

## **MODERN APPROACHES TO OUTSOURCING IN NEW ECONOMY**

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*Outsourcing is an arrangement in which one company provides services for another company. The term is a trend that is becoming more common in information technology and other industries for services that have usually been regarded as intrinsic to managing a business. In some cases, the entire information management of a company is outsourced, including planning and business analysis as well as the installation, management and servicing of the network and workstations. Although the main objective of outsourcing is often cost reduction, many companies fail to realize any cost benefits. Therefore, there is a wealth of tools available for the organizations looking to outsource business processes.*

**Keywords:** outsourcing; outsourcing management; Business Process Outsourcing; tactical outsourcing; strategic outsourcing; outsourcing benefits.

### **General Consideration**

Externalization is a term that derives from the American terminology meaning outside resourcing. The term was previously used in the economic language in order to point at some external resources used to develop the enterprise activity which traditionally used to turn to good account its own internal resources.

The concept of outsourcing has been deeply analyzed within the business area where it is used. To the same effect, more authors said that the externalization, or outsourcing, referred to the process of giving some assignments and targets to some organizational segments belonging to some external entities; these entities could offer a better price-quality ratio and could have expert appraisement in specialized fields. Outside resourcing may include a large range of activities, from operational processes (for ex. goods delivery) to different firm functions<sup>1</sup>.

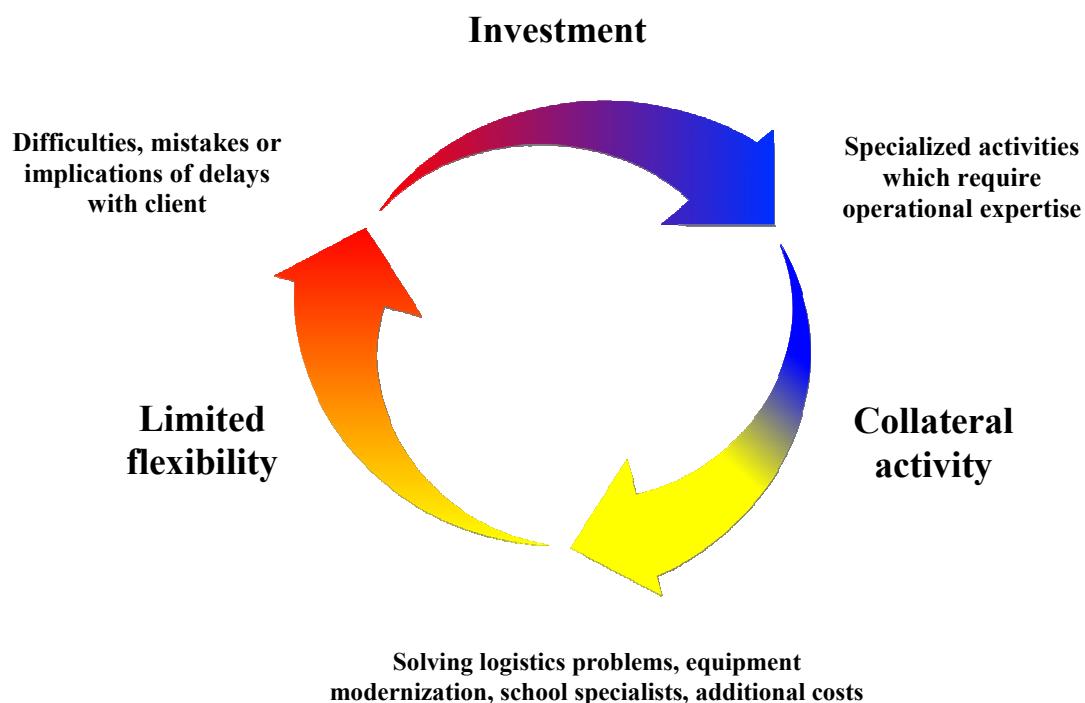
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<sup>1</sup> Janeta Sîrbu, *Elaborarea strategiei întreprinderii în contextul dezvoltării durabile*, Curs, p.12, <http://mail.ubv.ro/~janeta.sîrbu/curs12.doc>, accessed on 10.08.2010.

Thus, the main purpose of the outsourcing is to change an operational process or a function of an entity/organization with specific experience in that field in order to get some decreased operational costs and to improve the products/services quality. Therefore, the outsourcing aims at two main targets:

- to reduce the operation costs; it can be done by transferring the non-critical operations to a specialized organization which is of superior productivity.
- to improve the products/services quality; it can be done by transferring some productive operations to an external entity which is specialized in certain fields, it is of superior experience and has the proper infrastructure<sup>2</sup>.

