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OFFSHORING AS A FORCE FOR COMPETITIVENESS AND PROFITABILITY OF ENTERPRISES IN THE WORLD

Introduction

Progress in field of informational and communicational technologies has become one of the main factors promoting new international labor division. The significant drop of the cost of communication and transportation, as well as strong influence of technological progress had led to creation of the phenomenon of “death of distance” which resulted in among others further liberation in international trade. One of the meaning full processes which started to emerge on the basis of these changes is offshoring.

Offshoring is some of the popular and frequently used forms of cooperation between enterprises in the World, that support business process or allow partial and sometimes complete transfer of certain stages of manufacturing, trading and service activity to external subjects. The form is considered as the modern methods of management, which affect the shape of the business models of companies around the World.

It has their supporters mainly in the United States, where lots of well-known companies, including those with global reach, use these forms of cooperation in their business activity. Both in European countries and in China or Japan many enterprises decide to reduce production of components in their facilities and use services provided by cooperators. The main arguments for using this form of cooperation are lower costs of own trade, production activity, as well as increasing flexibility of activity. Analyzed form of cooperation and trade connections

brings number of advantages both for international corporations and for the sector of small and medium companies and enterprises.

1. Offshoring and its part in creating a new look at the aspect of competition between enterprises in the World

The definition of offshoring is connected with the ability to isolate and move non-production functions of a company or production and services that can be produced or manufactured remotely to any country, lowering the costs or increasing quality. S. Czerniecki¹ states that offshoring projects include: Call centers, shared services and IT (Internet Technology). Competence centers – developed organizations which concentrate all needed specialists from one discipline in one place, e.g. IT and finances, are also organizations of this type. Thanks to versatility and complexity of provided services, these centers are able to take from large corporation all non-production functions that are located in their properties.

The process of offshoring is connected mainly with services possessing information - intensive character, therefore requiring huge producers' knowledge, which thanks to usage of the Internet and modern telephone connectivity solutions can be distant to clients over thousands kilometers. Besides offshoring enterprises can also use other forms of cooperation and connections which include, according to J. Próchniak²: intra – firm offshoring, nearshoring, insourcing, networking and supply – chaining³.

¹ S. Czerniecki, *Offshoring w Polsce. Dane aktualne na dzień 17.05.2011 r.*, <http://www.egospodarka.pl/9566,Offshoring-w-Polsce,1,3,9,1.html>, 29.06.2005.

² J. Próchniak, *Offshoring – czy Polska traci na atrakcyjności?*, „Pomorski Przegląd Gospodarczy” 2010, No. 2, p. 25.

³ Meaning allocating the property of enterprise's activity in other country. It is a direction characteristic for enterprises which do not make decisions concerning offshoring on the basis of the quality and Brand of products. Excluding services to neighboring countries. For European market, the attractive nearshore places are: Poland, Czech Republic, Hungary, Bulgaria, and Slovakia; for the United States – Mexico and Canada. Opposite of outsourcing, deputing realization of business processes that possess strategic value for an enterprise, but not belonging to its main competence, to specialized, internal department within the same organization. Business strategy of production and services process organization, providing elastic access to specialized resources on global scale, allowing companies and units to become involved at any stage of given business process. Else, Supply Chain Management (SCM). Supply Chaining meaning IT solutions which serve an enterprise in network supply chain management, allowing the possibility of synchronization of materials flow between given cooperators, which facilitate adjusting of a company to particular market demand.

Offshoring does not depend only on pure models, as for example: captive offshoring, but indirect variants, of which the most frequently used are: joint ventures⁴ and virtual captive⁵ are possible. A new, dynamically developing field is also business processes' offshoring – Knowledge Process Offshoring (KPO). It deals with services that require specialist, expert knowledge, e.g. on: market analysis and research, legal advice, management and project services and collecting and working out specialized data to be produced. KPO includes mainly financial, business and market intelligence services and legal and research services. The basic aim of KPO in these situations is creating surplus value for enterprises⁶.

