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An Empirical Investigation of Outsourcing Decisions in Enterprises Operating in Greece

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Abstract

This paper presents some preliminary results, regarding outsourcing decisions, based on a study, which was conducted using a sample of enterprises operating in Greece. Specifically, the motivations, the risks, and the impact, positive or negative, of outsourcing are described and analyzed. 56 companies, which operate in the trading and manufacturing sectors, participated in this research. Results indicate that cost reduction and acquisition of technology/skills are the most important motivations for outsourcing, whereas contracting-out core activities and loss of control are the most serious risks of outsourcing. Generally, the impact of outsourcing is positive, with cost reduction and increase in flexibility the mostly cited benefits.

\textbf{JEL Classifications:} L60, L81, M11.

\textbf{Keywords:} Outsourcing, Motivations, Risks, Benefits, Strategic, Greece.

1. Introduction

The term “outsourcing” is used to declare the delegation of the implementation of an activity, or part of it, in one or more external sources. The activity can be a new one for the enterprise, previously being executed internally or it was always executed from third parties (Gilley and Rasheed, 2000).

While outsourcing was a common business practice for decades and applied in supporting activities like cleaning, security, catering, etc., in the decade of 80’s it applied, to a large extent, on a tactical level and in other activities, due to the pressure for cost reduction. In the decade of 90’s, many enterprises viewed out-
sourcing as a more strategic issue (Kakabadse and Kakabadse, 2005; Arnold, 2000, Embleton and Wright, 1998).

Outsourcing is a basic tool that enterprises use to cope with increasing competition in the markets, globalization, rapid changes in technology, requirements from their customers, and continuously changing environment (McIvor, 2005; Embleton and Wright, 1998). Outsourcing can also help enterprises to reduce cost and improve their performance (Barthélemy, 2003).

Outsourcing can be divided into tactical and strategic one, depending on the kind of reasons that lead to its application (Espino-Rodríguez, 2004). For the tactical ones, the reasons are mainly related with cost estimation issues and have as goal short-term results, such as the reduction or the restructuring of costs, the company’s liquidity, and the reduction of the invested capital. For the strategic ones, the reasons included were the focus on core activities, the improvement of quality and flexibility, the acquisition of know-how, and the access to technologies and capabilities of the suppliers.

Despite the wide and continuously increasing application of outsourcing, this does not mean that the undertakings had always ended with a success. In the relevant literature, a small number of outsourcing issues, which eventually failed, were investigated. Companies are unwilling to present these issues, being afraid of their reputation and fame (Barthélemy, 2003).

The current research addresses outsourcing processes in enterprises operating in Greece. The Greek business environment has undergone considerable changes during the past two decades. More specifically, until the 1990s, enterprises had a high proportion of manufacturing in-house. Currently, firms outsource many of their activities to subcontractors in Greece as well as in other countries in the Balkans in order to save money. Given the enhanced presence of outsourcing, it is important to carry out research in the direction of uncovering the motivations, the risks and the impact of outsourcing in enterprises operating in Greece.

In the following section, the relevant literature is reviewed. The research method is then described. The results of this study are then reported in the context of the existing knowledge in the field. Finally, conclusions are presented, and directions for future research are identified along with the limitations of the study.

2. Literature review

2.1 Motivations for outsourcing

Regarding motivations for outsourcing, the relevant literature provides an important number of issues and potential advantages that guide the decision for
outsourcing. These issues are referred, among others, to cost reduction, focus on core activities, improvement of quality and performance, increase of flexibility, use of specialized technologies, as well as to entrepreneurial policies.

