

MAREK MATEJUN\*

## **Application of the outsourcing concept in managing small and medium-sized enterprises**

[ For more publications visit [www.matejun.com](http://www.matejun.com) ]

### **1. Introduction**

Outsourcing defined as a concept of management that consists in limited involvement of enterprise's own resources and the use of the potential of external entities instead, is included among a wide range of contemporary management concepts [Penc 2002, p. 7]. The concept can be well applied in management of small and medium-sized enterprises, which are often internally restricted due to immanent resource shortages and are forced to search for possibilities of development in the potential of competitive environment. In this case, searching for a specific model of outsourcing and its conditionings, adjusted to the specific nature of the SME sector, is necessary. Accounting for that, the evaluation of outsourcing solutions applied in the management of SMEs on the basis of questionnaire research of three research projects realized in companies functioning in the Lodz region has been assigned as the **aim of the article**.

---

\* PhD. Eng., Department of Management, Technical University of Lodz

## **2. The conditionings of application of the outsourcing concept in SME sector**

Increasing use of outsourcing in the space of years indicates an evolution from short-term method of reducing costs of functioning of enterprises towards long-term solution, in which strategic forming structures of business functioning based on partnership cooperation between sides of contract, is an aim [Trocki 2001, p. 43]. As a consequence, Harvard Business Review defined outsourcing as one of the most important management practices in the course of the last 75 years, and its variation BPO (Business Process Outsourcing) has become a new business tool that enables building competitive advantage, profit increase as well as improvement of relations with stakeholders [Management Trends... 2010].

Business references often point to the fact that outsourcing is a concept characteristic to large business entities. The examples of Telekomunikacja Polska [Lendzion, Stankiewicz-Mróz 2005, p. 217], using the concept in restructuring processes of privatised enterprises [Trocki 2001, pp. 50 and next], or in banking activities [Olszak 2006] indicate successful implementation of outsourcing in business practices of large enterprises. Attention should be paid, though, to a specificity of these solutions which mostly aim at employment reduction as well as short-term reduction of costs of functioning of enterprises.

The use of outsourcing in the functioning of small and medium-sized enterprises can be of quite different nature and its aims are characteristic to the features of this group of business entities. Companies defined in the European Union as micro, small and medium enterprises [Definition of small and medium-sized enterprises 2004] constitute a whole separated not only by applying quantity criteria but also characterized in most cases by certain quality properties, which allow exact adjustment of outsourcing solutions to their specificity. Basic properties of SME sector having an impact on the use of outsourcing method include [see also: Matejun 2008, pp. 148-151]:

- aiming at company growth, mainly by means of specialization, and therefore strengthening key factors for success: capabilities, competencies and business skills. The possibility of focusing on key activity becomes a feature of the outsourcing concept and one of its main tasks, which in this case gives reasons for using it in the SME sector,
- simplified character of organizational structures, within which fast creation and extension of internal services realizing basic, auxiliary and regulating functions becomes hindered in spite of their high flexibility of action. In this case, using the outsourcing concept can quickly modify organizational configurations of small and medium-sized enterprises using their intrinsic dynamism and initiative,

- significant resource limitations as well as difficulties in access to external sources of financing. In this case, outsourcing becomes a source of non-investment development of required spheres of business activity. Combined with transformation of fixed costs into variable costs, it additionally allows to limit the costs of functioning of SMEs,
- close relations with large enterprise sector. In this case, outsourcing not only allows competition of smaller and large entities but it also provides opportunity for the companies of SME sector to develop co-operation in the form of realizing tasks outsourced by larger business partners.

Outsourcing used in the whole of SME sector is conducive to virtualization of their activities, allows creating structures based on configuration of networks composed of small elements, focusing on key competencies and allowing synergic increase of competitiveness and the scope of market activity. Its implementation should be preceded, though, by reliable and objective analyses that enable diagnoses of potential threats and weak points. Moreover, the process of cooperation within outsourcing should be constantly monitored so that a quick intervention and re-establishing required state of balance is possible.

