



Outsourcing in International Economic Relations

YURIY BILAN¹, VITALII NITSENKO², IULIIA USHKARENKO³, ANNA CHMUT⁴,
and OLGA SHARAPA⁵

¹ Associated professor, Doctor of Economic Sciences, Szczecin University, Poland, yuriy_bilan@yahoo.co.uk

² Associated professor, Doctor of Economic Sciences, Odessa I.I.Mechnikov National University, Ukraine, vitaliinitsenko@gmail.com

³ Professor, Doctor of Economic Sciences, Kherson State University, Ukraine, ushkarenkoj@gmail.com

⁴ Ph.D, Kherson State University, Ukraine, Kherson; hannach300@gmail.com

⁵ Ph.D, Senior Lecturer, Kyiv National University of Trade and Economics, Ukraine, olgochka85@bigmir.net

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ABSTRACT

Entities from different countries interact through various forms of international cooperation, integration, subcontracting, outsourcing to ensure competitive advantage, reduce costs and increase economic efficiency. The article is an analysis and synthesis of existing approaches to defining the essence of outsourcing research and its application in international. The article deals with the prerequisites of outsourcing as a new form of organization of business processes. There are investigated and classified approaches to defining the essence of outsourcing. The hierarchy of objectives and motives based on organization of outsourcing is built. The practice of outsourcing during implementation of international economic relations is studied. Specifically examined the dynamics of development of the outsourcing market. Studied leader countries which provide outsourcing services and major consumers of these services.

INTRODUCTION

The processes of globalization that are characteristic of today's global economy are characterized by strengthening relations of both countries and individual economic entities. New requirements for operation of enterprises in the globalized economic system, which is characterized by processes of competition rise and development of information technology need to find new forms of cooperation with partners. Entities from different countries interact through various forms of

international cooperation, integration, subcontracting, outsourcing to ensure competitive advantage, reduce costs and increase economic efficiency.

With the rapid development and spread of information technology, active search for effective approaches to business processes, entities are increasingly entering into relationships based on outsourcing, what makes necessary a comprehensive analysis of the phenomenon. Outsourcing is widely used in international practice of business and rather poorly developed in Ukraine. Accordingly outsourcing is more fully investigated in the works of Western European and American scientists (Clements and Donelan, 2004; Bravar, 2007; Heywood, 2001). The questions of outsourcing was studied by a number of Russian scientists in their scientific works. In particular essence of outsourcing and its species were studied (Anikin, 2003; Sheyanova, 2006). Features of international outsourcing were studied in the writings of (Mezynova, 2009; Kotlyarov, 2011; Syvacheva, 2008). At the same time Ukrainian scientists developed the concept of outsourcing just partially (Zozuliov, 2009; Zagorodny, 2009; Matviy, 2008; Maryska & Wagner, 2015; Mardani et al., 2016).

The article is an analysis and synthesis of existing approaches to defining the essence of outsourcing research and its application in international economic relations. The main tasks to achieve this aim are: consider the premise of the concept of outsourcing and define semantic field of concepts related; investigate and summarize approaches to defining the essence of outsourcing; analyze the outsourcing practice in international economic relations.

PREMISES OF THE CONCEPT OF OUTSOURCING

Business of enterprises in any market, including international, takes place in terms of market relationships with many institutional and socio-economic agents on actions of which largely depends the success of the enterprise. These agents include: suppliers of raw materials and equipment; intermediaries; investors; creditors; entities that offer new technologies or new products for organizing the production process; companies - competitors and others.

The basis of the present international economic relations is based on the principles and laws that have been formed by economists of the classical school - the law of division of labor and cooperation. An illustration of manifestation of this law is the outsourcing.