As it can be seen in fig.1, the aspects related to a limited flexibility, investments, difficulties, mistakes, delays, specialized activities that require operational appraisement, highlights the outsourcing necessity.



**Fig. 1 Why is outsourcing necessary?**<sup>3</sup>

<sup>2</sup> Răzvan Dumitrescu – Economic Consultant BPCE Los Angeles, *Piața de outsourcing în Statele Unite ale Americii*, e-mail: consul.economic@consulateromania.net, accessed on 10.03.2012.

<sup>3</sup> Victor Zolan, *De ce outsourcing? De ce inform lykos?* Slide nr.4, Outsourcing National Conference, 3<sup>rd</sup> Edition, 09.11.2004.

From a management point of view *the Outsourcing Management* is the activity of the company's leadership that aims at signing and watching the outsourcing contracts in order to improve the inefficient services.

Speaking about the level where outsourcing is used, we could speak about:

- *tactical outsourcing*; it is time limited and of low level complexity and it aims at a rapid decrease in consumption in order to face the market challenges;
- *strategic outsourcing*; it is a long term cooperation in which the beneficiary focuses on his own business and externalizes the rest of the processes;
- *transformational outsourcing*; it aims at a partnership between the outsourcing firm and the organization's internal teams in order to share the knowledge, the competencies and the additional experiences.<sup>4</sup>

According to the importance of the activities within a company, the outsourcing is part of the services that reflect:

- *main activities*; for ex: patients' medical attendance, informatics program achievement or maintenance activities for software applications, an enterprise production, market advertising management, marketing activities, sales and distribution, etc.
- *not main but important activities for a good functioning* such as: accountancy, acquisition management, human resources, etc.
- *secondary activities* such as: security, printed works, car park management, cleaning management, lunch management, etc<sup>5</sup>.

Speaking about the approaching methods, the outsourcing could aim at:

- *a total approaching*, when the functions are exclusively performed by the external personnel;
- *a partial approaching*, when the functions are performed by a mixed team of internal employees who are supervised by external experts;
- *a partnership*, when the functions are performed by the external and internal teams' cooperation; thus, the knowledge, the competences and the experience are shared between;

According to the specialists, the dynamics of the fields of activity where the outsourcing is used, is also important. During the first 2-3 years of the enterprise activities there were externalized up to five fields of activity; nowadays there are no less than 21 fields that have been transferred to the

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<sup>4</sup> E-commerce/Mobile business, *Chapter 3: Knowledge Management (KM)*, slide 21.

<sup>5</sup> Marilena Petrec, *CEO, APT Resources&Services*, <http://www.google.ro/search?hl=ro&ei=bK1fTKv9DcSBOMajjLOJ&q=outsourcing+definitie&start=100&sa=N>, accessed on 13.03.2012; coomerce/Mobile business, Chapter 3: Knowledge Management(KM), slide 20

outside world (84%) and there is a future growing tendency (87-90%). There have been different fields of activity that have used the outsourcing. Four of the many fields of activity are of interest; they have been largely used: in the past: *accountancy* represented 53,3% for the enterprises that carried out services and 60% for the production enterprises; *supplying* represented 26,7% for the first group and 40% for the others; *advertising* – 53,3% for the enterprises that carried out services and 40% for the production enterprises, *guard services* – 46% for the first group and 70% for the second one; nowadays: *accountancy* represents 80% for the enterprises that carry out services and 50% for the production enterprises; *supplying* represents 33,3% for the first group of enterprises and 40% for the others; *advertising* – 80% for the enterprises that carry out services and 60% for the production enterprises and *guard services* – 53,3% for the first group and 70% for the second one; in the future we will have the following estimates: *accountability* may represent 73,3% for the enterprises that will carry out services and 50% for the production ones; *supplying* may represent 13,3% for the first group of enterprises and 40% for the others; *advertising* – 66,7% for the enterprises that will carry out services and 70% for the production enterprises and *guard services* – 46% for the first ones and 70% for the rest<sup>6</sup>.

Faster, cheaper, better is a mantra for success in the business world today and the Business Process Outsourcing (BPO) has become a means for achieving this target. BPO is usually a long term relation; the achievement of different activities supported by a computerized platform is outsourced to a specialized contractor in order to get better business efficiency.

Different market analyses report significant advantages of this decision; they refer to reduced costs and improved quality as well as to flexibility and the possibility to focus on the core business and outsource the activities the enterprise has already decided upon.

