologies. In this way, companies operating in a constantly changing environment gain a competitive advantage over their competitors (Berberoğlu 2000).

Outsourcing, which takes the form of subcontracting and contracting, is a tool that companies resort to in their struggle with changing environmental conditions and increasing competition. Today, the number of companies outsourcing their core competencies rather than providing their core competencies in-house is increasing. It is worth noting that among the functions, there are also some strategically important functions for companies. In other words, outsourcing has been used in many business functions in recent years. Today, companies also use outsourcing in the field of human resources management. Outsourcing in human resources management means benefiting from suppliers who have undertaken this task as a core competency (Karluk 1998).

Outsourcing in the Pharmaceutical Industry

The effect of globalization, market changes and increasing competition make it necessary for companies to rethink their costs. It is inevitable to reduce the costs of logistics activities such as international transportation, warehousing, warehouse management, packaging, labeling, insurance, customs clearance and internal distribution without sacrificing quality. This situation requires effective management of logistics and supply chain in every sector without discrimination. Logistics and supply chain management should also be managed

effectively, accurately and healthily in maintaining and developing an innovative, manufacturer and value-added pharmaceutical industry. Because institutions around the world that finance healthcare and medicines are seeking austerity measures. Undoubtedly, the implementation of saving measures that directly affect human life in health and drug distribution without sacrificing quality is of great importance for human health and social welfare. In this respect, the pharmaceutical industry attaches great importance to the use of outsourcing, both due to the principle of social responsibility and thanks to government incentives (Tutar, İnaç & Güner 2006).

Business models in the pharmaceutical industry are also changing, driven by a growing market, tighter budgets, and an increased need for staff and innovative work. In the past, the demand for outsourcing is increasing day by day for many activities in the fields of sales, marketing, education, clinical research, licensing, production and human resources. Working with solution partners who are experts in their fields not only contributes to the efficiency of pharmaceutical companies, but also enables them to focus on the strategic and basic business priorities of the company. For this reason, pharmaceutical companies increasingly prefer the strategic cooperation model with third-party solution partners (Acartürk & Keskin 2012).

At this point, decision makers in pharmaceutical companies are looking for the right solution partners that will give the most return on their investments and contribute the most to the increase of company performance. Pharmaceutical companies understand outsourcing as innovative solutions that increase the performance of pharmaceutical companies with the products and services they develop together with their solution partners, and projects that make a difference in competition despite limited resources in the pharmaceutical industry. The proportion of drugs demanded today has changed. Along with the increasing level of welfare in industrial societies, health problems also change dimensions. As cardiovascular diseases, diabetes and psychological diseases increase, the demand for drugs in these areas also increases. Industrialized countries rely on outsourcing to cover drug shortages or to procure needed drugs on time. Especially China and India stand out as important outsourcing partners for many countries (Özbay 2004).

Increasing efficiency in the global pharmaceutical outsourcing market, reducing costs, ensuring business continuity, better access to expertise, reducing staff, focusing employees on core competencies, reducing risk through the use of experts are just some of the driving forces associated with the global pharmaceutical outsourcing market (Şahin & Berberoğlu 2011).

Table I. Global Outsourcing in the Pharmaceutical Industry

| | |
|-------------------|---|
| Based on products | <ul style="list-style-type: none">• Raw material procurement• Active substance• Finished drugs |
| Based on services | <ul style="list-style-type: none">• Drug Discovery• Clinical Trials• Preclinical Development• Biology Research |

Source: (Acartürk and Keskin 2012), (Aron, R. & Clemons and Reddi 2005).

As shown in the table, the global pharmaceutical outsourcing market is segmented by product, service and geography. The pharma outsourcing trend began with the outsourcing of non-core support functions such as HR finance and IT. In the pharmaceutical industry, outsourced contract research and manufacturing has become standard for several pharmaceutical companies (Ambrosio 1991).

In an environment of declining research and development (R&D) productivity, increasing price pressure and changing regulatory requirements, global pharmaceutical and life science companies face increasing challenges to stay profitable and grow. In this respect, outsourcing on a global basis offers important opportunities for the pharmaceutical industry (Applegate & Montealegre 1991).

Global pharmaceutical outsourcing offers companies the opportunity to meet these challenges. By building strategic relationships with outsourcing partners, companies can focus on their core competencies, gain access to specialized expertise, save costs and reduce burn rates that directly translates into greater shareholder value. The importance of outsourcing of R&D and production processes in the field of outsourcing in the pharmaceutical industry has increased and currently has a great trend in the pharmaceutical industry. The main driving forces behind this trend are efforts to reduce time to market, reduce drug development time, reduce costs, and create common solutions against diseases such as cancer that threaten society. In addition, the importance of cooperation and outsourcing in the field of the pharmaceutical sector has increased even more during the COVID 19 pandemic period (Kayar & Bulur 2019).

Outsourcing is especially effective in the development of effective drugs, while at the same time reducing costs. Indeed, sometimes the fact that the cost of drugs is at an affordable level as well as being a cure for the disease is of great importance for a successful treatment. In this respect, countries such as India and China are becoming popular destinations for pharmaceutical outsourcing, which offers robust services at lower costs. By outsourcing, companies also avoid or delay significant capital investments, thereby reducing drug development costs. Developing new drugs carries more risks and is more expensive than ever before. Many leading pharmaceutical companies are entering risk-sharing outsourcing partnerships to reduce their operational risks by sharing management and financing (Koçel 1999).

CONCLUSION

The tough competitive conditions surrounding companies in the globalizing world economies force them to trade forms based on cooperation and partnership. Outsourcing is one of the most important strategies of this process. When a crisis hits the current business models of companies in the global business ecosystem, they will not be able to generate value as before, as the environment will change dramatically. For this reason, companies do not see outsourcing only as a way of growth and opening up, but also aim to reduce risks against possible global crises.

Here, it is important for companies to compete in the long run and to develop the necessary added value. Companies can also achieve this in the form of outsourcing.

In addition, companies in the pharmaceutical sector are interdependent, as in every field in the globalizing world economy, and outsourcing stands out as a basic strategy and commercial method in terms of producing common solutions in this case.

From this point of view, the following conclusion can be reached: In fact, companies must take steps to encourage innovation by outsourcing and sharing their knowledge and resources, both in terms of competition and reducing risks in globalizing world markets. While innovation is key to keeping companies competitive, they can certainly innovate and do so more effectively in the form of outsourcing.

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