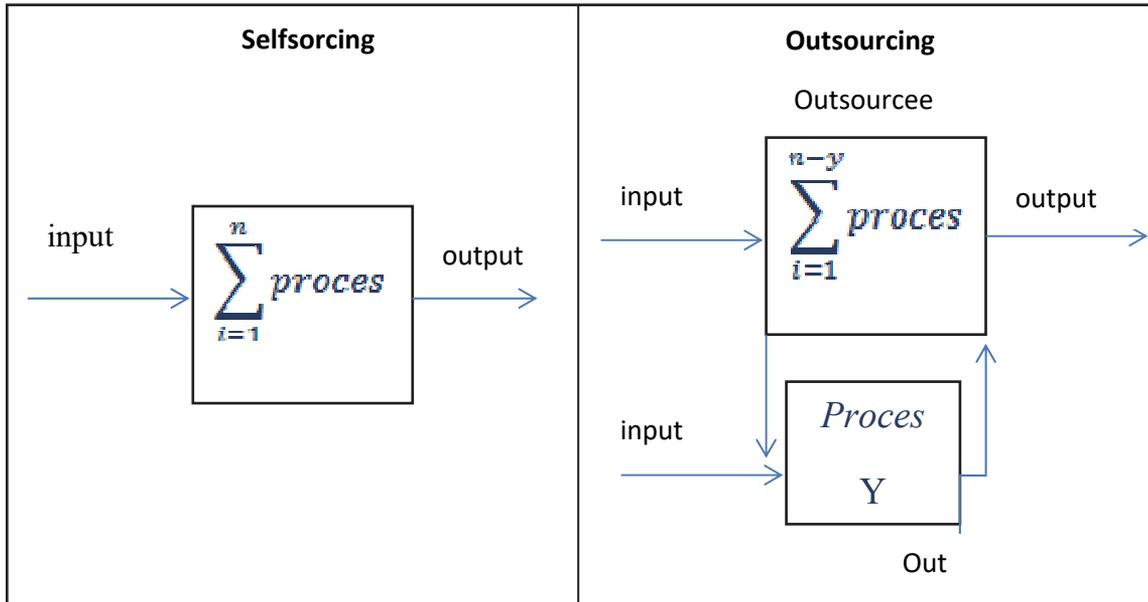
The term "outsourcing" is a neologism derived from «outside resource using». This concept emerged and became widespread in the 80s of the 20th century and firstly was considered as a transfer of some non-core functions on the principle of subcontract, or purchase of goods and services made specifically by external partner (outsourcer) for customer (outsourcee).

The difference of outsourcing from conventional procurement of goods and services is that the product or service is produced only in the presence of outsourcee's orders, according to its specifications. A contract may provide amplification of degree of interconnectedness between partners by optimizing expenditure-price policy, quality policy, transfer from outsourcee the core competencies required for the job (technology, equipment) (Kotliarov, 2011).

Of course, the idea of attracting resources from outside the company to solve specific production problems is not new to economics and management theory. An illustration of the practice of outsourcing in the first half of XX century might be seen in a fierce competition in the automotive industry between companies General Motors and Ford. In the 30 years of the twentieth century the company General Motors handed a series of production support functions to specialized firms. Ford applied the same strategy and now 90% of its business processes is implemented through outsourcing (Vladimirova, 2005).

In terms of a systemic approach to organizations, using or not using outsourcing can be considered as the next open system that has the following graphical form (Fig.1):

