# Strategic Management of Outsourcing

Klemen Kavčič

Management

*Strategic Management of Outsourcing*

Faculty of Management Koper
Monograph Series
ISSN 1855-0878

# Strategic Management of Outsourcing

Klemen Kavčič

Management

*Strategic Management of Outsourcing*
Dr. Klemen Kavčič

*Reviewers* · Dr. Mirko Markič in Dr. Maja Meško

*Published by* · University of Primorska,
Faculty of Management, Cankarjeva 5, 6000 Koper

*Design and Typesetting* · AlenJežovnik

Koper · 2014



*The monograph received financial support from the Slovenian Research Agency from the state budget fund for financing scientific monographs.*



CIP – Kataložni zapis o publikaciji
Narodna in univerzitetna knjižnica, Ljubljana

005.51(075.8)
658.7(075.8)

KAVČIČ, Klemen, 1975–
Strategic management of outsourcing [Elektronski vir] / Klemen Kavčič. – El. knjiga. – Koper : Faculty of Management, 2014

Način dostopa (URL): http://www.fm-kp.si/zalozba/ISBN/978-961-266-159-5.pdf

ISBN 978-961-266-159-5 (pdf)
274012672

# Contents

# List of Tables

# List of Figures

# 1 Introduction

## 1.1 Description and Definition of the Research Problem

Outsourcing as a special cooperative strategy which involves important strategic decisions of a company is discussed in this book. Outsourcing is dealt with as a transfer of a business activity, which has previously been carried out by the company, to an external supplier. Outsourcing is defined as a strategy for managing company complexity, in which a company outsources some of its activities, which could also be carried out by the outsourcing company, by more or less preserving its core competences.

In literature (Lamming 1993; Quinn and Hilmer 1994; Olsen and Ellram 1997; Lonsdale and Cox 1998; Mantel, Tatikonda, and Ying 2006, 822), the following related terms can be found: supply chain management, outsourcing and vertical alliances. More and more emphasis is put on cooperative relationship among partners – suppliers and customers. When dealing with outsourcing we should distinguish between cost-oriented – and most often short-term – and strategic, long-term outsourcing.

Outsourcing is one of the strategic tools for achieving business goals. Commons (1931), Coase (1937) and Williamson (1975) believe that companies choose outsourcing when the cost of activity carried out within the company would exceed the cost of buying the product or service on the market. Outsourcing represents the transfer of some business activities, which had been carried out by the company itself, to external suppliers. Kubr (2002, 509) and Greaver (1999, 27) define outsourcing as a contractual handing over of some business activities, for which the company decided not to carry them out itself, to an external company, i. e. the decision to find an external (a number of definitions of outsourcing according to various authors can be found in section 2.1).

Further on, I define outsourcing as a special cooperative strategy of a company and as a transfer of certain business activities carried out by the company itself to an external supplier. At the same time I try to explain the terminology of two concepts, which are often used inaccurately as a substitute for the term outsourcing. The first concept is outtasking – which does not represent the transfer of a business activity, but a transfer of a task, or only a part of a process. Various tasks carried out through outtasking are usually data entry, internal research activities, technical drawing, etc. The second concept, often used in American literature, is offshoring, which is here defined as transfer of business activities to another country and which can have two different forms: as a transfer of business activity within a corporation to a foreign country or a transfer of a business activity to a foreign supplier. In the second case we can speak about offshore outsourcing.

The scientific field of the discussed topic is dealt with within research in management, a narrower field would be research of outsourcing as an important component of company policy and as a strategy for managing company through the synthesis of both interest and instrumental aspects, technocratic and humanistic concept of management in creating integrated company strategy for long-term cooperation between partners in outsourcing relationships.

The basic problem, which motivated me for this research activity in marketing deals with outsourcing as an important component of company policy and emphasises the problem of one-way, often poor quality relationships between outsourcers and suppliers in Slovenia. Our approach to the research problem exceeds partial treatment of outsourcing from the point of view of production, purchasing and marketing among companies. Temporally limited cooperation between participants in outsourcing is dealt with as a problem of company alliances formation, i. e. as inadequate strategic consideration of outsourcing in Slovenian enterprises.

The main research area is the study of power relations and interests of participants in outsourcing relationships. We focus on the problem of short-term, one-way relationships between outsourcers and suppliers and showed the advantages of long-term approach.

Literature on outsourcing outlines the strategy, opportunities and risks of outsourcing in an integrated manner. On the other hand, studies describing the transition to outsourcing and vice versa are extremely rare. Our research will show that managements rarely conduct thorough analysis of the transition to outsourcing or of the return to the production within the company. This is why a number of recommendations will be made in the end.

Outsourcing is one of the ways of managing company complexity, ranging from 'hierarchy' to 'marketplace.' 'Hierarchy' represents managing with the power of ownership, 'marketplace' with the power of interests. On the marketplace participants promptly align their interests and usually conclude short-term agreements, whereas relationships in 'hierarchy' tend to be more sustainable and rigid.

This book is based on a thorough review of literature about the complexity of basic management activities (planning and design, governance and alliances, leadership and management, measuring and assessment), the complexity of enterprises, supply chain management and the concepts of integrated company policy creation. The contents of articles, research activities and publications – mostly from the recent period – was connected with basic management concepts in accordance with the Faculty of Management doctrine – with the synthesis between the so-called technocratic and the so-called humanitarian concept of as the extremes within the scope of possibilities for company management.

The decision to outsource can be of long-term and strategic importance for a company. In deciding about outsourcing it is of utmost importance for the management to base its decision thorough study and analysis of all possible outcomes, benefits and, above all, risks involved in outsourcing activities. It happens much too often that the management of a company arrives at a false conclusion that finding an appropriate supplier and entering the outsourcing relationship will, without a shadow of a doubt, bring benefits.

## 1.2 The Purpose, Objectives and Research Hypotheses

The purpose of this book is to – on the basis of the analysis of the present outsourcing situation in Slovenia – create the concept for the establishment of cooperative relationship among the participants in outsourcing and for the creation of integrated outsourcing strategy. The basic approach which has been chosen does not deal with outsourcing per se, but sees it as one of the possible outcomes within the company management scope from 'marketplace' to 'hierarchy.'

We shall follow two basic objectives:

1. Within the possibilities of an individual researcher: (a) create the starting point for integrated analysis of strategic aspects of outsourcing from the point of view of Slovenian enterprises; (b) place

research results within the framework of scientific discipline management – and in a more narrow sense within the management doctrine of the Faculty of Management.

2. Based on findings in 1: (a) discuss outsourcing as one of the possibilities for managing the complexity of enterprises within the scope from ad hoc collaboration or exchange (the so-called marketplace) to normative control (the so-called hierarchy); (b) design assessment tools to support managerial decision-making with regard to outsourcing as the most suitable tool for placing an enterprise within the dimension ranging from 'market' to 'hierarchy' and for making important assessments in deciding for outsourcing either by placing it closer to 'market' or closer to 'hierarchy.'

Dealing with outsourcing by placing it in various dimensions represents a novelty in Slovenian literature. In addition, foreign literature also lacks similar studies in the field of outsourcing.

In the empirical part of our research, the scope and features of outsourcing in Slovenian environment were analysed. Power relations between outsourcers and outsourcees in Slovenian enterprises were analysed from the point of view of collaborative and long-term strategies. Transitions between individual placements ranging from 'marketplace' to 'hierarch' were thoroughly analysed, because they are of utmost importance for understanding why enterprises discussed in our research decide to enter outsourcing relationships.

The most important research question is how enterprises should behave in order to gain long-term benefits from both insourcing and outsourcing activities. This core research dilemma will be structured in two basic research questions:

R1 *Which operations should be studied and analysed before making any decisions regarding the placement in any of possible forms and levels of outsourcing or, alternatively, before the decision is made to stop outsourcing activities?*

R2 *Through which measures and activities can enterprises materialise integrated outsourcing strategy for long-term and successful collaboration?*

The answer to these basic research questions is given in the form of this basic research thesis: 'Long-term strategic creation, implementation and management of outsourcing relations can be more beneficial and less risky for both outsourcers and outsourcees from short-term and one-sided outsourcing relations.'

With regard to previous studies and findings and with regard to the basic thesis of this research activity the following hypotheses have been formed:

H1 *Slovenian enterprises, which outsource certain activities, make incomplete assessments regarding the use of resources and possibilities leading to long-term relationships and do not plan strategies for further collaboration after the initial relationship has ended.*

H2 *An important part of assessments made by outsourcers is based on short-term economic advantages (lower cost) and does not aim at the formation of long-term partnerships.*

H3 *The relationship between outsourcers and outsourcees is predominantly distributive and rarely cooperative, with the level of mutual trust being very low. The duration of the majority of discussed outsourcing relationships is temporally limited and does not exceed the framework of enterprise's developmental policy.*

Outsourcing is dealt with as:

- a placement within the dimensions of ad hoc exchange relations, in which the alliance is poorly controlled and in the so-called hierarchy, in which the alliance is very well controlled;
- a placement within a time frame ranging between short-term and long-term span;
- a placement within instrumental (technocratic) and interest (humanistic) aspect.

## 1.3 Major Contributions to Science

The most important contribution to science of this research is in the research and analysis of interests of outsourcers and outsourcees, which represents the basis for the creation and planning of appropriate strategies. In outsourcing, one-sided and short-term economic aspects of outsourcers, usually in the form of large and strong enterprises, prevail. The established relationships are most frequently temporarily limited and distributive, often in favour of the stronger party, which is most often the outsourcer.

This book is oriented towards the development and empirical investigation of integral creation of outsourcing policy with the analysis of outsourcer and outsourcee interests. In addition to already known instrumental aspect factors, factors related to interest aspect of outsourcing are also analysed despite the fact that they are rarely dealt with in literature. The results of the analysis of interests and outsourcers were used in the formation of outsourcing policy in Slovenian environment.

An important contribution of our work is the synthesis of interest and instrumental aspect, technocratic and humanistic concept of management in the formation of integral company strategy for long-term collaboration in outsourcing relationships.

From the methodological standpoint, our main contribution lies in the complimentary use of qualitative and quantitative methods, which opens the possibility for a comprehensive approach to measuring and assessing, analysis and interpretation of results. Qualitative and quantitative parts that have been used in order to analyse interests and power relations of outsourcing participants in designing strategies are supplemental. Data gathered by one method investigate, explain and enrich data gathered by the other method.

Furthermore, an added value of our research lies in managerial implications, related to company policy making and in the formation of strategic guidelines for the development of outsourcing in Slovenian environment. In a small economy such as Slovenian, such strategies can increase the possibility for a successful long-term collaboration of Slovenian enterprises in outsourcing relationships. The contents of this book can benefit enterprises, which are often entering – in situations of distress or, more often, due to insufficient knowledge – unequal and fatal relationships with outsourcers, which often terminate by damaging outsourcees. Such systematic research, based on company policy theory has, until now, been non-existent in Slovenia.

Research outcomes can be of some importance for enterprises in more developed countries, which are entering outsourcing relationships by following short-term one-sided economic benefits, thus underestimating hidden transactional costs for establishing and terminating such relationships and which do not exploit strategic opportunities of further collaboration with outsourcees, in which outsourcers invested a considerable amount of their competences. Short-term and one-sided benefits do not take into account the possibilities offered by strategic placement of outsourcing within the dimensions from 'marketplace,' where constant coordination is taking place, and 'hierarchy,' where the environment is rather permanent and rigid. Such research activity is original and can contribute towards the reputation of the Faculty of Management, where it was carried out.

Research limitations are the following:

- the scope and complexity of the topic;
- limited capability of an individual researcher;
- outsourcing is considered an activity, which was previously carried out by the outsourcing company;
- limitations regarding the research of sensitive pieces of information – managers are usually reluctant to reveal certain sensitive pieces of information;
- limitations regarding the content and temporal capabilities of the researcher in studying numerous transitions between degrees of alliances and placing outsourcing within certain dimensions;
- selected companies in the central qualitative research were chosen according to the author's personal judgment, based on the basis of substantial managerial experience related to managing companies that were partners in unequal outsourcing relationships;
- the limitation of pilot study and central qualitative research to mainly electro-metal industry, because this line of business has an important and long tradition in the field of alliance formation and collaboration in Slovenia, both with domestic and foreign companies.

## 1.4 Conceptual Framework of Qualitative Research

Enterprises form alliances in order to accomplish objectives. Alliances can be poorly managed (marketplace) or highly managed (hierarchy). Outsourcing represents one form of alliances between enterprises – somewhere between the marketplace and hierarchy. Placement within the dimension marketplace-hierarchy is dynamic, and is changing due to the company initiatives or as a response to external influences.

The nature of the analysis of interests and power relations between outsourcers and outsourcees in their efforts to create integral strategies requires a combined research approach. Qualitative and quantitative research approach was used in the analysis; whereas the synthesis was used in order to lower the weaknesses and retain strengths of the two research methods. Such research concept is in accord with many authors (Yin 2003; Seale et al. 2004, 5–6), who claim that it is sensible to introduce qualitative research methods in addition to quantitative methods, especially when the research topic is extremely complex. Burns (2000, 25–32) believes that towards the end of the 70s, researchers became aware that both approaches are needed in scientific research, because a single methodology cannot provide answers to all questions and ensure that all problems are addressed. None of the methodologies is perfect; they all have their pros and cons. The use of both research methods in individual research activities preserves advantages and reduces weaknesses of individual methods, because often the weaknesses of one method represent the strengths of the other method.

In order to understand more complex decision-making process, interest aspects of outsourcers and outsourcees, I carried out a quantitative research in my first step. This is important for two reasons: it enables an outline of in-depth intentions and behaviour in outsourcing relationships. In planning qualitative research I followed the principle of explicit theoretical understanding, which means that the researcher due to his or her own understanding should not allow that actual perception is hindered while doing research.

The second approach in studying outsourcing as an important component of company policy and as a strategy for managing the company complexity by means of the synthesis of interest and instrumental aspect is quantitative approach. By implementing quantitative approach I studied outsourcing practices on a sample of 245 Slovenian enterprises.

Assessments regarding the transitions between different forms of outsourcing, dealt with in detail in third, central part of my empirical research, require a certain amount of research complexity. This complexity requires redirecting our attention in qualitative research approach due to the limited rationality i. e. limited cognitive ability of researchers (March and Simon 1958, 139–68; Tavčar 2008, 193–97) limits feasibility of quantitative research.

Framework model of company policy represents a methodological framework for integral assessment of the state of the discussed enterprises and serves for the establishment and planning of integral outsourcing strategy. An important assumption of the framework model of company policy states that short-term policy planning per se is far from being sufficient, because the planning of new core capabilities and products usually exceeds short-term timeline.

In studying assessments of company development policy I asked respondents if individual areas (instrumental and interest aspect of activity, structure and resources) follow their policy, included in basic policy and which should be implemented through midterm development policy. In the same manner, while analysing the current policy assessed if current actions follow the contents of development policy in discussed enterprises – both regarding the implementation of existing programmes and planning of new programmes. Special attention was dedicated to the aspect of culture as interest basis for planning new outsourcing strategies and as a form of long-term alliances of Slovenian enterprises with foreign companies.

When analysing data, I connected deductive and inductive research approach and tried to derive syntheses from them. Deductive research approach means that we start with concept or hypotheses and exclude less likely/favourable hypotheses and use only the remaining concepts and hypotheses. Tavčar (2008, 108–9) writes that it is possible to confirm hypotheses with randomly chosen proof, but only the hypothesis that can not be disproved should be taken seriously.

## 1.5 Research Methods for Reaching Set Goals

Our research work is based on the use of a number of scientific research methods. The basic method used in our book is the general research method of collecting facts, information, data, definitions and qualifications in order to discuss outsourcing as one of the possibilities to manage company complexity within the dimension from ad hoc collaboration (marketplace) to normative control (hierarchy). This research method was upgraded with a descriptive approach and used the following methods:

- description method – I defined the concepts, described the theory and identified related concepts/notions,
- compilation method – by summarising findings of other authors related to the discussed research problem, I formed new observations,
- comparation method – I compared works, methods and research of different authors, and used this method for the comparison of differences between Slovenian and foreign enterprises engaged in outsourcing activities.

The methods described above, and above all the method of compilation, were used in the formation of the synthesis of important findings, both in theoretical and empirical part of my research.

The theoretical part of this book is based on the research of secondary sources by means of bringing together and synthesising individual scientific areas by upgrading knowledge, which deals with the dynamic placement of outsourcing in the dimension between ad hoc exchange relationships and homogenous enterprises.

In the empirical part of the book, three different methodological approaches were used. I started with a pilot qualitative research, which included collecting and analysis of qualitative data. The initial case study serves above all for testing hypotheses and discovering new hypotheses as well as for verifying the validity of our research. The interviews carried out were meant for confirming further steps in defining the course of research activities regarding outsourcing.

The second method in the empirical part was statistical method for the analysis of second primary data source – questionnaire. The questionnaire was handed over to postgraduate students in specialisation, MA and PhD study programme at the Faculty of Management in different study centres (Celje, Škofja Loka, Koper, Nova Gorica) thus enabling a geographical dispersion of respondents. Research in the area of outsourcing carried out in Slovenia was also taken into account, and which could contribute towards our research both in methodological and substantive sense. 245 respondents from middle and top management of Slovenian companies were included in the research. With the questionnaire filled in by companies that outsource their activities, I acquired empirical data about which activities enterprises outsource to outsourcees and about the scope of these activities. Through research I was able to assess the developmental stage of outsourcing among Slovenian enterprises, temporal span of collaboration, and above all benefits and risks for companies involved in outsourcing. Primary data was acquired through questionnaires which were analysed with statistical methods, namely with descriptive statistics. The questionnaire was carried out between April 2007 and February 2008.

The main empirical part, which is also based on my own qualitative research was carried out by means of half-structured interviews with top managers of ten Slovenian companies which are involved in outsourcing, either as outsourcers or outsourcees in companies mainly in electrical-metal industry. Due to the complexity of outsourcing I switched from mainly closed to mainly open questions – the responses were collected during personal interviews.

The main qualitative research was carried out iteratively; on the other hand, the quantitative research was conducted in a linear way. Campbell and Holland (2005, 5) believe that descriptive quantitative part, which enables analytical width, and qualitative part, which enables in-depth results supplement perfectly. Data gathered through one method can research, explain and enrich data gathered through the other method.

## 1.6 Book Layout

This book comprises four parts – introduction, theoretical part (the analysis of secondary sources), empirical part and conclusion, which includes an overview of important findings, the report on reaching our aims, the report on confirming/rejecting the hypotheses and recommendations for further research. Theoretical part includes four chapters and states concepts, methods and findings of other authors, which represents important methodological tools for the empirical research. The first part comprises of enhanced disposition, which is followed by the second chapter, which comprises of the definition of outsourcing according to several authors and the development of outsourcing in Slovenia and abroad. The third chapter deals with outsourcing as a component of company policy according to the contents of framework policy model and critically approaches benchmarking and scenarios as two approaches for managing the complexity in designing policies. The fourth chapter deals with theoretical premises on the basis of:

- transaction cost theory,
- theory of basic (key) capabilities and
- theory regarding market impact.

The last chapter of the empirical part deals with forms and degrees of outsourcing. Here, the choice of forms of control and collaboration is also explained.

At the beginning of empirical part, methodological premises of the research are explained. In addition, methodological paradigms, research approaches, methods and research techniques are briefly presented. Further on, three research activities are presented in the empirical part. The first is a pilot qualitative research, which confirms our research course and the validity of the chosen research area. The second is a quantitative research carried out on a sample of 245 Slovenian enterprises, which states rather general findings regarding the state and development of outsourcing in Slovenia.

The key part of the research plan is the third and central qualitative research, which critically deals with outsourcing as one of possible placements between 'hierarchy' and 'marketplace.' In a transparent manner, this chapter deals with forms and levels of collaboration within the two dimensions, analyses opportunities and risks involved in the transition from different forms of control. This chapter reveals the basic idea of the discussed field, which represents one of the key levels and forms of control and collaboration spanning from hierarchy to marketplace. Each form has its advantages and disadvantages. This chapter defines individual forms of collaboration and critically discusses the assessment of individual transitions from one to the other form of collaboration. Our aim is to find answers to the question why enterprises decide for one of the available forms of placement. The contents of this chapter are also dynamic aspects and defines temporal dimensions in which a company decides either for outsourcing as a higher form of alliance or for the termination of outsourcing by entering a lower form of alliance.

The concluding part consists of a concise summary, a thorough report on hypotheses, a report on research aims and offers proposals for further research.

# 2 Outsourcing

## 2.1 The Definition of Outsourcing

The study of literature brings us to the conclusion that the definitions of outsourcing vary considerably according to different authors. Some definitions are explained below, and – for the purpose of this research – outsourcing is defined as a transfer of some activities, which were previously carried out by the company, to an outsourcee.

World Trade Organization defines outsourcing as a transfer of routine, repetitive activities to external providers. Such a relationship is regulated by a contract between the outsourcer and the service provider. The consequence of outsourcing is the reduction of employees in outsourcing company and the increase of employees in the outsourcee company (World Trade Organization 2004, 266).

OECD (2005, 5) defines outsourcing as a form of company organisation, by which companies respond to competitive pressures, which require improved efficiency. Enterprises can reorganise through acquisitions and mergers, common investments, strategic alliances or through outsourcing to a connected company abroad or to an outsourcee – foreign or domestic.

Lee et al. (2007, 321) state that through outsourcing enterprises focus on their core capabilities, lower operating costs, release resources and get access to capabilities on the global scale. They found out that outsourcing without an ownership or other normative connection in a 'hierarchical' environment is to a large extent a matter of trust. King (2007, 10–2) believes outsourcing to be often connected with processes of knowledge transfer, which means that partners in outsourcing often learn from each other.

Schaaf (2004, 3–4) explains outsourcing as a concept, which represents a contractual transfer (long-term or constant) of activity, which had been carried out by the outsourcing company, but has been outsourced to an external supplier.

Burns (2000, 39) defines outsourcing slightly differently, which is similar to the relationship between buyer-supplier and, at the same time, regards activities previously not carried out by the outsourcer as outsourcing activities. He claims that outsourcing is a primary organisational strategy through which companies increase the level of organisational skills. It is an important strategy, through which enterprises get a supply of necessary and changing skills, say skills, required by the development of new information systems, or acquire skills needed urgently, usually for a short-term period. Through outsourcing enterprises can acquire such skills quickly, without searching for new employees. On the other hand, this increases the need for infrastructural and administrative support services. Through outsourcing enterprises acquire functioning and skilled teams who already possess the premises and equipment needed for a certain job. If the need for certain skills is only temporally limited, the enterprise does not have problems with the termination of outsourcing, because there are no legal obligations regarding the outsourcee employees.

Outsourcing is a form of company control. Increasingly, companies are aware of the problems caused by outsourcing nonstrategic activities, as this deters them from their main activities. By outsourcing nonstrategic activities, companies can focus on strategically important areas, i. e. to what is required from them by the market and what they are really good at. Focus on strategically important tasks enables companies to increase their added value. Quinn and Hilmer (1994, 52–4) believe that companies, which only use internal capabilities instead of external (or instead of outsourcing), are less innovation oriented and fail to seize opportunities for developing new products with added value. In addition, they believe that once knowledge about a certain specific activity becomes more important than the knowledge about the final product, highly specialised outsourcees can contribute much more towards the added value with lower cost than any integrated enterprise. In outsourcing enterprises often see a tool for fast and short-term reduction of direct cost.

