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## PRINCIPLES OF OUTSOURCING INFLUENCE ESTIMATION ON EFFICIENCY OF INDUSTRIAL ENTERPRISES ACTIVITY

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*Григорак М.Ю. Принципи оцінки впливу аутсорсингу на ефективність діяльності виробничо-господарського підприємства.*

Стаття присвячена особливостям оцінки впливу аутсорсингу на ефективність діяльності виробничих підприємств. Наведено конкретний приклад, що дозволяє обґрунтувати значення аутсорсингової стратегії для підвищення прибутковості виробничого підприємства через зниження витрат на виконання певної функції (ІТ-послуг).

*Ключові слова:* аутсорсинг, ефективність, виробниче підприємство, витрати, прибуток, ІТ-аутсорсинг

*Григорак М.Ю. Принципы оценки влияния аутсорсинга на эффективность деятельности производственно-хозяйственного предприятия.*

Статья посвящена особенностям оценки влияния аутсорсинга на эффективность деятельности производственных предприятий. Приведен конкретный пример, позволяющий обосновать значение аутсорсинговой стратегии для повышения прибыльности производственного предприятия посредством снижения затрат на выполнение определенной функции (ІТ-услуги).

*Ключевые слова:* аутсорсинг, эффективность, производственное предприятие, затраты, прибыль, ІТ-аутсорсинг

*Grigorak M.Y. Principles of outsourcing influence estimation of industrial enterprises activity.*

The article is dedicated to the research of estimation of outsourcing influence on efficiency of industrial enterprises. A practical example is given, that allows substantiate the role of outsourcing strategy for the increasing of industrial enterprises profitability as a result of cost reducing on implementation of certain functions (ІТ-services).

*Keywords:* outsourcing, efficiency, industrial enterprise, costs, profit, ІТ-outsourcing

### Statement of the problem

A problem of efficiency of industrial and economic activity has always been actual on the different levels of management of the economy - from the owners of private enterprises to the state leaders. The main purpose of entrepreneurial activity is profit increasing, however the efficiency increasing can be reached as a result of profit increasing and costs reduction.

In spite of the certain increase of operating activity profitability of the Ukrainian industrial enterprises (from 3,57% in 2010 to 4,71% in 2011 [6]), the index remains rather low, that makes actual development and implementation of effective measures of the efficiency increasing of industrial enterprises activity.

One of the instruments which allow enterprises to increase efficiency of their activity due to the cost cutting and optimization of production and providing processes implementation is outsourcing.

In the USA 70% companies use services of outsourcing firms, in the countries of Europe – up to 40%, in Ukraine - only 5% of enterprises [1].

### Analysis of the latest researches and publications

Theoretical and methodical principles of outsourcing application, in particular its nature, kinds, risks and advantages of usage, are highlighted in works of such foreign and Ukrainian researchers: Bravard J-L, Morgan R., B.A. Anikin, O.V. Gavrilyuk, A.G. Zagorodniy, S.O. Kalendjan, Y. Kursova, O.I. Mikalo, V. Sinyaev, etc. The questions, related to the estimation of economic efficiency of outsourcing and choice of business processes that can be transferred to outsourcing company, especially taking into account the specific of concrete industries require additional research.

*Aim* of the article: to estimate outsourcing influence on efficiency of industrial enterprises activity as a result of the cost cutting on the certain business process implementation.

### Basic material

Outsourcing is determined as increasing of the company's efficient activity due to transfer of some functions and business processes to external organizations with the purpose of optimization of all types of resources and concentration of the efforts on the basic type of the activity [2].

According to the research conducted by the staff holding ANCOR in Ukraine on a theme «Evolution of outsourcing. Analysis of necessity and estimation of services quality» [of a - n - c - o - r.livejourna.com]

among the managers of different level of foreign and Ukrainian enterprises which carry out the activity on the territory of Ukraine, business processes that are

most frequently transferred to outsourcing are following (Fig. 1).