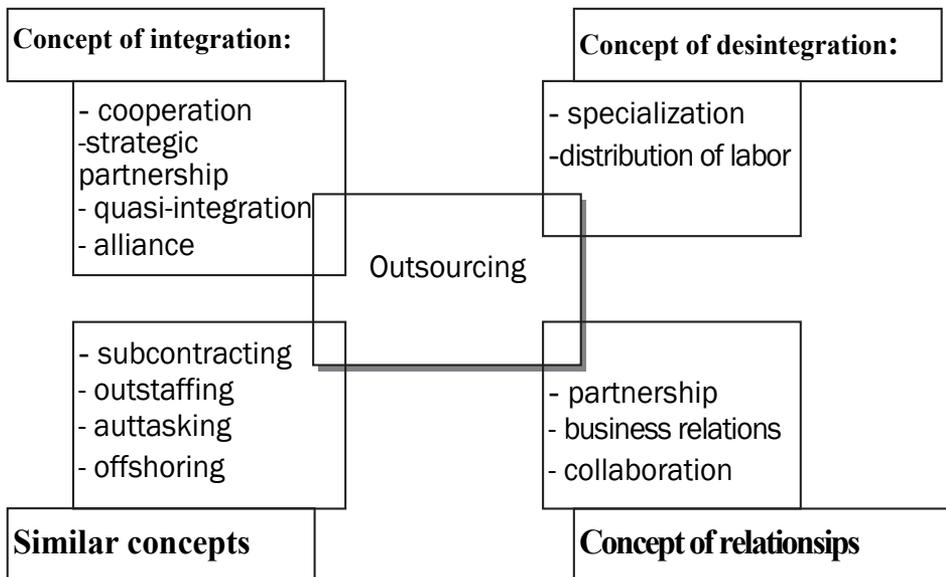
Figure 1. Organization as an open system that implements all functions independently and using outsourcing



Source: own adaptation

The scheme shows two options: an independent implementation of all processes from "1" to "n" (left) and transfer of y-processes to outsourcer, that is why the company independently performs n-y processes (right).

Figure 2. Semantic field of the category "outsourcing."



Source: own development

Given that the category of "outsourcing" appeared not so long ago, in contrast to the phenomenon, the relevant processes were associated with the concepts of subcontracting and industrial cooperation. Some researchers still equate these concepts. Others believe subcontracting is only a part of outsourcing that covers the direct production process. At the same time, outsourcing functions other than the transfer of technical and business process, involve the transfer of part of risks and is durable and associated with the life cycle of the company (Zozuliov and Mikalo, 2009).

At the same time, the notion of cooperation is wider, and thus may include outsourcing as a subtype.

Thus, outsourcing can be associated with a number of concepts such as integration, industrial cooperation, subcontracting, quasi-integration, specialization, distribution of labor, etc., that allows to make the semantic range of categories (Fig. 2).

As it is seen from the scheme in the semantic circle of the concept of outsourcing there is a number of concepts that reflect the integration and disintegration, a number of terms of similar meaning, and with the concept, reflecting the general nature of the relationships between enterprises.

2. GENERALIZATION OF APPROACHES TO DEFINING THE ESSENCE OF OUTSOURCING

Given the complexity of the concept of "outsourcing" and its ongoing evolution in the world practice of business there is no clear definition of this phenomenon.

At present the views of many scientists reduced to that in the early 21st century, the term "outsourcing" has gained the meaning not only limited to the purchase of goods and services from outside, but also refers to a special segment of the actively developing market of outsourcing services (Sivacheva, 2008). Some researchers associated outsourcing with the new form of doing business, strategy of managing the company, and see it as a modern methodology of creation of highly competitive organizations. All this makes necessary rethinking the nature of outsourcing according the present conditions. Analysis of opinions of scientists on the definition of the essence of outsourcing gave us the possibility to form the following table 1.

Table 1. Approaches to determine the definition of "outsourcing"

<i>Author</i>	<i>The meaning</i>
Bravar, 2007	Outsourcing is improving the efficiency of the company by not only transferring some functions, but also business processes for performing to external organizations to optimize all types of resources and focus efforts on core businesses.
Heywood, 2001	Outsourcing is the transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offers a defined service for a specified period of time, at an agreed but probably qualified price'
Abramovsky, Griffith, & Sako, 2004	Outsourcing is specialization outside the firm. This occurs when firms opt to 'buy' rather than 'make' in-house. That is, outsourcing involves greater specialization as firms switch from sourcing inputs internally to sourcing them from separately owned suppliers
Anikin, 2003	Outsourcing is performance of some functions or business processes by external organization that has the necessary resources for this

