



ANALYSIS OF THE ADVANTAGES AND DISADVANTAGES OF OUTSOURCING

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ABSTRACT: *With outsourcing growth expected in the years to come, it is time to learn more about this topic. Before we move forward, it's imperative to compare the pros and cons of outsourcing. And it's also very important to understand the effect outsourcing can have on companies.*

KEY WORDS: *Outsourcing, flexibility, choice*

The complex economic reality and the ever-changing business environment exacerbates competition between businesses and puts their ability to adapt to the surrounding them conditions to maintain a high level of competitiveness. On their activity, there are more and more diverse factors that give priority to one at the expense of other business entities[1]. In today's dynamic and fast-paced world, business also needs to be dynamic and evolving. This dynamic business environment requires businesses and organizations to act quickly and efficiently in an ever-changing environment. Business is the driving force for the inclusion of innovations. The increase in foreign direct investment in the service sector is the key trend which characterizes the state of the world capital market in a globalizing economy. Attracting foreign capital is one of the mechanisms for reducing the deficit of national capital as well as technology. This mechanism is applied in developed and developing countries in order to stimulate various sectors of the national economy, among which services take up significant part [2]. Outsourcing is a concept for taking or replacing internal functions of a company and providing these functions to an external company. outsourcing, also known as outside resourcing - hiring human resources outside the company/ country. There are many reasons for the application of outsourcing in various fields. Some of the most common of these reasons are:

- use of external / foreign competencies;
- transfer of produce export of some risks to a given destination;
- saving money;
- increasing productivity and / or quality;
- freeing up company resources for carrying out their relevant main activities.

Companies apply outsourcing as a strategy to contract their non-essential and secondary activities to highly efficient partners who specialize in that specific activity. Outsourcing is an effective business solution for four indisputable reasons: expertise and skills in the relevant outsourcing field, savings on the ground of scale, faster market access and lower costs. By transferring secondary functions to a contractor, a company could be in better serve of its customers using the same or reduced resources, while at the same time it is able to focus on its main activities. Statistics show that it is not easy to successfully outsource. Various studies point out the share of failed projects is between 40 and 70%. The innate conflict of interest in any outsourcing contract is at the heart of the problem. The client strives to provide better services in comparison with his capabilities, often at lower cost. On the other hand, the supplier is motivated by the potential profit. This pressure can be handled as to ensure a successful outcome both for the customer and the supplier [3]. Two main types of outsourcing should be distinguished in large corporations or groups of companies: corporate outsourcing and the so-called market outsourcing. Corporate outsourcing. In corporate outsourcing, the role of the consulting company is not given to an external organization which operates on the market. On the contrary, the role is given to a division or a business unit of the corporation, holding or group, providing services to each other. Outsourcing acquires special relevance when there is a concentration of groups of profiled companies in a specific region. A classic case is the formation of groups of enterprises as a result of reorganizations, separation, formation of groups of wholesalers and retailers, profiled divisions (transport, security, administrative, etc.) either from the production site or from the main produce. Save for the obvious advantages, the formation of a new business architecture has certain shortcomings and predicaments in organizational development. These may include: the complexity of forecasting the cost of designing and launching a new organizational unit; the significant increase in the document flow; the growth in operating and transaction costs; the short terms for management recruitment and selection, etc. Market outsourcing. In market outsourcing, the role of the company - contractor of separate services outside the client company, is taken by an external organization. This type of outsourcing is used mainly by small and medium-sized companies that are not a part of large groups or corporations. An important matter comes up here: is it possible to apply the above-mentioned criteria in market outsourcing as tools for assessing the effectiveness and optimality of its models? The answer to this question is "yes",

since the proposed criteria are universal and characterize the quality aspects of outsourcing as a type of management. For instance, such criteria as "degree of autonomy", "level and quality of cooperation", "level of personnel and management costs" are applicable regardless of the type of company - small, medium or large, whether a holding structure is available or not. The size of the company may not affect the change of the criterion "duration and cost of the project"[2]. Outsourced production. Main aspects, trends and drawbacks. The transfer of activities and services back to the contracting company (backsourcing) is carried out when the outsourcing contract fails due to lack of efficiency or because of changes in the environment. Breaking an outsourcing agreement is not easy. That is why a lot of companies dissatisfied with outsourcing activities and services prefer to reconfigure agreements with suppliers rather than start a backsourcing procedure. In a recent study on outsourcing practices, key data indicate a revision of a significant number of outsourcing contracts, most of which are mega-deals [4]. However, in some cases, backsourcing is a better choice than proceeding an inefficient contract with the service provider [5]. Outsourcing, like any activity, has its pros and cons. Before one decides on its implementation, the following indicators must be taken into consideration:

- will the organization gain flexibility;
- will the the company's economic efficiency increase;
- what will be the impact of outsourcing on the company culture;
- how will this affect employees later;
- won't the main activity fields and functional relationships between them be severed;
- will the outcomes – having to do with to competitiveness and trade positions-be positive;

Some of the reasons for applying outsourcing are:

- the activity is not major for the company, it does not lead directly to profit generation;
- the activity is routine and could lead to loss of the specialists' and experts' in the company valuable time and energy;
- the task occurs once, temporarily or cyclically;
- it is cheaper someone else to perform the task than to organize and prepare its internal implementation;
- the activity may be done within the organization, but it takes resources (people, technology, resources) that can be used more efficiently in other ways;
- the required skills are so specific that it is practically unreasonable to hire a special employee for this task.

Each company has its own reasons; however, these reasons most commonly include some of the following parameters:

- cost reduction;

- seeking an opportunity to focus on key aspects of the overall business process by outsourcing peripheral activities;
- lack of resources in the company;
- achieving efficiency during the performance of the preplanned activities;
- opportunities for faster reaction in changing business conditions;
- greater opportunities to control the budget by fixing expenditures;
- reduction of current investments in internal infrastructure, access to innovations.

Companies hire other subcontractors to carry out minor but necessary activities and subsequently gain access to their technical, human and operational resources at optimal and efficient costs. Another example might be a small or medium-sized company that strives to achieve rapid growth through high standards of customer service and uses the knowledge and skills of a contractor without the need for significant investment for achieving this purpose[6].

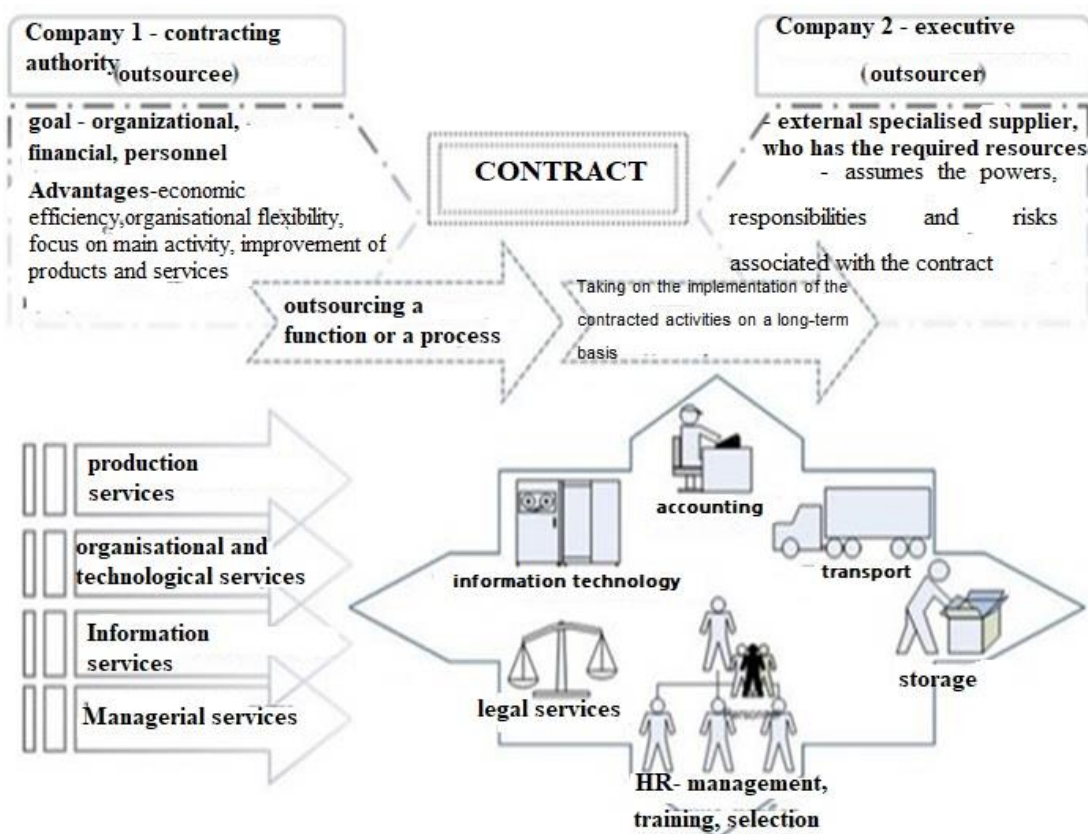


Fig. 1. The essence of the modern outsourcing model

Source: Parashkevova, A. Outsourcing in the management of the organization - Yearbook of Varna Free University, year XIII, vol. XIII, ISSN 1310-800X, 2007, pp. 194-243 [6]. Minor and supporting activities are usually

