The Adequacy of the Outsourcing Definition for the Use in Empirical Studies in Small and Medium Sized Companies

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Extended abstract

What does outsourcing actually mean? Researchers define this management tool very differently. Yang et al. (2007) define outsourcing as an abbreviation for the expression “outside resource using”. Numerous authors recap this conception and define outsourcing as every service done for a company by an external contractor. Stupica (1999) specifies outsourcing as a legal transfer of any service presented within the company into an external environment. Considering the emphasis is on any (service) and external (environment), the options to perform outsourcing in a company are therefore numerous. Broad definition of the discussed area raises a question about the difference between external service provision and purchase service, and whether outsourcing can have the same definition regardless of different company sizes.

Let us look at the example of a smaller company (hereinafter referred to as Construction). On one of the building sites, the employees have noticed that tools and building material have gone missing several times. The company then decides to secure the building site. It can choose between two alternatives:

- In the first case, the company Construction can secure the building site with physical security. The company explores the market for security service (company Protection) and agrees that a security guard will personally guard the building site from 7 p.m. to 7 a.m.
- In the second case, the company can secure the building site with technical security systems. The company uses the security cameras, previously used on other building sites, from its storehouse, places them across the building site, and connects them with the security company Protection. Construction and Protection form an agreement where the latter will video-monitor the site from the control centre and raise the alarm by calling Construction if they detect any motion on the site.

By taking into account the definition provided by Yang et al. (2007), Stupica (1999) and other authors, both examples stated above can be considered outsourcing as in both cases the company Construction uses external resources. The definition does not quite make sense. Therefore, we will examine a more detailed definition of outsourcing.

Kavčič (2009; 2007) wrote that Schaaf (2004) defines outsourcing as a term representing legal transfer (long-term or permanent) of services, which company itself once carried out but is now in hands of an external contractor. Šink (1999) has a similar belief about outsourcing that a company lets external specialists provide certain services that were provided in-house beforehand. Kubr (2002), Greaver
(1999), Dolgui and Proth (2013) define outsourcing as contractual exclusion of services which will not be carried out by the company any more. Therefore, the company decides that another company will provide the excluded services. Zhu, Hsu and Lillie (2001) claim that the word outsourcing is a transfer of responsibility for a specific business function from a group of employees to a group of unemployed. Outsourcing is defined in more detail by Bergant (2004), who claims that every company supplier is not necessary an external contractor as well. The definition of outsourcing only includes providers of services, which the company has or could have carried out itself. Therefore, it is a type of expansion of company’s internal capabilities and generally long-term and more detailed contractual relationship, which makes certain suppliers strategic partners of a company, because the level of their reciprocal co-dependence is much higher than it is with other suppliers.

Definitions specified by Schaaf (2204), Šink (1999), Kubr (2002), Greaver (1999), Bergant (2004), Dolgui and Proth (2013), and others seem reasonable for larger companies, but in our case the company Construction is a smaller company, and according to definitions mentioned before, none of the given examples is considered outsourcing. Definition of these authors focuses on services that companies have or could have provided in-house. If the company Construction was a larger company, we could say it once carried out the physical and technical security services by itself and from then on, it transferred these services to an external contractor. Even if Construction did not execute these services itself, we could presume the company has the capability to carry out the services in-house, but has rather decided to outsource it. In our case, Construction never executed these services itself and does not have the capability (lack of resources, knowledge…) to do so. What Construction does in this case? Buys or outsources?

Each company purchases products or services on the market to a certain extent for its operational requirements. However, each purchase does not represent outsourcing. It is a company’s fundamental decision not to execute a certain service by itself. Services the company once executed itself and later on outsourced to an external contractor should not limit the definition of outsourcing. On the contrary, outsourcing should be considered even when a company purchases products or services from an external contractor, despite not producing or providing them itself in the past (Gilley & Rasheed, 2000). Only in this case can innovations be one of the consequences of outsourcing as Oshri, Kotlarsky and Gerbasi (2015) state. Outsourcing is a business decision that a company will not carry out a certain activity. An example of this kind of outsourcing is the company Alumat d.o.o. that produces aluminium wires. The company already decided upon establishment that it would not provide a maintenance of electronic components of production machinery; instead, the external contractor would provide it for them. If we take into account the company Construction again, the examples count as outsourcing, according to the cited definition, because the company decided it would not carry out the service itself; instead, an external contractor would handle it.