Dubrovski (2004, 104) defines outsourcing as subcontracted, separated, transferred (dislocated) selected business function, activity, service or programme, which is carried out by an outsourcee. According to Kirkegaard (2005, 4–5) outsourcing is a common and well-known company strategy, which can lead to cost reduction and effective division of labour, and, consequently, to permanent company competitiveness. By spreading to international markets outsourcing grew in scope and is

**Table 2.1** Expected Benefits with Regard to Short-Term and Long-Term Company Policy

| The period of current (short-term) policy | The period of fundamental (long-term) policy |
|---|---|
| Reduction and control over direct expenses. | The possibility for increased business focus. |
| Reduced need for investments in nonstrategic business functions. | Access to the best capabilities. |
| Sale of equipment to outsourcee. | Benefits stemming from accelerated renewal. |
| The enterprise does not have the necessary resources. | Shared risk. |
| The function is difficult to manage and control. | Release of resources for other purposes. |

NOTES Adapted from Johnson (1997, 9–11).

strategically more often used in services. Better understanding of outsourcing advantages during the recent years increased and widened the scope of its use. Greaver (1999, 15–7) writes that outsourcing represents an important tool for implementing changes in business world. Outsourcing is not a secret formula for success, not a magical tool for getting rid of problems or something invented by company managements, but a managerial tool, which has not been completely tested or understood.

Enterprises decide for outsourcing for different and numerous expected benefits. The majority of enterprises decide for outsourcing because of the benefits in various business areas. They can be grouped in the following six areas (Bongrad 1994, 15–8): cost, employees, risk, focus, financial standing, technology and technological knowledge.

The most frequent reason for searching the outsourcee for certain activities is still cost reduction. The research carried out in Germany on a sample of several thousand enterprises showed that the main reason for outsourcing was cost reduction, most frequently cost of material, cost of work and cost of capital (Lonsdale and Cox 2000, 14–7; Kinkel, Lay, and Maloca 2007, 256–67).

Johnson (1997, 9–11) divides expected benefits into short-term and long-term company policies. Table 2.1 presents a more detailed subdivision.

Enterprises usually decide for less controlled form of outsourcing in connection with short-term reasons (cost). In the case of long-term collaboration, more robust and controlled forms of collaboration are much more suitable.

Numerous authors recognised cost reduction as an important expected benefit, brought about by outsourcing. In such cases outsourcing is an option when the outsourcee's cost are so low that the aggregate overheads, profit and transactional cost (use of capabilities) still lead to a product or service delivered at a lower price. Outsourcees execute processes in a different manner, more efficiently and innovative way; specialisation and the advantages of the economy of scale are the mechanisms, which enable that the company reaches the expected level of efficiency.

The second expected benefit in outsourcing is the reduction of indirect cost. Hubbard (1993, 47–8) believes that fewer employees require fewer infrastructure and supporting processes, which is reflected in a more flexible and efficient enterprise. Some companies outsource in order to achieve increased control and cost oversight (Alexander and Young 1996, 117–8), whereas other companies try to replace fix cost with variable cost (Anderson 1997, 34–5).

Expected benefits from outsourcing, as stated by Allweyer, Besthorn, and Schaaf (2004, 137) in their research on the basis of a thorough literature review, are the following: cost savings, reduced investment, supply of fresh capital, transfer of fix cost into variable cost, improved level of quality of products and services, increased adaptability, access to up-to-date technologies, focus on key company activities and a solution to problems related to existing functions.

The initiative for outsourcing can come from the outsourcer or a potential outsourcee, or a third party with interests in establishing outsourcing relationship. As in all types of collaboration, outsourcing is based on reasons that are attractive for both parties in outsourcing. Below is a summary of six most important reasons based on a literature review:

1. another company can carry out a certain activity more effectively (productively) and more efficiently (economically);
2. another company has, at the right time, in order to carry out a certain activity better core capabilities (e. g. knowledge, technology, capacity, capital, contractors, premises, energy, natural resources etc.);
3. another company has received enough trust from the part of the

outsourcing company (e. g. with regard to capacity and capabilities of management, quality of entrusted activity, business suitability) and will probably not use it for competitive purposes;
4. another company has good reputation among influencing stakeholders of the outsourcing company (e. g. consumers, quality control institutions);
5. values, prevailing in the second company and its environment (reflected in interest behaviour, in culture and in ethics), are in accord with the prevailing values in the first company;
6. presures imposed by important stakeholders of the company (e. g. politics, state interests or the interests of the narrower environment).

The ratio between benefits and opportunities and losses and threats expected by the management from outsourcing should conform with company core policies.

Inefficient management of business and technological changes can cause problems in outsourcing. The greatest risk in implementing such changes is failure to manage personnel properly. A frequent reason for bringing back an outsourced activity is the reduction in quality and the lack of flexibility of provider (Chapman and Andrade 1998, 89).

The review of literature (Stock and Tatikonda 2005, 655–8; McIvor 2005, 17–38; Leenders et al. 2006, 41–54) reveals that only a few authors deal with problems related to outsourcing decisions about the termination of the relationship and bringing the activity back to the outsourcing company. It should be determined if the company has sufficient equipment and tools, experts familiar with the processes, financial resources etc., as well as the state of the outsourcee. Potential problems of companies, the outsourcer and outsourcee, around the termination of activity are poorly examined. This segment is highly important and critical with regard to risk management and long-term success of business operations.

For the purpose of our research and in accordance with the literature review, I decided for the following risk categorisation:

- risks due to the loss of knowledge (transfer),
- risks due to the loss of company's own capabilities (development, technology, marketing),
- risks due to the loss of valuable staff (skills),

- risks due to the loss of market influence,
- risks due to incompatible company culture,
- risks due to characteristics of outsourced activities,
- risks due to distance,
- financial risks.

In order to make outsourcing process successful, the outsourcing company should pay considerable attention to the choice of external partner. It should choose a supplier, which could, through its knowledge, capacities and technology facilitate an improved market position for the outsourcer. A company should not strive only for an improvement in its own position, but should also seek a long-term success of the outsourcee. In this way, outsourcing can become a successful and long-lasting partnership (Brown and Wilson 2005, 123–7).

An important part of business deals is done between companies in the so-called sales between companies. In the industry dealt with in this research (electrical-metal industry), daily purchases of raw materials, components and services are needed for the production of goods. During the last two decades companies focus on their core capabilities, which means that the wide range of vertical integrity of companies is being constantly reduced. Through this, new market relationships are created for products and services bought by companies, which has influence on greater dynamics of the trade between organisations.

In American literature the term *offshoring* is often dealt with. The term offshoring is defined as acquiring or purchasing half goods from sources outside the country of production. Movement across the border is what distinguishes it from the term outsourcing. *Offshoring* has two forms – one is the transfer of activities from the company to a foreign country, the other form is acquiring half products from foreign outsourcees. An example of the first form is if an airline company opens a booking department in a foreign country, an example of the second form is when a bank outsources software maintenance to a foreign supplier or when a car company buys parts for its cars from abroad (Kirkegaard 2005, 3–4).

Yeats (2001) equates the process of *offshoring* in the area of production with the global division of labour in production. During the second half of the previous century, labour intensive activities were transferred overseas. The author believes that this process involves internationalisation of the production process, in which the work force from different countries cooperates in various production phases in the production of a certain product. According to the author's research findings, approximately one half of international trade of goods stems form the global labour division in the field of production. China has become the target country for production *offshoring,* India has become the number one country in the area of services *offshoring.* For the purpose of my research I define the term *offshoring outsourcing* as the transfer of activity to suppliers from abroad.

It is worth mentioning that definitions about outsourcing in literature are far from being uniform and based on evidence, but mainly depend on general subjective beliefs of their authors. The majority of beliefs expressed by various authors are based on short-term considerations.

## 2.2 Global Development

Kirkegaard (2005, 3) believes that outsourcing as a company strategy exists since the industrial revolution and represents an indispensable component of enterprise's efforts for cost reduction, efficient labour division and maintain competitiveness. What is new is the fact that, during the last two decades, outsourcing acquired international dimension and has been more and more often used as the strategy in the field of providing services, while it has until recently been mainly connected with the production of goods. Corbett (2001, 4–9) writes that the producers of goods were among the first who outsourced components to suppliers; in addition, the term outsourcing was used to describe relationships among companies and suppliers of various services (cleaning, property protection, equipment maintenance, catering etc.).

Corbett (2001, 13–4) claims that companies with a higher level of growth use external suppliers more often. Organisational structure also influences the use of external resources. Regardless of the company size, companies in which decisions are taken in a decentralised manner, more often decide for outsourcing. Centralised decision-making leads to thinking that there are only a few suitable external partners and that they do not provide better quality of services and products or offer lower cost as compared with internal production capabilities. It is generally accepted that large, decentralised and rapidly growing companies use outsourcing most frequently.

The research done by the Outsourcing Institute in the USA (Outsourcing Institute and Dun & Bradstreet 2000) showed that outsourcing became a business practice in companies of all sizes and in all industries. In 1996, companies in the USA decided for outsourcing mainly because of better cost control and because of the utilisation of the economy of scale. Today, managers employ outsourcing mainly because of its strategic aspect. Outsourcing grows faster than the American economy as a whole; during the last couple of years the growth is fast especially in the area of marketing, HR and HRM as well as in production.

Consulting firm A. T. Kearney (2004, 15–8) carried out research on possible destinations for outsourcing business activities. The sample includes 25 countries, assessed by more than 30 parameters later united in three categories: cost, environment and people. India takes first place in two out of three categories. As a destination, India has a more than a decade long outsourcing tradition. It offers skilled and cheap working force, which, together with acquired experience in carrying out information-communication activities for foreign customers, represents a successful and effective supplement for acquiring new knowledge. Research findings show that India is to become the most desirable destination for activities requiring a higher degree of added value. On the other hand, more standardised, routine activities are likely to move elsewhere.

English speaking countries (Australia, Ireland, Canada and New Zealand) score highest with regard to two categories – people and business environment. In addition to cultural and linguistic similarity with the USA and Great Britain, these countries have a number of other advantages: good infrastructure, lower fluctuation of workforce, support from local and national authorities, a lower degree of economic and political risk.

Latin American countries from the sample (Argentina, Brazil, Chile, Costarica, Mexico) can offer low cost of labour force and the same local time zone as big cities in the USA.

Hungary, Poland and the Czech Republic, as central European EU member countries, are privileged by some European (mainly German) and other multinational companies operating in the EU, because they offer cultural similarities, share the same European legislation in the field of personal data protection and a high level of engineering and other technical skills.

The main advantage of China represent an almost limitless number of cheap work force which attracts mainly companies willing to transfer standardised business activities. Main disadvantages are a relatively high degree of economic and political risk, inadequate protection of intellectual property, rigid bureaucracy and poor command of English language. *The Economist* (2006, 75–6) writes that China is lagging behind India by between five and ten years and that it is likely to search for opportunities in the near future mainly in routine activities. On the other hand, India will succeed in activities with a higher added value.

McKinsey Global Institute (2003, 10–2) as an advocate of positive effects of services outsourcing on American and world economy estimates that each dollar spent by the American economy in India, brings economic benefits in the amount of 1.12 dollar in the following way:

- 58 cents for reduced company costs, which will become available for dividends or investments in developmental projects,
- five cents for benefits arising from purchases, made by foreign suppliers of goods in the USA (software, legal, financial and other services),
- 4 cents are gained from profits of providers registered in the USA,
- and 45 cents gained because of reallocation of workers due to the transfer of services. According to McKinsey Global Institute, it is much easier for workers in services to find a new employment than for workers in production.

It is also necessary to note that there are many negative effects involved in outsourcing services, dealt with in a number of studies (loss of jobs, reemployment of people who have lost their jobs is a longterm procedure, etc.).

Here, we should point towards the differences between the American and British and European model of control and company alliances. The European model is based on a wider recognition of participants' interests (stakeholder capitalism) and represents the framework, which contrary to Anglo-American model (shareholder capitalism) prolongs the processes of company restructuring and is therefore less responsive to changes and new practices in global economy. According to Hofstede (1991) the differences are mainly cultural; on a sample of employees in IBM branches, the author identified the differences in values, views and behaviour among countries, and found – by studying intercultural differences – factors for a slower acceptance of new strategies in European companies.

## 2.3 Development in Slovenia

Outsourcing does not represent a novelty for Slovenia economy. During the period between the first and second world war, the transfer of production from more developed countries represented (textile, steel industry, chemical industry, etc.) the basis for the beginning of industrialisation.

Numerous collaborations appeared during the time of Yugoslavia providing domestic supplies on the basis of trade in goods with foreign partners. Some foreign partners expressed huge interest for the trade in the Yugoslav market. In the environment of ex-Yugoslavia, Slovenian enterprises had a number of signed agreements about long-term production cooperation that were usually based under nondiscriminatory terms. On the other hand, there was a considerable amount of discrimination between Slovenia, which had a surplus of foreign currency and established cooperation, and less developed areas in Yugoslavia, which entered international trade under discriminatory terms. A large portion of Slovenian exports was based on forms similar to outsourcing – production of components, materials etc. for foreign producers on the so-called wage labour (Ger. Lohnarbeit). Parties in many such relationships became, after an investment in knowledge and capital, more and more equal and represent the basis for present international trade. In the environment of ex-Yugoslavia, Slovenia became much more developed than other countries due to such developments, which brought about substantial economic advantages (through disparity of domestic currency, large and protected market, etc.).

In Tomos, a producer of motorbikes and outboard engines from Koper, a cooperation agreement was signed with French company Citroen in 1959. In 1960, the assembly of first AZ vehicles was introduced. Cooperation focused mainly on products of higher value, as for instance starter motors made by Iskra from Kranj, headlights produced by Saturnus, wiring harnesses produced by Elektrokontakt from Zagreb, flexible brake tubes from Pančevo, keylocks produced by Lama from Dekani. Vehicles were also assembled in cooperation, like for instance model Ami 6, as well as individual DS car model. In 1980, a highly successful Slovenian and Yugoslav company, Iskra, employed 29.000 workers and represented the most important company in electrical industry in the ex-Yugoslavia. Around 1960, Iskra managed to create direct and huge possibilities for long-term cooperation and alliances with large international corporations. The company signed a number of long-term production contracts regarding business and technical collaboration. Such contracts have strategic role and were usually signed for the period of at least five years.

With the Slovenian independence during the crisis period after the loss of Yugoslav market, many Slovenian enterprises were forced to accept various operations offered by foreign companies, most often signed under unequal terms. The first period after the in-dependence was marked by price pressures, because Slovenian companies lost access to the relatively large market of the ex-Yugoslavia. During the crisis after the loss of Yugoslav market, some economically less successful Slovenian companies entered short-term and mainly unequal relationships with foreign companies.

In Slovenia, there are two types of relationships in outsourcing with foreign outsourcers – the first type, based on equality and inclusion in global economic environment, and the second type, formed during the crisis, without strategic thinking and orientation. There is an increasing number of relationships set up by Slovenian companies with outsourcers within Slovenia and from abroad. By doing research regarding the development of outsourcing it appeared that outsourcing could be divided into cost out-sourcing – rather short-term outsourcing and into strategic – long-term outsourcing, which can be found in the environment of Slovenian companies. On the one side, there are companies, which accepted outsourced activities from foreign companies as the only possibility for survival. Most often they were unsuccessful despite the fact that they acquired some technological and organisational skills, but rarely took care about the development of their own new products and the development of markets. On the other side, there are successful companies with established outsourcing relationships, some in Slovenia, and more in promising foreign countries (the Balkans, Russia etc.).

The features of short-term cost outsourcing are presented in the transfer of activities in poorly developed countries, which can offer quality and cheap workforce. Strategic long-term outsourcing is most frequent in countries with excess in certain capacities (e. g. services in India) and in countries, which represent promising markets (e. g. for the car industry, computer industry etc.).

The discussed features of short-term outsourcing should be compared with activities, which do not involve strategic core capabilities. On the other hand, the features of long-term outsourcing should be compared with activities, which involve strategic core capabilities of outsourcers.

These findings and particularly the findings of the pilot research

(Kavčič and Tavčar 2008, 143–9) draw attention to the problems dealt with in our empirical research. There are many problems, existing and potential, that Slovenian companies are faced with when they get involved in outsourcing activities as outsourcees or outsourcers without sufficient strategic analyses and without implementing outsourcing into their long-term strategy or company policy.

# 3 General Theoretical Premises

This chapter deals with theoretical premises of management from the point of view of outsourcing, placed in the following thematic fields:

- Two concepts of management for company control – instrumental and interest-related – and outsourcing,
- vision, stakeholder interests, company culture and outsourcing,
- core capabilities and the assessment of company effectiveness from the point of view of outsourcing.

The aspect of a company as an instrument can be asserted by founders, owners (stakeholders), who established the company in order to reach certain goals in accordance with their interests, most often to increase profits from risk investment capital. Managers are hired to manage the instrument and employees merely represent the work force. Managing business activities in the company as an instrument is based on rationality and authority. Values of stakeholders have a decisive influence on the strategy – operations, form, and resources. The prevailing principle is short-term orientation, opportunism and one-way focus on meeting stakeholders' interests (Tavčar 2006, 105–7).

Another aspect when speaking about the company as a community of interests stems from a wider social concept about company purposes. Enterprises have more chances to survive and succeed, if their actions are in accordance with the interests of the most important stakeholders, both internal and external, and if relationships strive towards long-term trust and collaboration. In such cases managers' decision taking is more collaborative and less authoritative. Business dealings and achieving targets cannot succeed by taking an inductive path (due to complexity), but by taking a deductive path based on creative concepts and critical thinking. Managing a company as an organism is a managing co-worker and other participants by taking into account their needs and values (Tavčar 2006, 105–7).

Outsourcing is a form of company management (company as an instrument) and alliance formation (company as a community of interests), in which a company either outsources an activity, previously carried out by itself, to an outsourcee (a legal entity), or receives an activity from the outsourcer.

## 3.1 Company Policy as the Framework for Outsourcing

Outsourcing can be, for both outsourcers and outsourcees, an important component of short-term, mid-term or long-term company policy.

Company policy stems from its vision, with all underlying efforts and subordinate objectives. It comprises objectives and strategies used in order to accomplish the objectives; company strategy includes activities, form and resources (Tavčar 2006, 193–209).

### *Interests of Stakeholders and Vision*

A *vision* gives a company a common orientation. A good vision is the most important tool for managing company complexity. A good vision is the one, which is accepted by the majority of employees. A good vision is followed by the employees and represents the basic orientation for their activities. A good vision includes and balances the interests of the majority of important stakeholders. The basic approach of this book is not to treat the outsourcing per se, but as one of the possible placements within the dimension for company management ranging from 'marketplace' to 'hierarchy' and as a part of vision or managerial mentality. Management and collaboration should stem from values, company culture and management ethics. A strong vision represents the most durable and effective means in managing the direction and transitions from the concept called hierarchy into concept referred here as marketplace by taking into account the cost of hierarchy and transactional cost (utilisation of capabilities).

The most important components of vision are the following (Collins and Porras 1996):

- core ideology includes core values that prevail in the company and core purpose – a reason for the survival of the company;
- envisioned future should include a vision or goals for a longer period.

A vision should meaningfully connect and reveal important and long-term interests of important company stakeholders. A good vision emerges from within important stakeholders, who believe in it and act accordingly. A vision is a concrete image of future, which is close enough to appear feasible and distant enough to create enthusiasm in the company (Hinterhuber 1996, 83–4). A good vision is simple, sound, encouraging and challenging.

A vision is a company projection into future, which has a motivating power, if it is challenging, clear, attractive, with sufficient core values, directed towards the needs of employees and customers, it triggers creative motivational tension and initiates the process of unification of employees with the company, especially if they are its comakers and implementators. A vision should be up-to-date, coherent, uniting, encouraging and a comprehensive mosaic of basic long-term tendencies, mission, orientations, hopes, expectations, goals and company strategies. The final goal, towards which a company gravitates, is a long-term competitive advantage in all activities, presented in high quality of goods and services, business activities, management and employee satisfaction (Mayer 1994, 18).

According to Tavčar (2006, 116–7) a good vision focuses on seeking and understanding the views of others, making decisions with regard to the views of other participants, active listening in conversations with other participants, on gathering information outside the personal field of expertise, on education and training and on maintaining relationships with creative individuals. A good vision includes spontaneity and creativity, realistic approach, absence of daydreaming and reasonable prospects and possibilities. A vision helps the company to constantly learn and improve. Last but not least, a vision gives a company a common direction. Kralj (2003, 107) believes that a vision represents an idea about the future. Biloslavo (2006, 104) regards a vision as a projection of company in future, which meaningfully connects and reveals important and long-term interests of important company stakeholders. Thus the consideration of outsourcing should be integral, and should consist of the temporal dimension (long-term – sustainable, medium-term – develop-mental and current – short-term), company goals and strategies, instrumental and interest aspect of the company.

Tavčar (2008, 23) writes that a company is likely to be successful in the long run, if the majority of employees share a similar image about the company in future – and if they work towards this endeavour together. A good vision includes the interests of the majority of important company stakeholders.

A vision is a principle, orientation and belief that should be implemented. The path towards a vision leads through a few basic objectives, goals and their subordinated targets, long-term and short-term, limited and general (Tavčar 2006, 117). For the purpose of this book I chose the definition of vision as developed at the Faculty of Management (Tavčar 2006; 2008; Biloslavo 2006; Kralj 2003) and which defines vision as a description of features and orientations of a company, and defines the reasons for the existence of an enterprise and includes its orientation and business activities of the company in future.

In accordance with the emerging doctrine of the Faculty of Management (Tavčar 2006; 2008) I treat *core (primary) company activity* as a permanent framework of company's programmes. The company core activity is a set of programmes, which are being developed in collaboration with the company stake-holders. Tavčar (2008, 221–2) believes that the core activity should consist of programmes, which support each other on the market and are not exclusive, and are consistent with company core capabilities. Programmes are products (tangible products, intangible services) aimed at target customers. A core activity can be based on different core assets – on work, capital or knowledge. We should distinguish between core activity and mission, which represents basic tasks of a company. Company core activity has several dimensions:

- it can consist of a wide range of programmes, is differentiated or focused on only a few programmes,
- programmes can consist of only a few or many different products,
- they can be aimed at one or only a few groups of customers in one or different industries,
- programmes can be based on different shares of core types of company assets.

### *Values and Culture*

*Culture* and company management are interdependent. When a company is developing the company culture grows in parallel to the company growth. When the culture is formed, it has a considerable influence on the company management. If culture does not support the company growth and integration, it is necessary to identify and remove the negative elements of culture. Evolution and monitoring of culture should be carried out in a way, which makes it possible for the company to survive in the changing environment.

Values people hold are highly various. An individual can possess 10 or more target values and by a size class more instrumental values, which relate to the way objectives are achieved. From the manifested forms of culture it is impossible to draw conclusions about people's values (Schein 1992, 19–21). Due to the variety of forms of culture and its complexity classification is beyond human analytical powers. Culture is closely related to values. The formation of integrated outsourcing strategy is most likely if it corresponds to culture. The differences between habits and behaviour in different cultures (programmes of a company, several companies, countries) can become an important factor regarding outsourcing decisions.

There are many values and even more cultures, which are based on a range of acquired values. According to Tavčar there are many classifications of culture (2008, 217–8):

- stable, responsive, predictable, innovative, creative (Ansoff 1978, 120);
- culture of power, culture of roles, culture of tasks, culture of personality (Handy 1979, 176–211);
- culture of power, business culture, systemic culture, process culture (Deal and Kennedy 1982, 107–23);
- common, adhocracy, hierarchy, market (Cameron and Quinn 1999, 58);
- innovation and routine (Mulej 1992, 27).

Company cultures are to a great extent subordinated to environmental cultures. These cultures are even more varied, because the prevailing values were formed in tens of thousands of years of the development of our civilisation. This guides Hofstede (1980) in his thinking to place culture in the following dimensions:

- high power index – low power index;
- low uncertainty avoidance – high uncertainty avoidance;
- individualism – collectivism;
- 'masculinity' (prevailing rationality) – 'femininity' (prevailing feelings);
- short-term orientation – long-term orientation.

Due to the complexity of components of culture it is impossible to simply classify cultures on the basis of individual criteria (e. g. geographical position, language, religion etc.). Hofstede (1993) believes that culture represents a construct, which cannot be observed directly, but can be studied indirectly through texts and verbal and non-verbal behaviour of people belonging to a certain group.

