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## **CAUSES AND EFFECTS OF USING OUTSOURCING IN REVENUE CHAMBER IN ŁÓDŹ**

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### **1. Introduction**

The concept of outsourcing which has occurred in management theory for nearly 50 years, is still controversial as far as causes, effects, barriers, conditionings (legal or social etc.) or area of its usage are concerned. Although it originated from experiences of large enterprises, it currently plays important role in development of SMEs and it is more and more often used by **public administration institutions**. When considering the outsourcing concept understood as limiting scope of tasks realized in classic functional arrangement by internal services of an organization and commissioning specialized external partner [see 4, p. 265] with their realization, attention is often paid to causes and effects of its usage.

Taking this into consideration, presenting causes and effects of using outsourcing in public administration institutions on the example of Revenue Chamber in Łódź has become the **aim of this article**. The empirical part presents results of the research conducted by an interview method with the management of Revenue Chamber in 2008.

### **2. Causes and effects of using outsourcing in management theory**

According to classic, purposive approach in management, decisions of managers should be planned, which involves among the others defining effects and aims for action. It also concerns outsourcing initiatives. Defining aims of outsourcing can be relatively difficult in practice due to its complex character. However, literature presents many comparisons of causes and effects of outsourcing actions whose aim is to provide an easier approach for the managers initiating and coordinating outsourcing processes. Difficulties in defining aims of outsourcing are at the same time treated as dysfunctions in the area of outsourcing [see more: 5, p. 151-154].

General causes of interest in outsourcing method include the following processes: globalization, tendency to flatter organizational structures, increase in complexity and professionalization of management, progressive privatization and variety of economic systems [8, p. 159-161]. The development of this form of cooperation in national conditions is also influenced by the following factors:

impact of foreign management systems promoting effectiveness of action, growing pressure on reducing costs, frequent changes in employment law, social and health insurance, tax regulations and, as a result, the necessity to follow changes in law or the need to make salaries private and confidential. [2, p. 91].

M. Lacity and R. Hirschheim mention basic causes why enterprises initiate outsourcing actions [3, p. 23, see 10]: financial, business, technical, political and other:

- **financial causes** such as excessive costs of functioning of organizations, low level of cost control, incorrect cost structure or the need for restructuring budgets,
- **business causes** such as willingness to develop key competencies resulting from lack of strategic visions of development directions of an organization, excess of organizational structures requiring introduction of changes enhancing flexibility and clarity of action procedures,
- **technical causes** concerning necessity for higher quality of service, access to technical talents and new technologies,
- **political causes** including the necessity for increased efficiency of action, searching for new resources, reduction of uncertainty, possibility to eliminate burdensome functions and increased credibility of administering entity,
- **other causes** such as lack of access to resources, necessity to share risk and responsibility or lack of free funds for developing key activity of an enterprise [see more 10]

The reasons for using outsourcing mentioned above correspond directly with aims of implementing outsourcing method defined by managers. In literature, **various aims and advantages** resulting from using outsourcing concept can be found. Table 1 presents relations taking place between chosen causes and effects of outsourcing.

**Table 1.** Chosen causes and aims of using outsourcing

Group	Causes of outsourcing		Effects (aims) of outsourcing
Financial	<ul style="list-style-type: none"> <li>– excessive costs of functioning,</li> <li>– allocating financial resources among various uses,</li> <li>– economic results not satisfactory for stakeholders,</li> </ul>	→	<ul style="list-style-type: none"> <li>– reduction of level of costs and improvement of their structure,</li> <li>– greater financial discipline,</li> <li>– improvement of economic results,</li> </ul>
Business	<ul style="list-style-type: none"> <li>– allocating resources among various uses, no vision,</li> <li>– no flexibility of action,</li> <li>– excess of organizational structure,</li> <li>– low competitive position</li> <li>– no possibility for development,</li> </ul>	→	<ul style="list-style-type: none"> <li>– focus on key activity,</li> <li>– enhancing flexibility of action,</li> <li>– reducing structure,</li> <li>– improvement of competitive position,</li> <li>– non- investment form of development,</li> </ul>