### **3. The methodology of conducted empirical research and the characteristics of the respondents**

The research concerning the use of the concept of outsourcing in managing small and medium-sized enterprises has been conducted in Department of Management at Technical University of Lodz for several years. The following research projects have been realized during these years:

- **Project 1** concerned the role of outsourcing in the scope of accountancy and tax advisory in development of SMEs. The research was conducted in the year 2005 and comprised 110 micro, small and medium enterprises functioning in the Lodz region [Matejun 2006].
- **Project 2** concerned the use of outsourcing by SMEs from the Lodz province. The research was conducted in the year 2008 on the sample of 30 enterprises [Fogel 2008].
- **Project 3** concerned the use of outsourcing in the management of small and medium-sized enterprises. The research works were conducted in the year 2010 on the sample of 38 entities functioning on the area of the Lodz province [Kaczmarek 2010].

All projects used **questionnaire method** in the research along with distributed questionnaire technique. In each case, author's survey

questionnaires were created, trying to ensure the possibility to compare respondents' answers, though. **Purposeful sampling** was used in all three projects, choosing enterprises that met the requirements of micro, small and medium enterprises defined in The Freedom of Economic Activity Act and used the outsourcing concept in their functioning. In order to select precisely entities for the research, each meeting was preceded by a short interview with a person representing a company.

An overall number of 455 survey questionnaires were distributed, 181 sets were returned (return indicator 39, 8%). In total, 177 questionnaires were qualified for a final study. Micro-enterprises, functioning mainly as business entities leading business activity, were dominant, the most of the entities functioned in the trade sector. The characteristics of entities taking part in the research is presented in table 1

Table 1. The characteristics of small and medium-sized enterprises taking part in the research

Division criterion	Number of SMEs				% share in whole
	Project 1	Project 2	Project 3	Overall	
Legal form					
Single entity	75	23	27	125	71%
Civil partnership	22	0	5	27	15%
Registered partnership	1	4	4	9	5%
Limited company	10	3	1	14	8%
other	2	0	0	2	1%
Sector of functioning					
trade	30	12	15	57	32%
services	50	10	19	79	45%
production	29	8	3	40	23%
Company size					
micro	95	22	27	144	81%

small	13	5	7	25	14%
medium	2	3	3	8	5%
<b>Area of market activity</b>	<b>Project 1</b>	<b>Project 2</b>	<b>Project 3</b>	<b>Overall</b>	<b>% share</b>
local	42	17	19	78	44%
regional	26	8	9	43	24%
national	29	4	8	41	23%
international	13	1	1	15	9%

Source: own study on the basis of the research.

All the researched enterprises apply the outsourcing concept in their functioning, accountancy and tax settlements being the most often outsourced area. The scope of outsourced areas in the researched SMEs is presented in Exhibit 1.

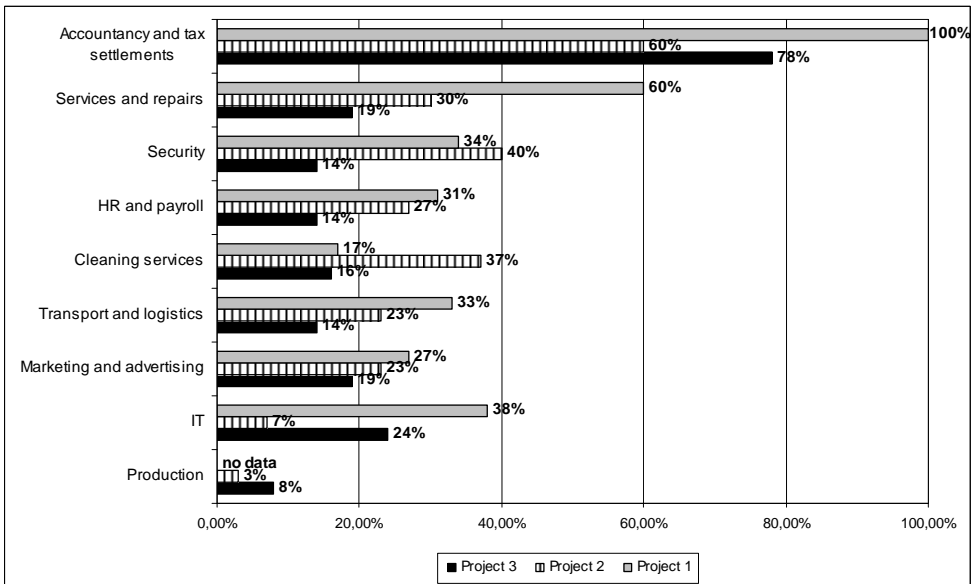


Exhibit 1. The scope of outsourced areas in the researched enterprises of the SME sector  
Source: own study on the basis of the research.