The main advantages of using offshoring strategy include:

- a) the increase in meaning and role of enterprises in modern global economy and meeting its requirements;
- b) reduction of costs;
- c) increasing innovativeness of activities, resulting in using global intellectual capital resources;
- d) increasing speed and flexibility of activity thanks to ability to gain qualified work power necessary to realization of given project and work organization in twenty-four hours, seven days a week routine;
- e) diversification of activity and adjusting provided services to their regional receivers;
- f) creating new value thanks to earning experience in functioning on new markets, allowing later own experience selling or offering new types of services;
- g) restructuring the enterprise, which is also possible thanks to implementation of offshoring strategies⁷.

Offshoring can be used in different branches and sectors, from building services and production processes to research – development activity, marketing or consultative and legal services. The examples of companies that use offshoring

⁴ Joint ventures are activities based on creating company with foreign capital.

⁵ Virtual captives is a model integrating advantages of offshore outsourcing (international offshoring) and offshoring in the form of foreign investment. D. Ciesielska, *Offshoring usług. Wpływ offshoringu na rozwój przedsiębiorstwa*, Wolters Kluwer, Warszawa 2009, p. 37.

⁶ A. Mierau, *Strategic Importance of Knowledge Process Outsourcing*, Technical University of Kaiserslautern, Kaiserslautern, Germany 2007, pp. 4–17.

⁷ E. Carmel, P. Tjia, *Offshoring Information Technology*, Cambridge University Press, New York 2007, p. 98.

and its related forms in their business models are: Wal – Mart Stores, Inc.⁸, Reebok, Adidas, Nike or Volkswagen (Table 1).

Table 1

Examples of Polish and foreign companies that conduct traditional activity and use offshoring and its related forms in their business models

Name of the company	Selected activities and services that are subordinate to offshoring
Adidas	Production, logistics
AT&T	Call center, Internet technology, systems of communication
Boeing	Internet Technology, software
British Airways	Transport, logistic
British Petroleum	Marketing, transportation, petroleum and gas production
Dell	Internet Technology
DHL	Logistic, transport
General Electric	Call centers, logistics services, leasing services
Intel	Internet Technology,
Li&Fung	Production, packing, marking, logistics
Lufthansa,	Transport, logistic,
Microsoft	Internet Technology
Motorola	Production
Nokia	Management and administration of operational activities, software for teamwork, technical support
Puma	Production, logistics
Reebok	Production, logistics
Unilever	Purchase, production and supplying of printed materials
Volkswagen	Accounting, staff, cleaning works
Wal – Mart	Production, supplying, logistics

Source: own study.

The examples of foreign companies that act according to offshoring in Poland are:⁹

⁸ Wal – Mart Stores Inc. is an American network of supermarkets founded in 1962 by Sam Walton.

⁹ D. Ciesielska, *Offshoring usług. Wpływ offshoringu na rozwój przedsiębiorstwa*, Wolters Kluwer, Warszawa 2009, p. 37.

- a) in contact centers, whose functioning condition includes gaining employees with foreign languages: Stream International¹⁰, KRUK¹¹, Lukas Bank and Agencja Handlowa ITP¹²;
- b) in Research and Development, employing qualified work power with specialized skills: Plivia¹³, Avon, Delphi¹⁴;
- c) in the sphere of common services centers, which take business functions over from international corporations and emerge in places where low costs of work occur in connection with productivity and work quality: Philips and Thompson.

Offshoring activities allow, in part to neutralize the inherent aspect of competition between companies in the market economy and look at the issue in terms of cooperation and complementarity. Once competing enterprises and businesses can now take the common challenges and share their knowledge and skills for the benefits of both parties. Contemporary Polish and foreign companies still act as orchestrators of network, skillfully combining: human, physical and financial capital, technology and experiences gained.

