

## GROWTH OF THE COMPANY COMPETITIVENESS AND SPECIALISATION THROUGH OUTSOURCING THE SERVICES

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### **Abstract**

*Outsourcing the services is an option that becomes more and more common in the economy, because to maintain the competitiveness, the companies are developing strategies to reduce the risks and to gain some benefits from transferring the responsibility for certain services. The specialization of some companies in providing services has led to a process of outsourcing the services, with beneficial effects on the activity of companies producing goods and on market development. Outsourcing involves non-inclusion in the company's activity, or the separation of those activities considered secondary, which are not strictly necessary or are not directly involved in obtaining the results of the main activity of the company. Accordingly, the company uses the market to benefit from the services or from the activities that have been outsourcing.*

**Keywords:** outsourcing, quality, competition, services, competitiveness

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### **1. Introduction and context of the study**

The general increase of competition and on this basis, of competitiveness and globalization forces the companies to find more efficient ways for developing and using the information technologies, in order to implement modern management methods and marketing, to cut the costs in order to achieve competitive advantages and to increase the performances. The development of information systems has become increasingly costly, necessitating human resources with higher skills and competencies, and with high professional competence. To face the competition, the amplification of action variety is used: increase of product types range, increase of service levels, increase of quality of offered goods, reaching up to customization of products.

A large part of the services for enterprises initially appeared as specialized activities which were intended to sustain the production, being integrated in the production process frame. There is thus a process of internalization of services, which involved the immobilization of large amounts of manpower and significant investments to ensure the material base necessary to sustain the services activities. Along with the development of the enterprise, the management of these services has become increasingly difficult, especially for services that are repeated with a reduced frequency. Those lead to an increase in costs that are difficult to distribute on the products, in such way to have an accurate quantification of the costs of each manufactured item.

At the same time, continuously adapting and modifying the production processes and product manufacturing cycles, the variability increases, making from the permanent change and from innovation a current practice of the companies activity. The development of the society as a whole and of people's needs increased the complexity of economic activities, inducing the increase of the investments level in equipments, research, administration methods and techniques, management and marketing performance etc. This fact has determined the occurrence of dimensions that cannot be controlled and managed easily by a single company. The market preferences and requirements are in a constant change, creating pressure on the companies; often the companies are trying to shift the responsibility of holding specialists, facilities and equipments to a third party, where there is great human potential and multiple opportunities that favours the implementation of projects in a shorter time and at the lower cost (<http://store.ectap.ro>).

To produce by its own the necessary services, the company must buy from the market those knowledge, information, skills and others that it lacks, given its specialization in a particular field. Thus, it is often more efficient to buy these services from specialized providers than to organize your own service activities within the company.

When the opportunity of services internalisation or outsourcing is assessed, the companies can opt for one of the following options of services organization:

- Internalization by integrating the services within the company operations, organizing specialized compartments for providing services at the company level (research and development, transport, market research, etc.). This solution involves the internalization of services.
- Establish an autonomous entity, as subsidiary of the company, which has financial and organizational autonomy. This solution follows to streamline the activity of the provider and of the beneficiary of the services, while providing to beneficiary the assurance that the services will be offered in optimal conditions of quality and price. At the same time, the service provider company can collaborate with other companies which need those services. This solution represents a quasi-integration of services.
- Services provided by an independent company. This solution involves the total outsourcing of services, the relationships between partners being carried out on a contractual basis. Depending on various specific situations, combinations of the above solutions can be used. For example in case of market research, the company can make through their own compartments simple studies, while more complex studies will be carried out by external providers (Constantin C., 2007).

One of the most common questions raised by today economic activity is: how can I become competitive and remain competitive in the field? In general, the answer to this question may come from two directions: within the company or institution (it involves the improvement of internal performances) and from exterior, by procurement of outside resources or by appealing to certain services provided by the external environment.

## 2. Services outsourcing

Outsourcing involves entrusting certain activities of a company or a public institution to an external provider. This phenomena can involve including entrust of a whole manufacturing process of certain assets or the transfer of an important business function to an external provider. Outsourcing of services is a necessity for the companies who cannot afford a specialized service on each component of their productive process or who are facing certain situations that cannot be managed by leaders inside the companies.