## **Outsourcing Advantages**

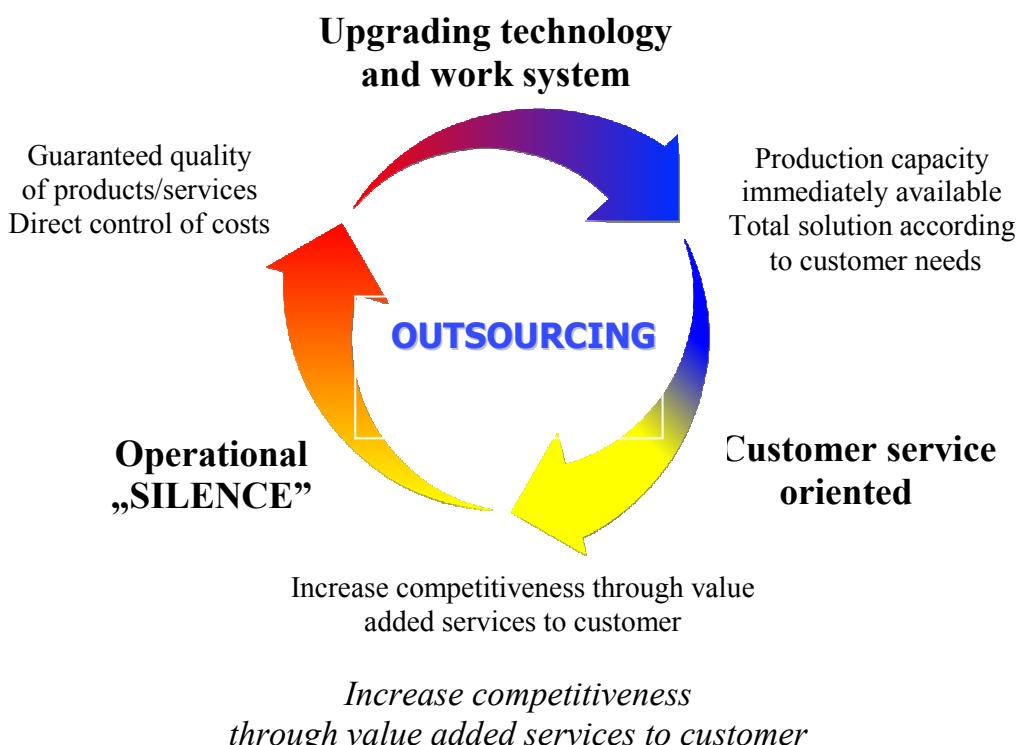
Supported by a major progress in communication technologies, the BPO market is an extremely dynamic and innovative one. The visionary companies that included outsourcing in their business strategy have succeeded not only to overthrow their rivalry but also to use the outsourcing as a strategy for the geographical expansion. The following outsourcing advantages refer to:

- reduced costs that result from the significant difference in salaries between the countries with a developed economy and those with an economy in progress; they also come out from the employment of some more efficient methods and systems that a specialized supplier has and for whom the outsourcing is part of the core business.

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<sup>6</sup> Janeta Sîrbu, *op.cit.*, p. 15.

- the company's flexibility to the economic changes; when outsourcing, a great deal of fixed prices change into variable prices.
- the focus on the company's activities to achieve better services and products; for example by giving up the resources and management of the back-office activities (*a do what you do best and outsource the rest strategy*)
- the access to better services, specialists and technologies; it's the case of software outsourcing development;
- better services for the consumer and a competition advantage for the company. This benefit refers to some more rapid and efficient services such as: availability for non-stop services; it may be obtained when outsourcing some activities in an area which is 6-10 meantime zone distance from the company (for instance, in the insurance industry where the rapid registering of a complaint is important, this advantage is an evident one);
- the opportunity regarding the extension on new geographical markets: starting from the outsourcing of some services on such a market or a company later. Fig. 2 shows some of the outsourcing advantages.



### ***Risks related to the outsourcing of some activities***

The risks of this decision fall into two large categories:

- the country risk; it refers to elements such as: political, legislative and fiscal stability, the availability and the cost for the qualified labour force, communication and transport infrastructure, the availability and the cost for offices, cultural compatibility and, not the last, the competition within that area;

- the risk with the supplier; it refers to elements such as: his professional expert appraisement, his financial stability and strength, his ability to rapidly change the volume of activities according to the beneficiary's request, the infrastructure and the technical endowment and maybe the most important, the compatibility of the corporate assets<sup>7</sup>.