The challenge that countries which move services abroad face is the one of restricting social and technical adjustable costs to minimum and making sure that the people affected directly by negative effects of offshoring transition period is as mild as possible and adjusting processes as successful as possible.

¹⁰ Stream International belongs to the group of global leaders in granting technical support for electronic and IT technology producers and communication. It specializes in providing highest quality customer service and technical service for computer, electronic and telecommunication hardware users. Consortium founded in 1990s in the United States. It owns 50 contact center departments in 22 countries in North America, Europe, Asia and Africa.

¹¹ Capital group KRUK is the branch leader and key player both in the field of debt collection and purchase and sale of receivables.

¹² ITP operates in selective cosmetics distribution branch.

¹³ Pliva is a Croatian pharmaceutical enterprise with headquarters in Zagreb.

¹⁴ Delphi is leading global supplier of electronic solutions and system technologies for motoring sector. The combine has invested over \$280 million in Poland, both in production and in research and development. It employs over four thousand people in four production facilities and modern Technical Center in Cracow.

2. The place of offshoring in the ten forces flattening the world model

Thomas L. Friedman, American journalist and publicist¹⁵, the author of *The World Is Flat: A Brief History of The Twenty-first Century*¹⁶, writes that humanity enters a period when almost everything would undergo the process of digitization, virtualization and automation. Countries, companies and units that learn to use new tools, brought by technological and teleinformatics development will achieve phenomenal productivity. We face also a period in which more people than now, like innovators, or employees will have an access to the tools of the Flat World. What is this “flatness of the world” then and what are its determinants?

The flatness of the world can be identified with an allegory of many occurrences, which take place in different dimensions of people’s and organizations’ environment. We deal with the flat world when some processes and phenomena, which seemed so distant and impossible to achieve, mostly because of barriers: of time, geographical, lexical, language, cultural, profitability, etc., now are for the asking. Thanks to hi-tech used in interpersonal contacts, the force and the power of the flat world reached primarily those countries, companies, subjects and units which: surrendered to its will, became involved in its creation, use the knowledge, abilities and possibilities in its creation and are ready to go only forward.

The increasing share of teleinformatics and knowledge in creating economic value in the flat world is observed also by E. Bendyk¹⁷, who states, that it is not necessary to emigrate to derive from innovations and global market. A computer scientist from India or Poland does not have to emigrate to the United States in order to work for American clients. For the author¹⁸, the flatness of the world is also an increasing easiness of exchanging and integration, as well as democrati-

¹⁵ T.L. Friedman (born July 20 1953 in Minneapolis, Minnesota) – journalist, publicist, author of many books and articles. In 1983, 1988 and 2002 he has been awarded Pulitzer Award three times for his publications in “New York Times”; in 2004 he sits in the Pulitzer Award board. He comments of topics concerning: international politics, global trade, Middle East, issues concerning environment. Three of his excellent publications has been translated into Polish: *The Lexus and the Olive Tree: Understanding Globalization* (1999), *The World Is Flat: A Brief History of The Twenty-first Century* (2005) and *Hot, Flat, and Crowded: Why We Need a Green Revolution – And How It Can Renew America* (2008).

¹⁶ T.J. Friedman, *Świat jest płaski. Krótka historia XXI wieku*, Dom Wydawniczy Rebis, Poznań 2006, p. 600.

¹⁷ E. Bendyk, *Opisać globalizację*, „Polityka” 2006, No. 50, p. 60.

¹⁸ *Ibidem*.

zation of the world relied on shrinking of the barriers impeding participation in global market all over the world.

In addition to the eight other forces that flatten the world, such as: outsourcing, uploading¹⁹, supply – chaining²⁰, insourcing²¹, in – forming²², steroid²³, offshoring, make companies change their profiles and management methods to become even more competitive in domestic, continental markets or global market. Today's flat world increases the need to adapt to the changes that are at the basis of efficiency and profitability for companies, as well as force their permanent development and improvement. The use of offshoring in the business models of companies and domestic, as well as foreign enterprises makes their roles in the division and the approach to work and their attitude to the calls of the modern world and the people living in it change. Analyzed force is somehow an evidence for maturity of these companies to enter markets that were once unavailable for them and establish cooperation with companies with which they could compete once.

