DEVELOPMENT OF OUTSOURCING SERVICES

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Abstract: *In today's world the sophistication of modern organizational processes requires the development of outsourcing services. The organization seeking to dispose of non-key services in order to increase economic activity appears as a common practice. This causes the need for cooperation between the private and public sector, which is the beginning of outsourcing. This paper studies and analyzes the development of outsourcing as a form of public - private partnership in the practice of business and in the armed forces.*

Keywords: outsourcing services, development, cooperation, armed Forces, military service

Introduction

The dynamic changes in the socio-economic environment put in front of the modern organizations a number of challenges, in response to which the need appears for their adaptability by increasing organizational flexibility, improving and developing management tools, redistribution of roles and responsibilities of the private and public sector. More than ever, businesses and public organizations are under severe pressure, driven by a shortage of time and human resources and hence lead to the need to cut operating costs, too often the so-called "sanitary minimum." Accordingly, the restructuring of organizations striving to release of non-key assets in order to increase economic efficiency, become the norm for modern management system [1].

Overcoming these and other challenges faced by organizations today raises the need for cooperation between the private and public sectors. And it is possible through various forms and models to provide services to outside contractors.

One such form, helping to overcome the inherent activity of private and public structures deficits in modern terms, is

outsourcing. This is a flexible and responsive tool allowing the improvement and development of management tools and the redistribution of roles and responsibilities of the private and public sectors.

Outsourcing is a relatively new phenomenon for the world economy, which is rapidly gaining momentum and opens a new stage in the international division of labor. It offers the organizations a real transfer of some functions or even entire processes to an external contractor. This provokes also our scientific research in the nature, development and outsourcing capabilities for effective use of limited budgetary resources of the structures of the Armed Forces and the Bulgarian Army in the formation of the necessary defense capabilities.

Origin and development of outsourcing

A starting point of our research are the roots of practical outsourcing as a method for industrial cooperation and applicability of high technology in the management of industry.

A more detailed analysis shows that its origin is in the period of rivalry between two great managers - Henry Ford and Alfred Sloan Jr., both of them in charge of automotive industry giants - Ford and General Motors [2]. So in the middle of the XIX century, the struggle of the leaders in the automotive industry illustrates that in conditions of fierce competition, no company is able to modernize, relying on their own resources. This is one of the reasons part of the processes in the activities of a large company to be transferred to specialized organizations. Thus, outsourcing production and management functions outside the company, marked the beginning of practical outsourcing.

The introduction of the concept of "outsourcing" in management theory involves the use of resources of external organizations. On the basis of the company's exploration Electronic System Data Corporation, outsourcing became popular with the development of information systems and technologies. From here, the beginning of "the era of outsourcing" covers 1960s and in particular 1963. Due to the fast expansion in the practice of business, it quickly became the subject of scientific discussion in the 1980s and is often cited as "the phenomenon of the twentieth century."

Management of outsourcing projects is a complex and demanding task, requiring large investments. Performance data of contracts for outsourcing in the US for 2002 amounted to 29 billion dollars [3]. According to research data, one of the leading international companies outsourcing consulting - TPI, in 2004 in Europe 49% of major outsourcing contracts (40 million euros) were concluded, while in USA - 44%, and in Asia and the Pacific region - only 7%. Globally, the value of major outsourcing contracts in 2003 reached € 58 billion (according to TPI). 67% of them are IT outsourcing and 33% business process outsourcing, where companies hire

outside contractors for activities such as accounting, procurement, human resource management and human resources. Duncan Eychisan managing director of TPI, said that European companies realize that they can not compete on the world market without the benefit of greater productivity and flexibility, which the outsourcing provides [3].

In Germany during the period from 1960 to 1980 a practice got established in the large enterprises to create centers for computing, which subsequently began to provide services to small and medium-sized enterprises which do not possess the necessary technical capabilities. According to a research in 1974 specialized centers in Germany are around 400, with a turnover of 1.4 billion. DM [8]. Outsourcing information technology in the late twentieth century, is a matter of the strategic interests of large organizations recognized as world leaders in the field of electronic data processing. Activity of specialized companies providing maintenance of information flows of large, medium and small enterprises, formed a new, rapidly developing business sector.