Owners or people managing the enterprises for and on behalf of the owners were the respondents. Mostly men, people aged over 40 with higher or secondary education took part in the research. A detailed characteristic of the respondents taking part in the questionnaire survey is presented in table 2.

Table 2. The characteristics of the respondents taking part in questionnaire survey

Division criterion	Number of respondents				% share in the whole
	Project 1	Project 2	Project 3	Overall	
<b>Gender</b>					
male	40	9	12	61	35%
female	69	21	25	115	65%
<b>Age</b>					<b>% share in the whole</b>
Up to 30	11	5	4	20	11%
31-40	24	7	5	36	20%
41-50	47	6	15	68	39%
over 50	28	12	13	53	30%
<b>Role in the company</b>					<b>% share in the whole</b>
owner	103	27	33	163	94%
Hired manager	3	3	4	10	6%
<b>Education</b>					<b>% share in the whole</b>
higher	47	16	15	78	44%
secondary	52	10	16	78	44%
vocational	11	4	4	19	11%
basic	0	0	2	2	1%

Source: own study on the basis of the research.

Each project was characterized by certain specificity and specific research profile; however, finding answers to the following research questions was a common goal:

1. What are the reasons for using outsourcing by small and medium-sized enterprises?
2. What criteria of choosing outsourcers do SMEs apply?

3. What advantages (quantitative and qualitative) from the use of the outsourcing concept do entrepreneurs of SMEs notice?
4. What are the threats related to using outsourcing in the management of SMEs?
5. In what way does the use of outsourcing influence restricting development barriers of SMEs?

Additionally, in project 3 more attention was paid to process grasp of outsourcing and the effects which preceded the implementation of outsourcing in SMEs were looked into.

#### **4. The application of outsourcing in business practice of small and medium-sized enterprises of the Lodz region**

In the first part of each research project, attention was paid to the **reasons for using outsourcing** in the management of small and medium-sized enterprises. In all cases, inside reasons dominated, which most of all related to the owners' reluctance to deal with a certain area of functioning on their own, they also concerned limited possibilities (mostly financial) of employing specialists and gaining access to professional knowledge and capabilities in this way. The comparison of the dominant reasons for the application of outsourcing in the researched SMEs, divided into individual research groups, is presented in table 3.

Table 3. Dominant reasons for the application of outsourcing in the researched SMEs

<b>Project 1 (2005)</b>	<b>Project 2 (2008)</b>	<b>Project 3 (2010)</b>
<ul style="list-style-type: none"> <li>• Reluctance to realize functions individually</li> <li>• Lack of expert knowledge and possibility of employing specialists in the enterprise</li> </ul>	<ul style="list-style-type: none"> <li>• Too high costs of realizing functions</li> <li>• Lack of expert knowledge and possibility of employing specialists in the enterprise</li> </ul>	<ul style="list-style-type: none"> <li>• Reluctance to realize functions individually</li> <li>• Aiming at focus on key areas of functioning and competencies</li> </ul>

Source: own study on the basis of the research.

Moreover, in project 2, the respondents evaluated highly excessive costs of former formula of realizing functions inside an enterprise. It may be related to increasing costs of employing workers or overcharging enterprises with fixed costs. Attention should be paid to the fact that micro enterprises dominated in this research and their scale of functioning is usually not sufficient for deriving advantages from realized inside activities.

In project 3, attention was also paid to aiming at focus on key activity, which is the result of the essence of outsourcing as an organizational solutions on the one hand, and allows focusing of key competencies by cooperating partners and broader market diffusion of this specialization, on the other.