Schein (1992, 9–10) describes culture as a pattern of key assumptions, discovered or developed by community members during the process of solving problems important for the existence of the community, and which were successful enough to be transferred to new community members in order to be able to understand and think about matters related to the adaptation to external environment and internal collaborative activities. According to Schein (1992, 12–5) culture is manifested on three levels. On the first, surface level, visible signs can be observed (artifacts), i. e. physical company environment, organisational structure, processes and products. On the second level, company values are manifested (acquired, inferred values), i. e. policies, objectives and strategies, management style. The third level consists of underlying concepts, i. e. subconscious experience, perception and feelings about the company.

According to Tavčar (2008, 217–9), culture reflects values common to a substantial part of important stakeholders, especially co-workers. Values are goods, most valued by people, never abstained by them and which are in transferred from one generation to another through tradition. Views that are contradictory or strange to the accepted culture are keenly opposed. The same holds true for cultural environments in which companies operate. Musek (1993, 137–47) classifies values as hedonistic, potential, moral and fulfilling, combining them upwards into dionisic and apolonic, which represent the highest hierarchical level.

Company culture has an important influence on company management in order to achieve objectives related to outsourcing, because it can support or hinder the fulfilment of goals and the implementation of the strategy set by the company management. Biloslavo (2007, 48) writes that we can speak about a strong culture in cases when the majority of employees strives for and shares the same or similar values. In a weak culture, informal pressures on individual's behaviour are weak, whereas in a strong culture it can be very strong. Peters and Waterman (1982, 76) pointed out that a strong company culture has an important influence on company success.

With regard to the power and suitability of culture in outsourcing as a component of company policy, managers have four alternatives (Tavčar 2006, 48):

- ignore culture – this does not, in the long run, reduce company success, but, in a short run, makes it easier to cope with some matters;
- exploit culture – this can bring short-term benefits, but in the long run reduces company potential due to the opposition of participants;
- use culture – management maintains and encourages only those aspects of culture, which are important for current and long-term company success;
- change culture – this is a long-lasting process, demanding and risky business, which can be successfully implemented in company's own environment than in external environments.

### *Goals and Objectives*

The terms 'objectives' and 'goals' are dealt with in scientific writings differently by different authors. Below, there are some definitions from American literature:

- objectives are long-term strategic intentions of a company (Chakrawarthy and Lorange 1991, 4),
- goals are expressions about target achievements within certain deadlines, are less permanent than objectives (Chakrawarthy and Lorange 1991, 4),
- objectives, often called goals are intentions (Hodgetts 1985, 93),
- goals represent desired future states, aimed at by individuals, groups or companies; in this sense they include missions, purposes, objectives, targets, quotas and deadlines (Kast and Rosenzweig 1986, 179),
- goals are results that should be reached; they define the state of affairs, which, according to some members, should be reached.

Goals are desired outcomes. Achieving goals means to reach outcomes and have them at your disposal. Outcomes are therefore achievements. Disposal over outcomes is, as a matter of fact, participation in outcomes. Buyers can buy products on the market, suppliers can sell materials to companies, employees get salaries and wages, owners participate in increased ownership and profit, the state gets taxes, etc. Effectiveness is the ratio between outcomes and stakes, success in the ratio between outcomes and set goals, financial success is presented by outcomes in relation to assets (capital). Company outcomes are shown as business outcomes, business performance and financial performance. In order to determine goals for outcomes and in order to achieve improved business operations, one should be familiar with quality components and their interconnectivity. The quality of business operations consists of success (effectiveness and efficiency) and company reputation (structure and reputation). Quality standards of business operations are set in relation to outcomes. A company should choose key quality standards by taking into account the components of the quality of business operations and should measure them with analytical tools measuring deviations and indicators (Kralj 2003, 198–213).

In addition to common company (own) goals there are also some special goals of employees, owners, management, partners on the market, state etc. Thus the assessment of a company's operational success should also take into account the opinion of influential stakeholders. They are likely to be satisfied with the company, if they receive from the company as much as they expected – the same holds true for the company. Benefits from reaching these goals should exceed the use of capabilities and company assets, otherwise a company cannot develop (Kralj 1995, 46).

More important and more long-term oriented the interests stemming from values are, less important and long-term oriented are the interests stemming from transient and changing needs. Objectives and goals stem from interests of important participants; different participants have different objectives. In order to successfully implement a company vision, managerial harmonisation and connectedness are needed. Objectives make participant's interests and company vision real. An increase in profitability, productivity, management of own production price, maximising of product quality all have an important impact on long-term company competitiveness and, above all, on business success.

Vision includes objectives and a hierarchy of consistent goals. Company complexity could only partly be explained with quantitative gauges. Thus qualitative measures should be employed; subjective assessments are best objectified by critical group discussion. Company management should employ harmonious measures – there should only be few of them, clear, interdisciplinary, but also varied and simple – they should enable the management to monitor company success on a regular basis. Goals should be integral and not only one-sided (Tavčar 2008, 23).

Mintzberg (1996, 3) writes that the main goals are those, which influence the company orientation and development and are called strategic goals. Segev (1997, 123) believes that strategic goals most often relate to achieving company competitive advantage. They are set on the basis of cross sectional analysis of the company in order to ensure its effectiveness. Most often they are connected to appropriate company sales value in the future (Segev 1997, 123). There is an old saying: 'what cannot be measured cannot be managed.'

Methods for measuring results with balanced indicators enable the management to define goals, which exceed financial success and include investments in people and improvement of processes, which guarantees long-term success. Indicators stem from the vision and framework programmes and represent the balance between external indicators that are oriented towards customers and internal growth indicators, learning and business processes. The system of balanced indicators preserves financial indicators as the basic yardstick of past effectiveness and introduces indicators, which have influence on future effectiveness (Kaplan and Norton 1996, 19–20).

The advantages brought about by the concept of harmonious system of measures for ongoing management (Kaplan and Norton 1996, 21–35) are:

- transfers vision and strategy into a consistent system of goals and measurements;
- informs employees about the driving force of current and future effectiveness;
- is a tool for managing behaviours and evaluating past business activities;
- reveals company strategy;
- helps harmonising incentives coming from individuals administrative units and aimed at reaching common goals;
- harmonised system of measures: short-term and long-term goals; desired outcomes and incentives for reaching the outcomes; hard and soft measures.

Tavčar (2006, 501–4) developed a concept of the company as an instrument and as a community of interests in which company operations are measured from the instrumental and interest aspect. Measuring and assessing include all components of company activity, innovation as the creation of new knowledge, products and programmes, the production of products and providing services, careful assets management, marketing and exchange as understanding the needs and interests of important customers and suppliers as well as co-workers who represent company's creative core.

The systems' worth lies not in measuring outsourcing, but in managing the company and participants in their efforts related to the placement of outsourcing. The measuring system represents a tool for the implementation of the system for strategic management of outsourcing. It enables managers to implement an integral strategy of outsourcing and receive feedback about it. Traditional managerial system is based on financial aspects, whereas the system of consistent measures preserves focus on short-term financial success, but at the same time stresses the importance of creation of intangible assets and competitive capabilities for long-term relationships among the participants in outsourcing. Thus, the management is equipped with the tool for placing the company within dimensions ranging from 'marketplace' to 'hierarchy' for the purpose of long-term success.

### *Company Strategy from the Point of Outsourcing: Review of Literature*

It is not enough to set goals, as one should strive to achieve them. Everything that contributes towards reaching goals represents company strategy. The point of strategies are important and long-term goals (strategic goals), which are the subject of a strategy, dynamic allocation of resources by manoeuvring and the way in which goals are achieved (tactics, procedures) by taking into account the influences and required responses to changes in the environment. It is necessary to note that company strategies, their components and activities are dealt with in a variety of ways in literature: sometimes strategies are equated with company policy, or long-term orientation and importance as well as a way to reach goals. The basic feature of a strategy is response to changes in the environment and within the company regarding all essential components (Kralj 2003, 111).

Here, I would like to point out the difference between the prevailing concept of 'strategy' in Anglo-Saxon literature (strategies include goals) and European (German) concept of 'policy' (which includes goals and strategies). A number of definitions of strategy can be found in literature. A selection is given below:

- A strategy is a comprehensive collection of accepted and taken decisions of a company; a good strategy helps to control and allocate organisational resources by forming a unique form which is able to survive and is based on relative internal capabilities and weaknesses, expected changes within the environment and uncertain movements of intelligent opponents (Mintzberg 1994);

- The main purpose of a strategy is to achieve competitive advantage for the company, which means that the company is able to ensure unique added value to customers and has a clear and unique vision about its own positioning in the industry (Porter 1998);
- A strategy is formed because the company cannot be absolutely flexible and because it needs a certain permanence and direction (Segev 1997, 5–9);
- A strategy is a set of goals a company would like to achieve over a longer period of time (Ackerman and Rosenblum 1973);
- A strategy includes goals a company is willing to achieve, activities for their realisation and a process of planned division of resources used for the performance of activities (Chandler 1962; Andrews 1971).

According to Segev (1997, 6–13) strategies could be divided with regard to the field to which they refer to or with regard to the contents of problems, we are trying to solve. Thus, they are divided into:

- Corporate strategies: strategies referring to the whole and can include a number of business units;
- Business strategies: strategies referring to one business unit.

Chandler (1991, 33–7) deals with the historical development of corporations and is particularly interested in the choice of suitable organizational form. In this book, a corporation is treated with regard to its placement in dimensions, where ownership determines the degree of control and collaboration. The company form and structure are inseparably connected to the strategy, where the harmonisation between the two represents a prerequisite for successful company operations. Despite numerous attempts and changes regarding organizational form and strategic orientations, it is still not clear which form of corporation is the most profitable and how the most suitable corporate strategy should be formed. Such questions are dealt with in more detail in fifth chapter of this book, which deals with corporate alliances.

## 3.2 Company Policy Model Selection for the Purpose of Outsourcing

The demanding integral planning of company policy under high complexity, i. e. planning of goals and strategies in order to achieve these goals can become less demanding with the application of suitable mental models. An ideal mental model should be at the same time accurate, simple and all-inclusive, which is almost impossible to achieve.

Company policy possesses several dimensions. They can include a humanistic and technocratic approach, continuity and variability, short-term and long-term orientation. Within the mentioned dimensions, a variety of other orientations exist, for instance:

- during the formation of a policy: mindset (logic or creativity), planning and preparation, evolutionary and in revolutionary changes;
- with regard to environments: external environment (superiority or inferiority), internal environment (orderliness or chaos), international environment (global or local);
- with regard to the content of the policy: activities (innovation, production, marketing), form (rules, structures, processes, alliances), assets (work, capital, knowledge).

A historical duality can be observed in a humanistic approach (Mayo, Weick, and March) vs. technocratic approach (Taylor, Simon, and Porter). There have been several attempts to synthesize the two approaches (Barnard, Drucker, Argyris, Senge, Hamel, Stalk) (Nonaka and Takeuchi 1995, 20–55).

During the 90s of the previous century a decade old disagreement between the proponents of the so-called strategic planning (Ansoff 1978) and slightly more humanistic and integral approach (Mintzberg 1973; 1994) ended, with the victory of the latter and currently a widely accepted approach.

### *Strategic Planning and Creative Formation*

After the initial enthusiasm about traditional strategic planning in the seventies it was soon found that such planning was too academic, rigid, structured and inflexible. Creative and encouraging role of methods and models should be more important than the models in assessment and selection. Strategic planning failed to understand creative activity within the guidelines of strategic planning. In addition, it poorly understood the meaning and role of top management and other important stakeholder interests. Complicated, detailed and highly structured, an at times bureaucratic planning process ended up in the hands of professional planners in headquarters – who have poor understanding of the processes of strategy formation and the logics of decision-takers. Ansoff was the most influential advocate of the concept of strategic planning, Mintzberg its best critic (Tavčar 2008, 274–5).

Mintzberg is the most eager advocate of the creative approach, of the transition from the old to the new paradigm of planning and creation of company policy. The old paradigm is focused on pragmatism and emphasises short-term benefits, even at the detriment of some participants. The new paradigm takes into account interests, chooses proper long-term options and activities, despite the fact that they do not bring any short-term benefits, and strives for the success of other participants and for the formation of good relationships. In the creative approach, what counts is company vision and not the orientation towards short-term profit. In addition, company culture is more important than regulation and hierarchy, company policy is more important than control. The creative approach works towards progressive creation of company policy for unknown future. Managers set company goals and initial strategy. If during the implementation of plans the selected strategy fails, it is substituted with a better one. The initial goal or a series of goals are still followed. Strategy corrections and substitutions are constant, because managers try to find the best path on the way full of obstacles. Companies do not have only one strategy. Managers choose, according to their own judgments, from the list of possible strategies, the best strategies observe them and constantly adjust them.

In my writing, I rely on the emerging doctrine (Tavčar 2006; 2008; Biloslavo 2006; Kralj 2003) of the Faculty of Management, where strategy represents a common name for reaching goals and where company policy represents a common name for goals and their fulfilment. A strategy includes activities through which goals are reached, company structure for reaching goals and assets for reaching company goals, because company strategy can only be designed.

### *General and Pragmatic Approach*

General planning and design begins with key directions – vision, goals, management mindset, key activities, the concept of assets – from which an obligatory development policy is formed in the form of a rigid framework for current policy, which is an artificial theoretical construct. The second dimension, which usually prevails in practice, is pragmatic design, in which midterm plans are gradually developed, based on regular and often improvised action. Long-lasting orientations emerge and are shaped on the basis of mid-term plans. The pragmatic approach stems from the present state, searches and exploits opportunities and tries to avoid risks (Tavčar 2008, 277–309). Neither general nor pragmatic approach are suitable for managing the complexity of outsourcing, thus a synthesis of both approaches will be employed in the empirical part of this book. In the efforts to place outsourcing within the dimensions between 'marketplace' and 'hierarchy' I will try to find a synthesis between the general and pragmatic approach, which fail to succeed in their pure form and in real and complex business matters.

In scientific writings *the general approach* has a longer tradition than strategic planning. Especially during the second half of the 20th century it has a number of proponents (Aaker 1988; Ansoff 1978; Bleicher 1995; Gälweiler 1987; Mellerowitz 1976; Porter 1980). General approach towards planning and design is based organizational hierarchy of the policy framework model. It represents the first permanent, long-term key policy, stemming from company vision. It has a subordinated mid-term developmental policy, to which a short-term policy is subordinated. Hierarchy is reflected in an integral and logical approach, and stems from uniform, controlled and targeted approach to planning and designing company policy (Tavčar 2008, 460–72).

Concerns regarding the general approach do not imply that there are no creative planning and design in companies – it is concealed, nonformalised and improvised and goes on in the minds of individuals and in communication within a narrow circle of people, often carefully concealed from the competition. In literature, the foundations for a different, *pragmatic approach* were set by Mintzberg, Lampel, and Ahlstrand (1998) with the idea about gradual creative planning and designing of policy. This approach stems from the present state, makes use of opportunities and avoids risks. It starts in the present, reaches into midterm period with the design and implementation of more long-term oriented tasks and business operations and continues with a gradual generalization and implementation of gained experiences. The quality of pragmatic approach can be rather low, but is nevertheless used in the majority of companies, even the most successful ones. A quality pragmatic approach can bring perfect outcomes (Tavčar 2008, 460–72).

Neither general nor pragmatic approach are, in its pure form, suitable for managing the complexity of the policy placement into dimensions, thus a synthesis of both approaches is more than relevant. Finding the right measure and synthesis between the two extremes does not apply only to the general or pragmatic approach, but also other dimensions – long-term and short-term orientation, planning and creation, and stretches into the most important dimensions of instrumental and interest view of company. These dimensions also require synthesis formation and consideration of synergies that may arise.

### *St. Gallen Policy Model*

In the early 90s, a policy model was developed by authors from St. Gallen University (Bleicher 1995; Schwaninger 1994; Gomez and Zimmermann 1993). They developed a policy model, which includes three temporal frameworks – long-term, mid-term and current – and connects them in a matrix with three areas – activities, structures and behaviour. The model, which included ingenious graphical presentations remained unfinished because it:

- did not deal with the so-called 'operative management' (current policy),
- in 'normative management' (key policy) used different dimensions than in the so-called 'strategic management' (developmental policy),
- only briefly mentioned the necessary assets for business operations.

## 3.3 A Framework for Company Policy

Independently from the St. Gallen model the framework company policy model appeared (Tavčar 1996; 2008), which includes long-term core policy, mid-term developmental policy and short-term current company policy.

The core of *short-term current policy* represent activities that ensure company success in present time and encourage gradual implementation of developmental projects, which are needed for the future, permanent company success. A wider temporal framework is presented in a more general *mid-term developmental policy,* which should ensure firm and more permanent current company operations. It includes plans for the implementation of existing company programmes, which represent the basis for permanent business success of companies, and projects for the gradual creation of new knowledge, core capabilities and products. *Long-term core policy* should give a company permanent orientation, a framework in which developmental planning and creation is carried out. The framework model connects instrumental and interest company concepts and represents an important element of the Faculty of Management doctrine. I use it as the basis for research in this book.

The model includes three frameworks (basic, developmental and current), within which there are three components of strategy (activities, form and assets). Within each component of strategy there are two groups of dimensions ('soft' and 'hard') and within each group there are four contextual dimensions, ranging from 'permanence' to 'changeability.'

Strategies and goals of outsourcing (the policy of outsourcing) represent an important component of company policy. The main components of strategy are:

***Activities.*** The creation of new products – innovation, production of products and services, purchasing and marketing. An activity is based on company assets, which can be material (usually financial) or nonmaterial (most often work and knowledge). The creation of new core capabilities is based on the use of existing or new knowledge, which can be created by the company itself, or gets them on the market through alliances on the market (through buy-outs, licences, franchising, ownership shares in companies) or in collaboration with partners. In the empirical part, I deal with enterprises, which produce products. The features of product manufacturing differ from the features of providing services, thus some dimensions regarding product manufacture are given below:

- *type of production:* individual, serial, mass production,
- *spatial concepts:* production is subordinate to product, which is assembled with parts from different external sources, production is subordinated to technologies, production is subordinated to location, to which technologies, materials, producers etc. are transferred,
- *manufacture* can be work intensive, capital intensive, and knowledge intensive.

***Form.*** General operating rules, division (division of labour, competence and responsibility) processes and integration. Outsourcing is only a name for the contemporary concept of labour division in society – civilization. Rules regarding business activities represent the primary form of company structure. A special type of permanent rules represents the division of labour in the company, which can be organised in different ways. Company structure determines the activity of workforce, functions, units on the hierarchical level of the company towards the common goals and objectives. Company alliances in order to reach common goals have a similar role, but on a higher level of complexity. Some dimensions are given below:

- alliances with regard to three principal ways – ownership alliances, contractual alliances and interest alliances,
- the purpose of alliances for combined operations with existing and potential marketing partners,
- field of alliance – in developing new products, technologies and combining sales channels and marketing,
- alliances for the purpose of combining assets or capabilities – capital, labour capacities, knowledge, trademarks etc.,
- degree of alliance: ownership (from minority share to majority share, common investments), development (e. g. common projects), production (filling production capacities, economy of scale), market (common use of sales channels, distribution channels etc.),
- way and degree for managing subsidiary companies in corporations – from defining strategic decisions to defining standards and audits for autonomous decision-making etc.).

***Assets.*** They include material assets (finance, material, technologies etc.) and non-material assets (reputation, knowledge, people). Enterprises use different means in different combinations for managing operations and forming alliances. Company operations are placed in the space between work, capital and knowledge. A company can use assets indirectly by purchasing goods and services. In the case of outsourcing, companies transfer components of their own business activity to external companies. Company management creates different relationships by using its own or foreign assets, by taking into account risks, availability, economy etc. A company can produce knowledge itself or purchase it from the outside. Here, we should take into account a number of audits, ranging from short-term economic company strategies to long-term strategies, risks and alliances.

The framework model of company policy as a methodological framework for comparative auditing of outsourcing within the dimensions of forms of control and collaboration is used throughout this book. The choice is substantiated with the following arguments:

- compliance of the framework model of company policy with the emerging doctrine of the Faculty of Management, where this work was written,
- in-depth analysis of the framework model in literature (Kralj 2003; Biloslavo 2006; Tavčar 2006; 2008),
- the complexity and variety of the circumstances of individual forms of alliances and transitions from one form to the other cannot be discussed within the limited space of this book, therefore a comparative approach has been employed, which is dealt with in section 3.3.

The creation of key company policy stems from the vision and determines general and permanent company orientations. Goals and the hierarchy of consistent goals stem from the vision. Long-term key company strategy includes all factors that influence on reaching objectives, and include activities supported by company structure and assets.

Culture reflects important and permanent interests of all influential participants, which are based on values valid in subcultures of managers and influential stakeholders. The culture of outsourcing with regard to decisions about internal production of products or outsourcing represents an important question in the key company policy with regard to control or collaboration with external participants. The same holds true with regard to the distribution of limited core company capabilities related to existing products and new developmental projects in the creation of novel core capabilities in partnerships with other enterprises.

Mid-term developmental policy includes harmonised developmental goals and strategies for individual programmes and the company as a whole. Developmental strategies include mid-term orientation of programmes (creation, production, marketing), mid-term tasks of programme holders (programme units, professional services, companies) and mid-term allocation of material and non-material assets for the operation of company units. The harmonisation of developmental goals and company developmental strategy as well as its programme units is carried out in collaboration with individual managers responsible for individual company programmes and top management. Middle managers give their views regarding the development of programmes and the allocation of company capabilities during the time of the creation of company developmental policy. Top management assesse the compliance of individual suggestions with the company vision, goals and company core orientation and assesses potential contribution for:

- achieving set performance standards,
- the development of existing core capabilities and
- the creation of new company core capabilities.

Company developmental policy includes dimensions connected with related activity components (creation of knowledge, core capabilities, new products) for the future and activities for mid-term existence and success of companies.

Activities include mid-term programmes and the concepts concept of activities for their implementation, which are carried by the company itself or in collaboration with other companies. The creation of business model includes the identification of possibilities for the implementation of existing programmes on the market as well as in other exchange relationships and in recognizing prevailing values and corresponding future need of participants for the creation of new programmes.

The most important short-term goals are current effectiveness and efficiency of company business operations in implementing the programmes, which were created upon core capabilities, as well as effectiveness and efficiency in gradual implementation of core company capabilities, created within the mid-term company policy.

Short-term planning of the outsourcing policy is insufficient by itself, because the creation of new core capabilities and products and the decision whether to produce within the company or in collaboration with external partners usually exceeds the short-term temporal framework. On the other hand, this is an indispensable condition for effective company current operations, because it normatively defines the use of capabilities and outcomes for individual company operations and represents a required orientation for partners and the basis for a sound assessment of outcomes.

Outsourcing is a component of company management, the basic problem being the complexity of enterprises and environments in which companies operate. Management is carried out under conditions of asymmetric information and uncertainty, with limited abilities of human mind and information technology (Tavčar 2008, 15). Among the approaches for managing complexity, the following will be used for the purpose of this book: auditing, benchmarking and scenario creation.

## 3.4 Auditing as an Approach for Managing Complexity

Screening of potential partners can be carried out by means of auditing or benchmarking. More can be found in Ringland (2006, 85–96).

Benchmarking used in section 3.4 is based on the comparison of factors, whereas audit is based on the comparison of factors according to set standards. Tavčar (2006, 481) believes that reliable audit should deal with a comprehensive group of factors in the company or its environment and should employ uniform assessment criteria.

In order to audit a company a questionnaire can be used. A questionnaire based on the structure of framework company policy model after Tavčar (2008) is given in table 3.1. Many questions can be asked regarding goals and strategy components. The questions should mainly focus from the point of view of both potential partners and their interests. In a simplified form, each partner should carry out such audit for himself and the opposite partner – by taking into account short-term, mid-term and long-term frame-work.

## 3.5 Benchmarking as an Approach for Managing Complexity in Policy Creation

Benchmarking is the term used for comparative measuring and auditing. According to Tavčar (2008, 188–92), due to complexity benchmarking can not embrace all factors of effectiveness and efficiency included in auditing, thus only those should be chosen, which are the most important and could be, under real conditions, defined, measured and audited.

