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CONDITIONS OF THE FUNCTIONING OF OUTSOURCING IN ENTERPRISES*

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Received 15 February 2020; accepted 20 June 2020; published 30 September 2020

Abstract. The objective of the study is to present the underlying conditions of the functioning of outsourcing at various levels of company operations. In addition, it shows a detailed analysis of the purposes of outsourcing, the scope of outsourced services and outsourcing selection criteria. What is more, it includes an assessment of the level of company satisfaction with outsourcing performance and the risks involved. The research materials comprise data regarding 140 manufacturers and service providers located in Eastern Poland which have outsourced some of their activities. The survey performed allowed the researchers to evaluate the scope of use of outsourcing services in company operations. The descriptive, comparative and graphic methods were all applied to analyse the results of the study. The statistical analysis and the calculation of the correlation coefficient were employed to assess the level of dependence of company size on the scope of use of outsourcing services. The conducted analyses show that the main objective of outsourcing use appears to be the focus on core competencies and the reduction of operating costs (75.7% and 60.7%, respectively). The most frequently indicated areas outsourced by the companies are the organization of supply, distribution, transport services and renovation-repair services. More than a half of the analysed enterprises pointed at the above listed areas. The factors of major importance when selecting outsourcing services providers are experience, market recognition, price, quality, and the application of the principles of sustainable development. The last element was crucial, above all, in the case of companies employing over 250 people. This is because in their case cooperation with companies holding relevant certificates

* *This research was carried out under the research theme No. 80/20/B financed from by a science grant provided by the Ministry of Science and Higher Education of Poland.*



European Research Council

Established by the European Commission

and permits in the field of sustainable development translates directly into the development of a good company image and an increase in company value.

Keywords: outsourcing, sustainable development, core competencies, company management.

Reference to this paper should be made as follows: Marcysiak, A. 2020. Conditions for the functioning of outsourcing in enterprises. *Entrepreneurship and Sustainability Issues*, 8(1), 539-554. [http://doi.org/10.9770/jesi.2020.8.1\(38\)](http://doi.org/10.9770/jesi.2020.8.1(38))

JEL Classifications: L22, L26, O32, Q55, Q56

Additional disciplines: management and quality

1. Introduction

Enterprises are facing serious challenges posed by the complexity, changeability and uncertainty of environment's conditions. As a result, organizations must follow a novel approach and adjust their strategies to new conditions of company operations (Choi, 2016). The changes in the reality in which enterprises function cover several areas, including the political, social, market and technological zones and, now more than ever before, environmental issues.

Given the current conditions, enterprises begin to seek real methods of gaining a competitive advantage. One effective method is to reduce fixed and personal costs. Another measure is an adjustment of company organizational structure so that it can meet new market challenges (Borowska et al., 2020). This allows companies to focus on their leading business activities. Outsourcing appears to be a solution to attain the goals mentioned (Brown, Wilson, 2005).

Continuous growth of competitiveness involves a considerable challenge associated with the need to tailor one's structure and activities to novel market standards (Ai et al., 2019). Companies wishing to survive on such a demanding market must constantly develop and introduce innovations, not only in the field of product manufacturing, but also with respect to other aspects, particularly organization and management. An undertaking involving a mother company separating certain functions from its organizational structure and passing them over to other business entities is referred to as outsourcing. The Polish equivalents of the terms outsourcing may be: separate or isolation (Trocki, 2001).

Management boards find it imperative to select one of the below two options. The first one is to conduct operations in-house, with the use of company resources and powers, whereas the second is to purchase external operations from an independent third party (Zoghbi-Manrique-de-Lara & Ting-Ding, 2017). In the case of each option, the cost of production and transaction are assessed by the board and, subject to such cost estimates, the option generating lowest costs is selected.

Outsourcing is a renowned instrument, both in the theory and practice of management (Dominguez, 2005). The concept assumes that the company focuses on its core competencies and skills, whereas any auxiliary and supplementary activities are outsourced. This means that there is a need of establishing a long-term partnership-based cooperation with an external body (Kopczyński, 2020; Duening, Click, 2005).

The aspects of sustainable development also become significant in the field of out-sourcing (Cai et al., 2020). More and more often, enterprises can see positive effects of environmental practices on gaining a competitive edge (Tvaronavičienė, 2014). Environmental responsibility contributes to the creation of new business undertakings and improves interactions with the stakeholders. Consequently, the effectiveness of natural resource

use in the economy amps up and the negative impact of human activity on the environment decreases (Abbas & Sağsan, 2019). Involvement in environment protection facilitates the winning of acceptance of local communities and interest of future investors. Practical actions show that investors are willing to cooperate with companies which can boast not only of good financial results but also of achievements in the fields of sustainable development and environmental friendliness (Agrawal et al., 2016). Given the foregoing, it can be said that, at present, environmental corporate responsibility in the area of outsourcing is not only beneficial but also, and above all, strongly required (Niu et al., 2019).