Cost reduction is the issue which to a large extent prompts enterprises to outsource. Many times, the cost of the outsourced activity is considerably smaller than the cost to execute it internally. A number of studies show that outsourcing resulted in cost savings between 10% and 40% (Blumberg, 1998; Kakabadse and Kakabadse, 2000a; Belcourt, 2006). An enterprise that assigns an activity to a supplier can be benefited from the economies of scale, the specialization, and the location of the supplier (McIvor, 2005). Except from the reduction of the company’s operational costs, the enterprise does not need to invest in any installation and equipment for the outsourced activity, which will result in the reduction of the fixed costs, to a lower break-even point and to improvement in profitability (Gilley and Rasheed, 2000). Also, by substituting the fixed costs into variable, better control of costs is achieved (Razzaque and Sheng, 1998), flexibility is enhanced (Espino-Rodríguez, 2004), and the exposure to risk factors is reduced (Alexander and Young, 1996a; McIvor, 2005).

Other motivations for outsourcing related with costs are the inefficiency in capital needed, the reduction of the development cost, and the adoption of more efficient cost control procedures. Sometimes, enterprises, specifically those that are developed rapidly, do not have enough capital in order to invest in all their activities. Outsourcing some activities allows enterprises to decrease the capital required for investment (Heikkilä and Cordon, 2002) or to increase liquidity due to sale of assets participating in the outsourced activities (Kakabadse and Kakabadse, 2000b). When an activity is executed internally, it is difficult to calculate its cost precisely, because the hidden costs are not taken into consideration. On the contrary, with outsourcing there is no doubt for its determination because it is based on a convention (Embleton and Wright, 1998; Hussey and Jenster, 2003). Moreover, when a service is not provided unlimitedly and “free of charge” internally, but there is a charge proportional to its use, managers and personnel are more conservative and careful in its use (Belcourt, 2006).

Except from the pure cost-driven outsourcing, in many cases outsourcing decisions are made due to strategic issues, as the need of the enterprises to focus on their critical activities. Reduction or better control of fixed costs allows management to focus on more strategic issues, to develop further its core business and to release funds to be invested in other entrepreneurial opportunities (Anderson, 1997). Thus, assigning the peripheral activities to third parties, who can perform them better and at a lower cost, allows enterprises to redistribute their resources and focus on those that “make them better”, offering a competitive advantage (Quinn and Hilmer, 1994).
Another important reason for outsourcing is the improvement of quality and performance. The supplier, due to its expertise, can reduce cost due to economies of scale, and provide the activity with better performance compared to implementing this activity internally (McIvor, 2005; Kakabadse and Kakabadse, 2005; Jennings, 2002; Embleton and Wright, 1998). Thus, the enterprise can be benefited from the specialized capabilities that the supplier has developed in an activity (e.g., transport) and his investment in high technologies and personnel.

According to Quélin and Duhamel (2003), enterprises, in their effort to face an optimal way for coincidental situation in growth and recession, consider outsourcing as a possible way to acquire the required flexibility. The need for an increase in flexibility can also be developed from factors such as the increased requirements of consumers, the reduction of time in accessing the markets, and the rapid technological changes (McIvor, 2005). Following the tactic of outsourcing, enterprises can avoid situations of underemployment of resources in cases where the sales are seasonal or when they have to alter the range of their products in order to correspond to the market’s requirements (Jennings, 2002).

Another motivation for outsourcing is the access in specialized technologies and capabilities that the suppliers have and are not available internally (Embleton and Wright, 1998; Gilley and Rasheed, 2000). According to Kakabadse and Kakabadse (2000b), probably the more important advantage from outsourcing is that the enterprise can have full access in investments, innovations, special technologies and capabilities of the supplier, when the cost to invest internally would be prohibitory.

Finally, other motivations for outsourcing mentioned in the literature are the operational policy and culture (Monczka et al., 2005). Many times, enterprises decide to assign an activity to an external organization in order to exempt from problematic sectors or to avoid involved in situations that are difficult to manage internally (Belcourt, 2006), or simply in order to be harmonized with the policy of the mother company or the group that may belong (Monczka et al., 2005). Also, one of the potential advantages of outsourcing is that the supplier could have an operational culture compatible with that of the assigning organization (Embleton and Wright, 1998).