Mezinova, 2009	Outsourcing is a specific form of business in national and inter-economical environment, which involves outside suppliers offered by the company-outsourcer on a paid basis in the process of establishing the value of goods and services in national and international markets by transferring them to perform the part and, in the "cloud" companies, all functions / processes to increase the international competitiveness of the company through the use of existing competitive advantages of contracting party.
Cheremisin, 2005	Outsourcing is a transfer to other entities of own transactional costs.
Anohin, 2010	Outsourcing is a transfer of internal functions, and in some cases also assets to other company that specialize in a particular area for a long period at the agreed price to provide additional competitive advantages
Sheyanova, (2008)	Outsourcing is getting by enterprise the resources (goods and services) from the side, as opposed to the production of these resources on its own.
Rudaya, 2008	Outsourcing is a technology of using of specialized services of external organizations to create a value of final product. Outsourcing is defined as modern management methodology in economic systems based on the integration of key resources and competences of the organization with the resources and competencies of external providers of specialized services (outsourcers) that ensures achievement of a synergistic effect.
Yefimova, Peshkova, 2006	Outsourcing is a decision that is taken directly by the head of the enterprise and directly linked to organizational issues, about the transfer of any business functions or parts of business processes to an outside contractor.
Matviy, 2008	Outsourcing is a way of improving industrial relations between companies in the market conditions. Outsourcing is a way of the effective functioning of the enterprise by focusing on the main activity.
Zagorodniy, Partin, 2009	Outsourcing is a deliberate separation of less profitable or not profitable at all business processes and their transfer to outer parties that specialize in a particular area, to concentrate on core functions and reduce costs.
Diduh, 2012	Outsourcing is a tool for managing the enterprise, which aims to improve the efficiency and competitiveness of activity that involves a contract between the customer (company) and supplier (outsourcer) to perform last both core and supporting business functions and business processes of the customer for a fee that leads to reorganization and optimization of business activities of customer and temporary involvement and, if needed, relevant staff.
Kotliarov, 2011	Outsourcing is a form of cooperation between enterprises in which independent external performer (outsoucer) engages, organizes and acts on its own, but in the interest of the customer (outsourcee) inputs to perform tasks and functions in accordance with demands of outsourcee on a riskless paid basis.
Mikalo, 2010	Outsourcing is a transfer of functions to a specialized company on a long term basis for getting competitive advantages.
Lazariev, 2005	Outsourcing is a transfer of rights to represent non-core services to outside companies. It means a deep specialization in friendly companies to improve the efficiency of each.

Source: concluded by authors under the sources indicated.

For structuralization of approaches to define outsourcing use a special table that concisely defines the essence of the concept (Table 2).

Table 2. Classification of existing approaches to define the essence of the concept of "outsourcing"

<i>Author</i>	<i>Essence</i>				
	The form of business / contractual relations / integration / cooperation	The transfer / transmission internal functions / business processes / units	Using / receiving/ purchasing by enterprise outside resources	Methodology // tool of management / administrative decision	A method of improving industrial relations /
Bravar, 2007		+	+		+
Heywood, 2001		+			
Abramovsky, Griffith, & Sako, 2004			+		
Mezinova, 2009	+	+			
Cheremisin, 2005					+
Anohin, 2010		+			
Sheyanova, 2008			+		
Rudaya, 2008	+		+	+	
Yefimova, Peshkova, 2006		+		+	
Matviy, 2008					+
Zagorodniy, Partin, 2009		+			+
Diduh, 2012	+			+	
Mikalo, 2010		+			
Lazariev, 2005		+			
Anikin, 2003		+			