Linder (2004) gives a completely different definition of outsourcing. He perceives outsourcing as purchasing current services, which the company once carried out itself, or the majority of similar companies usually carry out themselves, from an external company. For example, if the company uses an external contractor for the purposes of production, most managers will think the company outsources production. In case the company never produced a product itself, they will have the same opinion. Why? Because production is usually the main business process for which companies take care of themselves. On the contrary, it would be difficult to discuss outsourcing of banking services, garbage pickup services, and similar services, because most companies buy these services on the market (Linder, 2004). Out of all the cited definitions, this one seems the most suitable one to define
outsourcing in smaller companies. If we applied this definition to examples of the company Construction that decided not to carry out the security services itself, physical security would then count as outsourcing; however, technical security would count as purchase of services. It is namely common for construction companies to have their own security guards that secure the facilities. Nevertheless, it is far less common for construction companies to have control centres in order to secure their facilities.

Nonetheless, in our opinion, the definitions stated above do not thoroughly differentiate between purchase of services and outsourcing. For example, let us focus on metal products industry. The company Inoks produces inox floor siphons. For each siphon we need grating, but the company does not produce gratings itself. When siphon dimensions are standardized, the company purchases the grating from a store with technical products. In the case of unstandardized siphon dimensions, the company develops a plan to manufacture the grating and forwards it to another company (Grating), which will manufacture it. In both cases, another company produced the grating for Inoks, and we could say that both cases were an example of outsourcing, according to Yang et al. (2007). According to Kubr (2002), Greaver (1999), Dolgui and Proth (2013), neither case represents outsourcing, because the company Inoks never manufactured gratings in-house and does not have the capability to do so. Linder (2004) considers both cases as outsourcing, as it is usual that the company, which manufactures inox products, also manufactures gratings for its products.

It is still difficult to distinguish between outsourcing and purchase of services in smaller companies. Therefore, we could define the term outsourcing with a slightly different definition derived from definitions stated before: “We speak of outsourcing when a company buys products and/or services on the market, which are exclusively adapted to business processes of that company, and that similar companies carry out themselves.”

Let us verify the formed hypothesis through examples stated in this article. The company Construction decides upon physically securing the facilities. They it comes to an agreement with the company Security that a security guard will secure the facilities from 7 p.m. to 7 a.m. Although Construction could have assigned the job to one of their employees, it decided to hire an external contractor. The latter had to adjust to Construction’s specific requirements to carry out the task. Consequently, we could claim this is an example of outsourcing.

In the case of technical security, where the company Construction only rents the service of the control centre from the company Security, it is quite the opposite story. Security control centres are not quite common in construction companies. At the same time, the company Security does not adjust its work processes to Construction’s needs; it only rents out a unit of its standardized services. Therefore, we cannot speak of outsourcing, but rather of purchasing a service.

The company Grating, which supplies the company Inoks with gratings for floor siphons, can collaborate with the latter in two ways: as a supplier or as an external contractor. If the company Inoks needs a standard grating for its siphons, it can buy it from Grating’s sales shelves as a standard product. In this case, we cannot speak about outsourcing; it is a purchase of a product, instead. However, if the company Inoks orders Grating to manufacture a unique grating according to a specific plan, then Grating has to adjust its service or product to Inoks’s needs. Therefore, this case is an example of outsourcing.
We can conclude that most definitions of outsourcing known so far focus on larger companies. Considering only these definitions leads to a conclusion that outsourcing does not occur in smaller companies, which is incorrect. Therefore, it is necessary to sensibly recap and add explanations to the way these definitions are introduced in the article, as it can be seen through the text. In our opinion, this strategy thoroughly defines this management tool in smaller companies and logically distinguishes it from service purchasing.

The introduced definition will also be tested with an empirical study, which will be carried out in two parts. The first part will include four structured interviews with managers of small and medium sized businesses from different regions of Slovenia, who already outsourced certain services. We will check their understanding of outsourcing and their experiences with it. The second part will consist of quantitative research, which will be carried out in the form of an online survey. The sample size will be proportional to population size (all registered small and medium sized Slovene companies). The sample will be stratified and each stratum will use the same sampling fraction that is actually in the population. When the survey results would show that unanswered units are the reason for the problem of missing information, sample weighting will follow. The purpose of this study, inter alia, is to check the comprehension of outsourcing among owners of small and medium sized businesses.

References