Benchmarking can be used for comparative assessment of effectiveness and efficiency of enterprises at present time – e. g. with other enterprises in the same or different placement in dimensions of management and alliance formation. Through bench-marking we may assess the present difference in effectiveness of a studied company and a comparative company, which operates in another placement within the dimension (which we are likely to select or would like to check).

Benchmarking applies to the current state and represents an appropriate tool for building long-term company policy. Many qualitative

**Table 3.1** Framework Policy Model in the Form of Questionnaire for Integral Audit of Company Policy

| | Structure | Activities | Assets |
|---|---|---|---|
| Core policy | *Organisation vision*<br>Does vision reflect the prevailing values of internal and external participants?<br>Have all the participants adopted the vision?<br>*Organisation goals*<br>Do organisation goals reflect the interests of important stakeholders?<br>Do goals form a harmonious mix, which is simple to use and known to the majority of participants (and other influential stakeholders)? | | |
| | *Organisational culture*<br>How strong is culture and how does it fit the company vision and its main activity? | *Key activity*<br>Does the management ensure that the key activity is a portfolio of successful programmes? | *Material assets*<br>Is the supply of material assets reliable and enables competitive business operations of the organisation? |
| | *Management philosophy*<br>Does the synthesis of instrumental and interest organisation concept prevail?<br>Is the management philosophy in accordance with the key activity and company orientation? | *Orientation*<br>Does the key activity focus on products, which offer more benefits to partners than those offered by the competition?<br>Does management eliminate unsuitable programmes from key activities? | *Non-material assets*<br>Do work, knowledge and enthusiasm enable lasting existence and competitiveness of organisation?<br>Does knowledge support the use of organisation material assets? |

*Continued on the following page*

measures can be, by approximation, converted into quantitative, with a false feeling of accuracy. Quantitative measures should be created for benchmarking, but not on account of their explanatory power. Benchmarking is less reliable tool, but much easier to use – because human mind finds it much easier to perceive differences than absolute values, which is easier done for a logical whole than for details.

By applying benchmarking, we can derive core capabilities as company key competitiveness in the present state of management and integration and compare it with a new degree of management and integration. After the study and audit of the degree of placement it should be estimated what the transfer into lower or higher degree of management and integration is likely to bring about, which can be based on ownership, contract or interests.

**Table 3.1** *Continued from the previous page*

| | Structure | Activities | Assets |
|---|---|---|---|
| Developmental policy | *Developmental policy goals* Is the system of measures and developmental goals in accordance with organisation goals and vision? Does organisation developmental strategy enable organisation developmental goals? | | |
| | *Upgrading structure* Is structure upgrading in accordance with the creation of new programmes and company culture? | *Creation of new programmes* Is the creation of new programmes based on future interests of important partners and collaboration with them? Is it based on the development of company's own core capabilities? | *Assets allocation* Does developmental policy dedicate adequate share of available resources to the creation of new programmes? |
| | *Existing company structure* Does existing structure give sufficient autonomy to enthusiastic employees and defines behaviour of less enthusiastic employees? Do structure and culture support each other? Does structure support the implementation of existing and the creation of new programmes? | *Use of existing programmes* Is developmental policy able to forecast outcomes related to the use of existing programmes? Does developmental policy include the measures used during unexpected decrease in quality of existing programmes? | *Assets acquisition* Does developmental policy include reliable directions for the supply of important assets (banking, material, employees, external providers)? Is the supply of knowledge based on own resources? Does assets acquisition sufficient for the implementation and creation of programmes? |

*Continued on the following page*

Effectiveness and efficiency of outsourcing are basically relative terms. Absolute estimation of effectiveness and efficiency does not mean a lot, because every company competes and compares itself with its competition. It holds that, as a rule, effectiveness and efficiency of outsourcing is compared and often audited, because it cannot be measured. When assessing the effectiveness of participants in outsourcing relationships in different phases of outsourcing, it is best to use benchmarking models.

Benchmarking of outsourcing is highly useful and important for current assessments, because the forms of management and integration

**Table 3.1** *Continued from the previous page*

| | Structure | Activities | Assets |
|---|---|---|---|
| Current policy | *Current policy goals*<br>Do current goals enable gradual achievement of developmental goals of organisation and are they in line with them?<br>Are the measures for achieving current goals in accord with the system of measures laid down in organisation developmental policy and does it enable reliable and clear monitoring of organisation success? | | |
| | *Progressive structure modification*<br>Is short-term progressive structure modification in accordance with developmental policy? Is it flexible enough to be able to cope with unexpected events? | *Implementation of developmental projects*<br>Does current policy ensure effective and successful gradual implementation of developmental projects defined in developmental organisation policy? | *Planned allocation of resources*<br>Circumstances regarding current operations should not endanger the allocation of resources defined in company developmental policy. |
| | *Policy implementation*<br>Does current policy enable efficient and consistent implementation of structure determined in developmental policy? Does structure support effective and efficient implementation of current business activities and developmental projects? | *Acquisition and carrying out operations*<br>Acquisition and successful implementation of business operations are the prerequisite for the organisation development and existence. Current business operations should not prevail over developmental projects aimed at future success. | *Effective assets management*<br>It includes assets acquired from own business activity. Acquiring assets from other sources (loans, investments, knowledge) should be economically viable and safe. |

in dimensions ranging from marketplace to hierarchy seem to be too complex for absolute measuring and auditing, due to limited mental and information capabilities. Placement within dimensions is basically comparable and not absolute, thus benchmarking is used in my research in the same manner as complexity management with comparison and adoption.

Outsourcing in this book is studied as one of placements into dimensions of company alliances within the scope between 'marketplace' and 'hierarchy.' Individual forms and degrees of management and integration, starting with ad hoc purchase/sale, purchasing contracts, cooperation, outsourcing, ownership shares, corporation and integral organisation, will be dealt in detail in chapter 5.

In the empirical research, we will discuss managers managers' assess the transition from one to the other placement into dimension of management and integration (e. g. 'winning contracts,' 'maintaining jobs,' 'return on individual orders' etc.).

Core capabilities of potential partners recognized through audit and benchmarking represent the most suitable basis for the assessment of benefits and future possibilities of outsourcing for each of the partners. Long-term success is ensured only in the relationship, in which each partner retains adequate core capabilities for independent operations – and acquires or increases core capabilities, which could be related to the creative synthesis of core capabilities of the partner in business relationship.

It should be assessed, which core capability, and to what extent, is acquired or lost by potential partners with regard to short-term and long-term period. The loss of any of existential core capabilities (e. g. the creation of new products, marketing etc.) can outweigh all advantages of outsourcing, if there is no assurance that the company will have to – after the termination of outsourcing activity – take care of its own existence and success.

From the collected and analysed information as well as from benchmarking the current state of the company can be understood, which, unfortunately, does not tell a lot about its future state. On the other hand, benchmarking is a good basis for the development of long-term policy. In order to improve decision-making in the future and the placement of the company from the present form of management and integration in the direction of hierarchy or in the opposite direction towards marketplace, scenarios should be used. A contemporary method for the creation of scenarios is based on the inclusion and taking into account possible future actions or events.

What is important is weighting possible actions in the short and mid term (a transition to a lower or higher form of company alliances) – and possible events at the time of the termination of collaboration. Not only execution, but also termination of relationship can bring about new possibilities for further collaboration with well-known partners. Strong outsourcers, who change suppliers over relatively short periods of time – often in order to make use of cost advantages in the short run – often forget that they have invested in the establishment of collaboration. In addition, they also loose opportunity for future collaboration on a new project.

**Table 3.2** A Memo for Comparative Audit of Core Policy

| | Structure | Activities | Assets |
|---|---|---|---|
| *Vision and goals* Conformity of qualitative vision with interests of key stakeholders Conformity of quantitative goals with vision | | | |
| Instrument | *Management culture:* participation–authority; centralisation–decentralisation; delegation, risk aversion. | *Core activity:* focusing–diversification; narrow–wide programme portfolio; integrity–outsourcing | *Capital and material:* share and sources of financial assets; share and sources of material assets; availability of assets. |
| Interests | *Company culture:* weak–strong; favourable–unfavourable; prevailing employee values. | *Activities in industry:* target role in industry; collaboration or competition; development trends. | *People and knowledge:* role and development of employees; role and development of knowledge; availability of employees and knowledge. |

NOTES Adapted from Tavčar (2008, 415–7).

In most cases the transition from one into another form of control and collaboration is gradual. Leaps over several forms are extremely rare due to risks. I chose the framework model of company policy as a methodological tool for benchmarking, because it is closest to the business practice. A memo was used as the basis for the assessment of benchmarking (Tavčar 2008, 415–7), used independently for core, developmental and current policy, for each with regard to instrumental and interest concept, for activities, form and assets.

Integral comparative benchmarking of the dimensions of forms of control and collaboration includes three frameworks of company policy: long-term core policy, which determines core orientation, developmental policy, which is a mid-term plan for the operations according to the set policy, and current policy, which takes care of the mid-term policy in accordance with the long-term core policy. Memo for benchmarking was used as the basis form z assessment according to Tavčar (2008, 416–8), which is here used as company core policy (table 3.2).

Permanent orientation of the placement within dimensions of control and collaboration is necessary for mid-term planning and creation, because of the idea that a company cannot produce everything by itself, and because of the allocation of company's limited capabilities among

**Table 3.3** A Memo for Benchmarking Development Policy

| | Structure | Activities | Assets |
|---|---|---|---|
| *Developmental – mid-term objectives*<br>Compliance of mid-term objectives with goals<br>Harmonisation of strategy and culture<br>Harmonious implementation of existing and the creation of new activities<br>Creation of a compliant system of benchmarking | | | |
| Instrument | Form as constraint; rules (rigid, limiting, sanctions); division of labour (delimitation, closing down); delegation (mainly responsibility); reengineering, changes in culture; collaboration (ownership, contracts | Rigid creation, buying knowledge; persistence on product platforms; productivity, norms, technology; quality standards, ISO standard; entering new markets, market share; monopoly, short-term marketing. | Economy of operations, economic viability; own resources and foreign resources; rational risk-taking; existing knowledge of organisation |
| Interests | Form as autonomy; rules (flexible, encouraging); division of labour (collaboration, openness); delegation (empowerment); processes (group work); alliances (interests, values) | Creative, cooperative creation of knowledge, core capabilities, products; own development – new platforms; long-term benefits – values of partners; new products for new markets; co-operative marketing, partnerships – insourcing, outsourcing. | Ensured share of profits; own and foreign financing; investment in development and equipment; staff development and recruitment; the development of materials supply from the environment. |

NOTES Adapted from Tavčar (2008, 415–7).

the existing products and developmental projects in order to create new core capabilities and products in collaboration.

Mid-term planning and creation of outsourcing policy is necessary, because it sets the orientation and standards of mid-term company success with the existing products – and because it includes mid-term developmental projects, which include new core capabilities and products for future competitiveness and collaboration.

As the basis for assessing the memo for benchmarking according to Tavčar (2008, 416–8) was used, which is here used for company developmental policy (table 3.3).

**Table 3.4** A Memo for Benchmarking Current Policy

| | Structure | Activities | Assets |
|---|---|---|---|
| *Current – short-term objectives*<br>Compliance of short-term with mid-term objectives, current performance and developmental projects<br>Implementation and use of consistent system of performance measures | | | |
| Instrument | Discipline, consistency, pressure; processes, management of interests; CPM, PERT, gantogram; management and control of information; gradual upgrading. | Rationalisation, innovation, economy of operations and productivity of production, standard quality, aggressive marketing. | Economy of operations, rationality, yield; low risk, controlling; and discipline, knowledge protection; cost management, liquidity; money flows, financial leverage. |
| Interests | Gradual major changes – according to developmental plans; use of culture, gradual changes of values and culture; current harmonisation of interests. | Creation and implementation of new knowledge; creation of new core capabilities; creation of new product platforms; technology development; development of new markets. | Acquiring and personal development of staff; creation of own knowledge; acquiring knowledge; interest protection of knowledge; servicing developmental projects. |

NOTES Adapted from Tavčar (2008, 415–7).

Current goals of company policy stem from company mid-term developmental goals, which stem from long-term ultimate goals based on the interests of influential participants. Planning of current policy is of key importance, because it includes the present, as planning and creation exist only in present.

In a similar way as in core and developmental policy, the memo for benchmarking was used as the basis for assessment according to Tavčar (2008, 416–8), which is here used for company current policy (table 3.4).

Current company operations should not only focus on the current company performance, but should gradually create the conditions for successful future performance; thus the current company policy a part of the mid-term developmental policy, which should follow the company core policy.

The assessment should be carried out individually for the core, developmental and current policy, taking into account instrumental and interest concept for each of them, and for activities, form and assets.

The assessment should deal with expected opportunities and threats of the newly established form or control; ranging from –2 (extremely bad) and –1 (bad) through 0 (the same) to +1 (better) and +2 (much better). It is shown in tables 3.2, 3.3, and 3.4, separately for core, developmental and current policy.

The assessment should be carried out by taking into account all entries in the memo (it is shown in tables 3.5, 3.6 and 3.7 separately for core, developmental and current policy); assessments should be marked by circling them. This is a transparent way that allows for a quick assessment. After the assessment, summaries can be written, e. g. for instrumental and interest aspect – again separately for activities, form and assets – with regard to the core, developmental and current company policy.

In dealing with the assessment about the current policy, we should check if current activities follow the developmental policy, both with regard to the implementation of existing programmes as with regard to the gradual creation of new ones in the company or in collaboration with external participants. The same holds true fort he assessment of the components of developmental policy; it should be found out if individual areas (instrumental and interest aspect of activity, form and assets) follow the orientation included in the core policy.

Factors that influence the features of individual forms differ substantially from each other, thus the complexity of the assessment is extremely high and the possibility for an inductive approach in assessment creation extremely limited. Estimates of individual assessments in tables given above are therefore subjective and risky; they can become less risky and more objective if carried out within a highly enthusiastic and professional group with a good understanding of the situation – or when the assessment is a social process described by Nonaka and Takeuchi (1995) and Tavčar (2006, 141–4; 2008, 386–94).

Benchmarking is used for the assessment of the existing situation, scenarios discussed in section 3.5 are the basis fort he creation of strategies for future.

## 3.6 Scenarios as an Approach for Managing Complexity

Scenarios are ideas about possible future and a tool fort he creation of goals and strategies fort he future. Scenarios deal with the expected future performance of the selected placement within the dimensions of control.

**Table 3.5** Short-Term Current Policy – Audit with Regard to the Memo

| Concept | Advantages and threats of the new form of collaboration | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Goals | | | | | Activities | | | | | Structure | | | | | Assets | | | | |
| Instrument | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Interests | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Total | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |

**Table 3.6** Mid-Term Current Policy – Audit with Regard to the Memo

| Concept | Advantages and threats of the new form of collaboration | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Goals | | | | | Activities | | | | | Structure | | | | | Assets | | | | |
| Instrument | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Interests | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Total | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |

**Table 3.7** Long-Term Current Policy – Audit with Regard to the Memo

| Concept | Advantages and threats of the new form of collaboration | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Goals | | | | | Activities | | | | | Structure | | | | | Assets | | | | |
| Instrument | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Interests | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |
| Total | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 | −2 | −1 | 0 | +1 | +2 |

Through scenarios we try to assess how successfully a company will perform in the future:

- in existing placement,
- in potential placement.

Scenarios are not forecasts, but presumptions about a possible future in the field of collaboration with partners in outsourcing. More reliable assessments about possible courses of placements in dimensions of forms of control and collaboration between companies may arrive from the assumptions of individuals included in critical discussions in groups. Trying to understand the thinking behind partners in outsourcing relationships is certainly beneficial, as it sheds some light on the other side of the matter; it does not include only company's own – and often unrealistic – wishes and interests. In addition, it opens up a path towards thinking about the possible ways to find a synergy between different interests and intentions of two partners – and thus prepares the basis for discussions and negotiations between them.

The temporal framework of scenarios is longer than the cycles of activity-based budgeting and planning in the company; it is easier to work in the long-term in our minds than in the mid-term (e. g. three years), because many trends will become clear soon; the present complexity makes our view into mid-term period often unclear (Mandel 1983, 106).

# 4 Theories and Paradigms Related to the Placement of Outsourcing

One of the important ways to manage the complexity in companies is by outsourcing. The importance of outsourcing has increased considerably worldwide and in Slovenia in the last two decades. More and more companies decide either for outsourcing or insourcing, the scope of which has increased considerably, both with regard to the number of activities and to their complexity.

With regard to outsourcing, interdisciplinarity is revealed through:

- *Economics:* transactional cost, productivity, efficiency (Williamsons 1981; Dyer 1997);
- *Organisational sciences:* managing complexity with hierarchy or with market (Chapman and Andrade 1998);
- *Management:* company policy – current, developmental and basic (Barney and Arikan 2001; McIvor 2005);
- *Marketing:* marketing among companies, cooperative vs. competitive marketing, networks (Lei and Hitt 1995; Koong, Lai, and Wang 2007).

Organisations are complex social, economical and technical systems. The complexity of rational organisation control, especially the employees, is beyond the capabilities of the human brain, as well as beyond the capabilities of technical systems, i. e. computers. Natural evolution of the human brain and technical development of computers are limited by the basic features of organic and inorganic matter. Efficient and successful reaching of targets of participants in outsourcing relationships will be achieved if all participants are satisfied. Each participant (outsourcing and insourcing companies) in the outsourcing relationship needs two characteristics in order to be able to manage complex problems of cooperation:

- specialisation and focus on core competences,
- the ability to participate creatively and to cooperate, leading to complexity.

Below we state research possibilities and the basis for a systemic approach in outsourcing research:

- Within the system comprising outsourcers and insourcers as well as economic and social (cultural) environments of their activity;
- In the context of power and influence relationships that the partners possess because of their core competences – knowledge, technologies, economic power, etc.;
- In the context of outsourcer control and a gradual transition from the concept of hierarchy to the concept of market, by taking into account the costs of hierarchy and transactional costs;
- Within a temporal strategic framework – from short-term outsourcing (temporary cost interests, without contractual or ownership relationship) – to long-term out-sourcing (strategic alliances, ownership relationships – outsourcing in corporations); i. e. incremental planning by selecting promising outsourcing relationships, from short-term towards long-term relationships;
- Widening the concept of outsourcing – from the area of functions to the area of organization processes – Business Process Outsourcing – BPO (Lee et al. 2007) and connecting outsourcing with processes reengineering.

Outsourcing as well as virtual (or even hollow) organizations are fashionable concepts in the management literature of today. In addition, outsourcing may be a part of a contemporary trend in business which values short-term gains more than long-term performance and stability.

Outsourcing can be an allimportant strategic decision for the outsourcing company, which gives, and for the insourcing company, which gets orders from an outsourcing partner.

Outsourcing in used because it supposedly advantages the organization. The advantages (Quinn and Hilmer 1994; Beaumont and Sohal 2004; McIvor 2000) and disadvantages or failures (Anderson, Graham, and Lawrence 1998; Bell et al. 2003) can be categorized as strategic or tactical and short-term or long-term. Kinkel, Lay, and Maloca (2007) write that empirical studies should cover the most relevant categories of motive for manufacturing off-shoring and outsourcing activities, production (cost) motives and market motive.

The literature on outsourcing has focused mainly on processes and less on consequences, or on what and how, rather than why or why not

(Berggren and Bengtsson 2004). Outsourcing has become widespread in the last decade and has moved from peripheral to much more vital business functions.

Firms can use outsourcing to leverage the organization's internal and external resources, capabilities and competences. In particular, the decision to insource or out-source an existing part or subassembly, service or function could allow a firm to free up needed resources and to focus on more important, newer or higher return processes and opportunities. As such, make-or-buy decision-making takes on a critical importance (Stock and Tatikonda 2005; McIvor 2005; Leenders et al. 2006). A refocusing of the core or critical competencies either increases their added value or maintains the market share. Differently, non-core or non-critical business processes are supposed to be outsourced to focus on core competencies and improve process efficiencies (Lee et al. 2007).

The theoretical foundation of outsourcing is Williamson's (1985) transaction cost theory, the dichotomy of 'markets' and 'hierarchies,' of 'buy or make,' of outsourcing and integrated firms. Outsourcing may lower costs of operations, but increase transaction costs; integrations may increase costs of operations, but evade transaction costs. A different approach to outsourcing is the resource based view of the firm; by outsourcing non-core activities, and focusing on core competencies, i. e. skills, knowledge and technologies, a company can effectively allocate scarce resources, differentiate and gain competitive advantages (Barney 1991; Peteraf 1993; Nellore and Soderquist 2000). More recent is the consideration of uncertainties of supply chains – of the supply marketplace. This stream is more multivariate, deals with a multitude of factors in the market and amalgamates them in supply risk or 'strategic vulnerability' of the outsourcing firm (Quinn and Hilmer 1994; Tayles and Drury 2001; McIvor 2005, Mantel, Tatikonda, and Ying 2005).

Outsourcing is an important strategy, a powerful tool, but also a fad, such as down-sizing, outsourcing, total quality management, economic value analysis, benchmarking, reengineering and many others. On the other hand, it has spurred increased emphasis on buyer-supplier relationships – such as supply chain management, lean supply, outsourcing, vertical alliances, industrial networks, as dealt with in the literature of this period (Lamming 1993; Quinn and Hilmer, 1994; Olsen and Ellram, 1997), Lonsdale and Cox, 1998). The central theme of these and many others was how to improve the competitiveness and profitability of firms – using adequate strategies, tools and techniques to select the right partner, establish a working relationship and deal adequately with internal and external changes (Momme 2001).

Outsourcing is defined and understood in many ways. Harland and Knight (2005) understand outsourcing as sourcing those activities that an organization has the internal capability to perform – considering concepts of vertical integration, vertical disintegration and 'make or buy.' Gilley and Rasheed (2000) define outsourcing as procuring something that was either originally sourced internally (i. e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i. e. make or buy). Beaumont and Sohal (2004) define outsourcing as 'work formerly done inside the organization, performed by an external organization; the vendor may be an independent entity or a wholly owned subsidiary.'

Outsourcing, in essence, is vertical integration, the final phase of development in the period after the 2nd World War. Horizontal or vertical integration enabled firms to achieve economies of scale. The horizontal integration provided the opportunity to exercise greater market power. The conglomeration offered greater security through an increased product range. Vertical integration potentially offered the firm greater control over, for example, raw materials sources or distribution channels (depending on whether it was backward or forward integration) (Lonsdale and Cox 1998). There is a vast body of literature (Clark 1961; Harrigan 1983; Jacquemin 1987) describing the principles and concepts of vertical integration between 1960 and 1990.

However, integration had its shadows as well: Porter (1998) found that over half the acquisitions in new industries and 60 per cent in new programs were divested. Academic studies (Rumelt 1974) have shown disappointing rates of return. Then, in the early 1980s, a consensus emerged that corporate strategies should go into reverse and that firms should focus on fewer activities.

There are many other direct and indirect approaches to outsourcing. Several authors (e. g. Yoon and Naadimuthu 1994) have elaborated mathematical models for the 'make-or-buy' decision – using both quantifiable and non-quantifiable factors. On the other hand, cost calculations, in many cases, do not produce a clear decision in either direction; qualitative factors, such as long-term strategic implications and the workforce reaction to outsourcing for the organization, may have a greater impact.

The most significant are the need to develop new management competences, capabilities and decision-making processes – regarding the activities, which should remain within the organization and those to be outsourced, whether all or in part – and how to manage relationships with outsourcing partners, the 'market' rather than internal functions and processes – the 'hierarchy' (Harland and Knight 2005). The key issue is to identify core and non-core activities in organizations. Yet, what is core today may not be core tomorrow and once an organizational competence is lost, it is difficult to rebuild it, so it may be lost forever. Quinn and Himmer (1994) and Lonsdale and Cox (2000) stress that outsourcing the intellectual or other skills underlying a distinctive competence may be a bad strategy.

