

# Outsourcing as a Business Process in an Organization

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**Abstract** Taking care for finances is a natural feature of any human. Profitability of each venture is measured by financial benefits that may be reached from an investment decision. Searching for alternative solutions, substitutes for prestigious products have accompanied to consumers and entrepreneurs for years. Outsourcing may be the answer to such market needs, where savings are the idea of concept.

**Keywords:** *outsourcing, cost analysis, outsourcing potential, scale effect, business processes in an organization, value chain, sharing economy*

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## 1. Introduction

Generally, outsourcing may be defined as transferring operational management to an outside service supplier that provides the services previously performed by the company with own resources. The notion outsourcing is an English term *outside resource using*. In order to present proper definition of outsourcing, the meaning of the words constituting the notion should be analyzed. It leads to the conclusion that outsourcing means creating values arousing outside a company with the use of outside resources in order to strengthen a competitive position of an entity. It is a venture to separate functions out of organizational structures of a parent enterprise and transferring them to be performed by other economic entities. An enterprise wishing to use outsourcing, contrary to usual cooperation with suppliers, decides to stop performing certain activities or actions on its own. It may also order an outside entity performing activities and/or actions that it had not performed so far but aimed at undertaking it in future. A company ordering a service may widen the range of performed activities without investment process via using outsourcing. Therefore, outsourcing means permanent ordering performance of certain activities or actions to an outside company. Thus, it is necessary to conclude long term contracts of cooperation with a mandatory for the stability of a principal. Due to a strategic or tactic meaning of outsourcing contracts for enterprises, they are concluded for at least several years, with the opportunity to extend it ([15], p. 15 and next).

### 1.1. Generating the Needs of Outsourcing in an Organization

High costs generated by an organization are the origin of outsourcing implementation in an enterprise.

E. Nowak claims that costs are an economic category that means values of living work expressed in money as well as property resources used in a given period in order to manufacture products and provide services and perform certain functions. The issue of costs is, therefore, using different factors due to performed activity of an enterprise, expressed in valuable units. That use must be, however, related to a usual, regular activity of an enterprise that overwhelms all phases of an economic process ([12], p. 25).

A.J. Kozuch claims that costs mean purposed use of fixed assets, materials, gasoline and energy, services, working time and some other expenditures that are not reflected the use of production factors, which are related with a regular activity of an economic unit in a given time, expressed in money ([7], p. 197).

However, those costs exclude decrease of a company's property resources expressed in money which is caused by other reasons than regular activity. Thus, financial events of unrepeatable character such as cessation of activity or selling a part of an economic unit do not mean costs.

Increasing costs in a company is connected, first of all, with obtaining certain elements, namely services or products. Certain final effects which become a profit of an economic unit are the result of cost increasing. Thanks to it, costs become a significant determination of a financial result, and further, the cost evidence demands utmost diligence.

### 1.2. Cost Analysis is a Diagnosis of the Need to Use Outsourcing

Activity of each entrepreneur is immanently connected with increasing costs. A cost analysis is a significant element of a company's economic and financial analysis. It should respond to several significant questions in the matter of activity costs using proper methods and techniques of analytic research. A cost analysis must be performed in such sections as cost included in planning, evidence and reports ([2,3,4], p. 33). A cost analysis becomes crucial when an enterprise is a fully independent

entity and performs its activity for own risk and profit. In such conditions, rationalization of costs becomes a basis of a company's existence and development. Activities of competition and external condition complication of a company's functioning have undoubted impact on the increase of cost analysis significance. External factors force the need to constant rationalization of a company's costs thus entrepreneurs more and more often reach for outsourcing as a panacea for a company's financial position. A decision to start outsourcing in order to minimize costs must have own rational justification, thus economic analysis must be performed carefully and matter-of-factly ([2,3,4], p. 222).

Regardless the above, the range of cost analysis may be fixed according to certain criterion, as below:

1. The analysis of own costs,
2. The analysis of a company's total costs,
3. The analysis of unit costs.

A general objective of a cost analysis proves that it is performed only to decide on factual level of own costs of a researched period and their reasonability via the size and structure of performed tasks as well as to offer the areas, direction and ventures leading to unconditional or conditional decrease of costs. Although analysis of own costs are performed when the costs were incurred in a given period and for a particular kind of activity, it should be claimed that the results of such analysis have not only a historical value for the company. They are used while undertaking current economic decisions and their systematic improvement.