A leading position among the companies specialized in the field of IT – outsourcing is held by IBM Global Services, in the late twentieth century, whose turnover in 1997 was \$ 25 billion, as employees are more than 110,000 people in 160 countries.

Based on research by the American Management Association (American Management Association) shows that in 1997, more than a half of industrial companies outsource to other companies at least one component of their production process. It is noteworthy ambition of established business consortia for outsourcing much of their business processes, as confirmed at Fig. 1

Figure 1: Countries with the highest estimated number of contracts for outsourcing [9]

Role and place of outsourcing for the national economy of Bulgaria

In Bulgaria outsourcing gained popularity in the years of negotiations on the country's accession to the European Union. Beginning of the outsourcing business in the country started with call centers from customers and some basic IT services and support. Today our country has already managed to attract the attention of major international companies - Eroccor first foreign outsourcing company that opened its office in Bulgaria in 2003, followed by Sofica Group, which has established itself as the largest Bulgarian company in the sector (2004.), Coca-Cola HBC opened its outsourcing center in Bulgaria, which serves 26 countries (2005), HP (2006), IBM (2007.), Sutherland Global Services (2008). Moreover, in 2010 Bulgaria became one of the 6 targeted outsourcing centers HP's Back-office and IT support. As a result, the company increased its staff to 4000 people [9].

There are several basic segments to which organizations are directed to implement outsourcing in Bulgaria, namely: standard call centers; services related to the maintenance of various information systems; software development or any other services.

Outsourcing market in Bulgaria shows sustainable growth - more than 700 million. Lev total turnover of the sector in 2010 to 975 million BGN in 2012. Out

of all the companies in the country, which are defined as providers of outsourcing services, about 25% are Bulgarian entrepreneurs [10]. The US, the Netherlands, Britain and Israel are among the many international companies investing in Bulgaria in the field of outsourcing.

Outsourcing industry generates about 3% of GDP, which is one of the fastest growing sectors of the Bulgarian economy. Over the past four years the revenue from outsourcing in Bulgaria increased by 60% and the number of employees in the outsourcing companies in the country is currently over 22 000 people. Annually the sector generates revenues of around half a billion euros [10].

Research conducted by the AT Kearney company, presented in Figure 2, show that for 2014. Bulgaria CE ranks 9th in the ranking of outsourcing destinations like the first places are countries with traditions in this sector, including India, China and Malaysia. AT Kearney prepares rankings based on 39 indicators grouped into three categories: financial attractiveness, availability and skills of human resources, business environment [11].

According to a study in 2011 by the same research firm, Bulgaria is at 17th place, from which it is clear that it has climbed eight places for a period of three years and enters the top ten most attractive destinations for developing outsourcing in the world. This is due to these favorable conditions provided by the country: lower production and transport costs compared to most other Member States of the European Union; low corporate tax - 10%; low-rent office space, Internet access with excellent quality and high performance speed; a highly skilled workforce with good language skills (in Bulgaria 98% of high school students study a foreign language and 73% learn at least two foreign languages. Nearly 60 thousand. students graduated from over 50

universities each year [10]); low wages.

Figure 2: World ranking of the most attractive destinations for outsourcing analyst firm AT Kearney [11]

Of course, the outsourcing industry in Bulgaria and is not devoid of some problem areas. Some of the most important among them are: the lack of qualified personnel with specific skills and knowledge in the field of outsourcing business and the concentration of most companies in the capital.

Another element that needs to be taken seriously, is the focus of efforts to improve the quality of education, infrastructure and administration work.

Positive step taken for the development of this sector is the creation of the Bulgarian Association of Outsourcing on 27 November 2012. Its main objective is to unite the interests of companies offering outsourcing services to enhance the competitiveness of the environment and create additional conditions for increasing foreign investment in the sector [11].

Applying the possibilities for outsourcing in the structures of the Armed Forces and the Bulgarian Army

In the modern world, the use of outsourcing services in the armed forces is directly related to their renewal and

modernization. The analysis of the studied literature shows that outsourcing within the armed forces, means using the capacity of private sector management of such activities previously carried out by personnel of the armed forces or their civilian employees.