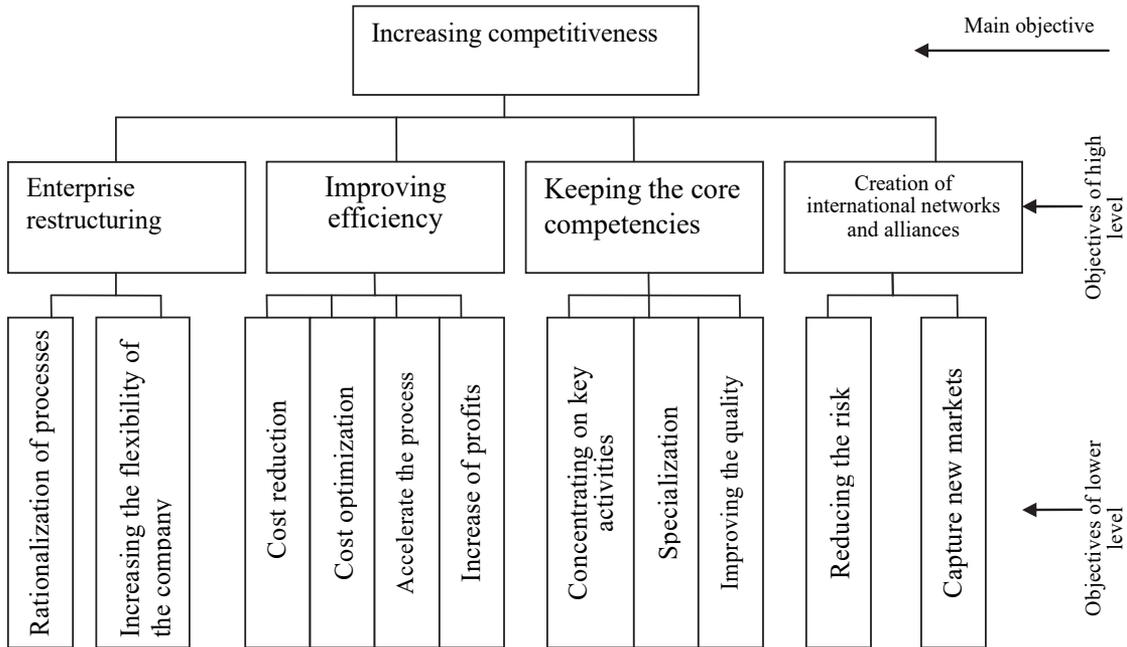
Source: concluded by authors under the sources indicated.

When analyzing approaches to determine the term of outsourcing it is observed that most authors in formulating definitions focus on the process, but do not consider its aim. The authors, who emphasize that the aim and end result of outsourcing in most cases agree in opinion that they are: improving the efficiency and competitiveness, optimizing processes and concentration on core functions. In general, among the strategic and tactical advantages of outsourcing can be identified improving the efficiency of activities, focusing attention on core businesses and hence improving its quality and productivity of labour, rapid response to changing of external environment, saving resources and reducing costs.

In a market economy as the dominant category which characterizes the effective continuum of enterprise business arises a category of competitiveness, which conditions the main purpose of outsourcing. The main category is efficiency and subcategory is productivity. The main cause of this subordination of categories is that the task of maintaining and reproducing integrity and sustainable development of economic system is the primary task comparing with the task of productivity (efficiency) of business processes inside the system.

Given the above, the main driving forces of forming relationships on the outsourcing basis can be divided into several blocks and create the tree of aims showing their various levels (Fig. 3).

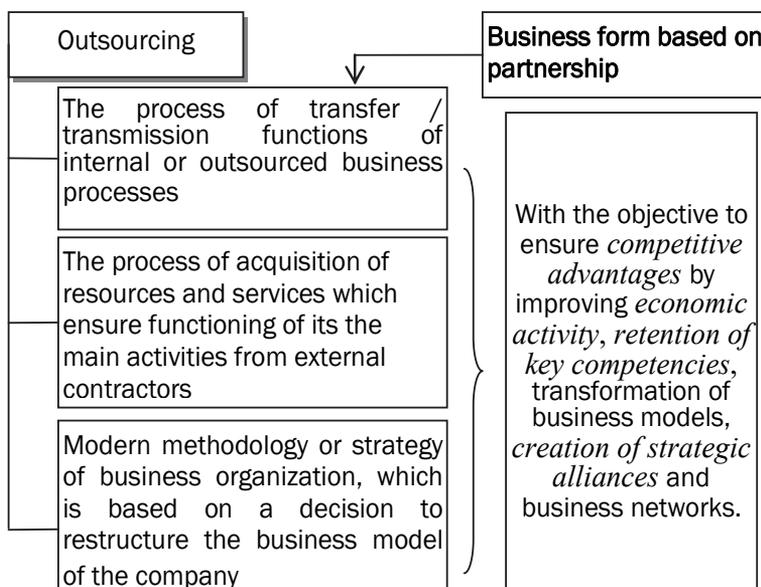
Figure 3. The hierarchy of objectives and benefits of outsourcing