2. The role and place of outsourcing in company management – literature review

When examining the nature of the outsourcing concept, it is important to determine the etymology and sense of the term. The word outsourcing originated from the phrase ‘outside resource using’. It stands for the transfer for use of some of the assets of a business organization to an external body. M.F. Greaver defines outsourcing in a similar fashion. He describes it as a contractual passing over of internal areas of company activities and the rights to make decisions to the disposition of external bodies (Greaver, 1999). At the same time, it must be emphasised that outsourcing is not simply contracting, a phenomenon which is highly popular in company activities (Nowicka, 2016).

As a result of outsourcing, changes occur also in company management and include focusing on the primary activities of an enterprise and ongoing partner cooperation among companies (Gurtu et al., 2016). Considerations to date demonstrate that outsourcing is a term composed of two elements. The first element has the form of an undertaking as part of which a certain area is transferred to an external supplier, whereas the second one pertains to a long-term partner cooperation with an outside body. This is when it should be approached as a process (Milberg, Winkler, 2013).

When carrying out a more complete outsourcing, companies dispose of some tasks which they can give up on, perform cheaper or, oftentimes, better externally. This is when they can focus on their primary activities, i.e. the activities where they have a competitive advantage. Simultaneously, the areas which fail to provide such a competitive advantage, constituting an auxiliary or supplementary activity, are singled out from the processes of operation of a business activity and performed by outside companies. The application of outsourcing is justified whenever the functions passed over are completed better or, at least, not worse than before. Furthermore, when outsourcing, the costs should be lower than those generated by the enterprise before the separation of a given function (Grossmann, Helpman, 2002).

Outsourcing changes organizational structures. The number of organizational cells, positions and the levels of management decreases. In addition, also the headcount may be reduced. Consequently, the enterprise becomes increasingly flexible and reacts more promptly to changes in the environment (Song, Platts, Bance, 2007). At the same time, it should be noted that against the background of the now thriving deconcentrating tendencies, outsourcing is a crucial concept (Gierszewska, Romanowska, 2007). It is of fundamental importance for the development of a new business model related to the construction of value chains. The enterprise becomes a coordinator, developing a new quality by combining its activities with the competencies of other enterprises.

Considering the effectiveness of outsourcing, it must be highlighted that it is a complex concept which increases company operational efficiency in numerous areas of activity (Brewer et al., 2013). In addition to economic aspects associated with cost reduction, it is also related to strategic, organizational and market changes.

Changes in the organizational structure resultant from the application of outsourcing lead to the creation of new organizational systems within the enterprise. However, both the effects of outsourcing activities and the process of change take different courses, depending on the type of outsourcing (Greaver, 1999).

Capital outsourcing should be treated as an organizational-management-type solution aimed at facilitating the management of large enterprises. This is even more important when the company's internal growth related mainly to investment in tangible assets causes management expansion and a rise in the number of hierarchical levels in the organizational structure and the spread of the levels of management (Chaabane et al., 2018). Internal cells often grow to reach the size of independent companies operating on the market. The holding organizational structure arising from outsourcing is an alternative to a multi-plant enterprise (Grossmann, Helpman, 2005).

Contract outsourcing leads to the formation of yet another method of company organization. Material potential of the enterprise linked to the performance of business activities is subject to liquidation or transfer to an outside company. As a result of the above, the organizational structure of a mother company becomes leaner and simplified, while new contract-based connections with external units thrive. Contract outsourcing features contract rather than capital relations. Arrangements of that type may be made by a variable number of organizations and pertain to activities of both minimal and cardinal importance for the enterprise (Yan et al., 2019).

Nonetheless, outsourcing increasingly more often extends to cover strategic activities and involve agreements with multiple outside partners. The traditional organizational structure gives way to the web-like organization composed of units interrelated by various transactions and contracts (Burden, 2018). Nowadays, when all processes are accelerating, enterprises are expected to show more flexibility, necessary to survive on the marketplace (Bals & Turkulainen, 2017). Network organizations focus on the strategic, production and technological processes, communication and organization (Karamouzis, 2016).

Along the development of economic functions, the approach to company management is shifting. The said changes involve the transformation from the vertical functional structure to the process-based one (Bitkowska, 2013). The process-based action determines that value is generated by accumulating resources and skills in different functional areas (Kasiewicz et al., 2009). As a result, the term Business Process Outsourcing (BPO) more and more often comes into view in subject literature. K. Vitasek, M. Ledyard and K. Manrodt define BPO as entrusting an external service provider with the performance of a given process (Vitasek et al., 2011). Similarly, the described type of outsourcing is described as shifting orders, production, services or, generally, complete or parts of business processes to another company. D. Brown and S. Wilson define BPO as the transfer of a certain process to an external supplier who specializes in its performance and can accomplish the tasks more effectively than the client himself (Brown, Wilson, 2005). A certain point of reference for outsourcing in this context will be the focus on core competencies and long-term relations with an outside supplier to supply top quality products or services to consumers and ensure maximum client efficiency (Kehal, Singh, 2006; García-Vega & Huergo, 2019).

