

RECOMMENDATIONS FOR IMPROVEMENT OF MANAGEMENT OF OUTSOURCING

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***Abstract:** The pressure on a decrease of financial resources which are assigned from the state budget on provision of public services forces the managers working in a public sector to look for modern managerial methods, which would lead to effective use of disposable sources. One of such methods is also outsourcing, which is being used not only in the business subjects, but also in the armed forces on the present. The goal of this article is to introduce the results of outsourcing research which was performed in subjects of government department of the Ministry of Defense of the Slovak republic and introduce also the proposal of methodology for implementation, management and assessment of outsourcing performance.*

***Keywords:** outsourcing, armed forces, management methodology.*

1. INTRODUCTION

The key issues in public sector are currently connected with effective provisioning of operations. Regarding the impact of the economic crisis, state budget deficit and increasing indebtedness of the states, the managers of public sector face with the basic question, how to proceed in case of allocation of disposable sources.

The problem of effective allocation of sources in the public sector belongs to the serious theoretical and also practical questions. Managers try to use more often not only conventional but also new methods, tools and techniques, to reach the predefined goals. One of the modern managerial methods, which could be successfully used for improvement of management and for increase of value of the company, in both, private and also public sector, is outsourcing.

Outsourcing means the system of intentional and purposive transfer of an activity to the external partner, which is subsequently responsible for delivery of the activity to the organization. Outsourced are usually those activities, which are secondary,

usually do not create any added value, but still are necessary for the organization. Outsourcing means such situation, when the input, which was previously produced or performed internally, is now bought from other entrepreneurial subject as a service, or as a product (Lednický, 2004). Outsourcing includes the whole “life cycle” of cooperation between outsourcing partners, including relationships, monitoring, crisis management in case of emergency situations, but also termination of the outsourcing contract.

2. THE RESULTS OF OUTSOURCING SURVEY PERFORMED IN THE REZORT OF THE MINISTRY OF DEFENSE OF THE SLOVAK REPUBLIC

The implementation of outsourcing is characteristic for the reforms which are performed not only in the NATO armed forces, but also in the armies of the former post communistic block. This managerial method become popular also in Armed Forces of the Slovak republic based on positive experiences with the implementation of outsourcing in armed forces in developed

countries. Regarding the implementation of outsourcing in armed forces we observed several problems, and due this reason, was on Department of Management of Armed Forces Academy of General M. R. Štefánik in Liptovský Mikuláš solved the research study "Increase of efficiency of realization on outsourcing in area of logistics services in the resort of the Ministry of Defense of SR". The goal of this study was to contribute to the improvement of outsourcing management.

Within this research study we performed in year 2009 the survey on outsourcing, which was based on questionnaires and on interviews. The target groups for the survey were internal organizational units: army units, army offices and other units from the Ministry of Defense. The scope of the sample consisted of 34 internal organizational units. Based on the analysis of the data received in the performed survey, we consider as the most serious the following findings (Jirásková, 2010: 163):

2.1 Main factor leading to implementation of outsourcing was deficit of internal (financial and personal) resources. Based on the trend of the expenses of the Ministry of Defense of SR and on the relation to the expenses of the state budget, we could note that the amount of financial resources aimed on provisioning of defense increased (in total numbers), the percentage of expenses in comparison with GDP decreases and is lower than recommended 2% out of GDP. Also the ratio of capital and current expenses could be considered as very low to the need of modernization of depreciated and obsolete military equipment. The shortage of personal resources resulting from the reform in the armed forces (radical decrease of number of employees) and also from professionalization of the army (professional soldiers do not performing supporting services).

The data from practice show that the use of external providers in the public sector depends on character of budgetary measures and increase when the resources allocated for provisioning of public services decrease.

2.2. Realization of outsourcing on partial activities in area of military logistic resulted

from strategic decision of the highest authorities. In the Armed forces of SR outsourced are services connected with feeding, cleaning, laundry, reparation of clothes, facility and physical security, power/water and heat supply, sewerage water treatment plan, transportation of dangerous wastes, maintenance of exteriors and of roads, reparation and revisions of non-army equipment; service, maintenance, cleaning and other services connected with fleet management; facility management, chemical rest-rooms for military trainings and medical treatment for selected employees.

2.3 Implementation of outsourcing did not lead to decrease of costs for delivered service. The hypothesis, that the implementation of outsourcing leads to decrease of costs, was not confirmed in the survey. We found that the costs decreased after outsourcing in 5 cases, which creates 17,24% out of the examined sample, in 10 cases (34,48%) the costs increased and in 6 cases (20,68%) the costs remained on the same level. Up to 27,60% of respondents were not able to compare the costs before and after the implementation of outsourcing. The reason was that they were not able to calculate in detail the costs when the activity was performed internally. The absence of proper cost allocation complicates the measurement and assessment of outsourcing efficiency. This situation is similar to the situation in other subjects in public sectors in SR.