### **Aspects related to the outsourcing decision**

Being something very important, the outsourcing decision is taken within the company's management and it is induced by the necessity to improve the activity, to adjust its volume or to restructure it. Thus, according to some practical results the analysis which is done before the outsourcing decision must be a very careful one considering all the *for* and *against* arguments; it must be based on a complete research, too. Being a strategic decision it must be based on a feasibility research which is expected to offer information about the effort and entrance, carrying out and exit risk of the outsourcing relationship.

The suppliers of the outsourcing services all over the world foresee that this type of services will have a rapid growth, according to Duke University Offshoring Research Network and PricewaterhouseCoopers (PwC). Consequently, the outsourcing companies hire personnel and invest in new services with a development potential<sup>8</sup>.

The research has pointed out one more time that the 2009 economic recession underlined how important it is to reduce the costs and to improve the efficiency; these are the main strategic reasons for outsourcing followed by the access to the qualified personnel.

The research has also pointed out that the industry is continually changing as a result of some new suppliers on the market and of the efforts of the outsourcing companies to extend on new markets. The outsourcing companies from North America and India, which had the control over this industry for many years, are now intensely competing with countries like Latin America, East Europe and Asia; they are competing for contact centers, Business Process Outsourcing and IT services outsourcing.

### **Elements of the Business Process Outsourcing market**

Similar to other markets, the BPO one is characterized by product, request, offer and business strategies. The product refers to any business product or part of a process supported by a computerized platform.

<sup>7</sup> Marilena Petrec, CEO, *op.cit.*, p. 3.

<sup>8</sup> Simona Roșu, *Criza, motiv de extindere pentru piața de outsourcing*, <http://www.capital.ro/articol/criză-motiv-de-extindere-pentru-piața-de-outsourcing-130161.html>

There are many activities on the market more or less frequently outsourced: from the management of the clients' relationships to human resources services and even research and design.

The BPO services are mainly requested in countries like North America, West Europe or Japan which are economically advanced. While the reduced costs are seen as a main advantage of the outsourcing, some other advantages, such as the focus on the core business or the quality of services provided to the companies, contribute to a growing request for such services.

The offer for outsourcing services is a very rich one and it mainly comes from developing countries in which there is an increased availability for qualified and cheap personnel. India and China have risen above countries like Ireland and Canada which were the pioneers of this industry 15 years ago. Recently, especially for the last 8 years, there has been a rich offer for BPO services in the East European countries especially in the economically advanced European countries.

There is great variety of business strategies the companies use on a market; they range from the usage of its own center open in an old BPO country to the usage of an independent supplier or a combination of these two. There are many models and a typical classification refers to the geographical aspect:

- *inshore outsourcing*; it refers to the services that are outsourced to a supplier from the same country;
- *onshore outsourcing*; it refers to the services that are outsourced to a supplier who is part of the same market;
- *offshore outsourcing*; it refers to the services that are outsourced to a supplier from a different country;
- *nearshoring*; it refers to the services that are outsourced to a supplier from a different country which is close to the country that outsources the services<sup>9</sup>.

The recent studies on the international market of services that outsource IT and communication (TIC) have pointed out that the supplying markets (both the *nearshore* and the *offshore* ones) have adapted their capacities in order to face the continuous demand of the world economy.

This competition has changed the outsourcing industry in a global race for the market share. The success of India as a universal back office inspired some other developing countries with a well educated Labour force but with a diminished rate of the labour force occupation, to follow the Indian model<sup>10</sup>.

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<sup>9</sup> Marilena Petrec, *op.cit.*, p. 2.

<sup>10</sup> Charles Aird's Declaration, Managing Director at PwC.

Though India is the leader of the outsourcing market, some other developing economies try to extend on this market. The Chinese efforts have to be remarked; the Chinese government has designated 20 cities as centers for outsourcing services in order to attract foreign investments. The Filipino government declared the outsourcing as one of the most important industries. Despite all these, only 16% of the Indian suppliers for outsourcing services feel threatened by the competition with other developing economies.

The slowing down of the economic growth in the developing countries which generates pressure upon companies for identifying areas for reduced costs and the low salary in Romania could generate new opportunities for the local suppliers for the outsourcing services<sup>11</sup>.

The experts state that we must not ignore the fact that there is a global competition for investments and for that the governments and the local authorities offer different incentives, fiscal or other types, to the suppliers of outsourcing services. Thus, Romania will have to offer different facilities at least similar to other East and Central European countries in order to increase its market share in this industry.

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<sup>11</sup> Dan Iancu's Declaration, Partner, Consulting Services at PricewaterhouseCoopers Romania.