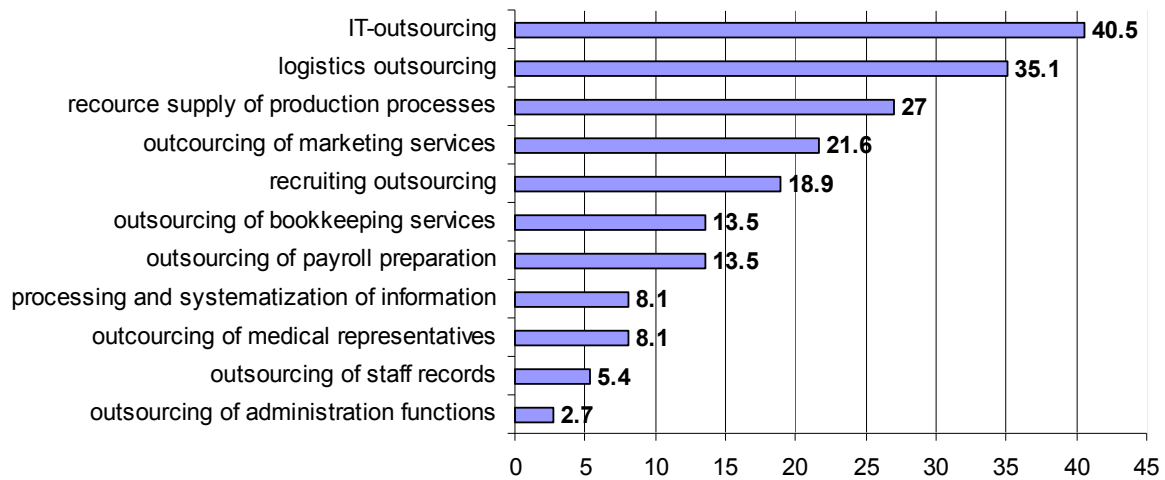


Fig. 1. Rating of outsourcing business processes in Ukraine, %

In accordance with the Fig. 1 the most widespread is outsourcing of IT, logistics, marketing and book-keeping services which mainly are not main for enterprises.

Principal reasons of outsourcing implementation [5]:

- costs reductions;
- change of fixed costs on variable. Due to the usage of outsourcing company infrastructure overhead fixed costs reduce. The outsourcing agreement mostly provides, that the amount of payment for outsourcing services will depend on the results and volumes of works;
- more effective implementation of functions due to the usage of experience, competence and professionalism of the outsourcing company, that specializes in the certain sphere;
- exemption and redistribution of resources (labour, financial, material) and their using for implementation of operations which will bring a greater economic effect.

Thus, for determination of outsourcing implementation influence on the efficiency of enterprises activity some principles should be followed:

1) establishing clear calculation of costs system (direct and overhead) for business processes, that gives possibility to make the exact calculations of actual expenses on implementation of each business process by own forces and using of outsourcing companies. It is necessary to take into account the following expenses: expenses on the staff; expenses on the production area maintenance; expenses on the stock holding; equipment and production capacities maintenance expenses; management expenses;

2) determination of business processes impossible to execute on a high level of quality with optimal costs, and which require scarce resources, equipment, highly skilled staff. Most industrial enterprises seldom have own park of transport technique as well as marketing, law, IT, logistics services;

3) possibility of getting other operating incomes due to leasing of technique, production area, labour resources which are not involved in a production process when transferring the business process to outsourcing.

Influence of outsourcing strategy implementation is shown on the example of industrial enterprise of Dnipropetrovsk, the net and operating profit of which has a tendency to decreasing because administrative charges grow higher than income.

Calculation that allows estimating influence of outsourcing implementation on efficiency of enterprise activity will be carried out on the example of IT-outsourcing, making and accompaniment of program products. Basic advantages, that gives IT-outsourcing: decreasing labour costs and government expenditures for welfare and social benefits, expenses on maintenance of IT-departments. Costs on maintenance of IT-departments are related to the category of administrative costs [7]. The staff of the IT-department: the head of the department, engineer, programmers. Labour costs of the IT-department are shown in Table 1.

For determination of economic effect from the outsourcing strategy implementation basic direct and overhead costs were maximally exactly taken into account:

- salary of IT-specialists (Table 1);

- government expenditures for welfare and social benefits – 38,5% from the salary fund of the department (Table 1);
  - cost of computers and software;
  - expenses on mobile communication and internet;
  - training costs which employees pass once a year (studies, seminars), 1500 hrn per employee;
  - office expenses.
- Expenses on maintenance of IT-department for a year are shown in Table 2.

Table 1. Labour Costs of the IT-department

| Position                  | Amount of workers, persons | Salary, hrn./month | Salary, hrn./year | Government expenditures for welfare and social benefits, hrn./year | Labour costs of the department, hrn./year |
|---------------------------|----------------------------|--------------------|-------------------|--|---|
| Head of the IT-department | 1                          | 3500               | 42000             | 16170  | 58170                                     |
| Engineer of IT-service    | 2                          | 5200               | 62400             | 24024  | 86424                                     |
| Programmer                | 3                          | 7800               | 93600             | 36036  | 129636                                    |
| Total                     | 6                          | 16500              | 198000            | 76230  | 274230                                    |

Table 2. Expenses on maintenance of IT-department for a year

| №     | Costs item   | Sum, hrn. |
|-------|--|-----------|
| 1     | Labour costs and government expenditures for welfare and social benefits | 274230    |
| 2     | Expenses on mobile communication and internet                            | 9000      |
| 3     | Expenses on public utilities   | 2400      |
| 4     | Training costs   | 9000      |
| Total |  | 294630    |

Costs on IT-services in outsourcing companies make 8000 hrn per month, that makes 96000 hrn per year. So implementation of IT-outsourcing allows reducing costs on 198630 hrn per year (294630 hrn. in 2012 – 96000 hrn. In forecast period).

On the considered example IT-outsourcing implementation in practice of the productive enterprise activity leads to decreasing of

administrative costs, increase of operation and net profit from 155600 hrn. to 312550 hrn. As a result efficiency of the enterprise activity increases, as indexes of profitability of sales as a relation of net profit to the net income and profitability of operation activity as a relation of operation profit to full costs increase (Fig. 2).