Thus, BPO involves the transfer of whole processes covering several areas of company operations to third parties (Krysińska et al., 2018). The objectives of BPO are, above all, the ability to focus on the completion of those processes in which the company has achieved operational perfection and which are of fundamental importance to its operations (Lacity, Willcocks, 2015).

3. Material and methods

The objective of the study is to present the underlying conditions related to the functioning of outsourcing at various levels of company operations. In addition, the research shows a detailed analysis of the purposes of outsourcing, the scope of outsourced services and the selection criteria. What is more, it includes an assessment of the level of company satisfaction with outsourcing performance and related risks.

The scope of conditions related to the functioning of outsourcing in the enterprises was analysed based on business entities operating across Eastern Poland. The studies conducted in the second half of 2019 covered 140 enterprises with areas of operation passed over to outside professionals. The selection of research subjects was

intentional. The objects were selected on the basis of an analysis of the literature on the subject and statistical data relating to the region of Eastern Poland. It was important to preserve the diversity of objects characteristic of the area of research.

The main source of information of primary nature was a special survey designed for the purpose of the study. The survey contained questions regarding the characteristics organizational, economic and productive features of the enterprises. It was composed of two parts. The survey allowed the researchers to evaluate the scope of use of outsourcing services in company operations.

The descriptive, comparative and graphic methods were all applied to analyse the results of the study. The descriptive method incorporated a detailed description of the features and events which are the object of the research with the help of numerical and verbal data. In the comparative method, the analysed objects and their constituents became also the objects of comparison. As a result of these comparisons, we could show significant differences and similarities between facts, processes, and phenomena.

4. Results and discussion

Enterprises participating in the research differed in terms of number of employees. The largest group included companies employing between 50 and 250 people. They accounted for 56.4% of all companies. The second largest group was made up of enterprises employing between 10 and 49 people (24.3%). The least numerous group (19.3%) were enterprises with over 250 employees. The above distribution was typical of the area covered by the research.

The group of employees targeted by the survey was not homogeneous. The most populous group was middle management (59.3% respondents). People making up senior management constituted 26.4% of all analysed respondents. The least numerous group was made up of independent specialists (14.3% of all the studied population). The selection of respondents was an intentional selection. The questionnaire (survey) was designed to address senior management, middle managements and independent specialists. They were the most competent persons when it came to the functioning of the organizational structure of the enterprise. Thanks to this, the level of insight into the use of outsourcing in each company could be examined more thoroughly.

Of 140 respondents participating in the study, 72.1% were men and 27.9% were women. The fact that more men than women participated in the study may be because more men than women were employed at senior positions in the studied enterprises.

The second part of the survey referred to the use of outsourcing in the company. This section focused on eliciting opinions from managers and top managements on the issue of the effects of outsourcing on company operations. Services play a vital role in the implementation of outsourcing in businesses. They constitute the basis for determining the tasks which the company wishes to pass over to outside operators (Kłos, 2009). The respondents had a chance to tick any number of services which have been contracted to external entities.

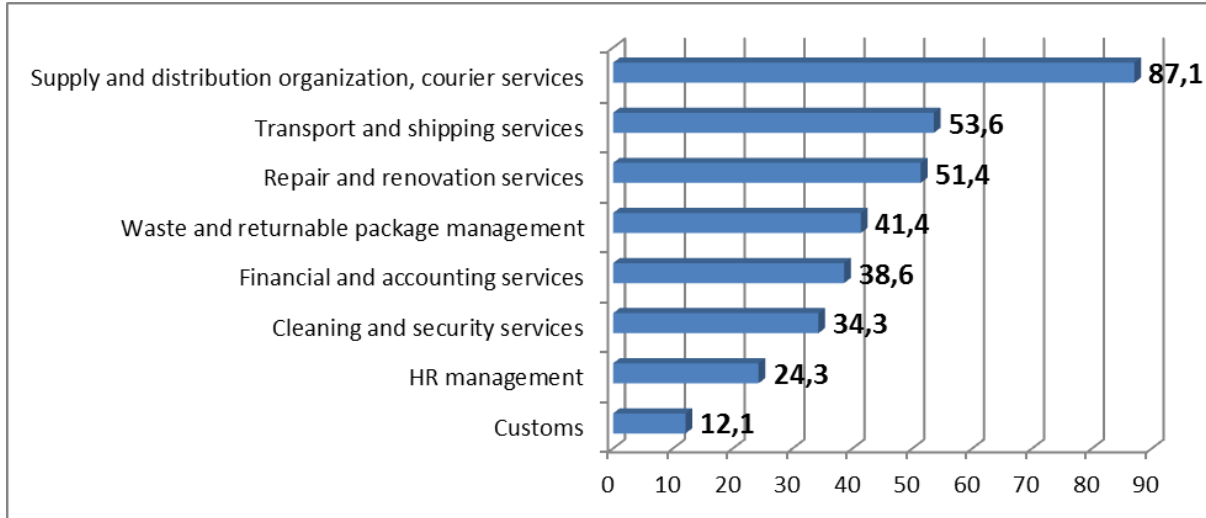


Fig. 1. The scope of outsourced services (in % of replies)