2.2 Potential risks of outsourcing

The literature also discusses numerous risks associated with outsourcing. Because outsourcing is a relatively recent tool of managers, the complete costs are not yet known, which poses a risk itself. The literature warns that there is an initial tendency to overstate benefits and that the suppliers are likely to perform better in the beginning of a contract to make good first impressions (Schwyn, 1999).
One of the more important reasons for an organization not to outsource an activity is when this is considered as a core activity (Lonsdale, 1999), or when this produces important data or knowledge (Kremic et al., 2006). According to Quinn and Hilmer (1994) “... core competencies are the activities that offer long-term competitive advantages and thus must be rigidly controlled and protected”. Harland et al. (2005) argue that the risks from outsourcing are related with the weakness of the administration to recognize and to rate their core activities as well as to manage their relations with the suppliers. This results to the loss of core competencies of the organization, which are difficult to be re-produced internally, as well as to the worsening of the level of customer service. Many times, while managers try to protect their core activities from outsourcing, progressive loss of core competencies may exist due to the lack of formal policy guidelines, which leads to a loss of critical skills (Jennings, 2002).

In the above frame, the risk of loss of control of the outsourced activity is also included (Barthélémy, 2003), which can lead to a decreased performance, increase in costs, and reduction of service and quality level. This risk can appear when, just after the assignment, the internal structure is degraded and no capable managers remain to manage the contract with the supplier, or when the enterprise does not allocate sufficient knowledge and experience in the preparation and follow-up of such contracts. According to Razzaque and Sheng (1998), the danger of losing control is the most commonly reported inhibitory factor when considering the outsourcing of logistics.

Additionally, when critical activities are outsourced, there is a probability that the suppliers will become competitors of the firm (McIvor, 2005). According to the relevant literature, in a number of cases, outsourcing of know-how is followed by the transfer of critical or innovative elements of production to the suppliers. Therefore, they acquired the possibility of producing the whole product themselves and became the basic competitors of the assigning entity.

Another, particularly deterrent factor is the risk of dependence on supplier (Alexander and Young, 1996b; Lonsdale, 1999; Quelín and Duhamel, 2003). The danger of dependence can be created when the number of potential suppliers is small, or due to the opportunistic behavior of the suppliers. When the supplier does not correspond to what he/she has promised (e.g., quality, time of delivery, etc.), this has direct and negative impact on the performance of the enterprise. This situation becomes even worse if there is no capable supplier base for choosing an alternative solution. This also happens when time and cost restrictions make the shift to another supplier an uneconomic issue. Therefore, enterprise is powerless against decrease in performance, flexibility, quality, and increase in prices or other demands from the supplier.

Another parameter which may have an impact on the success of an outsour-
cency decision-making process is related to the moral of the employees. Past experience indicates that a large number of outsourcing decisions failed, because they did not take into account issues related to personnel of the enterprise (Kakabadse and Kakabadse, 2000b). The situations that the occupied personnel is usually faced with, in an outsourcing activity, is to be removed from the enterprise (redundancy, voluntary retirement, voluntary exit), to be transferred to the supplier or to remain in the enterprise with new duties and/or relation of work. Kakabadse and Kakabadse (2005) found that, after the implementation of outsourcing, 26% of the employees who were involved in the outsourced activities declared that redundancies took place, whereas 12% of the employees declared that they were redeployed with new terms of employment. These situations deteriorate the sense of labor safety to the personnel and decreases their moral and effectiveness. The faith in the enterprise is lost and they develop feelings of resentment and retaliation against it (Embleton and Wright, 1998; Belcourt, 2006). With the removal of employees from the enterprise, any knowledge and particular skills are lost, there is a worsening in the productivity of the employees in the remaining activities, strikes are announced by the trade-unions, and generally a bad fame for the enterprise is created in the wider society (Kakabadse and Kakabadse, 2000b; Barthélemy, 2003; Belcourt, 2006). The personnel that remain in the enterprise are possessed from the “corporate survivors’ syndrome”, the symptoms of which are, according to Kakabadse and Kakabadse (2000b) “... fear, insecurity, uncertainty, frustration, resentment, anger, sadness, depression, guilt, injustice, betrayal, mistrust, decreased morale, increased absenteeism ...”.