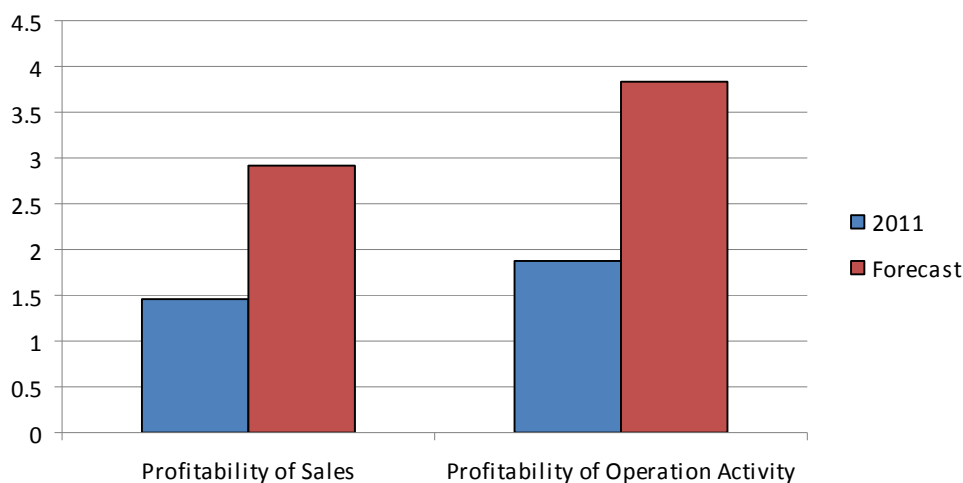


Fig. 2. Influence of IT-outsourcing implementation on the profitability of the enterprise, %

However alone with the obvious advantages outsourcing has certain risks. In accordance with the results of questioning of ANCOR staff holding

recommendation of respondents to the providers of outsourcing services are shown on Fig. 3.

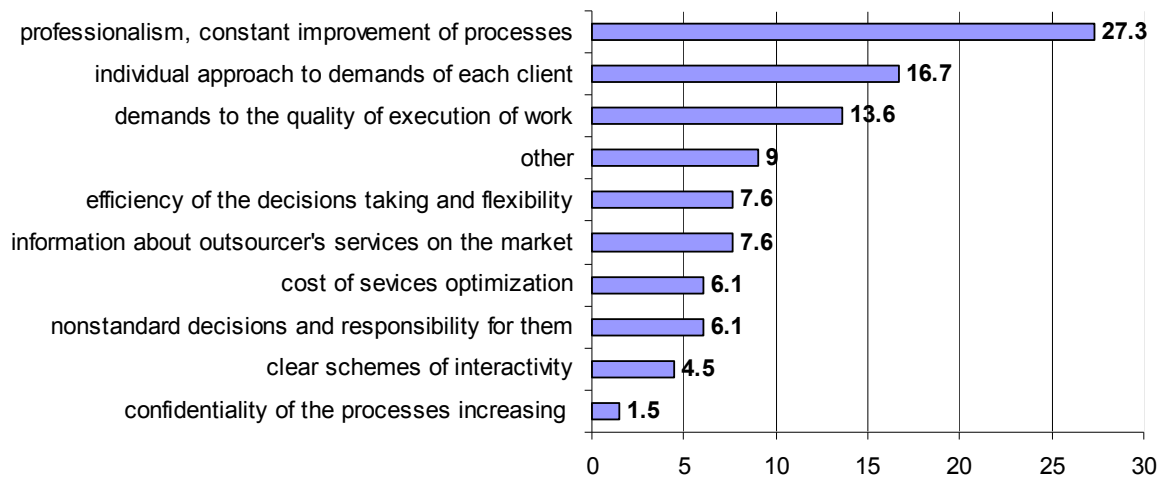


Fig. 3. Recommendations of respondents for improving of work of outsourcing services providers, %

Principal reasons which restrain outsourcing development, in accordance with the results of research (Fig. 3), it is possible to name insufficient level of professionalism of outsourcers, absence of individual approach to customers and low quality of work implementation.

#### Conclusions and prospects of further researches

In modern conditions outsourcing is an effective instrument of management which gives to the enterprise possibility to increase competitive advantages on the basis of increasing of business processes efficiency. Outsourcing means transferring certain functions to the external company and is objectively necessary to any enterprise which aims to remain competitive.

Outsourcing provides competitive advantages due to the sage of resources (material and non-material) of other companies for achievement of success at the market.

The use of outsourcing schemes on the Ukrainian enterprises can considerably increase efficiency of their activity and provide fundamentally new possibilities for a mutually beneficial collaboration, substantially strengthen their competitiveness in the conditions of global economic environment. However considering substantial risks, connected with the use of outsourcing, further development the questions of economic efficiency estimation of its introduction on enterprises and making mechanism of co-operation of enterprises-customers and suppliers of outsourcing is required.

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