Source: compiled on the basis of own research

The analysis of data in Figure 1 demonstrates that the services most often handed over to outside companies were those related to the organization of supply and distribution (87.1%). Enterprises readily use courier services of companies operating both locally and globally. The evidence of common use of courier services is the growth dynamics in the courier service industry in Poland. In the year 2019, the whole courier business grew twice as fast as the country's GDP. The organization of supply and distribution in large companies is sub-contracted to logistic operators (Ocieka, 2012). They tackle cooperation with suppliers and co-operators, often providing their own storage facilities or distribution centres (Kroes, Ghosh, 2010; Yuan et al., 2020).

Other areas willingly outsourced are transport and shipping (53.6% indications). A crucial scope of correlations related to this type of services was found in the groups of enterprises employing between 50 and 250 people and over 250 people. It was observed that along the growth of the enterprise's size grew the frequency of use of transport and shipping services. It was further confirmed by the statistical analysis carried out based on the calculation of correlations.

What is more, 51.4% of the companies outsourced repair and renovation services. This is the consequence of either liquidation of repair departments and workshops or resignation from their creation in over a half of the studied companies. Activities related to waste and returnable package management were outsourced by 41.4% of the companies, finance and accounting services – by 38.6% and cleaning and security services – by 34.3%. Relatively less popular services performed by outside companies were HR management and customs. Only 24.3% (HR management) and 12.1% (customs) of the analysed enterprises outsourced the listed services.

Determining the goals that outsourcing entities wish to attain helps enterprises pursue objectives for which they had determined to cooperate with outside companies (Gołemska, 2009; Law, 2018). The distribution of responses regarding goals of logistic outsourcing is presented in Figure 2. The respondents could check a maximum of three answers.

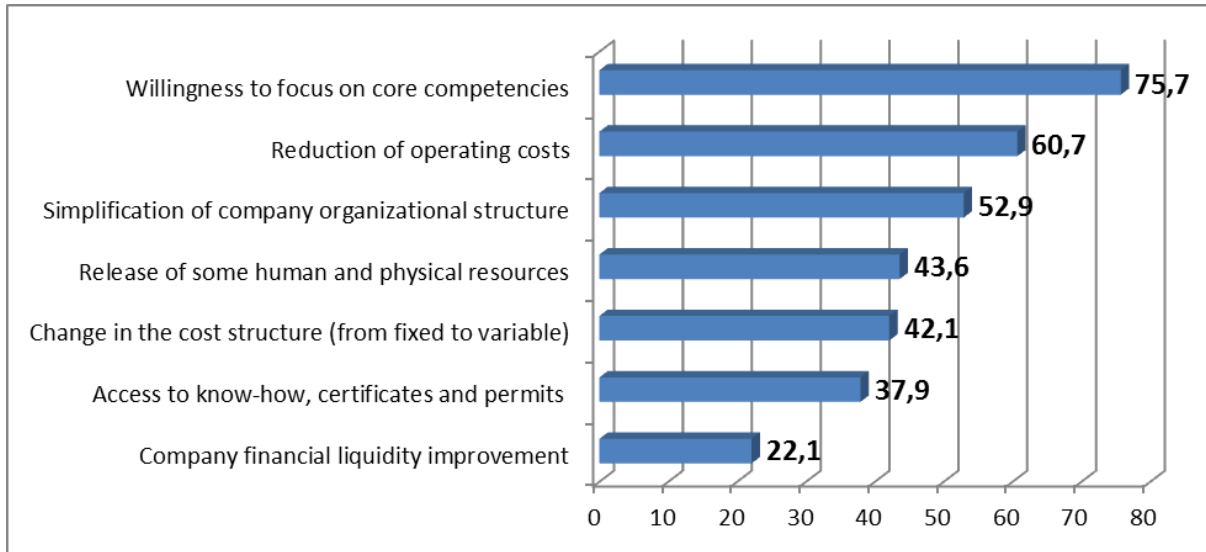


Fig. 2. Major objectives of outsourcing (in % of answers)
Source: compiled on the basis of own research

The most significant objective of outsourcing declared by the respondents was the willingness to concentrate on core competencies. This purpose remains the most important reason for which outsourcing decisions are made for 75.7% of the studied enterprises. A core competency is a set of special skills which ensues from the nature of company operations. The term was introduced in the early 90s and became key for the enterprise. The concept originates from the analysis of the sources of competitive advantage and assumes that the true source of a competitive advantage is the ability of managers to create technologies and productive skills ensuring individual strategic company units to promptly adapt to changing opportunities (Appiah-Adu et al., 2016). These skills are indeed referred to as core competencies that allow one to create a company’s competitive advantage over a long period (Ai et al., 2019).

