

# OUTSOURCING AS A MODERN MANAGEMENT STRATEGY. PROSPECTS FOR ITS DEVELOPMENT IN THE PROTECTIVE CLOTHING MARKET

Małgorzata Koszewska

Technical University of Lodz,  
Institute of World Economy and Textile Marketing  
ul. Żeromskiego 116 Lodz Poland;  
e-mail: [mcislo@p.lodz.pl](mailto:mcislo@p.lodz.pl)

## **Abstract**

*Outsourcing is a very successful and increasingly popular enterprise management strategy. The aim of this article is to analyse prospects for outsourcing development in the protective clothing market. The author attempts to present outsourcing as a very successful competitive tool and a way of strengthening a given firm's position in the protective clothing market, especially in the face of growing competitive pressures and progressing globalisation.*

## **Keywords**

*Outsourcing, protective clothing market, management strategy*

## **Outsourcing as an enterprise management strategy in the face of globalisation and growing competition**

In the literal sense, outsourcing denotes utilisation of external resources. It occurs when the execution of tasks, functions and processes hitherto fulfilled in-house is commissioned to an external provider specialising in a given area on the basis of long-term co-operation.

Quelin and Duhamel define outsourcing as the operation of shifting a transaction previously governed internally to an external supplier through a long-term contract, and involving the transfer of staff to the vendor for the firm. According to their definition, five elements characterise strategic outsourcing [10]:

- A close link between outsourcing processes and the key success factors of a firm in an industry.
- The transfer of ownership of a business function previously internalised, often including a transfer of personnel and physical assets to the service provider.
- A global contract, longer and denser than a classical subcontracting agreement.
- A long-term commitment between the client and the service provider.
- A contractual definition of service levels and of each partner's obligations.

Outsourcing helps an enterprise concentrate on its strategic tasks and goals – the core activity. As a result of minimising expenses on activities that are necessary but unrelated to the firm's basic functions and goals, the prime cost can be reduced [4, p.373].

## **Historical Background**

Outsourcing dates back to the 1970s. Initially it only involved IT-related issues, but gradually more and more enterprises realised that they could not be experts in more than one or two fields. This conclusion made them get rid of various areas of activity and entrust them to specialists. According to a survey by *Fortune* magazine, over 90% of business organisations today take advantage of external service providers, and in the European market alone the 2001 estimate of such services was US\$27 billion, which is growing from year to year. Originally, outsourcing was only used by large corporations, but nowadays it is becoming more and more popular among small-sized enterprises [13]. The broader use of outsourcing in the industrial market results from the build-up of competitive

pressures and progressing globalisation [7]. As the environment becomes increasingly complex, faster and faster advancement of technology, with the consequent changes in the conditions in which any given enterprise functions, necessitate the search for more and newer methods which keep one ahead of one's competitors. In the past the key to success was bulk; today the importance of high quality is growing. In the past the key to success was the bulk, today the importance of high quality is growing. As the managerial paradigm shifts from "bigger is better" to "lean and mean", and from "high-volume" to "high-value," companies are being forced to identify exactly where they have the greatest competitive advantage, and to redefine their organisational structures to maximise that advantage. An increasingly common way for organisations to try and increase their "flexibility" and generate "high-value" is through outsourcing [7, p. 94]. This situation requires precise identification of the line of business one wishes to follow (ensuring a competitive advantage) and a careful analysis of its weak and strong points [1]. One important result of this process is a recognition and reassessment of those activities which are not core – in particular, whether these non-core activities should be carried out by the organisation itself (make) or outsourced to a specialist third party (buy) [7].

Each enterprise that wants to outsource some of its activities must determine [1]:

1. what tasks should be accomplished in-house;
2. what tasks should be accomplished through strategic partnerships; and
3. what tasks should be contracted out (outsourced) to third-party specialists.

The decision to commission some processes to an external provider is strategic in nature, and it can largely determine a firm's future; it must therefore be well-thought-out and informed [2].

### Outsourcing's benefits and risks

The most often discussed advantages of outsourcing are connected with improved financial performance and various nonfinancial performance effects, such as a heightened focus on core competencies. These and other most frequently cited benefits of outsourcing in the literature of the subject are shown in Table 1.

**Table 1.** Main benefits of outsourcing as highlighted in literature [10, 8, 2, 7, 5]

Main outsourcing advantages identified	
1.	Reduced overheads and operational costs
2.	Possibility of converting fixed costs into variable costs
3.	Price competitiveness
4.	Lower involvement (freezing) of capital
5.	Improved cost control
6.	Higher flexibility – the ability to meet fluctuations in demand
7.	Easier and more economic access to the latest technologies
8.	Improved quality
9.	Possibility of concentrating on firm's core business
10.	Improvement of measurability of costs
11.	Better control of internal departments
12.	Availability of new service options, and reduced capital commitment
13.	Access to external competencies
14.	Acquisition of specialist expertise
15.	The ability to spread commercial risk

Many believe that if these expected benefits are realised, outsourcing will remain one of the strongest and most sustained trends in business over the next ten years [see: 7]

Despite its many advantages, outsourcing involves considerable risks. A firm using outsourcing inevitably loses some control over its future, which is to some degree given over into the hands of another firm, whose primary motivation (one should bear in mind) is the maximisation of its own

profits. Consequently, to be able to take advantage of all the potential benefits of outsourcing, a firm has to know the related risks and threats [12]. It has to trust the external service provider, and know well its possibilities and potential. In this context it becomes extremely important for the commissioning organisation to retain close control over all strategic activities and functions. The most frequently quoted types of outsourcing-related risks are shown in Table 2.