In Romania and Eastern Europe, the outsourcing process is a relatively new phenomenon that is viewed with scepticism and considered by many as one full of risks. In highly developed countries things are well defined and in some cases the outsourcing is regarded as a natural and necessary process in the process of improving the company situation.

In decision making process of outsourcing a part of the services, to ensure the selection of a suitable collaborator, a number of factors are taken into account: the quality and the price of offered services, the customer portfolio, how the company manages the client relationship, recommendations coming from business partners. The decision to outsource the services is based on two criteria targeting the specificity of the service and the frequency of using the service. Thus, if the service is specific, without other companies in the market who need it, it is possible that the interests of service providers to be low and therefore the transaction costs will be very high. In such cases it is preferred to internalize the services. Also, if the frequency of using the service is high, it may be less costly for it to be organized as an independent activity of the company.

Outsourcing the services is an option that becomes more and more common in the economy, because to maintain the competitiveness, the companies are developing strategies to reduce the risks and to gain some benefits from transferring the responsibility for certain services. We can say that globalization and technological progresses have enabled for the companies the transfer of information technology, human resources, accounting, legal services, to other local or foreign suppliers (<http://doctorat.ubbcluj.ro>, 2012). We can also appreciate that along with advancing in the development process, there is a tendency for the previously provided services in internalized way (either as part of production of goods, or as part of services provision), to be rendered more and more to specialized companies, on a contractual basis, respectively to be outsourced. In this way the companies and the economic agents, in order to obtain an increased flexibility, may adopt a strategy to reduce the internal complexity, both through the productive capacity and the technological and procedural know-how, by using outsourcing. In order to focus on the basic components of the productive process, to meet the consumer demand as well, the companies turn to outward delegation of provision, execution of different services, works or activities to third parties. By outsourcing some of the services or its own operations, the enterprises can perform better the remaining activities and can optimize the organizational structure, in order to become more adaptable, and more flexible. Outsourcing has become a common way for companies from all economy sectors and is often used when the competitive advantage can no longer be maintained. In this situation, a function or a service performed internally by its own employees is transferred to an external provider (Sirbu J., <http://oeconomică.org.ro>).

Outsourcing is conceived, organized and conducted according to a strategy and an adequate legislation in the sphere of services provision. At the same time, outsourcing requires for each party, i.e. the service provider and the client, to exercise correctly and continuously the role assumed by the contract. The organization of outsourcing must be very rigorous and requires flexibility, development, transparency, proximity and feedback. Outsourcing has experienced a growing expansion in the last 10 years and will continue to grow, being often considered as the optimal path for the development or even the survival of the enterprise, regardless the sector or the object of activity.

The need for flexibility has created a variety of types of outsourcing, used in all activity fields. The enterprises and public institutions benefit of services exemption, of a lasting partnership relationship, of creating and sustaining the competitive advantage, of increasingly diversify the products offer, works and services to enhance the flexibility in their performed activity and to better meet the various demands of consumers (Sirbu J., <http://oeconomică.org.ro>).

The Outsourcing Institute, with constant concerns in outsourcing field, selected 10 reasons for a company to appeal to such services:

- The reduction and cost control of operations;
- Improve the company's objectives;
- Gain access to various opportunities;
- Free internal resources for other purposes;
- Access to resources that are not available within the company;
- Accelerate engineering benefits;
- Management becomes costly from some time;
- Occupied capital becomes available;
- Risk sharing;
- Injection of capital.

Outsourcing is a complex process that takes place continuously and which may know permanent adaptations or changes to the consumer or market requirements. To have a certain future, the contract shall permit upward trend of relations between the two partners.