Technical	<ul style="list-style-type: none"> <li>– low quality of service,</li> <li>– excessive time of performing service</li> <li>– old technologies,</li> <li>– lack of technological innovations,</li> </ul>	→	<ul style="list-style-type: none"> <li>– improved quality of service</li> <li>– shortened time of performing service</li> <li>– access to new technologies</li> <li>– using technological innovations</li> </ul>
Political	<ul style="list-style-type: none"> <li>– deficiency of company resources,</li> <li>– low efficiency of action,</li> <li>– no specialization,</li> <li>– existence of weak links in the value chain,</li> </ul>	→	<ul style="list-style-type: none"> <li>– access to resources,</li> <li>– increased efficiency of action,</li> <li>– more definite company specialization,</li> <li>– externalization of weak links in the value chain,</li> </ul>
Other	<ul style="list-style-type: none"> <li>– lack of motivation to work,</li> <li>– too high risk and responsibility in activity,</li> </ul>	→	<ul style="list-style-type: none"> <li>– strong motivation to work,</li> <li>– share of risk and responsibility among partners,</li> </ul>

*Source: Own study on the basis of: [11, p. 52, 88; 5, p. 150-151].*

Additionally, general and detailed aims of outsourcing, dependent on outsourced functional area, can be distinguished. They can be defined on various levels (strategic, tactic, operational aims), can be direct or indirect and occur in various time perspectives. Systematics in generic scheme becomes an important criterion of their division. It distinguishes strategic, market, economic, organizational and motivational, technical and legal aims [11, p. 52; 5, p. 150-151].

The question of identifying causes and defining aims of outsourcing concerns also **public administration** institutions. For the sake of this study, it has been regarded that public administration sector includes activity of public administration organs that can be identified on the basis of legal regulations enclosed in the Code of Administrative Procedure[12]. Revenue chambers are examples of institutions functioning within public administration sector.

Essential features of public sector organizations which determine the specificity of using outsourcing include [see more 6, p. 5-6]:

- rendering social services which entails rendering services free of charge or charged only of prime cost,
- specific, strictly defined by legal norms scope of powers and duties marking out range of activity of public administration organ. Taking into account the way of assigning scope of tasks and functions and the nature of rendered services, it should be remembered that no organ of the public administration sector is entitled to extend scope of its duties or resign from their performance,
- inalienable, defined by rules of law responsibility of public administration organ for realization of tasks and performing functions. The limits of outsourcing in the public administration sector are

therefore defined by the character of responsibility and acceptable risk related to it,

- necessity to apply legal regulations included among the others in the Act on Public Procurement Law [14]

This specificity shows that taking into account current legal condition, outsourcing of auxiliary functions such as clearing offices, protection of building, cash service, transport, issues concerning work safety and hygiene can be observed. Questions of using outsourcing in relation to IT services concerning both hardware and software needed for implementing information systems within development of the so-called e-administration are also considered. [7].

### 3. Methodology of research and characteristics of Revenue Chamber in Łódź

Empirical research conducted in Revenue Chamber in Łódź has been dedicated to realization of the aim of the work. **Interview method** was applied with the director of the institution. Questionnaire interview was used as research technique and interview questionnaire was research tool. The interview was conducted in February 2008.

The legal base concerning the functioning and scope of tasks of Revenue Chamber in Łódź is defined by the Act of 21 June 1996 about revenue offices and chambers [13], regulation no. 13 of the Ministry of Finance concerning the organization of revenue offices and chambers and giving status to them [15], which are complemented by institution rules and regulations [9]. Revenue Chamber in Łódź is an organizational unit that serves the director, who realizes the tasks of local state administration organ not concentrated on the area of the Łódź Province. **Director of Revenue Chamber in Łódź** is subordinate to the minister dealing with public finance.

Revenue Chamber in Łódź is a **superior body in relation to revenue offices** located in the area of the Łódź Province. Basic tasks of the unit include service of the director of the Revenue Chamber in Łódź in the scope of supervising revenue offices, deciding in the second resort on cases lying within the competence of heads of revenue offices, considering appeals from decisions of the director of the Revenue Control Office, determining and giving subsidies as well as analyzing regularities concerning the use of specified-beneficiary subsidies in the area defined by the Ministry of Finance and performing other tasks determined in separate regulations.

Bearing in mind **territorial scope of functioning** (i.e. the Łódź Province), the head office of Revenue Chamber is in Łódź whereas two non-local centers function within its structure in Piotrków Trybunalski and Sieradz. Revenue

Chamber in Łódź is managed by chamber director with the help of four vice directors, one of them supervises the functioning of non-local centers. The following organizational cells function in the analyzed unit: departments controlled by heads of revenues, branches, workplaces for a lot of people directly subordinate to managers and individual workplaces.

