

OUTSOURCING – OPPORTUNITY OR THREAT

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1. Definitions of outsourcing

Today era is characteristic by expressive technical progress and by telecommunication network development. Distances are shorter and geographic borders are being nullified. These facts and also necessity of main entrepreneurial activities development and complexity of economic environment led to progress of outsourcing concept.

The term „outsourcing“ became more well known in the early 1990´s. It can be defined as delegation of non-core operations and activities to third, specialized side. Organisation transmits the ownership of business processes to supplier. Very important is the aspect of control delegation. Mostly, it is very tender and also painful process. Buyer doesn't give to seller the instructions how to redeem the assignation, but designates only the main aim.

Outsourcing means transfer of prominent part of management, control and powers to external company. Purchases of services from apparator don't have to be by all means defined by term “outsourcing”. Mutual coordination, trust and bilateral information flows are centrobaric elements of this service.

Outsourcing poses delegation of some authority to third side. If this person has its residence in other, foreign country, offshore outsourcing will take place.

Procurement Supplier Mgmt Contract Admin	Operations	Distribution Logistics	Marketing Market Research	Selling Orders Tele Sales	Customer Service Acct Enquiries Service
Financial Management Transaction processing		Management reportin		Treasury	
Human Resources Recruitment and training admin		Staff database administration		Benefits	
Property and Managemet Real Estate administration		Facilities management		Lease	
Regulatory and Quality Mng. Environmental and legal compliance control		Internal audit		Quality	
IS Management Systems development support		Data processing		User	

Fig. 1 Outsourcing is applied to all value chain

2. Mostly outsourced works

Research process

This sphere is very convenient to exploitation of outsourcing services. It doesn't matter, whether research is focused on human resources, economy, marketing or genetics. These projects are mostly very expansive and complex. Therefore, it is convenient to divide them into some autonomous, logical parts and after that outsource. Necessity for the providing companies are sufficient experiences, know-how and highly specialized staff in that area.

Medical care

Lucrative area of outsourcing. Services of the external companies are being used with the basic administrative works, following providing services of radiology, CT, MRT and so on.

As a well known example, the health care in Great Britain is being publicised. Because of cost savings, National Health Service decided to send examples of blood and patient's urine to India. The non-emergency requirements of pathology tests are conducted at the clinical lab setup at Mumbai. The NHS hospitals in the UK get the reports in 24 hours.

Data analysis and processing

Nowadays, corporations generate huge chunk of data, which contain important information. But not only the data quantity is important, but mainly quality side, aggregation ability and conclusion identification. For many companies it is easier to “hire” the external company for data processing. These specialists are able not only to process and filter data, but also make some synopsis. Results can be analyses, trends, assumptions of progress, important for any activity, whether we are talking about banking, trading, finance, of pharmaceutical industry and so on.

Outsourcing brings to this sphere lot of benefits. For example, the data generated out of the NYSE during the spot transaction, is send to the analysis centers at Bangalore, which is at the opposite end of the time zone. The data analysts perform the analysis required for the trading company and send it back to New York. The day for trading company starts with the needed picture processed out of the data.

Customer support

Small but also big companies delegate this activity to specialized organization. Reasons are simple. Possibility to reduce costs and utilization of qualified labour power. Question is quality of provided services.

Software development

Another, very successful field of outsourcing. Because of security, simplicity and also originality it is easier for many companies to delegate the software and information system development to the external company.

Outsourcing can be alleged not only in development, but of course in entry and evaluation of information system.

Environment services

Every modern company, that wants to keep its competitiveness and reach the market success, have to consider the questions of environment. Consumers have been becoming more exacting. It is highly-specialized field that is characterized by tangle of legislative norms and problems with waste disposal. That’s the reason, why it is easier to delegate competencies of waste economy to external company that disposes with necessary knowledge and certified procedures.

Outsourcing can be applied also in art, design, and support services of information technologies and so on.

3. Advantages of outsourcing

Opportunity to concentrate on the core business – company, that transferred part of authority, that concerned to non-core operations to external outsourcing firm, can

easily concentrate on achievement and improvement of core subject of entrepreneurship, and by that way succeed on competitive market and reach profits.

Cost reduction – Reasons for authority and ownership delegation to the external company are not just expertness and specialization, but also possibility to cut the costs. Times, for the buying companies it is easier and less expensive to delegate part of their business portfolio to the specialized company, and by that way reach better operating results, than operate this activities independently. External companies are able to operate outsourced activities with lower costs, than the buying company.