Data on the use of outsourcing in the military circles of some armies can be traced back to the 19th century. For example, the US armed forces during this period used civilian contractors for the construction of bases, depots, ports, roads, and the construction of part of medical objects [4].

Military outsourcing was also used during World War II. The increasing complexity of military aircraft, equipment and signaling required the the presence of designers during this period, even at the front lines of battle. The rapid introduction of new and improved models of equipment and frequent changes in the operation and maintenance requirements contribute to this trend.

During the Korean War and the Vietnam War the need for extensive use of external contractors in activities is determined such as: support of weapons systems; establishment of base camps and depots; providing many of the other logistic functions.

The fact is that at that time 50 percent of the logistics supply air necessary for the provision and maintenance of the said wars are provided civilian contractors [4].

The review of the studied sources shows that after the Cold War the use of contractors on the battlefield expanded. This fact is based on the fact that the used outsourcing offers relief activities in providing logistical services of the armed forces. So it became an integral part of the maintenance of the army.

After 11 September 2001, with the participation of the US Army in operations, a shortage arises of about 5,500 people supporting staff for each brigade, or 58 percent of all logistics. A calculation shows that 75 percent of the

combat support of Land Forces of the United States is concentrated in the reserve. In the years of constant conflict, the continuous mobilization of the reserve is politically untenable, so outsourcing is the best option for filling this gap in the power structure of the US Army. Subcontractors are used in cases where national authorities impose restrictions on the amount of troops used in an operation. Is important for politicians, external contractors to provide increased military capabilities, without requiring payment of a political price. In other words, they can be deployed in the areas of operations, where there are no public protests [5].

The research found out that during the implementation of the missions in Afghanistan and Iraq, the outsourced employees were more than the participating soldiers. The data allow us to define that used outsourcing plays a disproportionate role in the mission. Some military analysts believe that in addition to the general legal arguments, overreliance on contractors lead to the undermining of the military profession and although outsourcing services indicate a potential for reliability, they reduce the flexibility of commanders [6].

However, experience shows that contractors are able to provide expertise that is not easy to be provided by the army personnel. The creation of increasingly sophisticated weapons systems requires the crucial specific maintenance of their equipment, which contractors can best provide. This is because the ability of the military to train and retain a sufficient level of skilled technicians is almost impossible. The US Department of Defence admits that it uses outsourcing services to ensure the life cycle of a large part of the weapons systems. They have a proven economic impact, especially in terms of financial and economic crisis. The researchings of Committee of the US Congress confirm the Logistics Civil Augmentation Program (LOGCAP III) for airport operations, storage of ammunition,

construction of facilities, maintenance of databases, IT services, provision of electricity by generators maintenance, fire protection, providing food, fuel, handling of hazardous materials, laundry, property management, transport and provide water [7] for 130,000 people military personnel, deployed to Iraq in 2005 are estimated annual cost of \$ 5.2 billion. So for 20 years, outsourcing by LOGCAP cost approximately \$ 41 billion, while a similar military structure would cost \$ 78 billion, or 90% more, which means \$ 1.3 billion higher budget costs, if no outsourcing is used. That is the reason to extend the usage of the same structures in the armed forces.

The Ministry of Defence in Bulgaria resorted to the use of outsourcing in the early 2000s. Reasons that necessitate the use of such services is limited defense budget and the growing need for reengineering of the ministry. Priority of the use of outsourcing is to give some non-essential or non-specialized activities such as the development of information systems, providing security, supply of fuel to external contractors. In the recent years, more and more our Ministry of defence resort to outsourcing when it come to delivery and repair of equipment and technologies, while due to the tendency to reduce the military budget and to continue with modernization, it expands the scope of outsourcing for the purposes of the Defence Ministry.

Conclusion:

Without being exhaustive on the issue of outsourcing, we believe this is one of the forms of public-private partnership, which is to take up an increasing share of the various sectors of the economy and military. We can conclude this because of the fact that large international companies and foreign armies in recent decades actively apply outsourcing as a strategy to reduce costs and improve the quality of products and services.

In Bulgaria, outsourcing services are a relatively new term, but the research

shows that lately our country is quite preferred and explored destination due to the lower production costs, the favorable tax environment and the good geographic location.

The ever-expanding range of the field of the application of outsourcing raises our interest for our future research in this area.

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