Source: authoring

Considering the above research there was formed a summarizing of all possible approaches and their own understanding of the concept of "outsourcing" the essence of which is shown in Figure 4.

Figure 4. Formation of author's interpretation of the term "outsourcing"



Source: authoring

Mentioned in Figure 4 approach integrates existing position both to the definition of outsourcing and purpose of its use in the work of company.

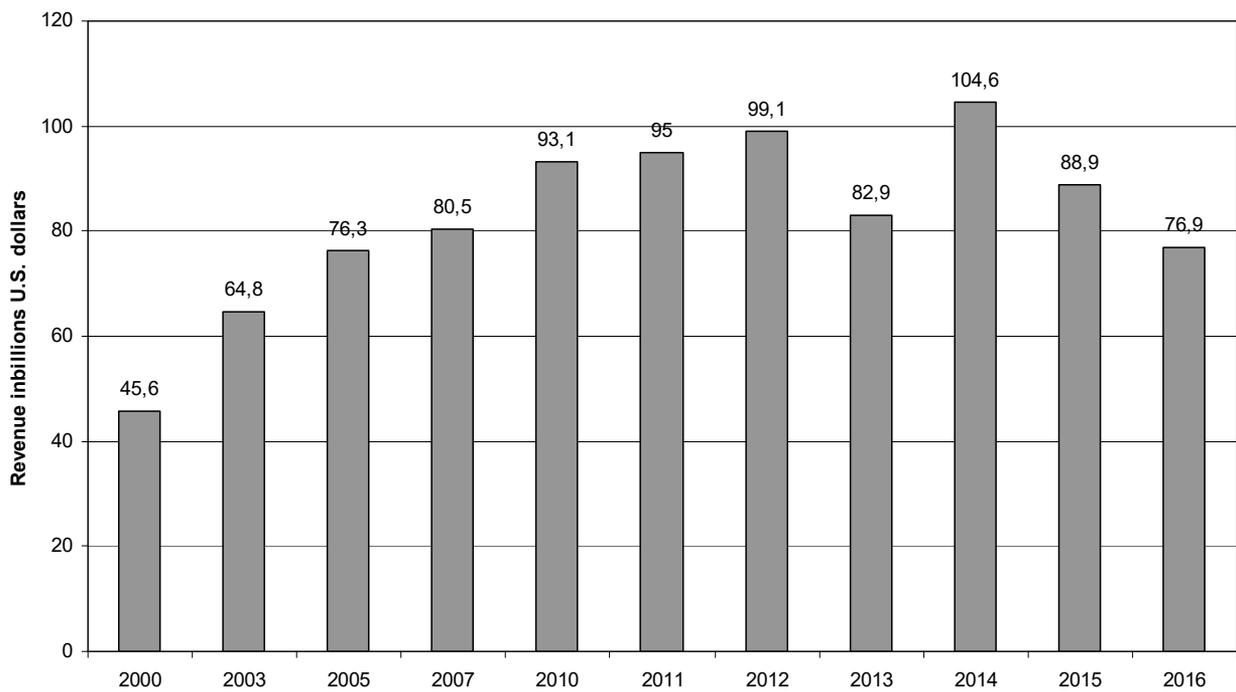
3.THE PRACTICE OF OUTSOURCING IN INTERNATIONAL ECONOMIC RELATIONS.