Possibility to estimate costs – Outsourcing companies in fight for customers submit to buyers quotations, that are bounded to some space of time, that offer their services. Now, the buyer disposes with price scheme, that is specific and so there is no urgency to deal with market risk. Buyer can now easily estimate costs.

Delegation of risk – Thereby, the buying company is not concentrated on non-core operations, has got enough space to develop its activities, that needn't to relate to core business. This is portfolio effect. Risk is delegated to many activities. This significantly increases the stability and fruitfulness of the company. Also, risk transfer to the outsourcing company is not negligible fact. This company carries risk of non-core business, commodity risk, credit risk, interest rate risk, foreign exchange risk and so on. In a process of outsourcing partner selection, the risk of a country should play main role. Political, cultural and religious risks can markedly influence the quality of the services and products presented to the customers, and of course they can affect goodwill and stability of the buying company.

Staff development – correct planned and realized outsourced activities mitigate development of staff in the buying company.

4. Criticism of outsourcing

Outsourcing represents not just only advantages, but also some risks. If these services would be provided in certain quality and responsibly, they should not represent for buying company any risk. Though, the reciprocal cooperation of two self managed companies does not have to be always effective and serious. That is the reason, why delegation of some activities brings some risks.

Quality of services

Employees of the outsourcing company are not rewarded by the buying company, so we can assume, that loyalty in exercise of a profession and representation of the company will not be on same level than in case of buying company employees. Level quality of customers services and technical support in outsourced operations can be lower. That means, that the outsourcing companies should not be able to present certain services in required quality.

As an example, the offer of technical support by phone is declared. Because of cut cost, the buying company will choose as a partner the company, that provides the service for lowest reward in asked quality. Many times it happens, especially in IT firms, that telephonic consultative workstations are situated abroad. This leads to several problems. Language sturdiness and qualification of communicating persons may not meet claims of customer.

Supporters of outsourcing claim, that market mechanism solves this problem. If the customer is not satisfied with the level of presented service, he just would not buy the product again. This will lead to degradation of turnover and financial indexes of the buying company. In an effort to salvation, this firm will try to find a solution of this problem. Either will delegate competencies to another, more reliable and adept company, or will not outsource this services. Company will supply this service by its specially trained employees in mother country. For example DELL company can be mentioned. Question is cost elevation. Ability to influence the quality of outsourced services depends on the force of interrelationship between producer – buying company and customer.

Security

Undisputed advantage of outsourcing is possibility to offer comparable quality of services in incomparable costs. But risk is access to confidential “inside” information to the third side. In April 2005 access passwords to financial accounts of Citibank clients were misapplied. Employees of India call centre misappropriated 350 000 USD. Citibank did not recognize this problem and was about this reality informed by its clients.

Outsourcing supporters however oppose, that possibility of thievery, malversation and fraud exists in every sphere of human being. So avoiding these risks is not really possible. In every case, careful selection of outsourcing partner is inevitable. Funds can't be the ultimate factor in a process of partner selection, but on the other side, quality, reliability and loyalty have to play the main role.

Another risks of outsourcing:

- Loss of intellectual capital
- Lock-in to a supplier
- Staff will not transfer to supplier
- Extra costs will emerge later
- Poor supplier performance
- Customers and Suppliers will be alienated
- Change will be difficult
- No training ground for future retained staff

- Supplier staff will not understand business
- The savings are unreal
- etc.

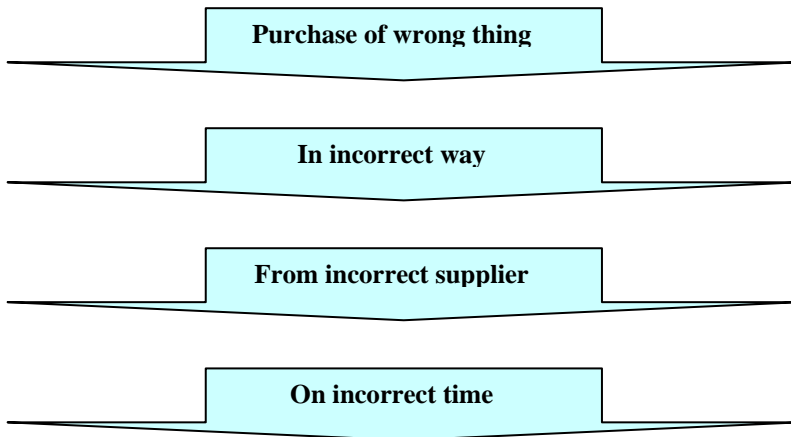


Fig. 2 Risk of buying company

5. Conclusions

Outsourcing is very important implement in today's economic world. It represents opportunities, but also threats for every concerned party. If the services of outsourcing are provided correctly, represents to buying company possible competitive and strategical advantage. The companies have to decide, if it is more effective for them to operate all activities, or concentrate just only on core business and non-core business risks and powers delegate to third side.