Outsourcing appears to work best where it fulfils a wider set of objectives rather than just cutting the costs. Organizations should be aware of the total acquisition cost, not just the cost per unit quoted by the insourcer. Recent industry research conducted by Benchmark Research shows that, despite improvements, organizations are still failing to properly plan for and manage outsourced agreements and many are being driven to insourcing again.

Despite the enormous increase in outsourcing in past years, there is little research on the wider long-term risks and implications of outsourcing, such as the impact it has or can bring in the long run. The gap in literature identified here is the lack of research interested in finding out what companies do and which measures are taken, if outsourcing is terminated, and how companies respond to problems related to outsourced supplies. More attention will, therefore, be given to mutual exploration of the motives and possibilities of both parties before entering a potentially shortsighted outsourcing relationship. This monograph addresses this gap. Outsourcing will lead to increased collaboration between companies – that is the central area of our research.

# 5 Dimensions of Company Alliances and Control

## 5.1 Introduction

In a global economic environment, companies most likely to succeed should be, at the same time, big and strong as well as small and flexible. This article deals with the thesis and the concept of critical strategic risk analysis of processes regarding the size of corporations and individual companies, both at the level of corporations, where they are mainly based on ownership and legal relationships, and also at the level of companies, where they are based on interests and legal relationships

Within framework, there is a constant trade-off between market (flexibility) and hierarchy (control). The issue is how to structure internal versus external sourcing on an optimal basis. The research activities included in the chapter confirm that companies often enter contractual relationships without sufficient strategic, long-term assessments and are thus faced with high risks.

The rational control of complex organizations is to demanding for cognitive capabilities of human beings and processing capabilities of computers. The variety of organizations and contingencies is immense; it is therefore possible to determine only some dimensions and generic solutions. Two possible approaches to simplification are dealt with in the chapter. Many statements in this contribution shall be treated as hypothesis, to be explored in detail, confirmed or rejected.

Globalisation is not the domain of large multinationals only, but also of a multitude of small to medium-sized companies – some being part of global networks and some being independent entities, yet nevertheless closely related to international corporations. Re-search into global trends and competitiveness was originally focused on the activities of multinationals but nowadays acting globally is no longer a strategic domain of giant multinationals only. Increasingly, small and medium-sized enterprises (SMES) are becoming involved in the fight for a market share on a more global scale (Anderson, Graham, and Lawrence 1998; Rugman and Hodgetts 2000; Fillis 2001; Bell, Ouden, and Ziggers 2003), as they frequently operate within a narrowly defined market niche and cannot afford to target only their home market (Kinkel, Lay, and Maloca 2007). From an innovation and long-term competitiveness perspective, the traditional cost concerns are far less important than the question of how to identify and to retain a company's competitive advantage core and not to lose its future ability to compete in fast-moving and unpredictable markets.

Outsourcing is one of the numerous forms of company alliances – somewhere between the market and hierarchy. In the form of market, its hierarchy is dynamic and constantly changing due to incentives of companies or reactions in response to external influences. Because of the long-term impact on the competitiveness and on almost all operating procedures of the company, taking decisions about location, outsourcing and offshoring is a key aspect of strategic positioning (Ferdows 1997; MacCarthy and Atthirawong 2003). Relocations of operating activities to low-cost countries especially seem to have a negative effect on the employment situation of the 'exporting' nation (Mucchielli and Saucier 1997).

In this chapter, the strategic positioning of organizations as part of their strategy of internationalisation at the level of SMEs in transition economies is discussed. In fact, the majority of SMEs in transition economies do not dispose the resources needed to operate on a global scale, but they could position themselves to exploit their core competences, either as part of the global networks or through business partnerships in marketing, outsourcing, etc.

### *Theoretical Background*

An organization is likely to be successful in the long run only if it constantly offers its partners in exchange relationships bigger and better benefits than its competitors. Basic capabilities of an organization can be all components of corporate strategy or synergistic combinations thereof, which contribute to the performance of the company – its aims, strategies used to achieve those aims and any of the components of the company strategy, i. e. activities, structure and resources. For SMEs it is crucial to position themselves on the marketplace according to the set strategy, which should be in line with international trends in order to maintain sustainable growth and profitability. So they should think globally and act locally. The discussion about globalisation and its impact on SMEs is commonplace. However, despite numerous papers written about globalisation, the challenges facing SMEs in transition economies in Central and Eastern Europe (CEE) are given little attention. In an everincreasing competitive environment, a new focus on competence building is required to enable CEE countries to preserve sustainable development of their SMEs.

The chapter is structured as follows: first to establish the conceptual basis that guides the study, and then it is tested empirically on a sample of companies. Finally, the results are discussed, pointing out the main limitations of the study and indicating possible future lines of research.

## 5.2 Managing Organizational Risk by 'Hierarchy'

Human civilization is a civilization of organizations. Man's physical and cognitive capacity is limited – man is a weak being, endeavouring to prosper in the mighty natural environment. Alone he can achieve little and can prosper only in united social groups, in organizations. Conceptually, the meanings of organizations are spread from the technocratic, mechanistic (organization as an instrument to reach goals) – to the humanistic, political (organization as a community of interests). Increasing numbers and size, as well as the complexity of organizations, go in parallel with the development of human civilization.

The complexity of organizations is on the increase for various reasons. The first, historically, is that of physical work – from rural economy through craft and trades to manufacture; the second, capital, is the driving force of trading and manufacturing companies; all growth is based upon knowledge, which is increasingly needed to conceive new product platforms and develop increasingly complex products, to attain scale economies, and, above all, to create and enhance complex exchange and trading relationships.

The foundation of hierarchy is normative control; hierarchy facilitates the accumulation of resources (labour, capital, knowledge), but it is rigid and uncreative. Its effectiveness is derived from monopolistic rents, based on size and power; both the effectiveness and efficiency of hierarchies are limited by strategic rigidity. Organizations are based on obligatory collective endeavours to attain organizational objectives.

Some advantages of 'hierarchy' are:

- a single individual can through the leverage of delegation efficiently control several other individuals; leverage across levels of hierarchy demonstrates multiplying effects;

- hierarchy is based on obedience to obligatory instructions;
- instructions encompass strategies and objectives which may exceed the knowledge of subordinates and thus create the knowledge leverage;
- stable relationships increase trust among members;
- priority is given to interests of an organization over interests of its members;
- an organization can concentrate its power on elected strategic areas and activities;
- an organization integrates members' knowledge and takes advantage of it;
- an organization is able to use tacit knowledge as well – manager's ideas become obligatory instructions to many subordinates;
- implementation of changes is obligatory under employment contracts, without negotiations as in 'market.'

Some disadvantages of 'hierarchy' are:

- its foundations are the normative system of delegation and responsibility leading to organizational rigidity and tendencies to political usurpation of power as well as to avoidance of responsibility; all that undermines trust among organizational levels, functions, units and members;
- delegation of authority to subordinate levels creates autonomy and facilitates political behaviour;
- the concept of objective responsibility may result in distorted communication among levels, both bottom-up (reports) as well as top-down (instructions);
- ascendancy of partial over common interests may spur strong resistance to change and progress.

The 'hierarchy' model makes it feasible to diminish the complexity of direct control by introducing leverage, i. e. through indirect control of smaller units as well as in an integral organization or in a corporation with several affiliated companies.

The starting point in the span of possible structures to diminish the complexity of control is the centralized, integral company, which can be decentralized by increasingly autonomous units – budget units, cost units, income units, profit units and return-on-capital units. Three basic corporate concepts 'Strategic Planning,' 'Strategic Control' and 'Fi-

**Table 5.1** Sample Characteristics of Structures in the 'Hierarchy' Concept

| Structures | Risk management characteristics |
|---|---|
| Integral company | The basic concept is the following: as great as possible long-range performance through efficiency and monopolization of the market by focused power of the company. Relatively few strategic programs are typical or more programs are bound with scarce synergies. The role of top management in planning may be quite varied due to individual preferences and to organizational culture. Planning may be delegated to professional planners – resulting in plans often ignored by top management. Control is grounded on norming, supported by a central communication-information system. Gathering and interpreting of information is done by a specialized service department (controlling) and may become a source of political power and autonomous behaviour. The managers use mostly synthesized information and have less insight into details. |
| Corporation – 'Strategic Planning' model | The basic concept is the following: as great as possible long-term competitiveness of basic, clue programs, which may be accompanied by marginal and less successful programs; programs grow mostly organically. Top managers determine the purpose and main corporate goals in cooperative, but authoritative collaboration with managers of affiliated companies in strategy creation and uphold a long-term strategic mindset. Planning procedures and processes are determined by top management, including the distribution of limited resources among affiliated companies, in accordance with the strategic ranking of programs. |
| Corporation – 'Strategic Control' model | The basic concept is the maintenance of balance between long-term competitiveness and current financial performance of the corporation. The number of programs is moderate (up to 50), possibly in several industries, often with the same customers and competitors. The development of programs is organic or through acquisitions; long-term competitive and short-term profitable programs are kept in balance. Top managers create planning procedures and advise on them; designing of strategies and plans is left to the management of affiliated companies. Top management offer advice and criticize and finally verify programs – but do not decide on strategies instead of affiliated companies. |

*Continued on the following page*

nancial Control' (for more details see Goold and Campbell 1989) and additionally the concept of 'Financial Holding' are presented in table 5.1.

Transitions from one control structure to another are made only after careful consideration of potential gains and losses. Some considerations are shown in table 5.2.

**Table 5.1** *Continued from the previous page*

| Structures | Risk management characteristics |
|---|---|
| Corporation – 'Financial Control' model | The basic concept is the following: maximal current financial performance of affiliated companies as the foundation of long-term competitiveness. Programs may be quite numerous, in different industries (50 and more). Programs are often acquired in the market to fill market niches, to bolster current financial performance. Organic growth of programs is rare due to use of resources and potentially lower current profitability. Top management concentrate on detailed analysis of budgets, prepared by affiliated companies. The first priority is the current financial performance and steady improvement in the near future. The long-term strategic direction is left to affiliated companies as a prerequisite for current financial performance. |
| Financial holding | Financial holding is in control of a group of dependent companies, considered to be a portfolio of capital investments. The basic concept is a maximal ratio between net present value of future profits and risk of investment. Program directions and synergies are less important. Dependent companies are dealt with by holding as equity, acquired and sold in accordance with the strategy of profits, risks and time horizons. |

**Table 5.2** Sample Considerations upon Transitions among Control Structures

| From structure | To structure | Risk management |
|---|---|---|
| Integral company | Corporation – 'Strategic Planning' model | Are top management abilities adequate for strategic planning in affiliated companies? Will affiliated companies accept strategic plans made by corporate management? |
| Corporation – 'Strategic Planning' model | Corporation – 'Strategic Control' model | Is corporate management able to create a standard planning methodology for affiliates? Are managers in affiliated companies able to plan creatively along this methodology? |
| Corporation – 'Strategic Control' model | Corporation – 'Financial Control' model | Will simplification of control compensate for the unified corporate program strategy? Are managers in affiliated companies able and willing to do strategic planning on their own? |
| Corporation – 'Financial Control' model | Financial holding | Are affiliated management abilities adequate for autonomy in strategic control? Will efficiency of holding outweigh the advantages of the common corporate culture? |

## 5.3 Managing Organizational Risk by 'Market'

The 'market' concept is based on the premise of dealing with goals and interests of stakeholders to achieve the company's goals. According to this concept power is diffused and the community of stakeholders is flexible and creative, and the performance of a company depends on linking individual interests; efficiency and effectiveness are limited by transaction costs and conditioned by mutual trust. Transaction cost analysis suggests that external development relationship should be governed with relatively high level of client control to safeguard the client's transaction-specific investments against opportunistic bargaining and maintain the client's incentives to undertake efficient level of external development (Williamson 1975).

There has been an increasing emphasis over the last decades on the buyer-supplier relationship. A wide range of notions such as supply chain management, lean supply, outsourcing, vertical alliances and industrial networks have appeared in literature (Lamming 1993; Quinn and Hilmer 1994; Olsen and Ellram 1997; Lonsdale and Cox 1998). Kubr (2002) claims that contemporary knowledge-based organizations build competitive advantages on unique networks with suppliers, distribution channels, customers and consumers. Instability of the environment means that organizations have to address differences between business operations. Furthermore, organizations are no longer limited by their own resources. They also can use external resources, which are accessible via business networks, e. g. for learning (Ursic et al. 2006). Most supplier and customers markets are imperfect and do entail risks for both buyer and seller with respect to quality, time, price and other terms. Because of greater complexity, new product development processes, rapid distributed innovation, developing costs, and shorten time to market, outside suppliers can perform many activities at lower cost and with higher value added than integrated company can.

Contemporary forms of organizational structures range from horizontal, process, team to virtual networks. New organizational models are proposed, such as technical knowledge-related, post-bureaucratical, virtual, network and learning organization.

Some advantages of the 'market' control concept are:

- performance of each participant depends on attainment of his/her interests along with interests of competitors; it has to be flexible, adaptable and proactive;
- there are no costs and rigidity of 'hierarchy'; reluctance to change leads participants to decline in performance;
- short-term efficiency and effectiveness of a company is often followed by lower performance in the long run.

Some potential disadvantages of the 'market' control concept are:

**Table 5.3** Selected Characteristics of Structures in the 'Market' Concept

| Structures | Risk management characteristics |
|---|---|
| Integral company | The basic concept is the following: as great as possible long-range performance through efficiency and monopolization of the market by focused power of the company. Relatively few strategic programs are typical or more programs are bound with scarce synergies. The role of top management in planning may be quite varied due to individual preferences and to organizational culture; planning may be delegated to professional planners – resulting in plans, often ignored by top management. Control is based on norming, supported by a central communication-information system. Gathering and interpreting of information is done by a specialized service department and may become a source of political power and autonomous behaviour. Top managers use mostly synthesized information and have less insight into details. |

*Continued on the following page*

- it is based on recurrent negotiation between participants, concerning goals, but rarely strategies to attain them;
- agreement may be impossible due to differences in interests and mindsets;
- recurrent negotiation and reconciliation of viewpoints is the cause of rising transaction costs;
- opportunistic, calculating considerations may overcome long-term rational ones;
- participants are not even able to exploit promising changes due to different levels of knowledge;
- exchange and equalization of knowledge among participants is difficult and cost-intensive; the 'market' concept is limited to the use of visible, provable knowledge;
- at each change, the interests of independent participants have to be reconciliated again.

In the 'market' model, it is feasible to diminish the complexity of direct control through outsourcing, i. e. autonomous control of insourcers, led by their own interests and by aligning interests of the outsourcing and insourcing companies.

The starting point in the span of possible structures to diminish the complexity of control is the centralized, integral company, followed by the partnering company, then by outsourcing non-core and then core activities and in the extreme, the hollow or virtual company. Some selected characteristics of the 'market' concept are shown in table 5.3.

| Structures | Risk management characteristics |
|---|---|
| Company as partner | Relations with suppliers and customers in the reproduction chain ensure from cooperative and integrative concepts. Marketing partners are included in the creation of new products, but not so far that they become competitors to the company through vertical integration, either forward or backward. The culture of relative faith and collaboration may prevail between the company and its internal stakeholders too. Relationships with stakeholders are mostly more enduring than with an integral company. |
| Outsourcing of non-core activities | The company is outsourcing to external contractors some activities not based in company's core competencies. Thus it can: (1) negotiate with contractors the prices, lower than company's own costs, and (2) lower fixed costs by reducing the amount of own activities, most of all in overheads. Cooperation with contractors is limited to the transfer of the activity, to quality assurance and establishment of a compatible communication and information system. If the outsourced activities occupy a prevalent share of contractor's capacity, his own core activities and competencies (such as R&D, technology, marketing, networking) may decline and atrophy. The contractor becomes thus fatally dependent on the outsourcer and may collapse, if the cooperation would is to down. The consequences of the break for the outsourcer (for instance due to transition to an even cheaper contractor) are usually less harmful – even if they involve considerable cost for the cessation of one and establishment of a new outsourcing relationship. Transaction costs in such outsourcing relations are mostly low to moderate. |
| Outsourcing of core activities | The company outsources under market conditions to external contractors in addition to non-core some or many core activities. The goals of outsourcing are similar, the collaboration, however, is much broader and deeper. To supply such products, the contractor must be allowed to use or even transfer some core competences – on which the competitiveness and even existence of the outsourcer may depend. Power and mutual dependence are more equally distributed between both parties; the same holds for the division of benefits and risks of both parties in the case of split. Transaction costs in core outsourcing are typically high to moderate. |
| Hollow – virtual company | Both terms are used alternatively – even if in a virtual enterprise the communication-information technology may allow work to be done nearly in every location, not in the workplace only. Such arrangements are possible prevalently in professional service companies, such as consulting. A hollow company, on the other hand, would outsource to external contractors the majority of its core and non-core activities. In this, it is similar to the financial holding though it operates on interest and a contractual basis and not through ownership control. This form is mostly feasible only in a short-term framework – as in the execution of detailed project activities. |

**Table 5.4** Risk Management in the 'Hierarchy' Concept

| Structures | Some opportunities | Some threats |
|---|---|---|
| Integral company | Synergies between many functions, units and levels<br>Independency in procurement and marketing | Core capabilities are dispersed among unrelated activities<br>Demanding and complex control activities |
| Company as partner | Synergies of cooperation along reproduction chain<br>Focusing on strategic activities and areas | Unilateral and biased pressures of suppliers and customers<br>Hostile vertical integration, abuse of confidence |
| Outsourcing of non-core activities | Lower direct cost of outsourced activities<br>Better quality through specialized contractors | Higher transactional costs<br>Misuse of competitive information |
| Outsourcing of core activities | Procurement from specialists in activities<br>Increased benefit/cost ratio | Strategic dependency on contractors<br>Loss of vital core competencies and competitiveness |
| Hollow – virtual company | Fixed costs transferred to contractors, performers<br>Less coordination efforts and control | Gradual loss of core expertise and competencies<br>No social interaction to develop, verify and internalise ideas |

Risks of outsourcing include losing in-house expertise and knowledge (Earl 1996), unintentional loss of control, reductions in quality and, at an extreme, corporate atrophy (Lei and Hitt 1995) where an organization become so 'lean' through outsourcing that it becomes unsustainable. There is increasing awareness in management literature that the decision to outsource is a complex one with uncertain outcomes. Lonsdale and Cox (2000) and Quinn and Hilmer (1994) stress that outsourcing intellectual or other skills underlying a distinctive competence may be a bad strategy. Some opportunities and dangers of the 'market' concept in control are shown in table 5.4.

Transferring (part of the) entrepreneurial risk is not only motive for externalizing part of the production or sales process on a hierarchical basis. The contractual arrangements also transform fixed costs into variable ones and allow the outsourcing firm to gain financial flexibility (Muehlberger 2007). Companies can lower their capital investments and force many types of capital, labour and operational risk onto supplier. For example: company does not have to pay social security contributions and does not bear financial risk when worker gets ill.

**Table 5.5** Sample Considerations upon Transitions among Control Structures

| From structure | To structure | Risk management |
|---|---|---|
| Integral company | Company as partner | Does confidence in partners and cultural fit outweigh increased dependence?<br>How important may be risks concerning quality and reliability of supply? |
| Company as partner | Outsourcing of non-core activities | Do lower procurement costs outweigh higher transaction costs?<br>May partners misuse the access to sensitive information? |
| Outsourcing of non-core activities | Outsourcing of core activities | Which core competencies and to what extent shall be outsourced, how and to whom?<br>May insourcers become competitors – and how to prevent this?<br>How difficult would it be to bring outsourced activities back? |
| Outsourcing of core activities | Hollow or virtual company | Will lower costs compensate for lost synergies and strong organizational culture?<br>May insourcers form a coalition against the outsourcing organization become competitors? |

Transitions from one control structure to a different one should be made only after careful consideration of potential gains and losses. Some considerations are shown in table 5.5.

An overview of different levels of integration forms of cooperation among organizations is presented in figure 5.1.

Concentration on core competencies usually addresses examples along one supply chain. A different phenomenon appears in the strategic disintegration of companies. A more recent branch of the opera-

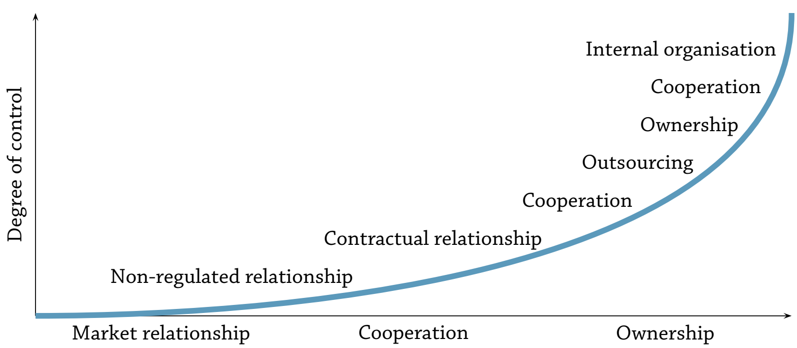


**Figure 5.1** Market vs. Hierarchy

tional outsourcing literature incorporates the realities of contemporary supply chain by considering myriad uncertainties in the supply marketplace. This stream is more multivariate in nature and adds degrees of subtlety by addressing more factors. The collection of there factors amalgamates into supply risk or the 'strategic vulnerability' posed to the buyer (Quinn and Hilmer 1994; Tayles and Drury 2001; McIvor 2005; Mantel, Tatikonda, and Ying 2006). The risks cannot be controlled by traditional management approaches and legal contracting alone, but require the operation of social control and in particular the development of high levels of mutual trust (Hoecht and Trott 2006).

Outsourcing as one of the possible forms of company management ranging from the so-called hierarchy to marketplace, outlines the features of these outsourcing forms and outlines possible strategic assessments on which management decisions for entering the outsourcing activity or any other form of integration should be based.

The research activities included in the chapter confirm that many companies often enter outsourcing relationships without sufficient strategic, long-term assessments and are thus faced with high risks. The results should be interpreted with caution due to the size of the sample. However, given that the constructs cannot be measured directly using archival data, reliance on a key informant is often necessary. Further studies are required in order to corroborate the results and to explore these relationships over a longer period of time. The results obtained could be affected by the cultural context and not be extrapolated to other contexts. Despite these limitations, the authors believe that the study helps with the understanding of outsourcing concept and control models in transition economies.

Organizations, as complex social, economic and technical systems, will efficiently and effectively attain goals corresponding to the interests of influential stakeholders. The only way out is the simplification of organizations or of control. The variety of organizations and contingencies is immense; it is therefore possible to determine only some dimensions and generic solutions.

Two possible approaches to simplification are dealt with in this report. The first is 'hierarchy' – reducing the size of organizational units under direct control by delegation and decentralization, the second is 'market' – reduction of activities under direct control through outsourcing. Generic forms in the first are the integral company, three concepts of corporation ('strategic planning,' 'strategic control' and 'financial control') and financial holding; in the second – the integral company, company as partner, outsourcing of non-core activities, outsourcing of coreactivities and hollow or virtual organization. Opportunities and threats of these concepts differ widely. Introducing any of them will be based on thorough analysis and assessment. Consequences could range from excellent to disastrous.

Some considerations to be made are explained in this contribution, based on a broad literature survey, extensive experience of the authors in management, a pilot research on outsourcing and additional extended research, still in progress. Many statements in this contribution will be treated as hypotheses, to be explored in detail, confirmed or rejected. The choice of control structures and transitions among them will be adapted to real contingencies in management of organizations. It is not clear if hierarchy and market really represent the extremes in terms of structure and if all other forms can be put in the context of this dimension.