Finally, other deterrent factors for outsourcing can be the possible difficulties that arise from the legal framework of a country, from the agreements with other suppliers, from the reactions of the trade-unions, from the social institutions during the transfer of the activity (Kremic et al., 2006), as well as the philosophy of the organization itself, when it is directed in a vertical structure (Monczka et al., 2005).

2.3 The impact of outsourcing decisions

The rapid growth of outsourcing suggests that both public and private organizations expect benefits from outsourcing. Naturally different organizations in different circumstances will expect different benefits. For example, all organizations may expect cost savings even though in government outsourcing, the typical cost savings are only about half of what the private sector achieves (Kakabadse and Kakabadse, 2000a). It is impossible to exhaustively list every conceivable benefit but many of the desired benefits are general enough that they are shared across organizations.
The expected benefits of outsourcing may include realizing the same or better service at a lower overall cost, increased flexibility and/or quality, access to the latest technology and best talent, and the ability to re-focus scarce resources onto core functions (Kremic et al., 2006). For the political organization, additional expected benefits may include better accountability and management, and a better political posture. There also appears to be an expected benefit of mimicking competitors or “getting rid” of troublesome functions (Willcocks and Currie, 1997).

The review of the relevant literature indicates that there are many cases where the outcomes of outsourcing meet the expected potential benefits. However, many researchers argue that the undertakings of outsourcing are not always crowned by success. Lonsdale (1999) and McIvor (2000) report that, in a research conducted by PA Consulting Group, only 5% of the sample declared satisfactory results from outsourcing. To the same direction, Barthélémy (2003) found, in a relative research of the American Management Association, that three fourths of the sample declared that the results of the outsourcing implementation did not correspond to their expectations. Respectively, Belcourt (2006) indicated that roughly 50% of the participants declared that they had increased management costs and decreased level of service for the outsourced activity in relation to what they have budgeted, while 40% reported problems due to the increase cost of the activity.

The failure of the majority of outsourcing decisions is not related to the weaknesses of the practice in question, but to the way outsourcing is implementing by the enterprises. The main reasons of failure are referred to the lack of methodology and guidelines to the managers, the focus on short-term results, the increased complexity of the supply network, the lack of consideration of the strategic plan, and the no-recognition of the core competencies (Lonsdale, 1999; McIvor, 2000; Harland et al., 2005).

In order to ensure a successful outsourcing decision, Barthélémy (2003) recommends the enterprises not to fall into the following seven “deadly sins”:

- Outsourcing activities that should not be outsourced
- Selecting the wrong vendor
- Writing a poor contract
- Overlooking personnel issues
- Losing control over the outsourced activity
- Overlooking the hidden costs of outsourcing
- Failing to plan an exit strategy.

When the persons in charge for the outsourcing decision do not receive into consideration and do not eliminate factors mentioned above, the probability of failure is almost certain.
3. Research method

To investigate motivations, risks, and the impact of outsourcing in companies operating in Greece, a survey was conducted in the year 2009. The research instrument was a questionnaire, originally designed on the basis of the research instrument used by Quelin and Duhamel (2003) and Monczka et al. (2005). Then, based on the originally designed questionnaire, a series of interviews were conducted with academics and business executives to explore the understanding of the text and the representativeness of the variables. Considering all relevant comments, a pilot questionnaire was prepared, distributed and filled-in by 5 companies operating in Greece. This allowed us to evaluate the validity of the questionnaire and to make the necessary amendments.

The sample of the companies was selected on the basis of the annual sales turnover. More specifically, we used the Statbank’s Business Guide 2008 (www.statbank.gr) to find the largest industrial and commercial enterprises operating in Greece. We selected the largest companies because, according to our experiences, they are more likely to adopt systematic and well-documented procedures to make outsourcing decisions, compared to the smaller ones.

The questionnaires were mailed to 257 enterprises and 56 filled-in questionnaires were returned (response rate 21.79%). A preliminary analysis of these replies revealed a total of 248 cases of partial or full outsourced activities.