In relation to the analyzed enterprises, a correlation was observed that higher acceptability of outsourcing practices was among younger people. This demonstrates a greater willingness to take risks by young people belonging to the management of enterprises. Expectations for positive effects of changes were also greater for young people than for those with more experience.

The economic organization may try to win a strategic advantage based on either its own resources and skills or outsourcing – use of an outside supplier’s services (Kim et al., 2018). The final decision is with the decision-makers in the enterprise, i.e. those who should be guided by rational action and take into consideration core competencies (Kabiraj & Sinha, 2016). For it is crucial that the enterprise creates its competitive edge on special skills that are difficult to copy, which will decide about the competitive advantage, and which will establish a stable basis for the operation of the organization (Höglund & Sundvik, 2016). The areas of lesser significance for the enterprise may, in turn, be transferred to an outsourcing unit to ben-efit both sides.

The cost reduction aspect plays an essential role in the taking of decisions to cooperate with external units and outsource (Kroes & Ghosh, 2010; Liu & Tyagi, 2017). Among the management staff of the analysed enterprises, 60.7% indications concerned the ability to re-duce operational costs. This signifies that the effectiveness calculation is of central importance when making decisions about outsourcing some of company activities.

The singling out or separating some activities and passing them over to a third party had a direct impact on the simplification of company organizational structure (Rosar, 2017). This objective was selected by over a half of the respondents (52.9%).

Among the hierarchy of objectives, another ground for outsourcing was the ability to release some parts of material and human resources. It is of critical importance in the situations of limited human resources on the marketplace and difficulties in HR acquisition. This goal was selected by 43.6% of the respondents.

Together with the transfer of some activities to an outside operator, there was a possibility of modifying the cost structure (Verwaal, 2017). The participation of fixed costs in the total costs of business operations decreased. This will ultimately allow a smoother cost management suited to production volumes (Williams & Durst, 2019). Approximately forty-two percent (42.1%) of the respondents indicate that the above action is vital. Some less important objective of outsourcing use was access to know-how, certificates and permits of an external operator (37.9%), and improvement in company financial liquidity (22.1%).

The presented multiplicity and diversity of the reasons behind outsourcing show its high value and considerable impact on many areas of company operations. This has not been without the consequences for increasing concept's popularity and the broad scope of its use in economic organization of the countries with developed market economy (Ding et al., 2018).

The respondents could check maximum three answers when responding to the question about the underlying criteria on the basis of which they select an outside operator. The distribution of their answers is presented in Figure 3.

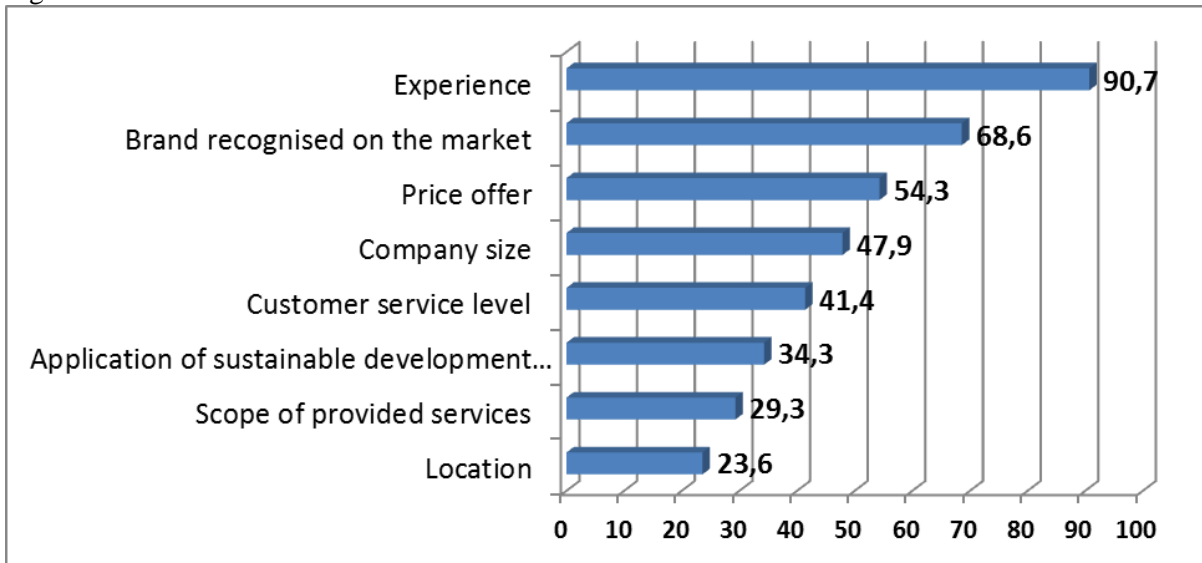


Fig. 3. Factors determining the choice of an outside operator (in % of answers)

Source: compiled on the basis of own research

The most crucial factor (90.7% of answers) determining the selection of an outside operator in the opinion of the studied group of respondents was operator's experience. This is not good news for enterprises who are now only planning to become an outsourcing service supplier. Market renown and attractive price offer were crucial criteria for 68.6% and 54.3% of the respondents, respectively. The size of outsourcing service providers (47.9%) and customer service quality (41.4%) were of slightly less importance to the respondents.