# 6 Empirical Research

## 6.1 Literature Review

In social sciences, there are two research paradigms: qualitative and quantitative. A paradigm is based on the belief, common to a group of scientists, about the structure of the natural world and what is considered to be real and accepted knowledge. This is both a theory and the framework in which scientists work (Haralambos and Holborn 1999, 897). Guba and Lincon (1989) believe that the choice for a paradigm depends on the researchers' vision of the world, their beliefs and positions, which define their 'nature' of the world, individual's position within that world and a number of relations towards this world and its parts (Trnavčevič 2001, 28). Both paradigms differ with regard to the research methodology. Bringing together research with philosophical thinking helps us to understand the features of different research orientations or paradigms. Qualitative research paradigm is often connected with phenomenology and symbol interaction, constructivism and critical social science, whereas quantitative research usually connects with positivism (Merriam 1998, 3–4). The quantitative research paradigm is, according to Merriam (1998, 5–6), a common name for the concept, which covers a number of different research methods with the following common characteristics:

- a belief that the reality is constructed from individuals who are in interaction with their social worlds,
- an interest for understanding the meaning/significance constructed by these individuals,
- an interest for the experience lived out,
- an interest in the workings of parts of phenomena in order to recreate the whole phenomenon.

Flere (2000, 35) defines the essence of qualitative methodology, which, according to him, exists within an interpretative discourse, in which researchers do not start from the premise that the roles and the course of events are preordained, but believe that the patterns of behaviour as well as the behaviour of individuals constantly change under the influence of their interpretation of the situation. In quantitative methodology, the course of events is definite and the results are accurate and numeric. Due to numbers and statistical analyses they are more trustworthy (Flere 2000, 35–7).

The main attributes of qualitative research according to Mužič (1994, 41) are the following: avoiding generalizations, integral approach to the phenomenon, in-depth research and process orientation. Disadvantages of qualitative approach are, according to Flere (2000, 39): subjectivity, stemming from the fact that the researcher represents the 'means of research,' the burden arising from the researcher's point of view, few possibilities for research replication or generalization. Mesec (1998, 23) believes that the qualitative research paradigm is opposite the research carried out in natural sciences, where experiments are carried out.

The complexity of estimations regarding the placement in forms and levels ranging from 'marketplace' to 'hierarchy' requires qualitative research approach, because 'limited rationality' (March and Simon 1958, 139–68; Tavčar 2008, 193–7) limits the feasibility of quantitative research approach. Induction, useful in simple matters, understood as deterministic systems, cannot be used in complex systems (i. e. matters dealing with living organisms, nature, human beings and society). Induction based on known details builds general conclusions (decisions). A prerequisite is almost perfect information and manageable complexity of the matter. Decisions can be optimized, if not maximised (Tavčar 2008). Deduction is grounded on the idea (conception) about a suitable conclusion (solution, decision). Ideas (theories) should be either explained or refuted (contemporary theory insists on the latter, more about this in Tavčar 2008). After the process of problem-solving a number of ideas usually remain. Due to 'limited rationality' among them, it is impossible to choose the best one, thus the principle of 'satisfying selection' remains.

Guba and Lincoln (1989, 11–23) write that a methodology is a 'fundamental strategy in deciding about alternatives and possibilities,' which are accessible to a researcher. A methodology is much more than only a selection of methods. It involves the researcher – from the unconscious view of the world to the acceptance of this world-view through a research process.

In qualitative research, the researcher is a primary instrument for gathering data and data analysis, which enables adaptation to the context and circumstances, whereas induction is the research strategy, which creates abstractions, concepts, hypotheses or theories believe Sagadin (2001, 11–3) and Merriam (1998, 7). The product of a qualitative study is descriptive, because it focuses on the process, sense, meaning and understanding writes Merriam (1998, 7).

In qualitative research, researchers are aware that they cannot exclude themselves from the events being studied and that they have influence on the events being described. In addition, they experience the events that are being described and studied. It is in favour of the research, if this experience is described, because this enables other researchers to check the findings. In addition, the person becomes a research instrument, which on the basis of emotional and mental responses makes new discoveries about the studied subject (Mesec 1998, 41).

A qualitative research is usually a study of a small number of cases. In a qualitative research, we are not interested in the frequency of occurrences of a certain structure of variables, but in the diversity of variables. According to Honigman (1982, 83), a researcher is interested in 'the system of knowledge' and not in the allocation of behavioural features in a population. We are interested in the diversity of forms of life and not in the frequency of appearance of individual forms. A botanist is more likely to be enthusiastic about a rare flower with an unusual adaptation than about knowing that there is certainly a daisy to be found on the meadow.

A case study is an empirical research, which analyses a contemporary event within the context of real life, in particular, when the borders between the event and context are unclear, the context itself being directly relevant or connected with the research phenomenon (Yin 2003, 13). A case study is ideal, when a holistic and in-depth research is needed and when the research is likely to point out the details from the point of view of research participants through the use of different data sources (Tellis 1997, 1). Case studies are a thorough description and analysis of individual units or systems, with descriptions in the language of social sciences and everyday language. A case study is directed towards a thorough understanding of a situation and towards the process and less so towards the final result (Merriam 1998, 19).

Yin (1994, 7) writes that the formation of research questions represents the most important step in qualitative research. He writes about five types of research questions, which start with 'who,' 'what,' 'where,' 'how' and 'why.' The questions 'how' and 'what' are, according to his opinion, the most research oriented and often used in case studies. According to Yin (1994, 7) a research question should have content and form, with sufficient time and patience for their creation. Merriam (1998, 60–2) believes that research questions lead the research and determine, how data will be collected. According to her, research questions are similar to hypotheses in qualitative research, with hypotheses being even more precise.

Authors dealing with research methodology divide interviews into several types. Merriam (1998, 73) writes about three interview structures: highly structured, half structured and unstructured, Haralambos and Holborn (1999, 847) write about structured and half structured interview. Merriam (1998, 74) believes that a half structured interview is conducted with a list of questions, without a strict order or accurate formulation of questions.

A feature of research in management is that extremely busy managers often participate in them, who may not give access to data about their company, if they do not recognize any personal or commercial benefits in the research activity. Managers can hinder the access to companies if they believe that the research activity can harm themselves or their companies. In addition, there is fear from false understanding of gathered research data or their false interpretation (Easterby-Smith, Thorpe and Law 2005, 12).

The most recognised advocate of the use of both qualitative and quantitative methods is Burgess (1927, 103–19). After he had legitimised case studies in the late twenties of the previous century, he stressed that cases studies and statistical methods have different but complimentary features. He believes that statistical methods and case studies are not opposing methods; as a matter of fact they are complimentary methods. Statistical comparisons and relations often point towards cases, studied with the case study method. By revealing social processes, documentary materials inevitably lead us towards more suitable social indicators. With the employment of quantitative methods we usually deal with general, external aspects of company management. But we also need a more discerning method for researching the concealed in order to describe and analyse activity in the internal company environment.

According to Lobe (2006, 64) a complimentary combination of qualitative and quantitative research methods opens up the possibility for a more integral approach towards measuring, analysis and interpretation. Komarovsky (1967, 349–51) writes that one of the tasks of case studies lies in exposing explanatory signs for empirical generalisations, stemming from quantitative techniques. She emphasises the power of qualitative data for the interpretation of quantitative data. The qualitative (exploratory) part can serve in the formation of hypotheses, which are later tested in the quantitative (confirmatory) part. The quantitative part enables generalisations of qualitative findings.

## 6.2 Research Framework

After the review of methods, summarised in section 6.1, I decided to use those, which are specified in the first paragraph of subsequent three research activities. With regard to the review of research methods and the topic of this research I shall give a brief framework review of the research.

The empirical research is divided in two research activities:

- pilot qualitative research (Chapter 7),
- quantitative research (Chapter 8),

The main research method in the pilot and central qualitative study is a case study. A half structured interview has been chosen with a list of questions. In choosing a certain case it is extremely important to find in it a lot of information about the research field.

In the quantitative research following the pilot qualitative research, a questionnaire was used in a sample of enterprises, in which postgraduate students of the Faculty of Management were employed, in order to obtain data about types and ways of outsourcing as well as about the scope and the length of outsourcing activity.

Before the basic qualitative research a preliminary pilot qualitative and a preliminary quantitative research had been carried out. With the pilot qualitative research with interviews of managers of business functions I tried to gather useful information regarding the interview questions in the case study. The preliminary pilot study was used to verify hypotheses and find new hypotheses as well as for the confirmation of research relevance. Qualitative and quantitative methods and their synthesis are used throughout the research.

# 7 Pilot Qualitative Research

Before the basic qualitative research a preliminary pilot qualitative research had been carried out – which is discussed in detail in this chapter – and a preliminary quantitative research.

The purpose of the pilot qualitative study was to find out how enterprises decide about the use of resources and capabilities in order to set up outsourcing relationships with suppliers and how prepared they are in case of potential problems or the termination of collaboration with the outsourcees.

By carrying out pilot qualitative research with the method of interviews with managers of strategic business units and various business functions, I tried to gather complex and in-depth answers as well as the starting point for the fundamental research. The interviews represented the basis for further research.

Below, the analysis and the results of quantitative research are given. The verification of findings and assessments gathered in the first two research activities – qualitative pilot research and the consequent quantitative research – will be given in the final fundamental qualitative research in chapter 9. Forms of control and company alliances will be discussed in the light of dynamic placement in dimensions ranging from 'market-place' to 'hierarchy.'

## 7.1 The Purpose of Pilot Qualitative Research

With the pilot research the hypothesis stating that the participants in outsourcing relationships *incompletely assess the use of resources* (work, capital and knowledge) and *capabilities* in the framework model of company policy for the establishment of relationship, collaboration and the creation of strategies for further collaboration after the termination of initial relationship was tested. I tried to find out why enterprises decide to enter outsourcing relationships.

Three basic premises given below have arisen while thinking about the purpose of the research.

- *The choice of partners* – higher complexity, specialisation and the division of labour make it possible for the outsourcers to carry out several activities with lower costs and a higher added value, than in the case of carrying out all activities inside the company; the outsourcing company chooses suppliers, who improves the outsourcers position on the market through their knowledge, capabilities and technology;
- *The consequences of short-term placement* – the majority of companies are in favour of short-term and mainly financial results of the outsourcing relationship. They are rarely aware of the long-term consequences of their actions, thus it is necessary to study the use of capabilities brought about by establishing and termination outsourcing activities and compare them in the temporal framework with the benefits for both the outsourcer and outsourcees;
- *The consequences of eventual termination of outsourcing* – the review of literature in the theoretical part of this book (e. g. Stock and Tatikonda 2005; McIvor 2005; Leenders et al. 2006) shows that enterprises rarely deal with problems, which may arise if a company decides to terminate outsourcing activity and brings it back to the outsourcing company. Thus it is necessary to find out if the outsourcing company still has the equipment and professional staff, who is familiar with the process, financial assets etc. or the position in which the outsourcee may find itself in. Furthermore, we should analyse difficulties of both companies, the outsourcer and outsourcee at the time of termination of outsourcing activity.

On the basis of already mentioned premises, which are analysed below the questions for interviews were prepared, discussed in the next section. Seven questions were selected aimed at the choice of partners, the consequences of short-term placement and the consequences of eventual termination of outsourcing, with the purpose of discouraging too generalised answers. Despite giving the respondents enough freedom in explaining their positions I managed to succeed in this effort.

## 7.2 Description and Research Methods

I believe that the complexity of outsourcing requires a transition from predominantly closed to predominantly open questions; I employed a half structured qualitative research interview. Through the pilot research I tried to understand the complex relationships among the participants in outsourcing and tried to explain the importance of outsourcing, which has been placed in my fundamental research within the dimension ranging from marketplace to hierarchy.

Respondents were asked to give answers to the following half structured questions:

- How do you assess the collaboration with outsourcees?
- How did bad past experience regarding the collaboration influence your company?
- How do you assess the risk that the outsourcee may disappoint you?
- Please, rate the importance of measures, adopted by your company in the case of difficulties with the supplier.
- How important is corporate cultural compatibility for successful collaboration?
- How do you assess the decision to transfer strategic activities to external suppliers?

I tried not to get straight answers to the questions but wanted the respondents to freely discuss the relevant matters. I only interrupted them when they did not stick to the point. The interviews were carried out without any significant problems. I made verbatim notes of their often long answers. Respondents expressed a wish not to tape the answers, so I have to ask them to speak at a slow pace in order to make notes. Because of the highly sensitive content and due to the protection of business secrets the companies and respondents were given names in the form of Roman numbers (I, II, III, IV, V, VI, VII, VII, IX). The interviewed companies were production enterprises in the field of electrical-metal industry.

The age of respondents was between 32 and 53 years, they were all specialists in various fields, had a faculty degree and were all in managerial positions. I explained to the respondents the purpose of my research and asked them to participate. Persons I, IV and IX were managers of strategic business units, persons II, V and VII were responsible for purchases, persons VI and VIII were chief logistics officers. Person III was development manager with the longest job history. All participants were serious and devoted to their work; on average, they worked nine or more hours per day. They all expressed keen interest for participation in interviews.

When analysing the interviews I first checked the transcriptions and then embarked on the analysis and interpretation.

## 7.3 The Results of Pilot Qualitative Research

The questions in interviews were asked within the framework of the set content, which made the processing of information easier. The analysis of answers was divided in three domains:

- reasons for successful collaboration,
- reasons for poor collaboration,
- strategies for managing potential risks.

The answers to questions one and five were related to the reasons for successful collaboration, the second and third question were related to the reasons for poor collaboration and the answers to questions four and six were about the strategies for managing potential problems.

### *Reasons for Successful Collaboration*

The compatibility of cultures of the two enterprises was, according to all respondents, a decisive feature of successful collaboration in outsourcing. There are a number of studies dealing with the importance of compatibility of cultures as a factor for successful collaboration. The respondent I said: 'both partners should be engaged in business with equal seriousness.' Respondent III expressed the following: 'If a person wears a skirt, is a Muslim, catholic or orthodox, white or black, he or she should be respected, which is a prerequisite for mutual respect of cultures [...]' In a similar way the same respondent answers the question about the relationship between corporate cultural compatibility and successful collaboration: '[...] the most important thing is who do you collaborate with.' Respondents V and VIII think similarly: 'Clear communication is of utmost importance [...] the majority of mistakes are made during communication.' Respondent IV said: 'the difference in people's character are most obvious [...] if they are compared to us, they seem to be much more reserved and less talkative.'

Respondents agreed that in order to collaborate successfully both parties should develop mutual trust. Trust should refer both to core capabilities for services provided and to the managerial capabilities as well as to the quality of outsourced activity. And above all, both parties should not take the opportunity for competitive purposes.

### *Reasons for Poor Collaboration*

The question regarding the first domain reads: 'what are the measures adopted by your company in the case of difficulties with the supplier? Can you name them?' The answers were extremely varied. 'No, we did not think about the measures in such cases, which is definitely our mistake. There is no way back for the company' said respondent I. Respondents II, VI and VII admitted without hesitation: 'we do not know what measures could be taken in such cases.' Respondent V put it slightly differently: '[...] probably people responsible for such situations thought about suitable measures, but I do not know anything about them.' Respondent III pondered, gazed through the window and said: 'Companies shouldn't choose only one supplier or try to hide the third party involved, all parties should be aware that they are playing a game.'

The second reason for failure is related to company uncooperative environment. Respondent IV said: 'There is no plan B. Depending on the reasons for failure, if the human factor is involved in the company taking over a certain activity, the first measure should be an increase in the number of visits paid to that company.' Respondent V believed: '[...] we chose the outsourcee because all involved believed in the success of outsourcing relationship [...] but if the relationship failed to succeed, we need to find a new location somewhere else.' Respondent IX mentioned the following measures: 'Education, help and bringing the activity back to the outsourcing company.'

The summary of answers brings us to conclusion that the respondents are acquainted with outsourcing and have had many bad experiences with it. Respondent II described the outsourcee in the following way: 'the outsourcee appeared much more serious and credible than it turned out later.' Respondent I stated: '[...] one has to be careful about partners – do they mean business or only speculate.'

Respondents I and II were aware of the importance of choosing the right partner who is serious enough. On the other hand, the respondent E believed that: 'The opposite side should be punished financially [...] one should never forget that parties involved are doing business and have the same goal – to maximise profit.'

Two respondents, VII and IX, stressed that the process of outsourcing should be carried out in steps (respondent IV said this slightly differently): 'Deals are not made without risk being involved, often one should trust his intuition based on experience and evolved through business practice,' which also stresses the importance of taking into account all steps in the process of choosing partners and outsourcing. 'We do not have enough time nor energy to be able to educate the outsourcee; the outsourcee has to be an expert in his field,' replied respondent III.

### *Strategies for Managing Potential Risk*

When the respondents were asked about the future of their outsourcing activities, how far in the future they planned them, and if they were aware of the fact that there are two parties involved in outsourcing and that the collaboration may not be successful, I only received few answers.

Employees responsible for outsourcing processes rarely if ever think about the risks involved because of the features of activities being transferred, features of outsourcees, incompatible company cultures, distance etc.

The respondents did not mention alternative scenarios in case of difficulties or bringing the outsourced activity back to the outsourcing company. The question regarding the assessment of suitability of outsourcees and the key factors for making decisions about them, was not answered. The segments that deal with the period after the termination of outsourcing, the measures taken before the beginning of and during outsourcing are extremely important for managing risks and ensuring the success of outsourcing activities. Despite the fact that only few answers were gathered, the critical analysis is given in section 7.3.

### *The Assessment of Long-Term Audit*

Due to the small research sample and the open character of the questions, any conclusions made about the long-term assessment for companies are uncertain. Nevertheless it is possible to assess the answers of respondents regarding the long-term audit. The answers were labelled within the following scale: low (1), medium (2) and high (3).

The pilot study focuses on enterprises, which outsource maintenance activities, cleaning, technologies etc. The table shows slightly larger differences with regard to long-term audit among questions than among respondents. Thus it is possible to say that the general level of long-term audit is rather low – on average it amounts to only 1.72. The respondent who achieved the lowest grade deviates from this estimate by 33%, the question with the lowest grade by 29%. According to the evaluations

**Table 7.1** The Assessment of Long-Term Audit According to Answers Provided

| Questions for long-term audit | Organisations – people | | | | | | | | | (1) |
|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | V | VI | VII | VIII | IX | |
| How successful is, according to your opinion, outsourcing? | 1 | 1 | 2 | 1 | 2 | 1 | 1 | 1 | 2 | 1,33 |
| What was the influence of bad outsourcing experience on your company? | 2 | 2 | 3 | 2 | 1 | 2 | 2 | 3 | 1 | 2,00 |
| How important is the risk that the outsourcee may let you down? | 3 | 2 | 2 | 1 | 2 | 2 | 1 | 1 | 2 | 1,77 |
| How important are the measures introduced by your company in the case of difficulties with the supplier? | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 1 | 1 | 1,22 |
| How important is culture for successful collaboration? | 3 | 3 | 3 | 2 | 3 | 2 | 2 | 3 | 3 | 2,66 |
| How thoroughly do you assess your decisions about outsourcing strategic activities? | 1 | 1 | 2 | 1 | 2 | 1 | 1 | 2 | 1 | 1,33 |
| Average scores regarding organisations or people | 1,8 | 1,6 | 2,1 | 1,5 | 2,0 | 1,5 | 1,3 | 1,8 | 1,6 | 1,72 |

NOTES The assessment of long-term audit: 1 – low, 2 – medium, 3 – high. (1) Average score.

made it is possible to conclude that enterprises entering outsourcing relationship are not critical enough, are unprepared for risks and are not aware of risks brought about by outsourcing key activities (table 7.1).

Due to the small research sample there is no analytical saturation and the results cannot be generalised. Despite these limitations it can be said that enterprises rarely decide for outsourcing on the basis of strategic analyses and forecasting.

## 7.4 Conclusion

The analysis carried out on a sample of enterprises which outsource their activities shows that company decisions to enter outsourcing relationships are not based on prior analysis and planning. Many such relationships are entered without long-term audits and forecasting. Because enterprises are not the same and they operate in different environments, it is impossible to generalise the consequences and prospects of outsourcing. Some enterprises may acquire planned benefits, but for the majority of companies outsourcing is damaging and risky.

In accordance with the findings of pilot study, in which low estimates for long-term audits at the time of entering the outsourcing relationship were discovered, *the first hypothesis can be confirmed*. Slovenian outsourcing enterprises carry out incomplete audits regarding the use of resources and capabilities in the framework model of company policy in order to establish long-term outsourcing relationship. In addition, they do not create strategies for further collaboration after the termination of initial relationship. The pilot qualitative research showed that respondents, at the time of entering outsourcing relationship, rarely assess capabilities or form strategies for collaborative relationships.

# 8 Quantitative Research

The second preliminary quantitative research was carried out in order to analyse the types of outsourcing activities, the scope of outsourcing and the length of outsourcing. A questionnaire was used for a sample of companies in which postgraduate students of the Faculty of Management were employed.

## 8.1 The Goal of Preliminary Quantitative Research

The questionnaire was used in companies that outsource their activities in order to find out which activities were outsourced and what the scope of outsourcing was. Through this research activity it was found out what the development level of outsourcing in Slovenia was, the reasons for outsourcing, length of collaboration, and, above all, expected benefits and risks involved in outsourcing. In order to understand the increasing importance of outsourcing it is necessary to understand the reasons for outsourcing.

With the implementation of quantitative research I tested the second and third hypothesis. The second hypothesis says that an important part of assessments made by outsourcers is based on short-term economic advantages (lower cost) and does not strive to establish long-term partnerships.

The third hypothesis focuses on the types and length of outsourcing and says that the relationship between outsourcers and outsourcees is most often distributive and rarely collaborative, with a very low level of mutual trust. The length of the majority of outsourcing relationships is temporally limited and does not exceed the framework of company developmental policy.

## 8.2 Research Description and Results

Questionnaire was used for data collection. Data was collected during two academic years, in 2006/2007 and in 2007/2008. Questionnaires for collecting data were printed. The empirical research was carried out

**Table 8.1** Questionnaire and Responses of Respondents

| Subject | Temporal framework | Location | Method | *N* | *n* | % |
|---|---|---|---|---|---|---|
| SM/MM Management | January–February 2007 | Škofja Loka, Nova Gorica | Questionnaire | 79 | 65 | 82.3 |
| SM/MM Strategic management | April–May 2007 | Celje, Škofja Loka | Questionnaire | 91 | 85 | 93.4 |
| SM/MM Management | November–December 2007 | Škofja Loka, Koper | Questionnaire | 98 | 95 | 96.9 |

NOTES *N* – number of questionnaires; *n* – number of completed questionnaires.

with a structured questionnaire. Questionnaires were given to postgraduate students in specialist, master and doctoral studies at the Faculty of Management in various study centres (Celje, Škofja Loka, Koper, Nova Gorica), through which the geographical dispersion of students was guaranteed. The research was carried out in three parts: the first 65 completed questionnaires were received in January and February 2007. I continued with the research in April and May 2007, when 85 completed questionnaires were received. The third part of data collection was carried out in November and December 2007 when 95 completed questionnaires were collected. Only students who attended lectures were included in the research.

The questionnaires were given to 268 postgraduate students, the majority of whom were managers in Slovenian enterprises. I received 245 completed questionnaires, which represents a 913% response. Temporal framework, method, the number of students attending lectures (*N*) the number of students who returned questionnaires, (*n*), so are given in table 8.1. Data were entered in Excel and exported into SPSS (version 11.0). Data is shown using descriptive statistics. Empirical data were collected on a sample of postgraduate students, who were able to provide qualified answers to the questions asked in the questionnaire.

The questionnaire included 18 questions and a note about the importance of outsourcing and the purpose of the research. The first seven items were general questions; enterprises were asked about their main activity, the number of employees, revenues, external environment, mission, organisational structure, and if they are involved in outsourcing. In the main part of the questionnaire, the respondents were asked about the following:

1. which activities were outsourced,
2. reasons for outsourcing,
3. features of outsourcing agreements,
4. difficulties they are facing,

The last part of the questionnaire included the following:

1. obstacles related to the introduction of outsourcing,
2. reasons for refusing outsourcing,
3. activities planned before outsourcing,
4. reasons for difficulties,
5. failed collaboration – bringing outsourced activities back to company,
6. bringing outsourced activities back to company and problems related to the lack of resources.