**Table 2.** Main risks of outsourcing as identified in literature [10, 8, 2, 7, 5]

Main negative outcomes of outsourcing	
1.	Dependence on the supplier
2.	Hidden costs
3.	Loss of know-how - losing touch with new technological breakthroughs that offer opportunities for product and process innovations
4.	Loss of long-run research and development (R&D) competitiveness
5.	The risk of co-operating with a dishonest supplier which, having gained access to knowledge concerning a firm and its products, may use it against that firm in the future
6.	Service provider's lack of necessary capabilities
7.	Communication and coordination difficulties.

## Prospects of outsourcing development in the Polish protective clothing market

Outsourcing originated in the USA, the cradle of management innovations, from where its more advanced forms came to Poland, which has been showing dynamic expansion since the 1990s. From year to year this solution has become more and more common, and is increasingly recognised by the management of enterprises in all sectors of the economy. Its popularity results from the growing awareness of Polish entrepreneurs, who, as international businessmen, seek methods allowing them to conduct their business effectively.

As a management strategy, outsourcing can also be encountered more frequently in the Polish protective clothing market. This is made evident by the number of firms that offer this type of service in the protective equipment market [14].

An example of a successful application of outsourcing is the range of services offered by the Polish protective clothing manufacturer Robod S.A. The firm's representatives agree that in the field of work protective equipment outsourcing opens new avenues, while being a huge challenge.

Depending on the selected form of outsourcing, the provided service may include [6]:

- specialist audits of specific job-related risks,
- recommendation of clothing and personal protective equipment (PPE),
- addressing the working conditions,
- logistic support,
- keeping files on employees,
- planning supplies of working clothing and PPE,
- detailed monitoring and analysis of industrial safety-related expenditures.

Customers using outsourcing in the field of industrial safety are offered consultations by experts with high qualifications and comprehensive experience in the selection of work protection measures. In addition, the possibility of cutting down on supplies in the warehouses and of relocating logistic support tasks allow enterprises which use outsourcing to reduce storage costs and to limit the amounts invested in goods. Another argument in favour of outsourcing is the ease of controlling expenditures on protective measures, as 100% of purchases are concentrated in one firm. Robod SA views that an enterprise taking advantage of outsourcing may reduce its industrial safety expenditures by as much as 30% during the period of contracting the service.

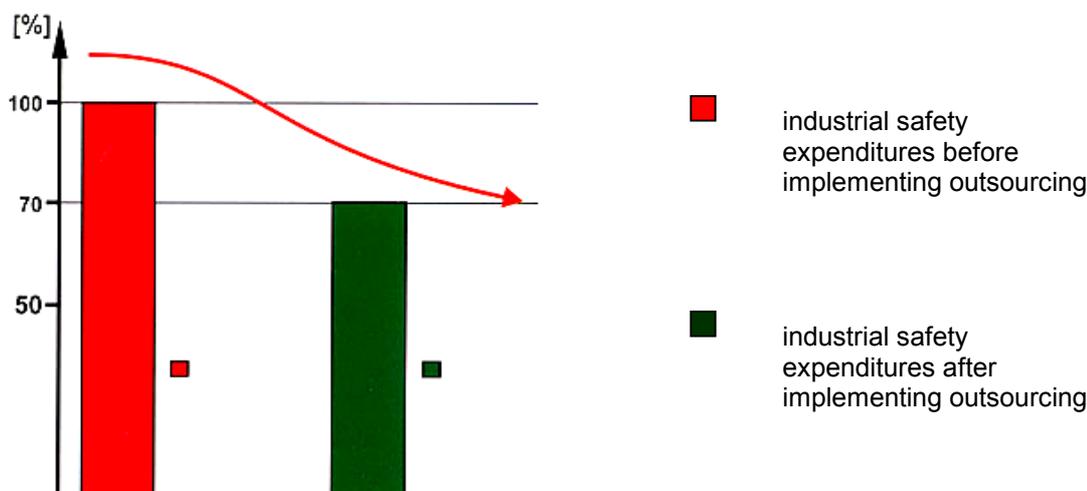


Figure 1. Industrial safety expenditures before and after introducing outsourcing strategy [6]

## Conclusion

It is out of the question that in the field of work protection equipment, outsourcing opens new avenues and – added to the offer of a firm operating in the protective clothing market – may become a successful competitive tool and a way of strengthening the firm's position in the market. The successes of firms that have introduced the philosophy of outsourcing into their business strategies allow us to hypothesise that its expansion in the industry will proceed apace.

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