The outsourcing of a company must be based on achieving a competitive advantage on the market, in terms of costs or in terms of flexibility of economic agent and to obtain in this way a differentiate from the competitors. Looking at possible policies to outsource the services, we can distinguish three main strategies for outsourcing, with specific objectives and motivations:

- Voluntary outsourcing of services, to grow the competitiveness of the company; in this option, the company's value chain is decomposed and the added value of each activity is analyzed, compared with the alternatives offered by the market. Thus, each service activity performed by the specialized departments within the company is seen as a potential offer coming from an external service provider, in competition with the offers received from the market. The comparative analysis is done in specific terms of cost, quality of service, delivery schedule etc. Finally, the option that may lead to an increase in company competitiveness, in terms of these indicators, is chosen.
- Outsourcing of services as necessity for the proper service of customers; sometimes, the services provided to customers are outsourced as a result of the difficulties that the producers face in their provision, especially when the two partners are separated by large distances in space. These problems become more acute in case of external trade relations, when besides the physical distance between client and supplier, other differences are involved: cultural, linguistic, legislative, etc. For an economic agent, outsourcing the services for better customer services involves a wide range of activities that can be entrusted to specialized providers, to obtain a high degree of customer satisfaction, as well as a considerable competitive advantage. Such services may be provided in all phases of processes specific to activity within the company.
- Outsourcing the services due to effect of the law or of joining the voluntary standards. A number of services have been outsourced from the companies activity due to legal provisions requiring the economic agents to turn to service providers specialized in performing certain activities. By this, the state pursues reaching the basic objectives related to the following: achieving a healthy business climate, increasing the labour safety, protecting the environment and population, reducing the risks of any kind etc. Such services, which were outsourced from the company's activities, are the services of financial audit. One of the most important trends recorded in the activities of economic agents is represented by the need to demonstrate the compliance of products or of quality management systems with the requirements of industry standards set by a standardization body. The adherence to voluntary standards is actually one of the essential aspects of the 'New Approach' Directive, which governs the field of technical harmonization of quality characteristics of the products within the European Union. In both cases, even if the law does not require the appeal to service providers to obtain certification, the voluntary adherence to the provisions of certain standards, calls for the necessity of outsourcing of audit services for the quality system and for the product conformity assessment system. Although these services are provided at the enterprise level also (internal audits, testing in its own laboratories etc.), the official recognition of compliance with the standards is made only by the neutral service providers. They shall cooperate with manufacturers in the long term, on a contractual basis, regularly performing an oversight of maintenance of standards required for certification (Constantin C., 2007).

Outsourcing is addressed to public institutions also. The idea of trying to satisfy all the population needs can be very appealing to public sector, unlike to the private sector. If in the private sector any further activity is based on increasing the number of clients that can bring additional revenue and even profit, in the public sector the increase level of activity will increase the costs, which have as a consequence the creation of a budgetary deficit. Public institutions, unlike the private ones, are not susceptible to market needs and are less autonomous and flexible than those from the private sector. For their efficiency, the privatization or outsourcing of public services could be used, to be provided by

private sector companies, having as a probable result the competition growth, the efficiency and the obtained value (<http://baze09.wordpress.com/2010>). A step in this direction was made by drafting / adoption of the legislation on outsourcing public services.

A public institution that leaves the operational details to an individual expert from outside the institution can focus better on the core activities and can focus on the quality of public services offered to citizens. Thus, part of the internal resources remains available to be used for other purposes, although in some cases, no actual monetary savings is achieved (because the outsourcing implies the existence of costs also). Because the resources diverted through outsourcing are people, by entrusting some operations to a newly established entity or a third party service provider, the administration may redirect those employees to specific activities with greater importance for the administrative apparatus function.

In order to create or make place on the market, the outsourcing companies invest a lot to be specialized in their field, providing all the invested resources to everyone is willing to pay for them. The quality of provided services is one of the advantages that qualify the outsourcing of public services, because the provider employees are specialized in their field and do this the best, much better than a public official who has a too large a palette of tasks that obviously cannot be all performed well. However, through this public-private partnership is achieved a sharing of risk associated with beneficial effects for public administration. The organizations that appeal to outsourcing become soon more flexible, more dynamic and more willing to change to meet the new changes imposed by the context. Outsourcing produce many benefits for the companies and public institutions: cost reduction, quality improvement, higher qualification and higher capacity, greater focus on main processes, creating competitive advantages, a shorter time to advance in the market, risk sharing, obtaining resources that are not available within the company, the management of certain functions that are difficult to control from inside, the transfer of certain goods and standardization of processes (Mark J. Power și alții, 2006).