Research was conducted in Revenue Chamber in Łódź as initial observations of the author pointed to the use of outsourcing in the functioning of this organization. **Three areas of using outsourcing** were identified in the analyzed institution. They are:

- protection of people and building,
- cleaning services,
- Training and Economic Services Institute.

The first and second area can be included in classic forms of outsourcing, the last outsourced area fulfilling a number of criteria characteristic to outsourcing is characterized by a given specificity that determines relations between parties.

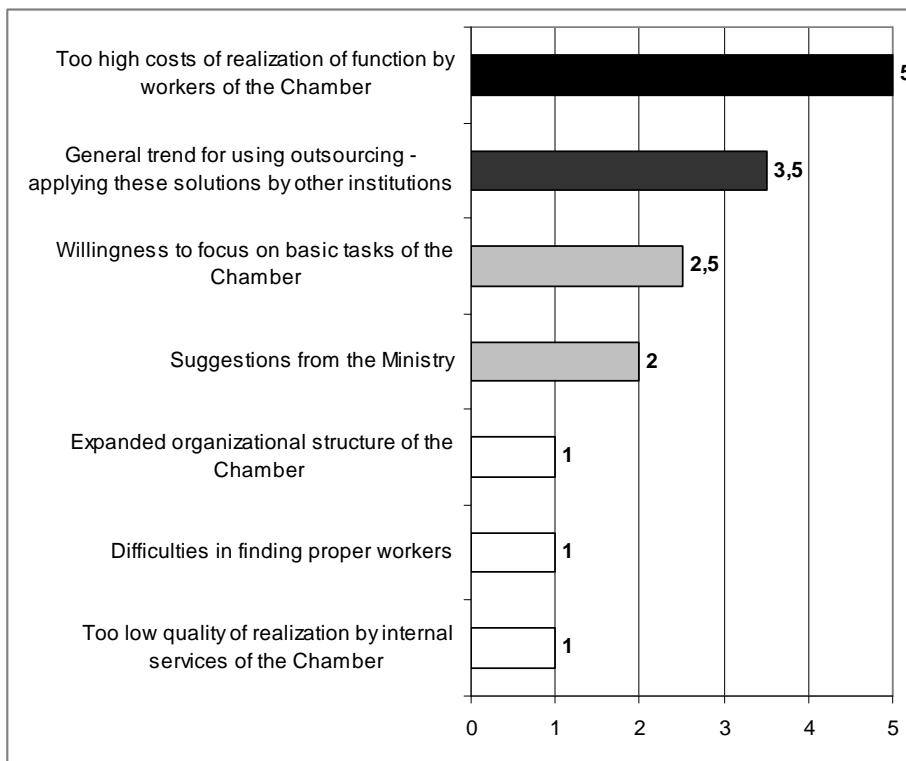
#### **4. Opinions of management on using outsourcing in the functioning of Revenue Chamber in Łódź**

In the course of research work, interview with the director of Revenue Chamber in Lodz was conducted concerning chosen aspects of using outsourcing in the functioning of this organization. The director was asked about **causes of using outsourcing** in individual identified functional areas. The respondent assessed causes mentioned in the cafeteria in relation to each area in the scale from 1 (cause of very low significance) to 5 (very important cause of outsourcing).

The results show that both in the area of protection services and cleaning services the causes were **defined more or less on the same level** and **too high costs of realization of function by internal services** of Revenue Chamber was the most important reason for using outsourcing. **General trend for using outsourcing** and implementing experiences of other institutions were the next important causes in the indicated functional areas. Average results<sup>1</sup> concerning the importance of causes of using outsourcing in the area of protection and cleaning services are presented in image 1.

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<sup>1</sup> The results were presented as arithmetic average of the respondent's answers as regards causes in the area of protection and cleaning services.