More and more often, the results of cost analysis are also useful while considering development decisions, when economic effectiveness evaluation of a company's future technical and economic ventures should be performed ([2,3,4], pp. 185-194). The results of own cost analysis are used in a long time horizon, since they link a company's past with its future. The tasks of own cost analysis are as below:

1. Acquainting the size of dynamics and structure of own costs,
2. Determining cost variance in relation to the accepted comparison basis,
3. Recognizing determining factors of cost size, their structure and intensification of reacting to costs,
4. Offering activities leading to lowering costs,
5. Providing data for planning and shaping costs in future ([9], pp. 278-279).

An analysis of total costs should be performed in such sections in which they appear in the evidence and reports. It facilitates providing comparison of costs and enables the analysis of development tendencies. The range of an analysis of total costs should overwhelm as below:

- Costs of basic operational activity,
- Costs of remaining operational activity,
- Financial costs,
- Size, dynamics and structure of generic costs,
- Costs in a calculating system,
- Costs of particular, internal organizational units of a company,
- Pre-production, production and post-production costs,
- Management costs,
- Unit costs.

Unit costs decide on the size and structure of total costs. The amount of unit costs is also an expression of a company's activity effectiveness. Thus it is important what costs a company bears to manufacture a particular product or to provide service. A cost analysis overwhelms total costs of a given economic unit. It comes from synthetic issues, gradually proceeding to more and more precise and detailed research thanks to which causes of changes in shaping indeed costs of a whole company may be explained ([2,3,4], p. 193). A cost analysis may be widened by other issues. Other operational, financial costs and those coming from special funds may be the subject of it. It realizes that in some units, the mentioned kinds of costs may have a significant impact on a financial result.

### 1.3. Outsourcing Potential as an Example of a Scale Effect

An important determinant is better use of the potential of a company's own success by, e.g. using the effects of activity scale, namely the effect of scale economy, both of human and technical resources. An example of a scale effect is using outsourcing potential. An outsourcing company while performing certain kind of activity in a wider range may lower its costs and offer its services with competitive prices with simultaneous preserving the quality and providing values for a client. Here, a concept of key competences is important, according to which, companies should separate only selected areas within outsourcing with preserving those competences that are impossible to be substituted. The effects resulting from the use of outsourcing should strengthen and enable the development of a company's key activity ([8], p. 239 and next).

### 1.4. The Place of Outsourcing in Shaping a Chain of Values

A chain of values belongs to basic models used in a level evaluation of an obtained value by all participants of the chain or separate rings. The most often used ways of measuring functioning the chain of values include: evaluation of added value and satisfaction of clients, cost analysis (transactions, flow of products, information, supplies, lost sale) and financial results of a chain rings (refund rate from investment, refund rate from assets in general refund rate from asset capital, sales incomes, margin of a profit, capital turnover) as well as value evaluation. An undertaken decision on using a service outsourcing may influence each value. These are measurements enabling evaluation of a chain impact on the growth of a company's value as follow: a supply frequency, range of using outsourcing, length of final product period, production costs, time of supply and flexibility of supply, net/gross profit, market sale/value of a company and growth of basic measurement value. All those measurements may be measured perfectly via the system of controlling implemented in a company.

In case of prop-ecological companies which are more and more popular recently and their products reach bigger and bigger number of consumers, effective management by shortening production and supply period and minimalizing high costs of production, play more and more important role. It is one of the main reasons why

owners of such enterprises decide to implement the strategy of management where they order part of their work outside by maximum use of outsourcing benefits and controlling costs generated by outsourcing via appointing a controlling department in a company. International enterprises reach for outsourcing more and more often. The use of the concept of value chain by international company enables to separate phases of added value process and identification of the most important rings of companies building competitive prevail which allows to separate potential elements to internalization or externalization within outsourcing. Some elements of a value chain may be a weak ring of a company instead of their contribution to the growth of a product value. In such a situation, the ordered outside companies may be a factor influencing bigger effectiveness of action and contribute to building competitive prevail of an enterprise. There may be numerous direct benefits that may constitute components strengthening competitive prevail of a company in the result of effective implementation of outsourcing in an enterprise ([3], p. 66). Outsourcing may be also a perfect solution to widening markets that may contribute to a company's development by another external condition of international marketing activities. The aim of a company is reaching and crossing a turning point which decides on a company's income. A way leading to reaching it is a realization of the assumed project. An entrepreneur becomes a person responsible for the project. The projects of realized by creative, competent and engaged people. The relation between an entrepreneur and a team is based on co-operation and trust. Then problems occur that refer to the lack of experience and skills of professional management over the project. There are two ways of development realized. One of them concerns development expansion by realization of an investment project or innovatory project solution concerning various areas of a company's activity. The expansion demands gathering own or acquiring external financial resources. The way of expansion must be preceded by a thorough analysis of competitive environment. The other way concerns a stable development via realization of modernization projects ([10], p. 71).