2.4 The majority of internal organizational units are satisfactory with the external form of services supplying. The respondents were in 5 cases very satisfied with supplying of services (17,24%), in 20 cases were more satisfied than not satisfied (68,96%), in two cases were more not satisfied than satisfied (6,90%) and in two cases were respondents completely not satisfied (6,90%). The positive effects of realization of outsourcing in the area of military logistics are objective (focus on key activity – providing of military training) and organizational (simplifying of managerial work or of organizational structure).

2.5 The practices of outsourcing management are not being applied very

often; the practice fall behind the theory. The weaknesses of management of outsourcing relationship are following: the average duration of outsourcing contracts were 2,18 year, while the contracts signed for one year predominate (60,60% of signed contracts). This status is not in line with developed countries, because the optimal duration of outsourcing contract is within the period from 5 to 10 years. The project management of outsourcing was applied only in 31,03% cases. As not satisfactory could be considered also the level of employees' knowledge, they participate on outsourcing implementation. The professional training was performed only 62,06% of subjects. Some reserves are also in area of monitoring on quality of delivered services, where in 96,55% of internal organizational units the quality of service was regularly controlled and assessed, but only 17,24% of subjects elaborated also the system of metrics for outsourcing evaluations, which could ensure an objective assessment of existing status. The instruction, how to perform the activities, were missing in case of 27,59% contracts. As not satisfactory could be considered also the monitoring and management of risks connected with outsourcing (48,27% of subjects) and assessment of positive and negative effects of outsourcing (48,27% of subjects). In 34,49% of contracts were missing any agreement with the supplier for monitoring and control on performed services, in some cases (6,90%) in the contract missing any responsibility, sanctions or rights resulting from breach of the contractual conditions.

2.6 Increase of the knowledge requirements which are put on commandants increased in the area of law, economy and outsourcing contract management. It is necessary to improve the knowledge of military commandants and employees they participate on management of outsourcing relationships, to implement courses, trainings and also continual education process. While the implementation of outsourcing changes the established processes in area of military logistics, it is necessary to implement new knowledge requirements also

into the content of course of studies for military university education.

2.7 Specific problem characteristic for outsourcing in armed forces is created by the conflict between two different organizational cultures. The commandants/managers consider, as the most significant negative factor which is connected with the implementation of outsourcing, the impossibility to apply directive method of management to the supplier's employees. In the armed forces is applied the directive management style based on the principle: directive – submission. In the business subjects is mostly supported the team work with democratic management style, also different motivation of employees is preferred. The professional soldiers need to adapt to the different business practices, what is connected with another emotional problems related to management work, what could negative influence the total working performance.

3. METHODOLOGY FOR SUCCESSFUL OUTSOURCING IMPLEMENTATION

Based on the study of academic and specialized sources and based on the surveys on outsourcing performed in business subjects and in the Slovak Armed forces it is possible to draft the methodology for implementation of outsourcing in the organization. This methodology should lead to increase of efficiency of outsourcing management, do decrease potential risks connected with its realization and also to achievement of defined goals.

The concise proposal of standard methodology for implementation, management and evaluation of outsourcing project, which could be applied in both, business subjects, as well as in organizations belonging to public sector is following (Milecová, 2010:150):

Phase 1 Definition of current boundaries of organization. Definition of current boundaries of organization means identification of these activities, which are performed internally and externally. The goal of this analysis is to define the organization's boundaries in the supply and customer chain. Several models could be applied for mapping

and determination of activities, e.g.: Porter's value chain model (Porter, 1991) "The value shop model" (Stabell, Fjeldstadt, 1998), "Value network model" etc. Very often are practically used also the process maps, which display the graphical visualization of single activities and of their interconnections. Analysis also enables to understand the connections among activities and to allocate the costs.

Phase 2 Analysis of importance of single activities from perspective of value or competitive advantage creation. During this phase the organization should identify and analyze the importance of single activity from perspective of value or competitive advantage creation. It is necessary to identify and to understand the company's activities, which could be divided at least into three categories: key, critical and supporting activities. Important is to recognize the key and critical activities. For example, salary processing done in time and correctly is very important or critical for every company, but for many companies this is not a key task. Key activities or "core business" are based on unique internal knowledge and competence of the organization, which differing the organization from other subjects. The identification of the importance of activity for the company is a principal problem of outsourcing.

Phase 3 Assessment of internal capacity of organization for providing of relevant activity. For identification of supporting activities can be used value chain analysis (Pollak, 2005: 148), which contributes to identification of processes creating unproductive costs. In case of outsourcing decision the company should analysis its own competences and possibilities within single activity and also compare own abilities with potential external sources – suppliers or competitors. We recommend use the benchmarking method for this assessment. It is important also to perform the costs analysis of single activities.

