

## OUTSOURCING IN CRISIS

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**Abstract:** *The main research pillar of this paper is builded on the idea that, as the world is continuing to experience economic turmoil, the outsourcing industry becomes a realistic solution in its ration of outcome returning and waste recovery. The article makes a presentation on global outsourcing in particularly area of Eastern Europe, fundamenting its study methods on The 2009 AT Kearney Global Services Location Index™. The paper conclusions shows that, in time of crisis, an increased interest for outsourcing firms in those areas where the ratio of labor costs and staff qualifications are very important, becomes a major public concern, being able to get a direct contribution toward environment protection and lower costs recording. The authors trying though this research paper to awake the interest not only regarding to production system but, with priority, toward building an efficient outsourcing logistic system, as a manner of consolidation a sustainable world economic development for the future.*

**Key words:** *outsourcing, crisis, benefits, cost*

### 1. INTRODUCTION

Outsourcing is a strategic management model wherein business processes are transferred to another company. Outsourcing occurs when a company uses an outside firm to provide a necessary business function that might otherwise ne done in-house. The most important motives for outsourcing are (Duening & Click, 2005):

- 1) to make an organization more competitive;
- 2) to achieve cost reduction and efficiency;
- 3) access to special resources or capabilities;
- 4) to stimulate entrepreneurship in small organiyation entities.

If until now, many companies did not want to outsource or outsourcing reasons that "Group Policy" or "confidentiality growth" during the crisis we are going through the ground "cost reduction" is by far predominant.

### 2. GLOBAL OUTSOURCING SITUATION

While some established outsourcing hubs are fading, new rising stars are changing the outsourcing landscape. Although the top three countries in the 2009, referring to outsourcing, remain the same—India, China and Malaysia, the world's volatile economic environment is reflected in the rest of the rankings. Not long ago Central Europe emerged as one of the premier global hubs for offshoring, catering primarily to Western European clients. This year, however, the established leaders, including Poland, Czech Republic and Hungary, have fallen as increasing costs erode their competitiveness. Meanwhile, countries in low-cost regions such as Southeast Asia and the Middle East make significant gains, as the IT-enabled services industry grows and export figures improve (A.T. Kearney Global Services Location Index™). Firms in developed countries are increasingly pressured to reduce costs and they can do this through relocation services in other countries that have lower costs. Also found a trend of protectionism in some countries, but we expect it to be a short

term issue which will diminish in the near future. He explains that, in some countries, there is public pressure on companies that outsource some services in other countries, politicians arguing that companies that do not should receive state support when they need it (Oshri et al., 2009). American President, Barack Obama announced that he would support companies that create jobs in the United States a policy to reduce taxes and try to lessen the outsourcing process. Indian IT industry has responded quickly and naturally, given that approximately 60% of companies have business with the U.S. profile. But Indians say that their presence in the U.S. market helps corporations become more competitive and hence more profitable.

According to a study conducted by A.T. Kearney, India, China and Malaysia maintain its places since 2004. These three locations have the best conditions in terms of preparation and availability of labor, business environment and costs. Other Asian countries are occupants following locations attractiveness index positions. Philippines is the second destination for global outsourcing, attracting 15% of global demand for outsourcing and situated on the 7th place in the world. Centers in this location focuses increasingly on IT and consulting services that support does not use voice (Jan van Bon et al., 2006). Sri Lanka (16th) and Pakistan (20) have increased also in the AT Kearney index, supported by low costs. If Pakistan is handicapped by political instability, Sri Lanka is likely to evolve to an important destination for outsourcing, according to specialists. Top ten locations worldwide is complemented by Latin American countries - Chile, Brazil and Mexico, seen as alternatives to outsourcing to India by U.S. companies.

Rank	Country	Financial attractiveness	People skills and availability	Business environment	Total score
1	India	3.13	2.48	1.30	6.91
2	China	2.59	2.33	1.37	6.29
3	Malaysia	2.76	1.24	1.97	5.98
4	Thailand	3.05	1.30	1.41	5.77
5	Indonesia	3.23	1.47	0.99	5.69
6	Egypt	3.07	1.20	1.37	5.64
7	Philippines	3.19	1.17	1.24	5.60
8	Chile	2.41	1.20	1.89	5.50
9	Jordan	2.99	0.91	1.59	5.49
10	Vietnam	3.21	1.02	1.24	5.47
11	Mexico	2.48	1.50	1.45	5.43
12	Brazil	2.18	1.83	1.37	5.39
13	Bulgaria	2.83	0.89	1.62	5.34
14	United States	0.47	2.71	2.15	5.33
15	Ghana	3.26	0.70	1.36	5.32
16	Sri Lanka	3.13	0.95	1.17	5.25
17	Tunisia	2.86	0.91	1.45	5.22
18	Estonia	2.06	0.93	2.20	5.19
19	Romania	2.63	0.91	1.58	5.12

Tab. 1. *The 2009 A.T. Kearney Global Services Location Index™*

Generally speaking, many middle-income countries are suffering because they are converging toward the same cost levels as high-income countries, especially in professions that are part of a global service market. The classic response to rising costs is to increase productivity and value, and improve the business environment, including infrastructure and intellectual property rights legislation. This helps increase competitiveness (Halvey & Melby, 2007). Despite rising costs in these middle-income countries, there is still room to take advantage of labor arbitrage.