The factors of major importance when selecting outsourcing services providers were experience, recognition, price, quality, and the application of the principles of sustainable development. More than one-third of the respondents (34.3%) emphasised the meaning of the above elements in the case of companies employing over 250 people. Environmental awareness and compliance, conducting activities in accordance with nature and using renewable energy sources is becoming increasingly popular (Chams & García-Blandón, 2019). Cooperation with outside companies operating along the principles of sustainable development, holding relevant certificates and permits in the field, translates directly into the development of good company image and increase in company value (Heydari et al., 2019). The less significant selection criteria in the case of choosing an outside operator were the scope of provided services (32.1%) and enterprise's location (23.6% selections).

The risks involved with outsourcing play a vital role for on their basis enterprises consider whether to accept or reject offers of cooperation with external operators (Brdulak, 2012; Aron et al., 2005). The respondents could check a maximum of three answers (Fig. 4).

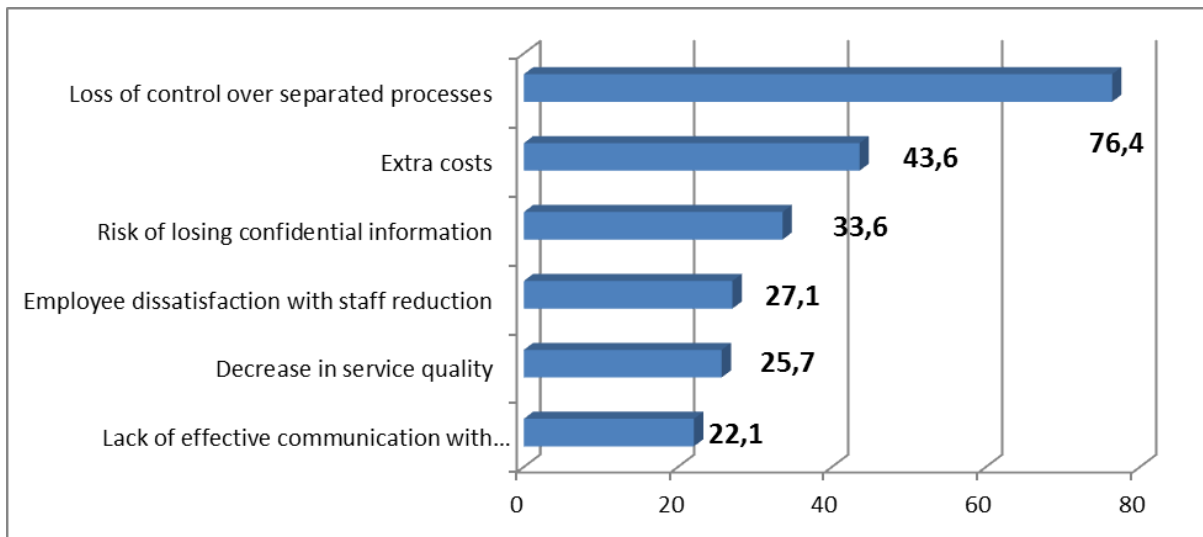


Fig. 4. The risks involved with outsourcing (in % of answers)

Source: compiled on the basis of own research

The distribution of answers relating to the risks involved with outsourcing shows that more than three quarters of the studied business entities (76.4%) are afraid of the loss of control over a separated process. Moreover, the respondents fear additional costs and potential loss of confidential information (43.6% and 33.6%, respectively). In the opinion of the management staff of the studied business entities, outsourcing is associated also with employee dissatisfaction related to personnel reduction (27.1%) or a drop-in service quality (25.7%). The lowest risk involved with outsourcing according to the surveyed staff is outsourcing becoming the source of disruption to effective communication on the part of the service provided (22.1% of answers). The scope of risk related to outsourcing presented here can also be treated as a set of disadvantages pointed out by Polish entrepreneurs in relation to outsourcing.

Yet another question in the survey referred to the degree of company satisfaction with outsourcing performance. The distribution of responses regarding the issue is presented in Figure 5.