Respondents were allowed to provide more than one answer to the majority of questions, except to the first set of questions, in which basic data about the company were gathered. For the questions related to the importance of reasons for outsourcing, difficulties companies are facing when collaborating with external suppliers, and questions regarding the assessment of obstacles for a quicker introduction of outsourcing a five degree Likert scale was used (1–5), where 5 meant very important and 1 not important.

## 8.3 The Analysis of Research Results

Below, basic features of 245 enterprises are given. Among the surveyed companies involved in outsourcing, 41% are manufacturing companies and 69% services providing companies.

With regard to the number of employees, the sample included large enterprises, medium-sized and small enterprises (according to Slovenian classification). A detailed description is given in figure 8.1. According to the data gathered more than 71% of surveyed enterprises have less than 250 employees.

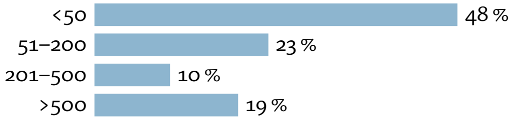


**Figure 8.1** Surveyed Enterprises According to the Number of Employees

**Table 8.2** Surveyed Enterprises' Main Activities

| Activity | Number of enterprises | Share (%) |
|---|---|---|
| Production of industrial goods | 66 | 27 |
| Production of consumable goods | 34 | 14 |
| Wholesale and retail trade | 32 | 13 |
| Consumer services | 32 | 13 |
| General public services | 24 | 10 |
| Banking and insurance | 19 | 8 |
| Civil engineering | 17 | 7 |
| Transportation | 10 | 4 |
| Development and engineering | 7 | 3 |
| Consultancy | 4 | 1 |
| Total | 245 | 100 |

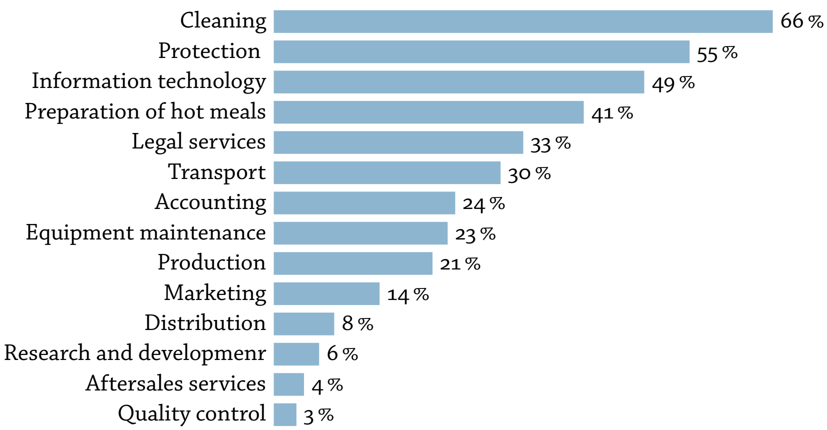


**Figure 8.2** Outsourced Activities

In figure 8.2 outsourced activities are shown, which have already been outsourced by the surveyed enterprises. The answers to the question: 'Please, name activities, which your enterprise outsourced,' reveal that companies most frequently outsource supporting activities like cleaning, protection, meal preparation services and IT maintenance.

One third of surveyed enterprises use external services in the field of legal services, in whole or partial. One fifth of surveyed companies outsourced one of their production activities. The majority of surveyed companies have outsourcing experience in different business activities, on average in three business activities. It must be noted that the production companies have relationships with a number of outsourcees and have future plans to collaborate by outsourcing special activities like technological process planning, laboratory services, mediation between suppliers and customers, etc.

Surveyed enterprises were also asked about their assessment of importance of reasons for outsourcing. On the five point scale '1' represents *unimportant reason,* '3' means *cannot decide* and '5' represents *very important reason.* The arithmetic means or the average represents the average level of agreement with individual reasons for outsourcing, variation coefficient measures the differences between answers provided by individual respondents – it tells us if the respondents provided similar or different answers. Variation coefficient is defined as the relationship between the standard deviation and arithmetic means.

Cost reduction strategy, focusing on company key advantages and improved management of operational cost are among the most important reasons for outsourcing among the surveyed enterprises. Enterprises rarely mention as important reasons the following items: sale of equipment to outsourcee and the transfer of production to markets with cheaper work force. The largest differences in responses refer to the following two questions: 'transfer of production to markets with cheaper work force' and 'strategic alliances, mergers and acquisitions,' which points towards considerable differences among surveyed enterprises.

The surveyed enterprises most often outsource simple activities, where risks and the consequences of failure or termination are less dire than in more demanding company activities and functions (table 8.3). The surveyed enterprises were also asked about *the most important reasons for not entering the outsourcing relationship.* Respondents could select more than one answer shown on table 8.4.

The most important reason, due to which enterprises are likely not to enter an outsourcing relationship in future, is in 30% of surveyed enterprises the lack of knowledge if the outsourced activity is of strategic importance for the company.

The answer that outsourcing creates redundancies was, in almost 90% of cases, accompanied with the answer that company management is not keen on outsourcing and does not support it – one third of surveyed enterprises shared this opinion. Some companies also mentioned poor quality, failure to comply with outsourcee requirements and problems with trade unions.

The surveyed companies could choose from among five reasons for

**Table 8.3** Arithmetic Means and Standard Deviation for the Assessment of Importance of Outsourcing Reasons

| Reasons for outsourcing | (1) | (2) |
|---|---|---|
| Cost reduction strategy | 4,2 | 23,1 |
| Focus on company key advantages | 3,9 | 28,4 |
| Improved management of operational cost | 3,7 | 27,7 |
| Higher level of services quality | 3,7 | 35,5 |
| Improved quality of products or services | 3,5 | 37,9 |
| Company assets can be devoted to other purposes | 3,4 | 37,4 |
| An increase in annual revenue from sales | 3,3 | 42,6 |
| Acquisition of new knowledge | 3,2 | 42,3 |
| The activity cannot be carried out within the company | 3,1 | 41,8 |
| Reorganisation of core processes | 2,9 | 45,1 |
| Access to new technologies | 2,8 | 51,4 |
| Strategic alliances, mergers and acquisitions | 2,6 | 56,3 |
| Allocation of risk | 2,5 | 48,9 |
| Transfer of production to markets with cheaper work force | 2,3 | 64,7 |
| Sale of equipment to the outsourcee | 2,0 | 52,4 |

NOTES (1) arithmetic mean, (2) standard deviation.

**Table 8.4** Reasons for Not Entering Outsourcing Relationship

| Reasons for not entering outsourcing relationship | Frequency | Share (%) |
|---|---|---|
| We are not sure if the outsourcing activity is not our key activity | 73 | 29.8 |
| The whole procedure of selecting a suitable outsourcee is too time-consuming and costly | 51 | 20.8 |
| Outsourcing creates redundant employees | 44 | 17.9 |
| Company management is not keen on outsourcing and does not support it | 39 | 15.9 |
| Outsourcing is too risky for us | 32 | 13.0 |
| The outsourcing agreement is too complex | 6 | 2.5 |
| Total | 245 | 100.0 |

problems regarding outsourcing, where 5 represented a very important reason and 1 a least important reason. The following reasons were given: poor concept of outsourcing, incompatible company culture, communication incompatibility, problems during the interruptions in information flow, poor knowledge about outsourcing values and vision. According to respondents the most important reason was incompatible company culture (69%), followed by communication incompatibility (53%) and poor knowledge about outsourcing values and vision (41%).

Surveyed enterprises were also asked to assess the importance of most frequently experienced problems during the outsourcing collaboration. On a five degree scale '1' represents *huge problems,* '3' *medium problems* and '5' *no problems.* Less control over activities (3,9), poor quality of services (3,8) and longer delivery time (3,3) were among the most frequent problems experienced by surveyed enterprises.

## 8.4 Temporal Framework for Collaboration in Outsourcing

In the final part of the questionnaire, I researched the features and duration of outsourcing agreements. The surveyed enterprises were asked to provide answers on the length of outsourcing relationship and the length of collaboration with the supplier. The duration of outsourcing relationship is given in figure 8.3.

Enterprises usually sign short-term outsourcing agreements. The research findings revealed that more than one third of companies collaborate for less than one year and almost 40% of surveyed enterprises do not define the temporal framework of collaboration in the outsourcing agreement. Short-term agreements (up to one year) are not characteristics for strategic collaboration between the outsourcer and outsourcee. The fact that the duration of collaboration is not defined brings a lot of uncertainty and risk for both parties in the relationship and is not a feature of firm relationship between the two partners.

In many cases the surveyed companies stated that the duration is not defined and lasts until it is cancelled, or ends in case of contractual breaches etc. Almost one half of surveyed enterprises will prolong the relationship after the termination of the current agreement, slightly more than 40% of surveyed enterprises are likely to enter negotiations after the current agreement ends, 5% of companies will try to find a new outsourcee, and 3% of surveyed enterprises will bring the outsourced activity back to the company.

The duration of collaboration in outsourcing relationships reveals

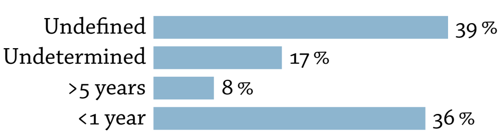


**Figure 8.3** The Duration of Outsourcing Relationship

**Table 8.5** The Readiness of Enterprises to Bring Back the Outsourced Activity

| Did you think about the possibility that the outsourcee may 'let you down' and the outsourced activity will have to be brought back to the company? | Frequency | Share (%) |
|---|---|---|
| Yes | 107 | 43,7 |
| No | 76 | 31,0 |
| We did not take this into consideration | 22 | 9,0 |
| We found a trustworthy supplier | 40 | 16,3 |
| Total | 245 | 100,0 |

short-term character, which is a feature of current company policy. To the question: 'Did you think about the possibility that the outsourcee may "let you down" and the outsourced activity will have to be brought back to the company?' the surveyed enterprises were able to choose from among the four answers. The results are given in table 8.5.

Almost 40% of surveyed enterprises answered that they did not think about such a possibility. 16% of enterprises answered that they found a trustworthy supplier and 44% of enterprises answered that they were thinking about such a possibility.

The questionnaire ended with the following question: 'If the activity should be brought back to the company what would the company lack?' The surveyed enterprises could choose from among the six answers (equipment and machines, professional staff, contractors, capital, knowledge, core capabilities). One half of the surveyed enterprises wrote that in case of bringing the outsourced activity back to the company they would lack professional staff and contractors who could ensure the reintroduction of the activity within the company.

## 8.5 Conclusion

The research showed that the surveyed enterprises recognised the expected short-term benefits of outsourcing, as 90% of surveyed enterprises use outsourcing in their business operations. If these activities are divided into core activities and non-core or supporting activities (on the level of company; on the level of function), it can be found out that, based on the data analysis, enterprises most often decide for outsourcing of supporting activities on company level (protection of premises, cleaning services, preparation of hot meals). The surveyed enterprises entered the first outsourcing phase. In this case we speak about the outsourcing of supporting activities, where risks and failures are less likely than in cases when enterprises outsource more demanding activities and functions.

The research findings show that many enterprises are not aware if the outsourced activity is of strategic importance or not. Enterprises fail to recognise their core capabilities and programmes on which their competitive advantage will be built, which makes it more difficult for them to focus on key activities, and as a consequence, offer their partners in exchange relationships more benefits than the competition.

For the surveyed enterprises, their outsourcing activities represent the initial phase in outsourcing relationships. Companies follow short-term strategy of lowering costs on all levels and focus on key activities. The research results show that an important part of assessments made by outsourcers is based on short-term economic advantages (lower cost) and does not seize to establish long-term partnerships.

The findings of quantitative research confirm the short-term and temporally limited nature of discussed relationships, which do not exceed current and developmental company policy. Only few collaborations last for more than a year and are extended once they have ended. The relationships are most often distributive, if the outsourcer deliberatively or not gains the upper hand. A number of cases show that during the initial phase the outsourcing company sets the terms and the form of collaboration. Later, the roles can change and the outsourcee becomes stronger and starts setting new business terms.

# 9 Conclusion

Company management is the main task of managers. Enterprises, complex social, economic and technical systems, should reach their goals in an effective and efficient way, in accordance with the interests of influential company stakeholders. The complexity of rational company management, and above all the management of people within companies, exceeds the abilities of human mind. The only possibility that remains is simplification. Because enterprises and circumstances in which companies operate are extremely diverse, it is possible to define only some dimensions and find solutions for them.

The main approach used in this book is to deal with outsourcing as one of the possible placements in dimensions ranging from marketplace to hierarchy. In addition, entries and exits from individual levels as transitions to new placements are also discussed.

During the last couple of decades, the importance of outsourcing has increased globally. With the widened scope of activities being outsourced, the complexity also increased. A couple of years ago, enterprises outsourced cleaning, transportation, meals, protection of premises – mainly unsophisticated services, which are easily outsourced. Lately, outsourcing spread to a number of demanding and important activities, including production of goods, accounting and legal services, warehousing, distribution, setting up and maintenance of information systems, etc.

The empirical part of this book is based on three research activities. A pilot quantitative study, through which it was discovered that respondents usually enter outsourcing relationships unprepared, without a thorough plan and an in-depth assessment.

In the second quantitative research it was discovered that the surveyed enterprises assess the relationship during the initial phase and that the assessments are more or less short-term oriented. Acquired information and experiences of Slovenian enterprises, which outsource, reveal that the outsourcing decisions are not carefully planned and analysed. Companies differ a lot and operate in different environments, therefore no generalisations can be made that outsourcing has similar effects on different enterprises. Some companies acquire benefits through their outsourcing activities, but there are more and more companies to which outsourcing mainly brought risks. In outsourcing collaborations short-term interests prevail on the side of outsourcers (e. g. lowering costs or focusing on key activities). The scope of activities outsourced has increased, together with the increase in complexity of these activities. On the basis of research, it can be said that in Slovenia outsourcing boomed in the last couple of years, as 90% of surveyed enterprises uses it. The findings of quantitative research have shown that Slovenian companies entered the first developmental phase of outsourcing. They usually out-source simple activities, where risks are moderate and failures to succeed rare. In addition, terminations of outsourcing activities are also rare, as they happen less often than in outsourcing more demanding company activities.

The findings of the pilot qualitative and quantitative research represent an important contribution towards further research of the strategy of temporally limited outsourcing and the placement of enterprises into dimensions ranging from ad hoc purchase/sale to integral organisation. The findings of preliminary two research activities revealed the shortcomings of strategic assessments at the time of entering outsourcing relationships. They triggered in-depth study of the placement within dimensions with regard to management and alliances. In the central research, I tried to find out why enterprises decided for a certain type of outsourcing and not for any other form of collaboration.

In the pilot qualitative and quantitative research it was found that top management rarely carry out in-depth strategic assessment at the time of entering an outsourcing relationship. Findings of first two research activities turned the focus of the main quantitative research towards the placement in outsourcing and not any other form of collaboration. The findings revealed that the placement should include in-depth strategic analysis (with the support of audit, benchmarking and scenarios – more can be found in sections 3.2, 3.3, 3.4 and 3.5) of many important matters. Taking into account the research findings, the first assessment should be related to the management of company entering outsourcing relationships.

The main qualitative research dealt with transitions to different levels of company management and alliances. The main research was carried out on the basis of interviews with top managers. It revealed that managers think in terms of a long-term perspective about the company.

The creation of integral outsourcing policy by taking into account the placement within the dimensions

- between marketplace and hierarchy,
- between short-term and long-term orientation and
- between instrumental and interest part,

is a highly demanding process, stemming from a systematic analysis of relevant internal and external company environment. I strongly believe that the assessment model should be based on the framework company policy model. In the theoretical part an all-inclusive analysis model was created for assessing the transition between different placements. I tried to use the model, but did not succeed in collecting complete assessments, therefore the approach remains available for further research in the future.

Outsourcing is a dynamic placement into dimensions discussed in accordance to various levels (ad hoc purchase/sale, purchase/sale contracts, cooperation's – exchange, outsourcing, ownership shares, corporation and integral organisation), based on three key premises:

1. collaboration based on interests and are risky by its nature, because of the participants' promotion of their own interests to the detriment of their partners in collaboration;
2. collaboration based on contractual relationships usually focuses on mid-term viability. Such a collaboration usually includes core capabilities of individual enterprises;
3. collaboration based on ownership gives substantial power to participants and enables effective formal company management; such collaboration can be friendly or hostile.

## 9.1 Confirmation of Hypotheses

Three hypotheses have been set based on initial theoretical background. The hypotheses were empirically tested in research. A summary of findings is given below, in which the hypotheses were either confirmed or not.

H1 *Slovenian enterprises, which outsource certain activities, make incomplete assessments regarding the use of resources and possibilities leading to long-term relationships and do not plan* *strategies for further collaboration after the initial relationship has ended.*

The analysis of experiences and strategic assessments of some Slovenian enterprises – outsourcers and outsourcees – reveals that the decisions to enter outsourcing relationships do not base on in-depth analysis and planning in the majority of cases. In studying responses provided by respondents (managers rarely consider risks; they do not take into account the possibility of failure; they did not anticipate long-term measures etc., more about this is given in section 7.3) it became clear that the manager's decision to enter outsourcing relationship was accidental, made during the crisis period and that they did not take into account other possibilities. According to the findings and with regard to low rates in long-term audits given in table 7.1, at the time of entering the outsourcing relationships *the first hypothesis can be confirmed*. Slovenian companies outsourcing their activities make incomplete assessments regarding the use of resources and possibilities leading to long-term relationships and do not plan strategies for further collaboration after the initial relationship has ended. Pilot qualitative research has shown that respondents at the time of entering outsourcing relationships do not assess their capabilities and do not aim at creating strategies for collaborative relationships.

Enterprises are not the same and they operate in different environments, thus it is impossible to make any generalisations about the consequences and future prospects of outsourcing. Due to the small research sample this study does not reach analytical saturation, therefore the results cannot be generalised. Despite the limitations it is possible to say that enterprises do not enter outsourcing relationships on the basis of in-depth strategic analyses and forecasting and that the interests of outsourcers prevail in established relationships.

*H2 An important part of assessments made by outsourcers is based on short-term economic advantages (lower cost) and does not aim at the formation of long-term partnerships.*

The cost reduction strategy, focusing on key advantages and improved management of operational cost are, according to the surveyed enterprises, the most important reasons for entering outsourcing relationships. The findings of quantitative research confirm that the cost reduction strategy (M = 4,2; SD = 23,1), focusing on key company advantages (M = 3,9; SD = 27,4) and improved management of operational cost (M = 3,7; SD = 27,7) represent the most important reasons for outsourcing.

The pilot qualitative research as well as quantitative research the second hypothesis has been confirmed. The research proved that short-term financial expectations prevail and that enterprises do not aim at the formation of long-term collaboration. The quantitative research on a sample of Slovenian enterprises showed that surveyed companies rarely think about long-term collaboration with suppliers due to limited knowledge their estimations are short-term oriented.

*H3 The relationship between outsourcers and outsorcees is predominantly distributive and rarely cooperative, with the level of mutual trust being very low. The duration of the majority of discussed outsourcing relationships is temporally limited and does not exceed the framework of enterprise's developmental policy.*

The duration of contracts and the duration of collaboration represent two important indicators for the placement in temporal (long-term and short-term) and substantive (marketplace vs. hierarchy) dimensions of collaboration in outsourcing. As revealed in the research, short-term contracts up to one year represent 36% of outsourcing relation-ships and do not accomplish developmental let alone core company policy; such contracts are typical for current operations and current policy (more about this in section 8.3).

Another important indicator of outsourcing relationships between surveyed enterprises is collaborations with unlimited temporal framework in 39% of cases. In such cases companies collaborate on the basis of current interests, which – in some cases – have not been identified at all. The research findings confirm the hypothesis that relationships between outsourcers and outsourcees are most often distributive and rarely cooperative, with a very low degree of mutual trust. The duration of the majority of outsourcing relationships is temporality limited and does not exceed the framework of company developmental policy.

The main hypothesis that long-term strategic creation, implementation and managing of outsourcing relationship is considerably more useful for both outsourcers and outsourcees than one-sided short-term relationships can be confirmed on the basis of all three research activities: pilot, quantitative and central qualitative research as well as on the basis of theoretical premises that confirm research findings. The research findings show that outsourcing can become an effective means for increasing short-term financial efficiency of Slovenian enterprises. A wider verification of expected benefits for companies entering outsourcing relationships has been confirmed through a number of studies in Germany and other west European countries.

Throughout this book I was trying to find an answer to the central research question: How should enterprises behave in order to gain long-term benefits from outsourcing relationships. The central research dilemma was structured into two basic research questions:

- Which activities should be studied and analysed before the decision is made about the placement in any of possible forms or levels of outsourcing?
- Which measures and activities are necessary for enterprises to be able to implement an integral outsourcing strategy for a long-term and successful collaboration?

In the review of theory an important conclusion was made, namely, that outsourcing per se does not represent an important category. On the other hand, it is one of key forms of control and alliances ranging from marketplace to hierarchy, between ad hoc purchase/sale and integral organisation.

In the central qualitative research, I dealt with transitions among individual forms of control and alliances in the placement within dimensions and tried to find the direction of control and alliances between enterprises. On the basis of strengths and weaknesses of individual levels of control and alliances a methodological tool of framework model of company policy I created measures for placing enterprises into a lower level or higher level of control and alliances, into the so-called dimensions ranging between ad hoc purchase/sale to integral organisation.

At the time of summarising research findings I can say that I familiarised myself not only with different ways of defining outsourcing, but also found out that it is necessary to create a completely different research and methodological approach – an integral research approach, which will take into account all company success factors in the assessment of placements and transitions between two placements. A successful implementation should be based on core capabilities based on theoretical premises, which include all components and synergistic combinations in company policy. When a company plans to achieve the level of control and alliances A and the level B, the plan should be assessed and the following question answered: 'Are there long-term possibilities for the company transition from A to B?,' all components should be checked in company policy (e. g. 9 × 2 and goals given in tables 3.4, 3.5 and 3.6 by taking into account the notes dealt with in the theoretical part). Managers cannot assess them by using inductive methods, because the assessment is too complex. They should assess individual components for A and B by placing them into dimensions for placement A and B. This should be done in an integral way by assessing whole sets of policies for A and B. For the sake of transparency, managers can make a table for both levels, aggregate the results acquired and get the assessment for core policy A and B. By doing this managers acquire a relative quantification, which is subjective, dangerous and risky and should be improved according to the Nonaka's (1991) concept, in which individuals externalise their ideas in a group of people, who may critically supplement them, change them, accept or reject them. The idea thus becomes tested knowledge, which is much easier to accept by the company and which may also grow and develop.

## 9.2 Research Goals

The first research goal was to create a starting point for an integral analysis of strategic aspects of outsourcing from the point of view of Slovenian enterprises and place the analysis results within a framework of management doctrine of the Faculty of Management. This goal was achieved in the theoretical part in which the components of company policy were dealt with, used in the empirical research as a methodological tool; in parallel, I created forms and levels of management and alliances in the theoretical part, which were used in the empirical part in the assessment of different forms of collaboration.

The second research goal was to treat outsourcing as one of possibilities for managing company complexity within the dimensions ranging from od ad hoc collaboration or exchange (i. e. marketplace) to normative management (i. e. hierarchy) and to create audits that could give support to management decision making in choosing outsourcing as the most appropriate company placement in dimensions ranging from 'marketplace' to 'hierarchy' as well as important assessments in making decisions about outsourcing with regard to the placement nearer to 'marketplace' or 'hierarchy.' The goal was achieved because this book gives an account of an integral placement of forms of management and alliances, in which outsourcing is dealt with as one of seven forms of contractual collaboration. In the research, audits were created that offer support to management in making decisions regarding transitions to high or low level forms of management and collaboration within dimensions ranging from ad hoc purchase/sale to integral organisations. A methodological tool was also created for company management that gives support in placing companies within 'marketplace' or 'hierarchy.'

The research showed that the definition of dynamic placement of outsourcing within dimensions represents a fundamental premise for the creation of further strategies for prior or subsequent levels within dimensions.