44.6 percent of the companies filled-in the questionnaire are trading companies and 55.4 percent are manufacturing companies. The turnover of the companies in the sample ranges from 31,500,000.00 € to 7,900,000,000.00 €, with a mean of 328,816,517.86 €. The number of employees ranges from 10 to 6,376 employees, with a mean of 774 employees.

4. Results

4.1 Motivations for outsourcing

Regarding motivations for outsourcing in enterprises operating in Greece, we asked respondents to rate in a scale 1-5 (1: strongly disagree, 5: strongly agree) the motivations for outsourcing an activity. Table 1 shows the means (min: 3.08, max 4.25) and standard deviations (min: 0.71, max: 1.24) of each motivation.
We can see that the main motives for outsourcing an activity are the reduction of operational costs, the acquisition of technology and/or skills, the reduction of the invested capital, and the transformation of fixed costs into variable ones. On the contrary, it seems that an outsourcing decision is less motivated by the comparison with internally executed activities, by the corporate policy/philosophy, and by the reduction in the development cost.

4.2 Potential risks of outsourcing

In order to evaluate potential risks of outsourcing activities in enterprises operating in Greece, we asked respondents to rate in a scale 1-5 (1: strongly disagree, 5: strongly agree) the potential risks of outsourcing an activity. Table 2 shows the means (min: 2.84, max: 3.89) and standard deviations (min: 0.76, max: 1.25) of each potential risk.

We can see that the main risks of outsourcing are the outsourcing of a core activity, and the fear of losing the control of the activity. On the contrary, it seems that an outsourcing decision is less influenced by the possible difficulty of the inversion of the outsourcing decision to a make decision, by legal/labor union difficulties, and by the probability a supplier to become a competitor in the near future.
Table 2
Means and standard deviations of potential risks of outsourcing

<table>
<thead>
<tr>
<th>Potential risk</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The outsourced activity should be considered as a core activity</td>
<td>3.89</td>
<td>0.98</td>
</tr>
<tr>
<td>Loss of activity control</td>
<td>3.76</td>
<td>1.08</td>
</tr>
<tr>
<td>Contrary to the protection of intellectual property</td>
<td>3.56</td>
<td>1.25</td>
</tr>
<tr>
<td>Contrary to the corporate philosophy/culture</td>
<td>3.38</td>
<td>1.01</td>
</tr>
<tr>
<td>The outsourced activity yields high profitability for the firm</td>
<td>3.38</td>
<td>1.13</td>
</tr>
<tr>
<td>Loss of critical capabilities</td>
<td>3.38</td>
<td>1.08</td>
</tr>
<tr>
<td>Dependence on the supplier</td>
<td>3.08</td>
<td>1.15</td>
</tr>
<tr>
<td>Loss of employee morale</td>
<td>3.02</td>
<td>0.96</td>
</tr>
<tr>
<td>Labor union and social reactions</td>
<td>3.00</td>
<td>0.92</td>
</tr>
<tr>
<td>Supplier may become a competitor</td>
<td>2.96</td>
<td>1.15</td>
</tr>
<tr>
<td>Legal/labor union difficulties</td>
<td>2.92</td>
<td>0.76</td>
</tr>
<tr>
<td>Difficulty of inversion of outsourcing decision to a make decision in the future</td>
<td>2.84</td>
<td>1.12</td>
</tr>
</tbody>
</table>

4.3 Benefits of outsourcing

In order to investigate the benefits derived for the organizations from outsourcing, the participants were called to declare the main benefit they earned from each outsourced activity. Table 3 presents the frequencies (%) of the main benefits acquired per outsourced activity, whereas in Table 4 the 211 outsourcing cases are distributed according to the main benefits derived.