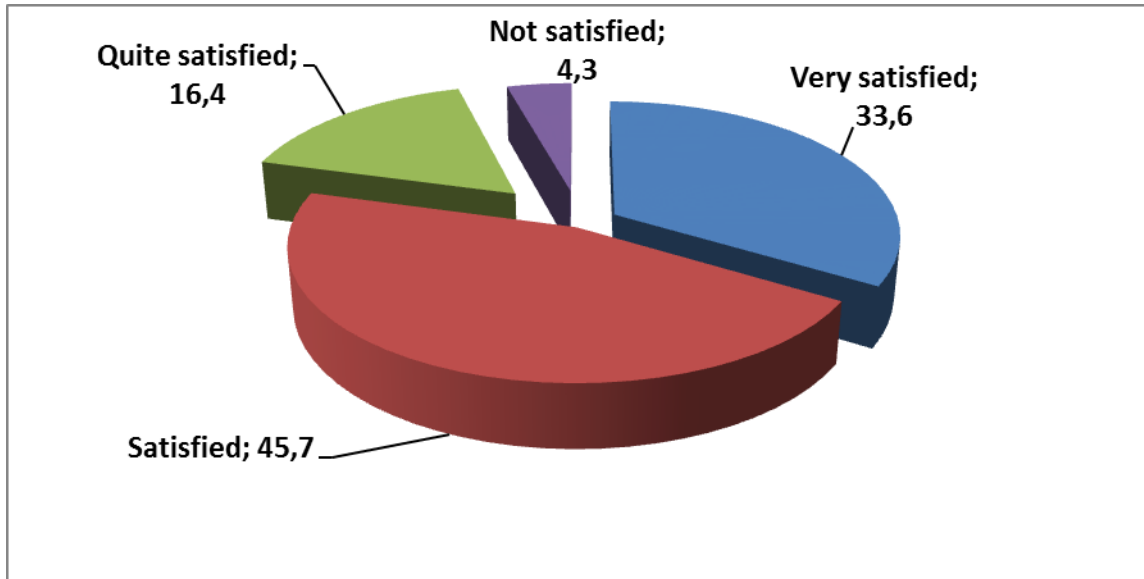


Fig. 5. Level of company satisfaction with outsourcing performance (in % of answers)

Source: compiled on the basis of own research

The analysis of data presented in Figure 5 demonstrates that one-third of the analysed businesses (33.6%) were very satisfied with the cooperation with outsourcing service providers. Around forty-five percent (45.7%) of the respondents were satisfied with the cooperation. In total, over three quarters of the studied entities (79.3%) highly valued the cooperation with external operators. This indicates that the process of selecting an outsourcing partner is thorough and the decisions regarding the singling out or separating activities to be transferred to an external operator are well-considered. There were 16.4% of respondents who were quite satisfied. And only 4.3% of the respondents said that their organizations were not satisfied with cooperation with an outside operator. Next, the respondents were asked to evaluate the set of factors determining success in the performance of outsourcing activities. The distribution of responses is presented in Figure 6.

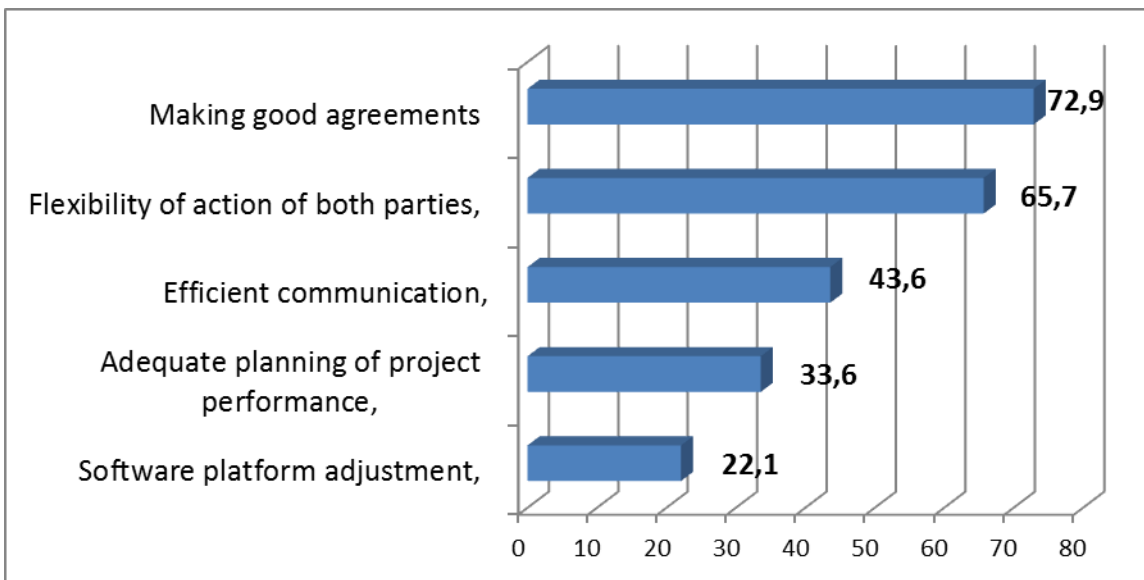


Fig. 6. Factors determining success in outsourcing process performance (in % of answers)

Source: compiled on the basis of own research

Among the factors determining success in the passing over of actions to an outside operator, the respondents found good agreement making and readiness of both parties to be flexible to be most crucial (72.9% and 65.7%, respectively). Other element which appeared to be of great importance in succeeding with outsourcing was efficient communication. This factor was selected by 43.6% of the respondents. Relatively less important appeared to be project performance planning (33.6%) and software compatibility between the outsourcing service supplier and the customer (22.1%). Correct adjustment of software platforms was highly valued in large companies employing over 250 people. Finally, the respondents in the studied business entities were asked about their opinions regarding the use of elements of sustainable development by outsourcing service providers (Fig. 7).