Other reasons, including inside factors, related e.g. to the trend of using outsourcing or problems with employment of qualified workers, were evaluated at quite lower level.

After the decision of using outsourcing has been made, **searching for and choosing outsourcing partner** becomes one of the first stages. The further part of each research project discussed this issue. In each of the research samples, indications on two criteria of choosing an outsourcer dominate, related to a good opinion and high market reputation of a partner as well as high quality and broad range of services offered by servicing company. Both criteria are strongly interrelated and require establishing independent contacts with former clients of chosen outsourcers, for their verification. The comparison of key factors of choosing outsourcing partners by the researched SMEs in individual research projects is presented in table 4.

Table 4. The most important criteria for choosing outsourcing partner by the researched SMEs

Project 1 (2005)	Project 2 (2008)	Project 3 (2010)
<ul style="list-style-type: none"> <li>• High quality including the scope of services offered</li> <li>• Good opinion about service provider (reputation)</li> <li>• Convenient contact with a partner</li> </ul>	<ul style="list-style-type: none"> <li>• High quality of offered services</li> <li>• Good opinion about service provider (reputation)</li> <li>• Low price of services</li> </ul>	<ul style="list-style-type: none"> <li>• High quality of offered services</li> <li>• Good opinion about service provider (reputation)</li> <li>• Experience of service provider in a given field</li> </ul>

Source: own study on the basis of the research.



The remaining dominating criteria for choosing an outsourcer vary depending on a research project. In order to interpret them, attention should be paid to dominant types of outsourcing (according to realized functions) occurring in the researched entities. In project 1, accountancy and tax advisory outsourcing dominated - highly specialized professional services. In this case, convenient contact with outsourcing company (including easy commuting, opening hours and ways of communication) was an important reason for choosing provider, apart from those indicated above. On the other hand, low price of services, pointed at only by 24% of the respondents, lost in meaning.

In project 2, security or cleaning services were looked at, being not specialized services which do not relate to key activity of a company. In this case, low price of services became a dominant criterion for choosing a partner. In project 3, on the other hand, apart from accountancy and tax advisory outsourcing, marketing and advertising as well as IT services were considered extensively and former experiences of outsourcing companies in realizing these areas of functioning were of great importance for employers also in this case.

The analysis of the **advantages derived by the researched enterprises as a result of using outsourcing** is the third area subject to research. In all projects, multidimensional analysis of the effects achieved due to applying outsourcing was made; however, this article only presents division into quantity advantages, defined as a specific measurable economic profit for the company as well as quality advantages, improving overall functioning of an entity. In the case of quantity advantages, the respondents noted reduction of costs of functioning of enterprises in all research projects, particularly costs of realizing separate outsourced functions. The scope of the most important answers indicating quantity advantages, together with division into individual research periods, is presented in table 5.

Table 5. The most important quantity advantages derived as a result of using outsourcing by the researched SMEs

Project 1 (2005)	Project 2 (2008)	Project 3 (2010)
<ul style="list-style-type: none"> <li>• Reducing costs of functioning of an enterprise</li> <li>• Lowering investment in extending function</li> <li>• Lowering tax expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Reducing costs of functioning of an enterprise</li> </ul>	<ul style="list-style-type: none"> <li>• Reducing costs of functioning of an enterprise</li> <li>• Lowering investment in extending function</li> <li>• Lowering tax expenses</li> </ul>

Source: own study on the basis of the research.

In the case of quality advantages, the respondents pointed most often to access to specialised knowledge as well as possibility to focus on key areas of functioning of enterprises. The scope of answers indicating the most important quality advantages, resulting from applying outsourcing in the researched enterprises, is presented in table 6.

Table 6. The most important quality advantages derived as a result of applying outsourcing by the researched enterprises

Project 1 (2005)	Project 2 (2008)	Project 3 (2010)
<ul style="list-style-type: none"> <li>• Focus on key activity</li> <li>• Improvement in quality of realizing function</li> <li>• Transferring responsibility to outsourcer</li> </ul>	<ul style="list-style-type: none"> <li>• Access to specialised knowledge and capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Access to expert and specialised knowledge</li> <li>• Focus on key activity</li> <li>• Saving time of realizing tasks</li> </ul>

Source: own study on the basis of the research.