According to Table 4, we observe that in one-third of the outsourcing cases, reduction of cost was the main benefit derived. Cost reduction was referred as the main benefit in 5 (maintenance, warehousing, distribution/transportation, procurement, and payroll) out of the 15 activities investigated. The second most popular benefit derived from outsourcing was increase in flexibility. It was referred as the main benefit in 3 (manufacturing/operations, accounting, and finance) out of the 15 activities investigated. It is worthwhile to state that only in 7.58% of the outsourcing cases respondents did not mention any benefit from outsourcing.
4.4 Losses from outsourcing

Besides benefits, in our study we investigated the potential losses enterprises face from outsourcing. More specifically, participants were asked to declare the main negative repercussion observed for each outsourced activity. Table 5 pre-
sents the frequencies (%) of the negative effects per outsourced activity, whereas in Table 6 the 211 outsourcing cases are distributed according to the negative effects from outsourcing.

According to Table 6, 28.44% of the respondents indicated that the main negative effect due to outsourcing decision was the dependence on the supplier. It is reported as the main negative effect of outsourcing in 6 (information technology, manufacturing/operations, maintenance, warehousing, distribution/transportation, after sales services) out of the 15 activities investigated. Finally, it is important to state that there was no negative effect of outsourcing in 43.13% of the outsourcing cases investigated. This result confirms the successful implementation of outsourcing decision in a large number of the responding enterprises operating in Greece.

Table 5

Frequencies (%) of the negative effects per outsourced activity

<table>
<thead>
<tr>
<th>Activity</th>
<th>None</th>
<th>Dependence on the supplier</th>
<th>Increase in cost</th>
<th>Reduction in service level</th>
<th>Loss of activity control</th>
<th>Loss of know-how</th>
<th>Reduction of quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>34.5</td>
<td>34.5</td>
<td>10.3</td>
<td>6.9</td>
<td>-</td>
<td>13.8</td>
<td>-</td>
</tr>
<tr>
<td>Manufacturing / Operations</td>
<td>60.0</td>
<td>13.3</td>
<td>6.7</td>
<td>6.7</td>
<td>-</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Maintenance</td>
<td>51.9</td>
<td>29.6</td>
<td>3.7</td>
<td>-</td>
<td>3.7</td>
<td>7.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Warehousing</td>
<td>27.8</td>
<td>38.9</td>
<td>5.6</td>
<td>22.2</td>
<td>5.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Distribution / Transportation</td>
<td>36.4</td>
<td>43.2</td>
<td>4.5</td>
<td>6.8</td>
<td>6.8</td>
<td>-</td>
<td>2.3</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>77.8</td>
<td>11.1</td>
<td>-</td>
<td>11.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Procurement</td>
<td>40.0</td>
<td>20.0</td>
<td>-</td>
<td>20.0</td>
<td>-</td>
<td>20.0</td>
<td>-</td>
</tr>
<tr>
<td>Marketing</td>
<td>30.0</td>
<td>20.0</td>
<td>30.0</td>
<td>10.0</td>
<td>-</td>
<td>10.0</td>
<td>-</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>20.0</td>
<td>40.0</td>
<td>20.0</td>
<td>20.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accounting</td>
<td>40.0</td>
<td>20.0</td>
<td>20.0</td>
<td>-</td>
<td>-</td>
<td>20.0</td>
<td>-</td>
</tr>
<tr>
<td>Payroll</td>
<td>57.1</td>
<td>14.3</td>
<td>14.3</td>
<td>-</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
</tr>
<tr>
<td>Finance</td>
<td>50.0</td>
<td>25.0</td>
<td>-</td>
<td>-</td>
<td>25.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Human Resources</td>
<td>-</td>
<td>-</td>
<td>66.7</td>
<td>33.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>After Sales Services</td>
<td>20.0</td>
<td>40.0</td>
<td>20.0</td>
<td>-</td>
<td>20.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Support Functions</td>
<td>64.0</td>
<td>16.0</td>
<td>-</td>
<td>12.0</td>
<td>-</td>
<td>8.0</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 6