### 3. OUTSOURCING SITUATION IN EASTERN EUROPE

Baltic countries are an alternative to high costs in Central Europe. Lithuania registered a significant advance on the attractiveness scale, occupying position 21, along with Latvia (place 22) and Estonia (18th place). In Europe, Russia has lost its attractiveness, due to unstable political environment and increasing costs. Romania's evolution in the field of outsourcing has been driven by two important factors: first, other states have lost their competitiveness in relation with Romania. Poland is the case, for example, which had a slight setback in terms of quality business environment and a stronger decline in terms of costs to be executed outsourcing services. Secondly, although Romania has a slightly declining attractiveness, because of rising wages and other costs, this was offset by an improved quality of business environment and the quality and availability of human resources. Looking at forecasts of macroeconomic indicators, we see that both gross domestic product and private and public demand to take a more accentuated fall in Romania than in countries such as Poland or the Czech Republic. In Romania, a return to strong growth will be slow, it will take at least two to three years. It is expected that wages in Romania claims to correlate much better than in past years, labor productivity and labor will be easier to find, amid rising unemployment. Businesses will grow more slowly outsourcing deals for foreign partners. All these can lead to a positive trend on outsourcing market.

Demand for outsourcing services is growing, but customers are more sophisticated, have more complex requests, and not conclude contracts by the number of employees that the company puts on the client, but depending on how improve customer process. While cost reduction remains the primary reason for outsourcing is an important qualification of growing. Companies currently have a global perspective on labour and many outsourcing decisions, especially in terms of value-added functions, were caused by shortages of talent. Obviously, cost is an important dimension of attractiveness of a location for outsourcing, but not the only dimension. For Romania to occupy an important position in the industry medium and long term, should be given greater attention and quality education be made major investments in infrastructure. If there will be a large number of employees with experience in this field, Western companies will get increasingly interested in relocating their production to Romania. Although outsourcing sector had a significant growth in recent years, the crisis effects are felt for these companies, the first signs indicating a slowdown in the sector. Global economic crisis creates opportunity for Romania. In Romania, outsourcing tone was given many years ago for financial services or IT, but now the "star" of these services is outsourcing and payroll administration staff. However, even if apparently only counts cost reduction through outsourcing and payroll management staff of companies can receive many more benefits to those present. Some of the main benefits of outsourcing, in order of their importance in the eyes of customers:

1. *Reduce costs* - it is clear that in times of crisis resources allocated to human resources departments maintaining oversized or maintenance of payroll software applications which finally all people will be used, drop dramatically. You might want to outsource and make a cost reduction of 40%.

2. *Eliminating risk* - many companies see business payroll and personnel administration in the area of risk management and is normal to be so. Risks from both the possible discontent of employees who see their wages wrong, but the authorities have intensified checks, and hence the number of penalties. A service provider will provide customer guarantees that the amounts will be calculated correctly, but that it will pay any penalty caused by its departments. Therefore, besides high quality services, companies and get an insurance policy in the field of wage calculation.

3. *Focus on the main field of activity* - internal and Outsourcing frees resources to enable companies to focus on core business competencies - customer service, product development and services, innovation and strategic management. Some organizations, particularly smaller entities, tend to over-invest in activities that bring no added value (such as salary calculation), and neglecting investment in areas that could provide a competitive advantage. Through outsourcing, organizations are able to allocate resources to identify and exploit opportunities in the market.

4. *Access to expertise* - When you call a company, it will put in all your job experience in working with other clients, offering a broader view of problems arising with the ability to quickly respond to all challenges.

5. *Quality Service* - Actually, the main reason underlying the outsourcing of services is to ensure high quality services at a price below their operating costs. Thus, in the field of outsourcing payroll and personnel administration, the main indicator for measuring quality is the speed of solving employee.

### 4. CONCLUSION

Regarding outsourcing general trends we have revealed some relevant contemporary features within following aspects:

- demand for outsourcing services, the companies in Europe, grew faster than the companies in North America;
- there is a growing interest of companies to outsource European locations, the Middle East and North Africa;
- staff qualifications is increasingly important in choosing the location for outsourcing;
- outsourcing contracts signed value worldwide between October 2009-January 2010 fell by 38% compared with same period last year.

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