The results show that in the case of highly specialized services as well as those related to high technology (e.g. IT area), the respondents identify more effects of applying outsourcing than in the case of lowly specialized services, not closely related to key activity of an enterprise (project 2). Apart from the above mentioned answers, indicating appearance of a broad area of indirect advantages resulting from outsourcing in project 1 and 3 and related mostly to increased satisfaction and motivation for running a business individually, is worth noticing, as well as realizing the need for changes and introducing organizational improvements in the functioning of enterprises.

In the next part of the research, the scope of occurring of **the most important dangers related to using outsourcing** in management of small and medium-sized enterprises is evaluated. Moreover, in project 1, division into fears of starting cooperation and dangers arising in the course of cooperation within outsourcing, was analyzed. The results of the research indicate two tendencies.

1. The scope of initial fears is related most of all to the increase in costs of services, improper adjustment of solutions applied by outsourcer to the specificity of a company as well as the possibility of a leak of inside information about a company outside. In spite of it, entrepreneurs still

evaluate these fears at low level and dangers after starting cooperation are even more limited [see more: Lachiewicz, Matejun 2006, pp. 122-130].

2. Dangers occurring in the course of cooperation are evaluated at low and very low level and concern mostly the feeling of certain dependence on external partner, unpunctuality and lack of reliability in realizing tasks and possibilities of increased costs of cooperation within outsourcing.

Determining the way in which cooperation within outsourcing **influences limitation of barriers to functioning and development of SMEs** is the last phase of common research works. The analysis of results from all three research projects indicates that cooperation within outsourcing reduces first of all the occurrence of external barriers to development of enterprises belonging to SME sector. These effects are directly connected with advantages of SMEs observed as a result of applying the outsourcing concept and relate mostly to reduction of costs of functioning of entities as well as difficulties connected with changing and complicated rules of law (mainly in the case of accountancy and tax advisory outsourcing – projects 1 and 3). The scope of answers indicating barriers to development of SMEs, overcome to the biggest extent due to applying the concept of outsourcing, is presented in table 7.

Table 7. Barriers to development of the researched SMEs overcome due to the application of the outsourcing concept

Project 1 (2005)	Project 2 (2008)	Project 3 (2010)
<ul style="list-style-type: none"> <li>• Variability and difficulties in interpreting legal rules</li> <li>• High costs of running a business</li> <li>• Amount of tax expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Excessive non-financial costs of work</li> <li>• Bureaucracy and administration barriers</li> <li>• Difficulties in finding qualified staff</li> <li>• Insufficient own resources</li> </ul>	<ul style="list-style-type: none"> <li>• Variability and difficulties in interpreting legal rules</li> <li>• High costs of running a business</li> <li>• Unqualified staff</li> <li>• Insufficient own resources</li> </ul>

Source: own study on the basis of the research.

As far as the group of internal barriers is concerned, in project 3, the respondents indicated first of all limitation of dangers related to unqualified staff employed in an enterprise as well as shortages related to insufficient own resources of a company (also in project 2). It shows strong relation of effects of outsourcing with characteristic quality features of SMEs and a certain role of this concept in reducing dangers resulting from them.

## 4. Conclusion

Application of outsourcing in managing small and medium-sized enterprises should fit in general rules of implementing external services, taking into account, however, quality and quantity features characteristic to entities functioning on a small scale. For these enterprises, the solution can be a natural extension of business deals allowing at the same time non-investment development of selected spheres of activity strengthening key competencies and capabilities.

The results of the research presented in the article point to positive opinions of the researched small and medium-sized enterprises on the possibility and effects of applying outsourcing in management of their companies. Involving relatively large number of enterprises subject to analysis is a strong point of the conducted research while the fact that each time different entities were subject to research is certainly a weak point as it hinders making comparisons over time. However, stressing certain general tendencies related to applying the outsourcing method in managing small and medium-sized enterprises seems essential. Moreover, the results of the research indicate some specificity of obtained results depending on the areas of applying outsourcing, which gives reasons for making analyses of usefulness of this business concept at the level of different functions and areas of functioning of SMEs (e.g. accountancy and tax advisory, IT, logistics outsourcing, etc.).