It is hard to state why exactly ten and not, for example thirteen or sixteen led to flattening of the world. After all there are many more factors that speak for this phenomenon. Nevertheless this number, in Th. L. Friedman's conception of the Flat World has to have a mystical dimension. Irrespective of the number of the forces, the Flat World can go down in history as one of the fundamental change, comparable with creating national states or a revolution, every of which caused changes in the role of a unit, the role of form of government, the way of exploring and inventing, the way of management, the role of women, forms of art, ways of

¹⁹ Meaning publicizing custom transmissions: files, pictures and other materials and spreading their content on the global scale omitting any traditional organizations and official institutions.

²⁰ Using the chain of supply – a level cooperation between suppliers, sellers and customers in order to: create surplus value, meaning supplying an enterprise and unification of standards and facilitating global cooperation.

²¹ Relied on synchronization of global chain of supply for different companies, both big and small ones.

²² Relied on the possibility of building individual information, knowledge and entertainment supply chain, constituting somewhat a kind of cooperation with oneself whereby we can search for information, friends, be editors and choose this or that kind of entertainment, without the necessity of going to library, cinema or turning the television set on (internet search engines: Google, Yahoo!, MSN Search).

²³ Meaning some new technologies, which contribute to strengthening other forces that flatten the world, e.g.: computer system efficiency, communication and file sharing over the Internet, VoIP (Voice over Internet Protocol), videoconferencing, development of computer graphics and technologies and devices used in wireless communication.

research. The process of flattening the world occurs with cosmic velocity and it affects directly or indirectly much more people on the Earth²⁴.

3. Determinants of using offshoring as a force flattening the world and shaping the effectiveness of Polish and foreign companies in the world

The economic analysis concerning the usage of offshoring requires an answer to question: “make or buy?” which should be supported by solid analysis of factors that could affect the financial outcome of an enterprise. According to A. Koliński²⁵ the decision of maintaining own production (“make”), or deputing this process outside (“buy”) is dependent on production capacity and relies on few basic costs categories: fixed²⁶, variable²⁷, unit²⁸, transaction²⁹.

Most frequently offshoring allows decreasing of fixed costs, assuming that the price for offshoring services the companies and enterprises must pay is higher than acquired unit variable costs. Therefore reducing the costs is connected with the “buy” option. It results mainly from the fact that the fixed costs contain:

- a) costs directly connected with production which can be deputed to external subjects by offshoring;
- b) common costs that have been accounted.

²⁴ T.J. Friedman, *op cit.*, p. 36.

²⁵ A. Koliński, *Przekazanie usług logistycznych w outsourcing. Dane aktualne na dzień 07.05.2011 r.*, <http://mojafirma.infor.pl/biznes-finanse/porady/116569,Przekazanie-uslug-logistycznych-w-outsourcing.html>, 1.05.2010.

²⁶ Fixed costs are costs that do not change with the changes in production quantity in the short term. In the long term, all costs are variable.

²⁷ Variable costs are costs that change with the changes in production quantity in the short term: when production increases, variable costs will increase as well; when production decreases, variable costs will decrease as well.

²⁸ Unit costs (average) are costs of a produced unit. We distinguish: unit fixed costs, unit variable costs and unit gross costs.

²⁹ Transaction costs are costs that emerge from cooperation of many economic subjects. They can be divided into groups: gathering information costs (necessary to check if given good is available on the market, who offers the best conditions, etc. These are typical costs of market research and agreements planning), marketing and contract signing costs (necessary to ensure a transaction), control costs (born for assuring that the other side has ensured contract conditions. These can be marketing costs, control costs, process and outcome monitoring costs, corruption and opportunism caused losses insurance).