outsourced. When one makes up their mind about outsourcing, it is recommended non-strategic activities that do not directly affect the overall functioning of the company must be chosen. Once a stable and loyal relationship has been established with the outsourcing partner, the company can take advantage of more of the benefits that outsourcing can offer by transferring services or a group of services of greater importance. For example, a bank may first transfer its outgoing calls for telemarketing, debt collection. Once the processes of this first phase are identified and the areas of possible mutual benefits between the companies are clearly identified, the bank may delegate more complex functions such as incoming information lines, technical procedures, etc. Although outsourcing is a long-term and stable partnership, the transfer of key business functions which are an essential part of the company's true expertise is not recommended [4]. There are plenty of arguments about the benefits and risks of outsourcing. Opinions range from describing outsourcing as a management practice that can solve any problem, to it being associated with a loss of control and the inevitable price increase. Overall, Bulgarian managers perceive outsourcing as a promising model for managing a company function. Nevertheless, at the same time they report on the risks of carelessly planned and implemented outsourcing. The greatest potential for outsourcing is the opportunity to use qualified staff, which organizations cannot afford to hire with their limited budgets and inflexible employment methods. Thus, outsourcing is a rational way to use the work of staff outside the organizational boundaries. Access to new technologies is also considered an advantage of using external providers of certain services. According to managers, suppliers can afford narrow specialization in any given field; they could also make an investment in the technologies which have to do with the respective technology. Through outsourcing these new technologies can be applied in both public and private administration [7]. In terms of organizational management and the organizational system management, what can be seen is the high degree of agreement with the statement that outsourcing services allows organizations to focus better on their main goals and objectives. A great deal of managers identify the objective of the whole organization as the main goal of their department - e.g. performing control or regulatory functions in a certain industry, providing services to citizens and businesses, etc. Therefore, the outsourcing services that are not considered essential to the organization is considered as a means of concentrating on the goals of the organization. This way, for instance, instead of devoting time, effort and budget to hiring programmers, providing the necessary conditions for quality product, testing and product implementation, managers consider outsourcing as a strategy for outsourcing services and focusing on activities such as planning, management of suppliers, technology and market monitoring, as well as advising organization leaders[8]. Cost-benefit analysis - an initial review of the implementation of each alternative. Pros and cons of the joint activity. When the probable outsourcing scope has been clarified and the most

realistic alternatives have been identified, a preliminary analysis of the cost and expected benefits of outsourcing the alternatives should be completed. This may include:

- estimate of the transaction price of migration to an outsourcing agreement;
- the current price for contract management;
- the price for providing services which will be maintained;
- price reduction by components of the service, if more than one component will be outsourced;
- price and expected benefits for stakeholders;
- the potential impact on other organizations, as well as on the services shared with other organizations.

This process can be involved in defining the outsourcing objectives and expectations and can later be turned into a request for a proposal and a contract, if a decision for outsourcing has been made. The outsourcing model is changing extremely fast – it is turning from a tactical to a strategic tool. It is becoming increasingly important for companies to increase their action flexibility and access to new skills that are the know-how of the outsourcing industry. The tendency is for the best service providers to be those who use the most innovative technologies in order to meet the needs of their customers as quickly and efficiently as possible. The main benefit of outsourcing is the generation of income and profits as well as the providing jobs [9]. Apart from the direct effects, the transfer of services to Bulgaria brings more advanced technologies and business practices, increases the staff qualification and in its turn improves their productivity. However, the risk is that as easily a business is imported into the country, it can be as easily and quickly be exported to another country with cheaper labor. The short history of outsourcing shows that the projects are at least medium-term - in the range of 3 to 5 or 8 years. Even if at a certain point the low tide begins, Bulgaria will have won at least temporarily. In order to retain more business, the country should try to focus on boutique services which are less likely to leave [10]. "The potential can be this- having commenced an outsourcing project, develop your own product, with more added value and consequently contract a joint activity, rather than a purely technical implementation. ", thinks Iliya Krastev, Director of Information Services at A DataPro.

In the past decade the topic of outsourcing has become a heavily debated subject on if it is ethically correct to outsourcing jobs to foreign countries. Outsourcing has become more and more an option for many companies and not just an economic fad. The decision to outsource is a difficult one for any company to make because there are many advantages and disadvantages to consider. We can conclude that when applying outsourcing, it is necessary to make in-depth research and analysis before proceeding with its implementation. The choice of strategic management approach such as outsourcing ensures our competitiveness

in the organization. In today's modern and dynamic world, organizations need to use effective methods to maintain service quality, reduce costs and increase their competitiveness.

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