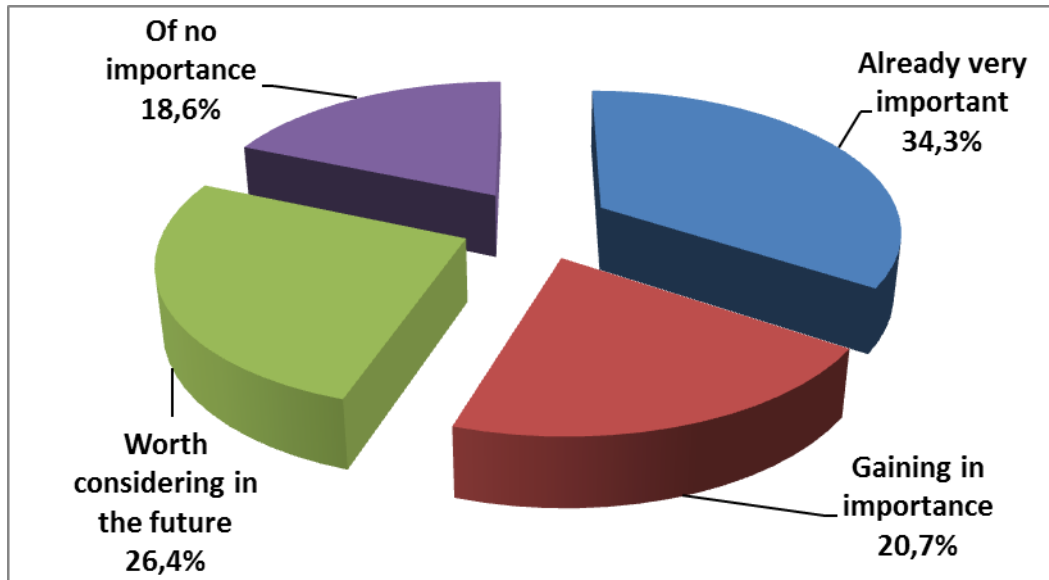


Fig. 7. Evaluation of the use of sustainable development elements by outsourcing service providers (in % of answers)

Source: compiled on the basis of own research

The significance of introducing sustainable solutions by an outside operator appeared to be very important for 34.3% of the analysed business entities. Another 20.7% of the respondents indicated that environmental aspects in the operations of an outsourcing service provider could be seen and were continually growing in importance. More than one-quarter of the analysed entities (26.4%) was interested in them and wanted to consider them in the future when selecting an external operator. Only 18.6% of the respondents considered the fact of external company's involvement or involvement with sustainable development principles to be of insignificant. The presented distribution of answers is evidence of high awareness of the importance of aspects of sustainable development for both the economic and social life (Tvaronavičienė, Černevičiūtė, 2015; Chen et al., 2019).

Conclusions

Outsourcing is an essential business tool in company operations which facilitates smooth management and faster development of organizations. It is worth to approach third-party professionals who may guarantee a constant supply of top-quality services in a sector the mother company is not familiar with.

Outsourcing is a tool used more and more frequently by companies operating in East-ern Poland. The use of outsourcing is seen as a popular business solution. Outsourcing has become not only a fashionable, nonstandard, rapid economic effect-oriented solution, but a common practice.

The conducted research revealed that the areas claimed to be most frequently out-sourced by the companies were: organization of supply, distribution, transport services and renovation-repair services. More than a half of the analysed enterprises pointed at the above listed fields.

The main objective of outsourcing use appears to be focus on core competencies and reduction of operating costs (75.7% and 60.7%, respectively). Another important reason of outsourcing processes appeared to be willingness to simplify the company's organizational structure and the ability to release some human and physical resources.

The factors of major importance when selecting outsourcing services providers were experience, recognition, price, quality, and the application of the principles of sustainable development. The last element was crucial, above all, in the case of companies employing over 250 people. This is because in their case cooperation with companies holding relevant certificates and permits in the area of sustainable development translates directly into the de-velopment of good company image and increase in company value.

The evaluation of satisfaction of the analysed organizations with logistic outsourcing performance demonstrates optimism. In total, over three quarters of the studied entities (79.3%) highly valued the cooperation with external operators. This indicates that the process of selecting an outsourcing partner is thorough and the decisions regarding the singling out or separating activities to be passed over to an external operator are well-considered. In addition, in the future these entrepreneurs plan to expand outsourcing activities in their units. They wish to do it while respecting the aspects of sustainable development, which are either already very important or gaining in importance for more than a half of the analysed entities.

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Acknowledgements

This research was carried out under the research theme No. 80/20/B financed from by a science grant provided by the Ministry of Science and Higher Education of Poland.



European Research Council

Established by the European Commission

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