Distribution of outsourcing cases as for the negative effects

<table>
<thead>
<tr>
<th>Negative effects</th>
<th>Number of cases</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No one</td>
<td>91</td>
<td>43.13%</td>
</tr>
<tr>
<td>Dependence on the supplier</td>
<td>60</td>
<td>28.44%</td>
</tr>
<tr>
<td>Increase in cost</td>
<td>18</td>
<td>8.53%</td>
</tr>
<tr>
<td>Reduction in service level</td>
<td>14</td>
<td>6.64%</td>
</tr>
<tr>
<td>Loss of activity control</td>
<td>13</td>
<td>6.16%</td>
</tr>
<tr>
<td>Loss of know-how</td>
<td>10</td>
<td>4.74%</td>
</tr>
<tr>
<td>Reduction in quality</td>
<td>5</td>
<td>2.37%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>211</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

5. Conclusions

The aim of the present study was to investigate elements (e.g., motivations, risks, impact) of the outsourcing decisions in a sample of trading and manufacturing companies operating in Greece.

From the data analysis, it was observed that the most popular motives for outsourcing, for the enterprises operating in Greece, belong to the tactical level, due to their cost character. This conclusion is to the same direction with the results of other international studies. However, in a number of cases, outsourcing decisions are motivated by strategic issues, like the acquisition of technology and/or skills that do not exist in the enterprise, the focus on core activities, the increase in flexibility, and the improvement in quality.

The strategic character of outsourcing is confirmed by the fact that in 60% of the cases respondents are referred to strategic benefits of outsourcing. Moreover, the main potential risks of outsourcing are referred to the existence of core capabilities, the control of activities, the intellectual property, and the culture of enterprises, which are subjects directly related with the enterprise’s strategy.

As far as potential risks of outsourcing is concerned, we also observe that risks related to supply network reasons have low rates, which implies that enterprises operating in Greece allocate sufficient supply network base and manage well their relations with the suppliers.

Outsourcing decisions do not have single-dimensional results. An enterprise can have benefits in certain sectors, but losses at the same time in other. For example, from the delegation of the maintenance activity, while 100% of the
cases declared benefits and mainly cost reduction, in 48% of the cases losses were declared mainly due to their dependence on the supplier. In any case, we can conclude that the results are particularly satisfactory regarding the implementation of outsourcing in the enterprises operating in the Greece, given that the 94% of the examined cases have received various benefits. This conclusion is also strengthened by the fact that, beyond any other benefit recorded, in the 43% of the cases was no negative repercussion.

Based on the results, the benefits from outsourcing maintenance, warehousing, distribution/transportation, procurement and payroll are mainly referred to the reduction of cost, implying decisions made at tactical level. On the contrary, outsourcing of activities related to the information systems, production and after-sale services present important strategic benefits.

Contrary to other researchers, the increase in costs after the implementation of outsourcing is relatively low in enterprises operating in Greece. A negative repercussion is referred to the dependence on the supplier and influences mainly the activities of distribution/transportation and warehousing. Let’s note that for the activities in question the more important benefit stated was the reduction of cost. This is consistent with the recommendations of the researchers, who report that when the delegation is made using as a criterion the short-term cost estimating benefits, the probability of facing in the long-run strategic losses is high.

Finally, we recommend managers that, in order to have the maximum benefit from outsourcing and to minimize the probability of losses, they have to implement methods in the decision - making process projecting on a long-term basis the strategic benefits and come into agreements and sign contracts with suitable suppliers.

Closing, we would like to remind to those related with outsourcing decision-making process that “...Outsourcing is a management tool not a panacea” (Lonsdale, 1999).

6. Limitations and Future Research Directions

In spite of the findings derived from our research, some limitations should be considered when interpreting the results of this study. The setting of this study concentrated on industrial and commercial companies operating in Greece. This suggests that the findings may suffer from limited external validity. Caution should, therefore, be exercised in attempting to draw generalizations from this enquiry. In our research, the services sector was not taken into consideration. Outsourcing decisions in this sector may be different from the respective decisions in trading and manufacturing companies, due to the intangible nature of the services. Moreover, it is difficult to generalize our results, because we have no
data regarding the phase of life cycle of the responding enterprises. Future research should focus on outsourcing decisions in small enterprises, in enterprises at the recession or growth phase and in enterprises in the sector of services or the public sector. Finally, it may be very interesting to investigate the consequences of outsourcing on labor issues.

References