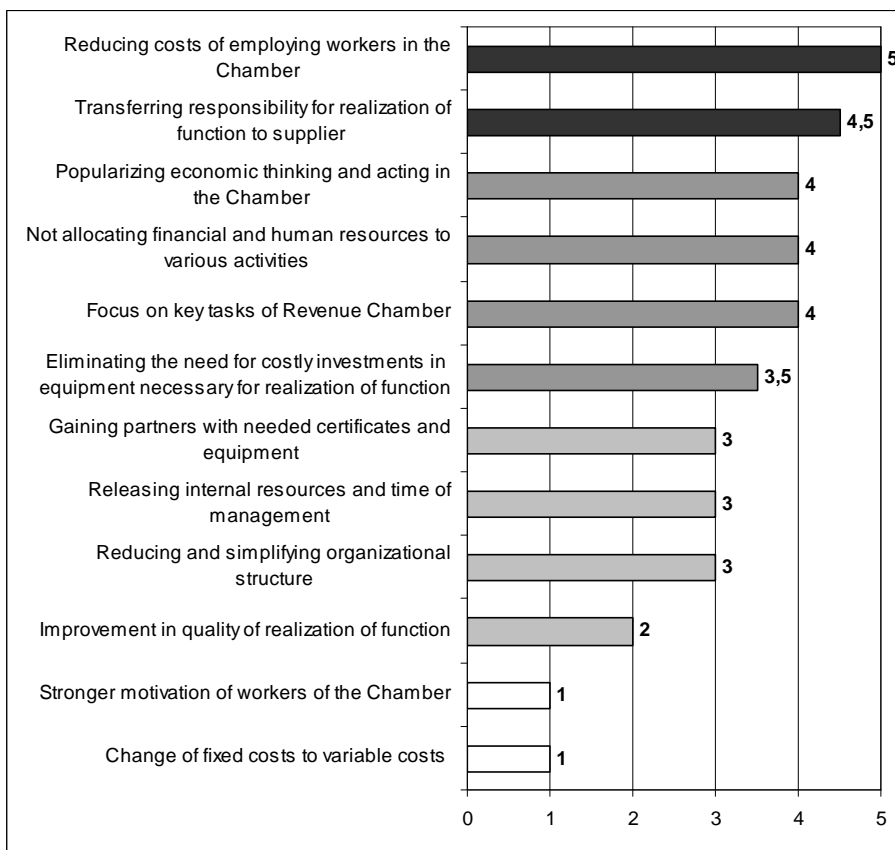
**Image 1.** Causes of using outsourcing in the area of protection and cleaning services in the respondent's opinion.

*Source: Own study on the basis of conducted interview.*

Further causes of using outsourcing mentioned by the respondent are: willingness to focus on key tasks of Revenue Chamber and influence of some suggestions of the Ministry of Finance as a superior unit.

Results concerning using training services in the functioning of Revenue Chamber in Lodz are totally different. In this case, the respondent gave the lowest answer 1 to each of the causes mentioned above. No other cause of outsourcing of this area was given. It can show a totally different view on the character of Training and Economic Service Institute in relation to other areas of outsourcing.

In the course of the interview, aims of using outsourcing were also assessed. The respondent assessed the meaning of individual aims in the scale from 1 (aim of low significance) to 5 (very important aim). The average results concerning aims of using outsourcing in the area of protection and cleaning services are presented in image 2.



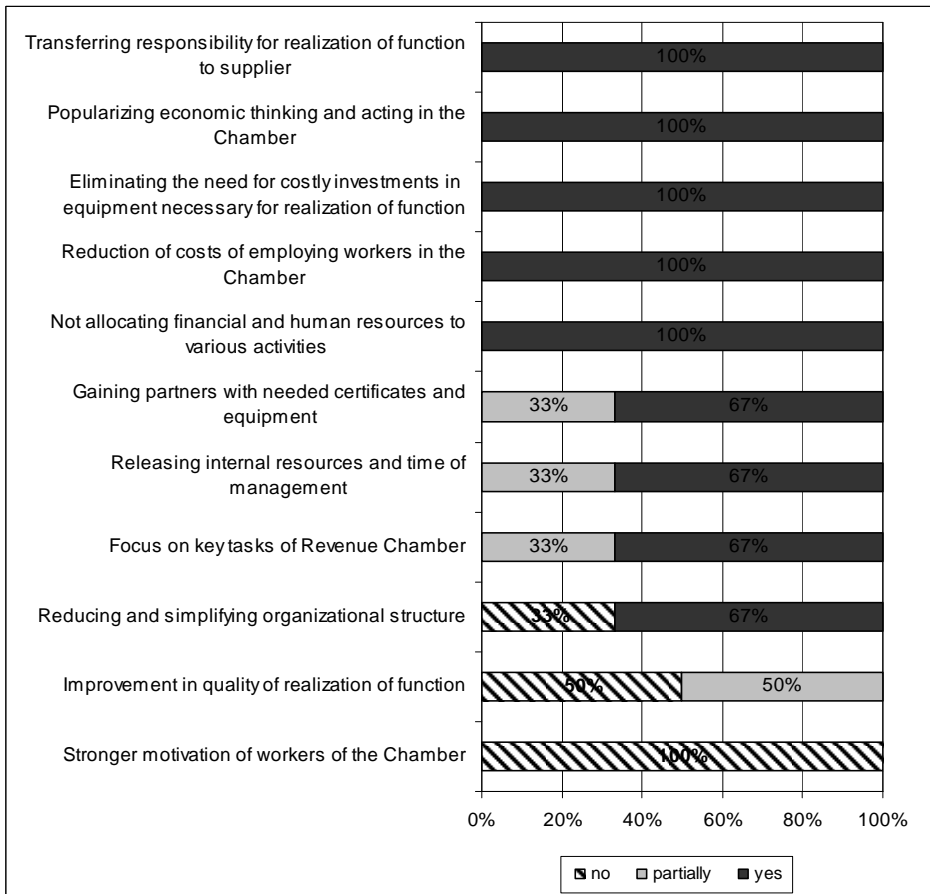
**Image 2** Aims (expected effects) of using outsourcing in the area of protection and cleaning services in the respondent's opinion.