Therefore fixed costs count as the first group of costs which that undergo reduction, because liquidation of production means liquidation of fixed costs and this reduction is treated as decision cost³⁰.

We have to assume that in the situation of using offshoring transaction costs are definitely higher than in the moment when enterprise decides on internal realization of defined process. Validity of introducing both processes is determined by whether total costs associated with separation of specific process, including all expenses associated with providing services or supplying products are lower in the moment than in the moment when an organization would execute them on its own. Transaction costs associated with offshoring, in most cases possess the variable, not constant character. It is important for enterprises because as a result of changes in global environment, relatively fast reduction of born costs in the moment of external demand reduction is possible³¹.

Offshoring allows companies and enterprises to adjust fluently to seasonal fluctuations³², better usage of time potential at their disposal and reducing necessity of developing know – how. On the other hand however, companies and enterprises which achieve greatest market success does not use offshoring as they prefer to have as much own contribution in the final produce as it is possible. In favor of this attitude speaks an argument that co – operants are not able to ensure the best quality of products and articles. The main reason of resigning from offshoring , however is the fact that originality of products can be ensured not by buying products and articles commonly available on market. The share of outside components, coming from cooperation in a product results in the phenomenon of blurring of company’s image among customers. Enterprise in some way loses its identity and thereby its competitiveness advantage.³³

Besides mentioned limitations associated with using offshoring A. Koliński³⁴ lists also:

- possibility to make the company conditional on other companies,
- loss of part of competences,

³⁰ K. Postrach, *Problem decyzyjny – kupić czy wyprodukować? Dane aktualne na dzień 28 kwietnia 2011 r.*, http://www.zie.pg.gda.pl/wydzial?p_p_id=3&p_p_lifecycle=0&p_p_state=maximized&p_p_mode=view&_3_struts_action=%2Fsearch%2Fsearch.

³¹ D. Ciesielska, *op.cit.*, p. 37.

³² For example demand.

³³ M. Hirzel, *Mil und ohne Partner. Alternativen beim Outsourcing von Verwaltungsdienst*, “JO Management” 1997, No. 3, pp. 25.

³⁴ A. Koliński, *op.cit.*

- weakening of product image control,
- insecurity of sending information's confidentiality,
- threat of losing competitiveness position,
- loss of control over a part of costs,
- deterioration of contacts with clients.

Besides listed limitations offshoring is a process that residents of The Flat World must live with every day. Both offshoring and related forms constitute the results of: permanent Internet branch development, necessity introducing new projects constantly and being able to match conditions set by competition, as well as gaining advantage on the market.

This increasing trend of using other companies' and enterprises' services by offshoring are confirmed by numbers. For example, in 2009 global market of offshoring services has been estimated at 785 – 805 billion dollars. The rest include capital offshoring. Two thirds of global outsourcing is connected with telecommunication – information technologies, as for example: programming, system integration, software testing, IT consulting, developing and supporting IT software, while the other part of global offshoring market consist business processes that support enterprise's functioning³⁵.

According to UNCTAD³⁶, the development of offshoring is a challenge for the managing enterprise theory. It is a trend which is more and more common because of the fact that many organizations aim at improving its competitiveness by delocalizing production and services. Offshoring concerns more often processes based on knowledge which aim at supporting innovative organization's activity. According to authors: W. Aspray, F. Mayadas and M. Verdi³⁷ globalization allows enterprises to gain easier access to numerous work power resources and employing more people who possess better, specialized education, which contributes in many cases to increasing quality of provided service and increase in the number of implemented innovations. Growing accessibility of qualified work power makes organizations able to gain better qualified effective employees from different countries for realizing research projects, optimizing financial resources dedicated to research projects. This is the reason for offshoring to be considered in the sphere of services as a strategy of increasing competitiveness of enterprises

³⁵ D. Ciesielska, *op.cit.*, p. 37.