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Resumé

OUTSOURCING – PŘÍLEŽITOST NEBO HROZBA

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Outsourcing je nástroj, který se využívá na zjednodušení života a taktéž na zvýšení ziskovosti podnikání. Tento nástroj může využít kdokoliv. Není určený pouze pro obchod a společnosti. Outsourcing může být použitý na získání výhody jednotlivce, takže má dost času na svůj biznis a může využít svůj personál efektivněji při výkonu důležitějších aktivit souvisejících s hlavním záměrem.

Outsourcing představuje velmi účinný způsob přenosu kompetencí na obchodního partnera a tím možnost soustředění se na hlavní činnost. Tato služba je efektivní pouze tehdy, pokud jsou spokojeny všechny tři strany. Outsourcingový partner musí za poskytnuté služby obdržet příslušnou odměnu, nakupující společnost musí snížit své celkové náklady a zvýšit si výnos z hlavní činnosti a zákazník musí být spokojený s úrovní poskytovaných služeb.

Outsourcing přináší mnohé výhody, avšak i nezanedbatelné rizika. Bezpečnost a kvalita služeb jsou atributy, které musejí být, především ve finanční sféře, zabezpečené na vysoké úrovni. Nedostatky a chyby outsourcingového partnera nemají dosah jen na jeho osobu, ale taktéž na dobré jméno a trhovou pozici nakupující společnosti.

Summary

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Outsourcing is a tool that can be used to making life easier and also running businesses and other enterprises profitably. This tool can be used by anyone. It is not restricted to businesses and companies alone. Outsourcing can be used to one's advantage so that the business gets time and can use its staff efficiently in more important activities related to the business. A company that does not specialize in the specified type of work would benefit from outsourcing the work as manpower then is not wasted.

Outsourcing represents very effective opportunity of competence delegation to correspondent and possibility to concentrate on core-business. This service is effective only in case, that all three sides are satisfied. Outsourcing partner have to obtain due reward for rendered service, buying company have to increase profit from core business and cut costs and the customer have to be satisfied with the level of services.

Outsourcing brings many advantages, but also many plumbless risks. Security and quality of services are main attributes, that especially in financial sphere, have to be provided in high level.

Limitations and mistakes of outsourcing partner don't have coverage only to its person, but also to goodwill and market stance of the buying company and can directly influence.

Zusammenfassung

OUTSOURCING – DIE GELEGENHEIT ODER DIE BEDROHUNG

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Ein Outsourcing ist ein Mittel, das sich sowohl für die Lebensvereinfachung als auch für die Erhöhung der Umsatzrentabilität des Unternehmens verwendet.

Dieses Mittel kann jeder ausnutzen, es ist nicht nur für den Handel und die Gesellschaften bestimmt. Das Outsourcing kann man anwenden, um die Vorteilenerreichung des Individuums zu verschaffen. So hat er genügend viel Zeit für sein Business und kann sein Personal effektvoller bei den Ausführungen von wichtigeren Aktivitäten anwenden, die mit dem Hauptauftrag zusammenhängen.

Das Outsourcing stellt also eine effektvolle Art der Kompetenzenübertragung auf den Geschäftspartner dar, und damit ist auch die Möglichkeit verbunden, sich vor allem auf die Haupttätigkeit zu konzentrieren. Diese Dienstleistung ist effektiv, aber nur in dem Fall, wenn alle drei Seiten zufrieden sind. Der Outsourcingpartner muss die zuständige Belohnung für die erbrachten Leistungen bekommen, die Kaufgesellschaft muss ihre Gesamtkosten senken, die Erträge erheben und der Kunde muss mit dem Niveau der gewährten Leistungen zufrieden sein.

Das Outsourcing bringt viele Vorteile, aber auch einige Risiken mit sich ein. Die Sicherheit und die Qualität sind die Attributen, die hauptsächlich in dem Finanzbereich auf dem hohem Niveau gesichert werden müssen. Die Mängel und Fehler des Outsourcingpartners haben eine Reichweite nicht nur auf seine Person, sondern auch auf den guten Namen und Marktposition der Kaufgesellschaft.