At present outsourcing is prevalent in many areas of business. Outsourcing service providers (outsourcers) offer services in information technology, marketing, logistics, production of components, personnel management, accounting, legal assistance of administrative and economical services.

Globalization of the world economy became the basis for the formation of the world market of outsourcing services, which makes possible to study this phenomenon at different levels.

Research of outsourcing can be carried out at the level of a company and globally. The dynamics of the outsourcing services market is shown in Figure 5.

Figure 5. The dynamics of the outsourcing market for the years 2000-2016.



Source: (Outsourcing - Global market size, 2016)

In 2016 the largest share of the value of the contracts fell to contracts in IT outsourcing - 69%, and business processes outsourcing - 31.0%. Contract value decreased for both types: IT outsourcing by 17% to \$52.9 billion, and business processes - by 5.5% to \$ 24 billion. (The Global ISG Outsourcing Index, 2016).

The use of outsourcing as a new management strategy is actively used by leading companies of the world which transfer manufacturing capacity and work places from the developed world to South, South East Asia, Western Europe, Latin America and other similar countries. In the end of

the twentieth century proportion of US companies that prefer to outsource manufacturing or service operations was 86% (Lepihina, 2007). The specialization of developing countries in the production of complex high technology products encourages the development on their territories the high technology industries, which leads to the effect of the accumulation of knowledge and experience, and therefore makes them a center of innovation and development. For example, India's high-tech sector grows at 30% annually due to outsourcing, which makes the country a recognized center in the field of outsourcing in information technology placing on its territory about 80% of global projects in this area (Clements and Donelan, 2004).

At present China keeps leading positions in selling the international industrial outsourcing, due to its advantages in relation to other countries because of low cost of resources. Syvacheva

The largest consumer of outsourcing of business processes is the North American market (USA, Canada). The second most important consumer market of this type of service is a region of Western Europe. The third largest customer of outsourcing is Japan (Koshkarova, 2016).

Table 3. The leading countries in providing outsourcing services in international markets

<i>Regions</i>	<i>Countries</i>
Americas:	Argentina, Brazil, Chile, Costa Rica, Mexico, Panama and Peru.
Asia/Pacific:	Bangladesh, China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
Europe, the Middle East and Africa	Bulgaria, the Czech Republic, Egypt, Hungary, Mauritius, Morocco, Poland, Romania, Slovakia, South Africa, Turkey and Ukraine.

Source: compiled by the author basing on information (Gartner's 30 Leading Locations for Offshore Services, 2014)

Due to outsourcing new jobs that require a high level of knowledge are being created in developing countries, and therefore increase the demand for educational services, including technical specialties. Thus, there is formation of innovational infrastructure. The growth of high-tech sector and the development of innovations makes it focus on its export, makes companies working in this field the leaders in the modern global business innovation. This accordingly stimulates economic growth in developing countries.

CONCLUSIONS

Search for effective forms of business processes and relationships of business entities (enterprises) with key partners makes use of outsourcing more often.

Analysis of existing approaches to determine the definition of "outsourcing" has allowed to classify defining the essence of the phenomenon: the process of transfer, transmission of internal functions or business processes to external contractor; the process of acquiring of resources and services which ensures functioning of the main activities from external contractors; modern methodology or strategy of business organization, which is based on a decision to restructure the business model.

Transition to outsourcing provides synergies of involved and available capital, their harmonization, achieving synergetic effects. The main advantages of outsourcing should be the ensuring of competitive advantages by improving economic activity, retention of key competencies, transformation of business models, creation of strategic alliances and business networks.

At present the term "outsourcing" has obtained a significance that is not only limited to the purchase of goods and services from external contractors, but also refers to a particular segment of the actively developing market of outsourcing services. The main segments of market are outsourcing of information technology and business process.

The major market trends include the growth and increasing of competition, involvement of new countries and regions, the emergence of new market players and increased demand for high-tech services.

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