The public institution is by definition a rigid organization, hardly changing. The change attract corresponding costs, so instead of radical changes that require more time and money, the outsourcing is a more cost-effective solution (<http://www.graiu-gorjului.ro>).

The outsourcing process is not without risks, however, taking into account the necessary contribution of use and the wide range of possible ways of application, much lower costs and risks can be obtained. The strategies based on outsourcing may cause an increase in income and a reduction in risk, a greater flexibility and a larger capacity to respond to the demands of the environment.

The application of outsourcing strategies means reducing the costs and increasing the performance by focusing on the performed activity and on increasing its own flexibility (Sîrbu J., <http://oeconomică.org.ro>). From these considerations, the following can be remembered: poor alignment of the objectives, of the response time and of quality, issues that may be controlled through various methods, pre-established with the supplier and the difference in mentality between the "company employees" and "outsourcing colleagues" from the level of personal pride until the compensation packages. According to Power, Bonifazi and DeSouza, there are ten pitfalls commonly encountered in the outsourcing process:

- Lack of a corresponding commitment from the management,
- Minimal knowledge about the outsourcing methodologies,
- Lack of a communications plan of outsourcing,
- Failure to recognize the risks of outsourcing,
- Failure to access external sources of knowledge,
- Non-allocation of the best internal resources,
- Rushing the initiative to outsource certain activities,
- Unproperly appreciation of eventually social-cultural differences,
- Minimization of certain aspects that can make the provider to be more productive, poor management programs (<http://doctorat.ubbcluj.ro>, 2012).

However there are a number of concerns and risks related to outsourcing, such as organization health, loss of control of certain activities, selecting an inappropriate provider, increasing certain costs, loss of capacity, doubts about the quality and performance. If, initially, the outsourcing was an option adopted predominantly by small companies that could not afford supporting some collateral activities to their specialization, in the last years it has become a solution for medium and large companies also (<http://store.ectap.ro>).

### 3. Conclusions

The results of outsourcing are not immediate. Most organizations had a decline of up to 20% in labour productivity in the first year of an outsourcing contract, mainly due to the time spent for knowledge transfer to the service provider. Once the customer and the supplier have aligned the knowledge and the objectives, they can work together more efficiently, thus generating cost savings. At the macroeconomic level, the disadvantages are more pronounced for the advanced economies, because by outsourcing process, the outsourced activity is transferred to another economy, along with the jobs, leading to a reduction in the living standard and to an increase, at least on short-term, of the unemployment rate.

Outsourcing is not achieved on a short term, but a service is entrusted to a specialized agent for a period of several years, its provision must be bear in a medium or a long-term plan, specifying the obligation of maintaining the quality and the cost of contracted services. This ensures the continuity of contractual relations and guarantee obtaining in time the purchased service. In the process of outsourcing the provision of some activities, a partnership between the two companies that are in contractual relations need to be achieved; the relationship between the two agents, the beneficiary and the provider must be defined by innovation, flexibility and feedback, as the only way to provide the perspective of a perennial partnership and the evolution of collaborators occupations and skills. In this context, the shared knowledge by organizations and professions allow a better organization to improve the performance and to benefit from the competences of each partner.

If the specificity of the required service is low, it can be purchased from the market, whether the frequency of use is high or low, since it is assumed that there are many providers offering these services to a relatively large number of enterprises. If the specificity of the service is medium and the frequency of use is rare, is required a firm contractual relationship with the service provider, to guarantee that all the requirements related to the provided service are respected. Since the service is not common, it is often necessary the assistance of a third party which can be an enterprise that has used before such service or a consultant specialized in the field (e.g. implementing an integrated informatics system of enterprise resources - ERP). If the specificity of the service is medium and the frequency of use is high, a long-term contractual relationship is needed also, to ensure for both parties the safety of transactions with that service. If the service specificity is high and the frequency of use is low, a contractual relationship with neutral assistance can be used, as in the case mentioned above, or the service can be internalized.

When both the specificity and the frequency of using the service are high, the most feasible solution is the one of organization of the respective activity with their own forces, as appealing to the market may be much more expensive.

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