*Source: Own study on the basis of conducted interview.*

According to the respondent, potential possibility to reduce costs of functioning of Revenue Chamber by means of lowering costs of employing internal workers as well as possibility to transfer responsibility for realization of function to external supplier are the most important aims of outsourcing in the area of protection and cleaning services.

In the case of functioning of Training and Economic Service Institute, the respondent assessed all the above aims as nearly not important not indicating at the same time any other advantages resulting from using outsourcing in this area. The reason for that may be the fact that the decision about outsourcing of Training and Economic Service Institute was made long ago and the present decision-maker did not know causes and aims of such action.

The next stage of the research was to define which of the above aims **were realized and what was the level of realization of expected advantages** resulting from using outsourcing. In this case the respondent assessed the level of reaching the presupposed aim in descriptive scale from negative answer „no”, answer pointing to partial reaching the aim to totally positive answer “yes”. The results regarding the degree of realization of presupposed aims of outsourcing are presented in Image 3.



**Image 3.** The scope of reaching aims defined as presupposed effects of outsourcing in Revenue Chamber

Source: Own study on the basis of conducted interview.

Analyzing the whole of answers provided, it should be stated that general aims of outsourcing are realized. Expected effects were not achieved only in three areas in part or in whole. As Image 3 shows, in case of the five effects, they were reached in relation to all identified areas of outsourcing (100%



positive answers). The respondent pointed only to three advantages as the ones that were not gained as a result of using outsourcing. It concerns:

- reducing and simplifying organizational structure – in this case, not reaching this effect was related to the area of functioning of supporting body whereas in two other areas the aim was reached,
- improvement in quality of realization of function – in the area of protection services the answer pointed to reaching the effect partially. In case of cleaning services, the respondent gave negative answer, the effect was not achieved. The degree of realization of this aim in relation to cooperation with Training and Economic Service Institute was not assessed.
- stronger motivation of workers of the Chamber to work – in this case the effect was not observed in any of the identified area of outsourcing.

In the last part of the interview **future directions of using outsourcing** in the functioning of Revenue Chamber in Lodz were discussed. In the case of protection and cleaning services area the director intends further agreements based on tenders under Public Procurement Act. Cooperation will be continued in present form in relation to Training and Economic Service Institute.

## 5. Conclusions resulting from the research

The question of identifying causes and defining aims of using outsourcing concerns not only business entities but also public administration institutions. Research conducted in purposely chosen institutions of public administration sector allow for the following detailed conclusions:

- too high costs of realization of function and general trend to use outsourcing were the most important causes of using outsourcing in Revenue Chamber,
- the possibility to reduce costs of functioning and possibility to transfer responsibility for realization of function to external supplier were the most important aims of outsourcing in the area of protection and cleaning services according to the respondent.

Moreover, it should be pointed out that presupposed effects of outsourcing were achieved according to the respondent in most cases, which will result in further cooperation with external suppliers within outsourcing.

The presented results point to similar causes and aims of outsourcing in the researched institution and enterprises leading a business activity. The results of the Shreeveport Consulting Agency analyzing usage of outsourcing by 500 large economic organizations show that basic factors motivating to apply outsourcing method include the need to reduce costs of functioning and reduction of

employment. Similarly, reduction of costs of realizing services was placed first on the list of achieved aims by the researched enterprises [see more 1, p. 154-155].

However, implementing solutions applied by other organizations and suggestions from supervisory body confirm the specificity of using outsourcing in the researched public administration institution. It can prove a small area of independence in making decisions of such organization in comparison with commercial enterprises.

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