³⁶ *Global Demand for Knowledge Process Outsourcing*, UNCTAD 2007, No. 6, pp. 54.

³⁷ W. Aspray, F. Mayadas, M. Vardi, *Globalization and Offshoring of Software*, ACM Press, New York 2006, p. 155.

and increasing effectiveness of organizations' activities in the sphere of innovativeness, as well as improvement of quality of offered products and services with reduction of their costs.

Conclusion

Offshoring of production and services belong to one of the most frequently used practices and forms of cooperation between well known and not only those, international corporations aiming at gaining rational financial advantages. These terms are often confused and used interchangeably, which is a serious mistake. Offshoring means deputing orders, production and services outside the country.

Poland, as well as other Central and Eastern European countries has become one of the attractive places in the world, where international corporations decide to move their activity to, considering these regions as attractive, although cost of work are higher here in comparison to, for example Asian countries. The attractiveness of our country and Eastern and Central Europe was achieved mainly by: high level of education and educational system, cultural closeness, similar business and e - business models of companies and enterprises, friendly climate for foreign investment, good infrastructure and lower costs of work in comparison to Western European countries and United States.

One of the critical determinants of making a decision about using offshoring activities is aiming at reduction or lowering of costs. Besides, separation of processes and their moving to a different region or to a different country aim at maximal reduction of processes taking place inside a company or an enterprise and reassessment of their main target from manufacturing products or providing services to creating surplus value in the form of project realization.

However, as far as success and achievement connected with implementation of offshoring brings significant reduction of functioning costs for companies and enterprises, failure of implementation of analyzed processes is connector with possibility of high financial risk, especially in the context of using offshoring, concerned with absorption of distinguished process and underestimation of transaction costs.

Rapid development of offshoring, falling on last thirty years made traditional and Internet companies and enterprises like: Allegro.pl, eBay, Amazon, Microsoft, General Electric, Intel and American Express depend on quick development

of their companies, assuming that their success and good results depend also on skilful deputing parts of their processes and services to competing domestic and foreign companies. For Polish and foreign enterprises entering the zone of changes that are brought by Globalization 3.0 and the Flat World has become a parameter that points on its competitiveness, while constant process of adjusting to transforms that occur all the time in the global trade is the parameter of situation, where enterprises understood: what the “flatness of the world” is evinced in, by using which mechanisms and tools they should function and how important today offshoring, networking or insourcing are.

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OFFSHORING JAKO CZYNNIK KONKURENCYJNOŚCI I EFEKTYWNOŚCI PRZEDSIĘBIORSTW W GOSPODARCE ŚWIATOWEJ

Streszczenie

Offshoring to jedna z popularnych i często wykorzystywanych form współpracy między przedsiębiorstwami, wspomagająca proces działalności gospodarczej lub pozwalająca na częściowe, a niekiedy także pełne przekazanie pewnych etapów działalności wytwórczej, handlowej czy usługowej podmiotom zewnętrznym.

Celem artykułu jest analiza jednej z dziesięciu sił spłaszczających świat, tj. offshoringu jako nowoczesnej metody prowadzenia działalności gospodarczej w Polsce i na świecie, opierającej się na zasadach wzajemnej współpracy i kooperacji.

Problematyka pracy koncentruje się wokół takich zagadnień, jak znaczenie offshoringu w kształtowaniu nowego podejścia do konkurencji między przedsiębiorstwami i jego rola wśród dziesięciu sił spłaszczających świat. Ważnym zagadnieniem jest także ukazanie determinantów przemawiających za stosowaniem offshoringu i wpływających na efektywność polskich i zagranicznych przedsiębiorstw. Forma ta bowiem pobudza aktywność firm, w tym także konkurencyjnych, oraz wpływa na kształt modeli biznesowych przedsiębiorstw.

Tłumaczenie Nina Stępnicka