Government also takes outsourcing into consideration for public tasks. Due to such a decision, services of performing public tasks will be a subject of turnover on a market. Contemporary procedures for granting public order serve to their sales/purchase. Service outsourcing aims at decreasing a number of servicing institutions inside the public sector, and, in a result, bring savings on the level of 10-20% of incurred costs.

Balanced development of a company concerns the balance of a company's functioning through integration of economic, ecologic and social objectives. Balanced development of a company concerns the interests of all groups of "interests" in the same range, including employees and local society ([14], p. 62). Self-realization of small and medium enterprises demands support from a state in that matter, however there is problem in confrontation of political assumptions with reality. While evaluating the above throughout the time and watching the market with the eyes of a statistical entrepreneur, searching such forms of solutions that would minimize a company's costs of functioning is still desired. Innovativeness is necessary in that matter. In order to

complete a complicated image of enterprise-center-company relation with innovativeness, at first it should be added that according to some researchers, Poland's economic growth (high, in conjecture) does not mean the condition of national enterprises and their profitability. That assumption may suggest a question: if the pace of National Gross Product does not mean a company's competitiveness in the conditions of relatively high pace of a state's economic growth (it is a relative notion), what are significant determinants of a company's competitive position in conditions of limited economic growth (economic recession) ([8], p. 12). Who is really interested in outsourcing, taking into consideration the fact that the biggest influence on the National Gross Product belongs to mainly micro and small business? If outsourcing is a novelty that has reaching recognition of companies and an opportunity to increase financial results of enterprises, it should be reflected in the growth of the National Gross Product.

### **1.5. Sharing Economy as Outsourcing Evolution Effect**

Sharing economy is an innovative form of services. It is so called renting and exchanging that will substitute purchasing. That trend has succeeded perfectly in the global range. It is difficult to presume unanimously if the trend is temporary. Numerous sceptics compare sharing economy to group purchase, so popular in Poland not so long ago and today it is becoming a curse of many sellers and customers. Meanwhile, sharing economy as a novelty on the Polish market may effectively disturb our economy. Firstly, because they respond real needs of consumers. The example of such market disturbance may be an American portal Airbnb.com where 40 thousand people rent flats from other Internet users every day, offering beds in 250 thousand rooms in 30 thousand cities located in 192 countries, which may be a serious competition to the biggest hotel networks [13].

Sharing economy may be compared to outsourcing which decreased effectively costs of run business as well. The possibility to focus on basic, key tasks for a company's development is a main strategic objective to use outsourcing. Realization of that objective allows to reach market aims more completely: improvement of competitive position or increasing shares on the market. Reaching market objectives simultaneously leads to improvement of economic results. Tightened organizational structure enables to decrease gradually the costs of a company's functioning and influences the improvement of effectiveness of its activity. Apart from benefits that are the result of using outsourcing, certain threats accompany them. One of the main dangers is a risk to depending on external suppliers and loss of control over significant functions of a company. An additional risk may be loss of significant skills of a company or development of negative skills as well as loss of control over suppliers. Outsourcing, comparing to sharing economy, stands on a much worse position. Outsourcing, despite decreasing own costs, still makes a significant cost in the context of a company's needs. Sharing economy is a more economical solution and possible to be used at once. A risk becomes a threat in the situation when a supplier's priorities do not respond a client's needs. Using sharing

economy leads to re-defining organizational borders. The concept also includes reduction of employment, increases effectiveness of a company and causes its market competitiveness growth. Decreasing labor force brings economic results to managers, namely expected cost reduction. Such an attitude makes however a danger that a human factor goes to the further plan in making such decisions. Neglecting personal matters brings concerns and employees' reluctance concerning changes implementation ([11], p. 13).

Therefore, from the point of view of an entrepreneur using sharing economy, significant benefits may be noticeable by decreasing own costs of running activity. Bigger profits of an entrepreneur cause, in a straight line, the needs to calculate income taxes from a higher basis, which may lead to paying higher taxes by those entrepreneurs. That very simple scheme of using sharing economy by entrepreneurs proves benefits from using that innovative method of cost reduction. However, while analyzing using sharing economy, the issue should be noticed globally and objectively, namely from the perspective of a market functioning and competitiveness as well. Is sharing economy able to disturb competitiveness of traditional enterprises? May using sharing economy by entities influence negatively on functioning of other branch entities, and as a consequence, the fall of those entities?