The activity, which does not operate very well, or which shows some costs or qualitative reserves, could be a right candidate for outsourcing.

Phase 4 Analysis of possible solutions for providing of relevant activity. Based on the results of costs and value analysis, the organization should decide whether will perform the activity internally or externally. For outsourcing are suitable supporting activities, not critical or key activities, which are performed internally but not on a sufficient level. These activities are not directly connected with the core business and external partners are able to perform these activities cheaper or also better. In case of problematic activity (which is performed on very low quality level), this should be stabilized internally first and outsourced subsequently.

Phase 5 Analysis and management of risks connected with outsourcing. One of the benefits of outsourcing is very often stated also a possible risk sharing with suppliers, but, single project of outsourcing implementation means for the organization creation of new risks consist in different areas. According to the results of the performed surveys, the attitude of subjects, which use outsourcing, towards risk management, is very different. The situation is being changed upon the size of the organization. These subjects, who dispose with sufficient personal resources, insist on the analysis and management of risks. Such analysis of risks connected with outsourcing contains risks scenarios and plans for risk management. In case of smaller subjects risk analysis are not being performed or are very simplified. The risks connected with outsourcing should be managed, while the risk management could be understand as a process, which goal is to minimize and eliminate existing but also potential negative impacts and to take advantage of possible positive events. One part of the risk management is also decision making process which draws on identification and analysis of risk. After the assessment of economical, technical, technological, social, legal, political, ethical, ecological and other factors, a manager generates, analyzes and compares possible preventative measurements. Selected are those measurements which minimize existing risks (Smejkal, Rais, 2003:270).

Phase 6 Selection of supplier, implementation of outsourcing. The first five

phases of the proposed methodology is focused on process of decision making in case of outsourcing. Following phases are applied only in case that the organization decided to outsource some activity. Project on implementation is elaborated; employees responsible for the project are nominated, organization is looking for outsourcing partner and subsequently negotiates and signs the outsourcing contract and shift the activity to the partner. During this phase it is very important to choose the right supplier. We recommend performing a multi-criteria assessment for the supplier selection and considering several factors as: total price, quality, complexity of services, flexibility, financial stability of supplier, innovation potential of the supplier, number and the expertise of the employees and references.

Outsourcing should be performed on the contractual basis, while the contract should include also detailed specification of outsourced activity, quantitative and qualitative parameters of its measurement and assessment, procedures in case of suppliers default, protection of goodwill etc.

The outsourcing project brings to the organization a deep change, in the processes and also in the organizational structure. A successful outsourcing implementation requires participation of financial and personnel managers, lawyers, tax consultants or IT specialists, while the whole process should be managed the top management. The management of an outsourcing project is very demanding and the manager should be professionally and also personally prepared. Manager responsible for outsourcing project should be responsible, reliable, focused on the result, not only on the process, should be able to solve very complicated situation and be very flexible. He or she should be able to provide a constructive feedback, to learn and to lead a team.

Phase 7 Assessment of efficiency of outsourcing project. The area of assessment of outsourcing efficiency and effectiveness is not described very well in the theory. Usually are measured and compared the costs connected with the outsourced activity. Quite often are measured and compared also the

quality of delivered services and the response time and the flexibility of the supplier.

The baseline for outsourcing assessment is proposal of some indicators or metrics, which will be used for measurement of the quality and quantity of outsourced services. This baseline is also a basis for the pricing. The metrics should be clearly defined before the activity is outsourced. In the practice the metrics used for measurement of outsourcing efficiency are called KPI (abbreviation means key performance indicator) and allow the company to measure and assess whether the expected goals of outsourcing were really achieved.

Metrics should be supported by relevant methods for their measurement, also periodicity of measurement and the employees responsible for the measurement should be agreed. Outsourcing metrics should be monitored, compared and regularly communicated with the supplier. Correctly set metrics help with outsourcing management, are a basis for pricing and billing, are useful in case of legal disputes and give information about efficiency and effectiveness, enable better comparison in case of change of supplier and also create and built trust between the outsourcing partners.

4. CONCLUSIONS

The global economic conditions have been changing, due to the economic crisis, fundamentally. One of various conditions of successful business is to be able, in the long term, to focus the effort and the resources on the core company activities. It means not to waste time with the activities, which are not directly connected with the main focus of the company, but which are necessary for the company operations. The way how to solve this situation is implementation of outsourcing.

The outsourcing must be well-considered and managed. The organization should, before outsourcing decision, performs several serious analysis and considers this decision properly. Moreover, it is very important that the managers dispose with sufficient theoretical knowledge about the management's technique

and are prepared to manage actively the process of outsourcing.

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