The fact that the research was concluded with a qualitative model does not mean that it was finished midway, but that I took a rational path in order to reach conclusions. In a rational world, the placement into dimensions cannot be analytically researched, because:

- the orderliness of complexity has limitations due to our limited mind and anthropology teaches us that our brain is not much different than it was a thousand years ago and are unlikely to become much more advanced; the same holds true for the capabilities of reason for managing complexity – which clearly represents a biological border;
- on the other hand, it was found that information technology has physical limitations; only a certain (and limited) amount of information can be processed;
- due to cognitive and physical limitations complexity is unlikely to be wholly understood, which brings us to the final conclusion. The final border was reached, from which on only qualitative audit is possible, which was described in previous paragraphs. We can use placements and as other authors write (Nonaka 1991; Tavčar 2008) and collective treatment of enterprises. My final conclusion is that there are biological and physical borders regarding outsourcing.

Proving that such borders exist would be the same if the research had been done on a much larger sample of companies; the results would be the same; the circumstances always differ and generalisations are not possible.

In real life considerations in enterprises a mental apparatus and approach were suggested, discussed in three steps (the analysis of placement within different forms, benchmarking of transitions, placement in dimensions through scenarios). Actual examples and audits can serve individual enterprises, but they exceed the scope of this work.

## 9.3 Further Research

Limited capabilities of individual researchers and the complexity of the research topic made the collection and in-depth analysis of data and information regarding the measures of individual transitions regarding different levels and forms of placement in dimensions ranging between marketplace and hierarch was impossible. What should be assessed in transitions from one placement to the other represents a topic that exceeds the scope of one book. Thus, further research should focus on in-depth research of measures for transitions between various forms and levels in alliance formation that were dealt with in this book, but on a more indicative level. Enterprises should base their decisions regarding individual steps in the process of outsourcing on the basis of different aspects. They should take into account organisational, marketing, cultural, production, technological, financial and legal aspects, which should be studied in detail.

Outsourcing can represent a fatal strategic decision for enterprises – for both the outsourcers and outsourcees. It is important that enterprises before deciding about their outsourcing activities carry out in-depth analysis of possible outcomes, risks and benefits. Management should focus on long-term consequences of outsourcing as well as long-term company effectiveness and efficiency.

In outsourcing relationships, short-term interests of outsourcers often prevail (cost reduction, transfer of unattractive or environmentally hazardous activities, acquiring short-term capabilities etc.). Outsourcers often find such suppliers who are facing latent or potential crisis and have no other choice than to enter an outsourcing relationship if they want to survive. In the environment, which is quickly changing, the advantages of a certain supplier (e. g. cost) can quickly disappear, and the outsourcer is forced to find a new supplier, e. g. in a less developed country. Such transitional and strategically poorly managed outsourcing relationships may lead to dire consequences.

It is important to use a process approach, which spans from initial idea and audit, through the assessment of future course of collaboration and to potential decision for outsourcing. Further on, a plan should be made for the establishment of mid-term implementation of outsourcing: Last but not least, the efficiency and effectiveness of out-sourcing should be monitored as well as its possible future termination. The plan should include:

- contextual changes,
- ownership transformation,
- termination of relationship etc.

Throughout this research the framework model was used in order to employ two approaches: interest and instrumental approach. Similar models can be studied by future researchers for examples with dynamic dimensions. They also have some additional dimensions for further research on the discussed field:

- active monitoring – passive change,
- with company culture – without company culture,
- collaborative – distributive.

The framework model has been used in practice on hundreds of Slovenian enterprises and proved to be successful. The research was carried out with limited resources. On the other hand, the whole research can be substantiated with the following:

- company management,
- dimensions of company management,
- for each stage it is necessary to determine good and bad sides (pros and cons) in comparison with neighbouring stages,
- pros and cons can be determined only through systematic comparison.

The research showed how complex the studied area was and how limited the capabilities of researchers are. This book represents an introduction in a wider research activity and, above all, as an insight into a poorly studied field that is of upmost importance for Slovenian enterprises.

# Literature


Aaker, D. 1988. *Developing Business Strategies.* New York: Wiley.

Ackerman, R., and J. W. Rosenblum. 1973. *Strategy and Organization: Texts and Cases in General Management.* Homewood, IL: Irwin.

Alexander, M., and D. Young. 1996. 'Strategic Outsourcing.' *Long Range Planning* 29 (1): 116–9.

Allweyer, T., T. Besthorn, and J. Schaaf. 2004. 'IT Outsourcing: Between Starvation Diet and Nouvelle Cuisine.' Deutsch Bank Research 43. Deutsch Bank, Frankfurt am Main. http://www.dbresearch.de/PROD/DBR_INTERNET_EN-PROD/PROD0000000000078395.PDF

Andrews, K. R. 1971. *The Concept of Corporate Strategy.* Homewood, IL: Irwin.

Anderson, M. C. 1997. 'A Primer in Measuring Outsourcing Results.' *National Productivity Review* 17 (1): 33–41.

Anderson, V., S. Graham, and P. Lawrence. 1998. 'Learning to Internationalize.' *Journal of Management Development* 17 (7): 492–502.

Ansoff, I. H. 1978. *Business Strategy.* Harmondsworth: Penguin.

Barney, J. B. 1991. 'Firm Resources and Sustained Competitive Advantage.' *Journal of Management* 17 (1): 99–120.

Barney, J. B., and A. M. Arikan. 2001. 'The Resource-Based View: Origins and Implications.' In *The Blackwell Handbook of Strategic Management,* edited by M. A. Hitt, R. E. Freeman, and J. S. Harrison, 124–88. Oxford: Blackwell.

Beaumont, N., and A. Sohal. 2004. 'Outsourcing in Australia.' *International Journal of Operations & Production Management* 24 (7): 688–700.

Bell, J., R. McNaughton, S. Young, and D. Crick. 2003. 'Towards an Integrative Model of Small Firm Internationalisation.' *Journal of International Entrepreneurship* 1:339–62.

Bell, J., B. den Ouden, and G. Ziggers. 2006. 'Dynamics of Cooperation: At the Brink of Irrelevance.' *Advances in International Management* 43:173–219.

Berggren, C., and L. Bengtsson. 2004. 'Rethinking Outsourcing: A Tale of Two Telecom Firms.' *European Management Journal* 22 (2): 211–23.

Biloslavo, R. 2006. *Strateški management in management spreminjanja.* Koper: Fakulteta za managemet.

———. 2007. 'Kultura organizacije.' In *Ko država šepeta: marketinška kultura v šoli,* edited by Anita Trnavčevič, 29–56. Koper: Fakulteta za management.

Bleicher, K. 1995. *Das Konzept integriertes Managemement.* Frankfurt: Campus.

Bongrad, S. 1994. *Outsourcing-Entscheidungen in der Informationsverarbeitung: Entwicklung eines computergesttzen Portolio Instumentariums.* Wiesbaden: Deutscher Univerzitat Verlag.

Brown, D., and S. Wilson. 2005. *The Black Book of Outsourcing: How to Manage the Changes, Challenges, and Opportunitites.* Hoboken, NJ: Wiley.

Bruner, R. F. 2004. *Applied Mergers & Acquisition.* Hoboken, NJ: Wiley.

Burgess, E. W. 1927. 'Statistics and Case Studies as Methods of Sociological Research.' *Sociology and Social Research* 12:103–20.

Burns, R. B. 2000. *Introduction to Research Methods.* London: Sage.

Cameron, K. S., and R. E. Quinn. 1999. *Diagnosing and Changing Organizational Culture.* Reading, MA: Addison-Wesley.

Campbell, J. R., and J. Holland. 2005. *Methods in Developing Research: Combining Qualitative and Quantitative Approaches.* Rugby: ITDG.

Chakravarthy, B. S., and P. Lorange. 1991. *Managing the Strategy Process: A Framework for Multibusiness Firms.* Englewood Cliffs, NJ: Prentice-Hall.

Chandler, A. D. 1962. *Strategy and Structure.* Cambridge, MA: MIT Press.

———. 1991. 'The Functions of the HQ Unit in the Multibusiness Firm.' *Strategic Management Journal* 12 (1): 31–50.

Chapman, R. B., and K. Andrade. 1998. *Insourcing after Outsourcing.* New York: Amacom.

Clark, J. M. 1961. *Competition as a Dynamic Process.* Washington DC: The Brookings Institute.

Coase, R. H. 1937. 'The Nature of the Firm.' *Economica* 4 (16): 386–405.

Collins, J. C., and J. I. Porras. 1996. 'Building Your Company's Vision.' *Harvard Business Review* 74 (5): 65–77.

Commons, J. R. 1931. 'Institutional Economics.' *American Economic Review* 21 (4): 648–57.

Corbett, M. F. 2001. 'Ten Years of Outsourcing Practice: Tactical, Strategic and Transformational.' http://www.firmerbuider.com/cgi-bin

Deal, T. E., and A. A. Kenndey. 1982. *Corporate Cultures.* Reading, MA: Addison-Wesley.

Dubrovski, D. 2004. *Strateške poslovne in kapitalske povezave.* Koper: Fakulteta za management.

Dyer, J. 1997. 'Effective Interfirm Collaboration: How Firms Minimize Transaction Costs and Maximize Transaction Value.' *Strategic Management Journal* (7): 535–56.

Dolenc, P. 2010. 'Privatization in a Post-Communist Economy: It Seems there are No Macroeconomic Effects.' *Ekonomska istraživanja* 23 (1): 60–72.

Earl, M. (1996). 'The Risk of Outsourcing IT.' *Sloan Management Review* 37 (2): 26–32.

Easterby-Smith, M., R. Thorpe, and A. Lowe. 2005. *Raziskovanje v managementu.* Koper: Fakulteta za management.

Ferdows, K. 1997. 'Marking Most of Foreign Factories.' *Harvard Business Review* 75:73–88.

Fillis, I. 2001. 'Small Firm Internacionalisation: An Investigative Survey and Future Research Directions.' *Management Decision* 39:767–83.

Flere, S. 2000. *Sociološka metodologija: temelji družboslovnega raziskovanja.* Maribor: Pedagoška fakulteta.

Gälweiler, A. 1987. *Strategische Unternehmensfuhrung.* Frankfurt: Campus.

Gilley, K. M., and A. Rasheed. 2000. 'Making More by Doing Less: An Analysis of Outsourcing and Its Effect on Firm Performance.' *Journal of Management* 26 (4): 763–90.

Gomez, P., and T. Zimmermann. 1993. *Unternehmensorganisation: Profile, Dynamik, Methodik.* Frankfurt: Campus.

Goold, M., and A. Campbell. 1989. *Strategies and Styles.* London: Blackwell.

Greaver, M. F. 1999. *Strategic Outsourcing: A Structured Approach to Outsourcing Decisions and Initiatives.* New York: Amacom.

Guba, E. G., and Y. S. Lincoln. 1989. *Fourth Generation Evaluation.* London: Sage.

Handy, C. B. 1979. *Understanding Organizations.* Harmondsworth: Penguin.

Haralambos, M., and M. Holborn. 1999. *Sociologija: teme in pogledi.* Ljubljana: DZS.

Harland, C., and L. Knight. 2005. 'Outsourcing: Assessing the Risks and Benefits for Organizations, Sectors and Nations.' *International Journal of Operations & Production Management* 25 (9): 831–50.

Harrigan, K. R. 1983. *Strategies for Vertical Integration.* Lexington, MA: Lexington Books.

Hinterhuber, H. H. 1996. *Strategische Unternemensfuehrung.* Berlin: De Gruyt.

Hodgetts, R. M. 1985. *Management.* Orlando, FL: Academic Press.

Hoecht, A., and P. Trott. 2006. 'Innovation Risks of Strategic Outsourcing.' *Technovation* 26 (5–6): 672–81.

Hofstede, G. 1980. *Culture's Consequences: International Differences in Work-Related Values.* Newbury Park, CA: Sage.

———. 1991. *Cultures and Organizations: Software of the Mind.* New York: McGraw-Hill.

———. 1993. 'Cultural Constraints in Management Theories.' *Academy of Management Executive* 7 (1): 81–94.

Honigman, J. J. 1982. 'Sampling in Ethnographic Fieldwork.' In *Field Research: A Sourcebook and Field Manual,* ur. R. G. Burges, 63–89. London: Allen & Unwin.

Hubbard, G. M. 1993. 'How to Make that Tough Outsourcing Decision Work for You.' *Facilities Design & Management* 12 (7): 46–9.

Jacquemin, A. 1987. *The New Industrial Organization.* Cambridge: MIT.

Johnson, M. 1997. *Outsourcing in Brief.* Oxford: Butterworth-Heinemann.

Kaplan, R. S., and D. P. Norton. 1996. *The Balanced Scorecard.* Boston, MA: Harvard Business School Press.

Kast, F. E., and J. E. Rosenzweig. 1986. *Organisation and Management.* Boston, MA: McGraw-Hill.

Kavčič, K., and M. I. 'Tavčar. 2008. Planning Successful Partnership in the Process of Outsourcing.' *Kybernetes* 37 (2): 241–49.

Kearney, A. T. 2004. 'Making Offshore Decisions.' http://www.atkearney.com/shared_res/pdf/Making_Offshore_S.pdf

King, W. R. 2007. 'Knowledge Management: A Systems Perspective.' *International Journal of Business Systems and Research* 1 (1): 5–28.

Kinkel, S., G. Lay, and S. Maloca. 2007. 'Development, Motives and Employment Effects of Manufacturing Offshoring of German SMEs.' *International Journal of Entrepreneurship and Small Business* 4 (3): 256–76.

Kirkegaard, J. F. 2005. 'Outsourcing and Offshoring: Pushing the European Model over the Hill, Rather Than off the Cliff.' Working Paper Series 05-1. Institute for International Economics, Washington, DC. http://www.iie.com/publications/wp/wp05-1.pdf

Komarovsky, M. 1967. *Blue Collar Marriage.* New York: Vintage Books.

Koong, K. S., C. Lai., and Y. J. Wang. 2007. 'Taxonomy Development and Assessment of Global Information Technology Outsourcing Decisions.' *Industrial Management & Data Systems* 107 (2): 397–414.

Kralj, J. 1995. *Politika podjetja v tržnem gospodarstvu.* Maribor: Ekonomsko-poslovna fakulteta.

———. 2003. *Management.* Koper: Visoka šola za management.

Kubr, M. 2002. *Management Consulting: A Guide to the Profession.* Geneva: International Labour Organization.

Lamming, R. C. 1993. *Beyond Partnership: Strategies for Innovation and Lean Supply.* London: Prentice-Hall.

Lee, C.-H., S.-Y. Huang, C.-S. Ou, and L.-Y. Chiu. 2007. 'The Impact of the BPR/BPO Strategy, Internet-Based Technology Investment and BPR Type of BPR Performance.' *International Journal of Business and Systems Research* 1 (3): 317–42.

Leenders, M. R., F. P. Johnson, A. Flynn, and H. Fearon. 2006. *Purchasing and Supply Chain Management.* Boston, MA: McGraw-Hill Irwin.

Lei, D., and M. Hitt. 1995. 'Strategic Restructuring and Outsourcing: The Effect of Mergers and Acquisitions and LBOs on Building Firm Skills and Capabilities.' *Journal of Management* 21 (5): 835–59.

Lobe, B. 2006. 'Združevanje kvalitativnih in kvantitativnih metod – stara praksa v novi preobleki?' *Družboslovne razprave* 22 (53): 55–73.

Lonsdale, C., and A. Cox. 1998. *Outsourcing: A Business Guide to Risk Management Tools and Techniques.* London: Earlsgate.

Lonsdale, C., and A. Cox. 2000. 'The Historical Development of Outsourcing: The Latest Fad?' *Industrial Management & Data Systems* 100 (9): 444–50.

MacCarthy, B. L., and W. Atthirawong. 2003. 'Factors Affecting Location Decisions in International Operations: A Delphi Study.' *International Journal of Operations and Production Management* 23:794–818

Mandel, T. F. 1983. 'Future Scenarios and Their Uses in Corporate Strategy.' In *The Strategic Management Process,* edited by K. J. Albert, 1–21. New York: McGraw-Hill.

Mantel, S. P., M. V. Tatikonda, and L. Ying. 2005. 'A Behavioural Study of Supply Manager Decision-Making: Factors Influencing Make Versus Buy Evaluation.' *Journal of operations management* 24 (6): 822–38.

March, J. G., and H. A. Simon. 1958. *Organizations.* New York: Wiley.

Mayer, J. 1994. *Vizija ustvarjalnega podjetja.* Ljubljana: Dedalus – Založba Iskra.

McIvor, R. 2000. 'A Practical Framework for Understanding the Outsourcing Process.' *Supply Chain Management: An International Journal* 5 (1): 22–36.

———. 2005. *The Outsourcing Process: Strategies for Evaluation and Management.* New York: Cambridge University Press.

McKinsey Global Institute. 2003. 'Offshoring – Is It a Win-Win Game?' http://www.mckinsey.com/mgi/reports.pds

Mellerowitz, K. 1976. *Unternemenspolitik.* Freiburg: Haufe.

Merriam, S. B. 1998. *Qualitative Research and Case Study.* San Francisco: Jossey-Bass.

Mesec, B. 1998. *Uvod v kvalitativno raziskovanje v socialnem delu.* Ljubljana: Visoka šola za socialno delo.

Mintzberg, H. 1973. 'Strategy-Making in Three Modes.' *California Management Review* 16 (2): 44–53.

———. 1994. *The Fall and Rise of Strategic Planning.* London: Prentice-Hall.

———. 1996. *The Strategy Process.* London: Prentice-Hall.

Mintzberg, H., J. Lampel, and B. Ahlstrand. 1998. *The Strategy Safari: A Guided Tour through the Wilds of Strategic Management.* New York: Free Press.

Momme, J. 2001. *Outsouricing Manufacturing to Suppliers.* Aalborg: Aalborg University.

Mucchielli, J.-L., and P. Saucier. 1997. 'European Industrial Relocations in Low-Wage Countries: Polices and Theory Debates.' In *Multinational Firms and International Relocation,* edited by P. J. Buckley and J.-L. Mucchhielli, 5–33. Cheltenham: Elgar.

Muehlberger, U. 2007. 'Hierarchical Forms of Outsourcing and the Creation of Dependency.' *Organization Studies* 28 (5): 709–27.

Mulej, M. 1992. *Teorije sistemov.* Maribor: Ekonomsko-poslovna fakulteta.

Musek, J. 1993. *Osebnost in vrednote.* Ljubljana: Educy.

Mužič, V. 1994. 'Atributi kvalitativne in kvantitativne paradigme pedagoškega raziskovanja.' *Sodobna pedagogika* 45 (1–2): 39–51.

Nellore, R., and K. Soderquist. 2000. 'Strategic Outsourcing through Specifications.' *Omega* 28 (5): 525–40.

Nonaka, I., and H. Takeuchi. 1995. *The Knowledge-Creating Company.* Oxford: University Press.

OECD. 2005. 'Potential Offshoring of ICT-Intensive Using Occupations.' DSTI/ICCP/IE(2004)19/final. OECD, Paris. http://www.oecd.org/dataoecd/35/11/34682317.pdf

Olsen, R. F. and L. M. Ellram. 1997. 'Buyer-Supplier Relationships: Alternative Research Approaches.' *European Journal of Purchasing & Supply Management* 4 (3): 221–31.

Outsourcing Institute and Dun & Bradstreet. 2000. 'Outsourcing Index 2000: Strategic Insights Into US Outsourcing.' http://www.outsourcing.com/content.asp?page=02b/articles/intelligence/OI_Index.pdf

Peteraf, M. A. 1993. 'The Cornestones of Competitive Advantage: A Resource-Based View.' *Strategic Management Journal* 14 (3): 179–91.

Peters, T. J., and R. H. Waterman. 1982. *In Search of Excellence: Lessons form America's Best-Run Companies.* New York: Harper & Row.

Porter, M. E. 1980. *Competitive Strategy.* New York: Free Press.

———. 1998. *Interrelationships among Business Units: Strategic Synergy.* London: International Thomson Business Press.

Quinn, J. B., and F. G. Hilmer. 1994. 'Strategic Outsourcing.' *Sloan Management Review* 35 (4): 43–55.

Ranft, A. L., and M. D. Lord. 2002. 'Acquiring New Technologies and Capabilities: A Grounded Model of Acquisition Implementation.' *Organization Science* 13 (4): 420–41.

Ringland, G. 2006. *Scenario Planning.* Chichester: Wiley.

Rugman, A. M., and R. M. Hodgetts. 2000. *International Business: A Strategic Management Approach.* Harlow: Prentice Hall.

Rumelt, R. P. 1974. *Strategy, Structure, and Economics Performance.* Cambridge, MA: Harvard University Press.

Sagadin, J. 2001. 'Pregledno o kvalitativnem empiričnem pedagoškem raziskovanju.' *Sodobna pedagogika* 52 (2): 10–25.

Schaaf, J. 2004. 'Offshoring: Globalisation Wave Research Services Sector.' Deutsch Bank Research 43. Deutsch Bank, Frankfurt am Main. http://www.dbresearch.de/PROD/DBR_INTERNET_EN-PROD/PROD0000000000179790.PDF

Schwaninger, M. 1994. *Managements-Systeme.* Frankfurt and New York: Campus.

Schein, E. H. 1992. *Organizational Culture and Leadership.* San Francisco: Jossey-Bass.

Seale, C., G. Gobo, J. F. Gubrium, and D. Silverman. 2004. 'Introduction: Inside Qualitative Research.' In *Qualitative Research Practice,* edited by C. Seale G. Gobo, J. F. Gubrium, and D. Silverman, 1–13. London: Sage.

Segev, E. 1997. *Business Unit Strategy.* New York: Wiley.

Stock, G. N., and M. V. Tatikonda. 2005. 'Behavioural Models for Complex Decision Analysis.' *European Journal of Operational Research* 166 (3): 655–65.

Tavčar, M. I. 1996. *Razsežnosti managementa.* Ljubljana: Tangram.

———. 2006. *Management in organizacija: sinteza konceptov organizacije kot instrumenta in kot skupnosti interesov.* Koper: Fakulteta za management.

———. 2008. *Management in organizacija: Celostno snovanje politike organizacije.* Koper: Fakulteta za management.

Tayles, M., and C. Drury. 2001. 'Moving from Make/Buy to Strategic Sourcing: The Outsource Decision Process.' *Long Range Planning* 34 (5): 605–22.

Tellis, W. 1997. 'Information Technology in a University: A Case Study.' *Campus-Wide Information Systems* 14 (3): 78–91.

*The Economist.* 2006. 'Watch out, India.' 6 May, 75–6.

Trnavčevič, A. 2001. 'Kvalitativna in kvantitativna paradigma pedagoškega raziskovanja: izhodišča in dileme.' *Sodobna pedagogika* 52 (2): 26–34.

Ursic, D., A. Nikl, M. Mulej, and A. S. Cestar. 2006. 'System-Organisational Aspect of a Learning Organisation in Companies.' *Systemic Practice and Action Research* 19 (1): 81–9.

Williamson, O. E. 1975. *Markets and Hierarchies, Analyses and Antitrust Implications.* New York: Free Press.

———. 1981. 'The Economics of Organizations: The Transaction Cost Approach.' *American Journal of Sociology* 87 (3): 548–77.

———. 1985. *The Economic Institutions of Capitalism.* New York: Free Press.

World Trade Organization. 2004. *International Trade Statistics 2004.* Geneva: World Trade Organization.

Yin, R. K. 1994. *Case Study Research.* London: Sage.

Yin, R. K. 2003. *Case Study Research: Design and Methods.* London: Sage.

Yeats, A. J. 2001. 'Just how big is global production sharing?' World Bank Working Papers 1871. Washington, DC: The World Bank.

Yoon, K. P., and G. Naadimuthu. 1994. 'A Make-Or-Buy Decision Analysis Involving Imprecise Data.' *International Journal of Operations & Production Management* 14 (2): 62–9.

ISBN 978-961-266-159-5
Univerza na Primorskem
Fakulteta za management
www.fm-kp.si