### Summary

#### **Application of the outsourcing concept in managing small and medium-sized enterprises**

The concept of outsourcing characteristic to large business entities can well be used in managing small and medium-sized enterprises. In this case, its application should fit in general rules of implementing external services, taking into account quality and quantity features characteristic to entities functioning on a smaller scale. In the present article, applying outsourcing in the management of SMEs was subject to analysis on the basis of the research conducted in the Lodz region. Attention is paid to the causes of applying this concept, criteria of choosing an outsourcer as well as dangers and development effects obtained due to

implementation of outsourcing method in business practices of SMEs.

## Streszczenie

### **Wykorzystanie koncepcji outsourcingu w zarządzaniu małymi i średnimi przedsiębiorstwami**

Koncepcja outsourcingu charakterystyczna dla dużych podmiotów gospodarczych może być z powodzeniem wykorzystywana w zarządzaniu małymi i średnimi przedsiębiorstwami. W tym przypadku jej wykorzystanie powinno wpisywać się w ogólne zasady wdrażania obsługi zewnętrznej, jednak z uwzględnieniem cech jakościowych i ilościowych charakterystycznych dla podmiotów działających w mniejszej skali. W niniejszym artykule poddano analizie wykorzystanie outsourcingu w zarządzaniu małymi i średnimi przedsiębiorstwami na podstawie badań prowadzonych w regionie łódzkim. Zwrócono uwagę na przyczyny wykorzystania tej koncepcji, kryteria wyboru dostawcy outsourcingowego, a także zagrożenia oraz efekty rozwojowe uzyskane dzięki wdrożeniu metody obsługi zewnętrznej do praktyki gospodarczej firm sektora MSP.

## References

1. *Definicja małych i średnich przedsiębiorstw* (2004), Załącznik nr 1 do Rozporządzenia Komisji Wspólnot Europejskich NR 364/2004 z dnia 25 lutego 2004 r.
2. Fogel Ł. (2008), *Wykorzystanie outsourcingu przez firmy sektora małych i średnich przedsiębiorstw z województwa łódzkiego*, praca magisterska pod kierunkiem dr M. Matejuna, Katedra Zarządzania PŁ, Łódź.
3. Kaczmarek M. (2010), *Wykorzystanie outsourcingu w zarządzaniu rozwojem małych i średnich przedsiębiorstw*, praca magisterska pod kierunkiem dr M. Matejuna, Katedra Zarządzania PŁ, Łódź.
4. Lachiewicz S., Matejun M. (2006), *Zagrożenia wynikające z outsourcingu dla firmy macierzystej*, w: Błaszczyk W. (red.), *Nurt metodologiczny w naukach o zarządzaniu*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź.

5. Lenzion J., Stankiewicz-Mróż A. (2005), *Wprowadzenie do organizacji i zarządzania*, Oficyna Ekonomiczna, Kraków.
6. Management Trends in Outsourcing, strona internetowa: [http://www.outsource2india.com/why\\_outsource/articles/management\\_trends.asp](http://www.outsource2india.com/why_outsource/articles/management_trends.asp) (06.09.2010 – data dostępu)
7. Matejun M. (2006), *Rola outsourcingu w zakresie rachunkowości i doradztwa podatkowego w rozwoju małych i średnich przedsiębiorstw*, praca doktorska, Katedra Zarządzania, Politechnika Łódzka, Łódź.
8. Matejun M. (2008), *Wykorzystanie outsourcingu w rozwoju małych i średnich firm z regionu łódzkiego*, w: Lewandowska L. (red.), *Nowe koncepcje zarządzania i finansowania rozwoju firm regionu łódzkiego*, PTE, Łódź.
9. Olszak M. (2006), *Outsourcing w działalności bankowej*, Wydawnictwo LexisNexis, Warszawa
10. Penc J. (2002), *Nowe koncepcje zarządzania*, „*Ekonomika i Organizacja Przedsiębiorstwa*”, nr 7.
11. Trocki M. (2001), *Outsourcing*, PWE, Warszawa.