## 1.6. Outsourcing – Case Study

There is a narrow sub-sector of brand companies in the sector of logistics and transport, having strong position on the market and guaranteeing good quality of sold services, proving complex activities (those companies have not only own car fleet, thanks to which they may individually adjust to any order at any time but they also have warehouse stock, sometimes the whole infrastructure such as logistics and reloading centers, therefore they realize both general cargo orders as well as ventures with the use of containers). Barriers to enter it are higher than to other sub-sectors of that market. Therefore, a recognized position on the market, huge financial support, possibility to bear high costs of promotion and servicing clients through quick responding to receivers' preferences are of great significance.

Necessity to react quickly to changing clients' preference in a situation of big geographical location of particular rings of demand net, forced proper organization of logistics of those ventures. There has been centralization and specialization of distribution network as a result of outsourcing of many tasks of enterprises included in a logistics network. It was also necessary to organize fast flow of information from a principal to a mandatory and vice versa. Entrepreneurs not associated in any logistics network must face more and more difficulties, e.g. growing competition, bigger and bigger clients' demands concerning quality with accepted price, having various assortments of services (compare [1], p. 23). Outsourcing has become a perfect supplement of logistics companies potential. Classical outsourcing occurs in shipping companies which realize transport orders having no own fleet.

Another example of using outsourcing is fulfilment duties connected with performance of annual inventory of

fixed assets by an enterprise. Entrepreneurs most often conduct inventory by themselves although, in fact many companies decide in outsourcing of services connected with inventory performance. Many enterprises order performance of inventory to specialized companies that provide skilled inventory teams and proper equipment. Such services are often performed by accounting offices.

Ordering inventory is more expensive than performing it by oneself. However, a skilled company may perform it better and reveal real lacks. Ordering those actions to a reliable company costs a lot because good companies employ good computer programmers and accountants. There is no fixed fee of such services. The price is agreed individually and depends on many factors, e.g. place of inventory and a client's demands. It may be agreed both due to a single labor hour (22-30 zlotys) and an inventory day (250-500 zlotys). However, it should be remembered that high prices overwhelm all the process: agreeing demands, logistic preparation, arranging a plan for each client individually and creating inventory instruction and clearance of the inventory.

Only several companies can afford to push their employees away from their work. Thus, external services are a favorable solution to it. Also those entrepreneurs who care about knowing real lacks should decide to use the service. In case of performing inventory by a company's employees, usually smaller differences are registered than after performance by an external company.

## 2. Summary

To sum up, outsourcing is a perfect idea to lower costs, both on a seller's and buyer's side of the service. The level of costs is a reflection of the whole activity of an entity. The principles of effective economy demand decreasing the level of a unit cost of a product and it should be a basic objective of each company. Decreasing costs means lowering using all factors of production, namely live work, raw materials, materials and fixed assets (machines and devices), fallen to a unit of a manufactured product. There are numerous ways aiming at decreasing costs but the most important one is a technological and organizational progress leading to improvement of existing or using new better production technologies, to improve production organization, to increase work effectiveness and economy improvement. It is the best but the most expensive one. Outsourcing shows the way to rationalization of everyday solutions. In the results, rationalization in these areas gives as follows: human work and remuneration savings, decrease of using materials and energy, e.g. by lowering wastes, implementation of cheaper materials instead of those more expensive ones, better using fixed assets thanks to full using working time, extending time of work by machines and devices, full using production space, rationalization of economy conservation and renovation economy and intensification of production processes, decreasing costs connected with maintenance of a company's administration, improvement of a product quality and decreasing of lacks ([5], p. 105).

Meanwhile, outsourcing has both advantages and disadvantages, especially in the context of influence on employment. Using outsourcing may hinder building a competitive potential based on knowledge. Liquidation of

certain areas and transferring them outside of a company, may hamper acquiring new experiences and skills. Buying ideas and innovations may close a way to creativity and enterprising development of own employees. Purchased external solutions are usually widely available on the market and they do not influence on building competitive prevail of a parent company. However, the solution may be searching for a synergy between ordered areas and those developed inside a company leading to the growth of a company's competitive level ([2,3,4], p. 104).

Negative social effects may also cause the sense of lack of employment stability connected with using outsourcing. Feeling the threat to lose a job limits creativity and innovativeness and employees. Therefore, it seems that the influence of outsourcing on shaping a competitive level of companies may go in two ways:

- Positive, connected with using direct effects resulting from the method of external service in the process of strengthening an entity's competitiveness;
- Negative, resulting from occurrence of threats of outsourcing and their negative influence on a company's competitive potential ([2,3,4], p. 106).

Enterprises aiming at building a strategic competitive prevail should use outsourcing carefully, in order not to hamper strengthening a competitive potential.

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