

COMPETITIVENESS AND OUTSOURCING IN THE NEW ECONOMY

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Abstract

The aim of the current paper is that of underlining the current context of competitiveness in the new economy and of raising awareness on the role and importance of outsourcing. The main goal of the following research is to analyze and present the central points that a company has to take into consideration in order to increase performance by using outsourcing as a tool. The results show that outsourcing is a viable option for the obtainment of competitive advantage, and a method through which the value chain can be re-engineered and restructured so that it satisfies the customer needs.

Keywords: *competitiveness, competitive advantage, outsourcing, value chain.*

JEL classification: *D01, L10, L22, L24, M10, M20*

1. Introduction

Over the last decade, the world economy experienced decisive change whose consequences have not been too much awaited, especially at the social level. Thus, the managerial capacities of the organizations to deal with the arising situation, to adapt, to be flexible and responsive to new, were tested to a maximum. All these targeted successful businesses in the so-called "new economy". This term actually expresses the transition from a consumption-based economy to an economy adapted to the financial crisis and recession. One way of organizational success can be achieved by reviewing and

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reassessing the initially established priorities, according to the new appeared opportunities and threats, and taking into account the competitors (and their strengths and weaknesses), risks and areas of interest.

The current economy is facing many problems caused by the crisis and the recession, but the optimal solution that can lead to their resolution can be the amplification of organizational competitiveness and finding an alternative management system tailored in accordance with the realities of the new economy.

The advantages of using outsourcing by companies are obvious, both from the financial standpoint and from the standpoint of increased experience and specialization of the core value, activities and objectives of the organization. Due to the large number of companies specialized in outsourcing, which don't sacrifice quality, but offer high quality services at reduced costs, compared to those required for the specialization and endowment of a department within the organization, thus savings are made by not having to recruit specialized personnel, by purchasing equipment and by not having to pay extra salaries and taxes. The experience of those involved in outsourcing matters the most to the promptly resolution of problems that may arise suddenly. All that remains is that the organization, that has outsourced the activities which are not the core ones, to concentrate on its primary activities that are essential for the creation of sustainable added value for the customer (thus focusing on the specific of the company), guaranteeing quality of their products and thus achieving their goals. That being said, the fact that a company chooses to outsource an activity or a function does not mean that the organization does not consider that activity or function to be useless and not important to its success.

2. Background – The issue of competitiveness in Romania

For an organization to be viable in the new economy, it needs to rethink its priorities according to the market and in relation to its clients, adapting their products and services, accordingly, to the needs of its customers. Success can be easily obtained by raising awareness on the needs of the customers and the targeted markets, and by focusing on what and how can those needs be met, under conditions of maximum efficiency and efficacy (making sure a sustainable competitive advantage is obtained).

Corporations in the new economy require educated workers and technology-savvy consumers. Corporations need well-educated workers in

business related areas – science, engineering, medicine, law – to create and protect knowledge-based products, processes and services (Slaughter & Rhoades, 2004).

The current global need for resources can be a challenge in the new economy, the trend going towards the discovery of viable alternatives that do not affect the environment and life in general, and that consider the protection of the environment – sustainable growth/development. These changes that are happening in the world economy push the organizations to reinvent, in order to keep up in step with the entire global information and technology progress going on. A progress factor can be the best possible capitalization of innovative and competitive ideas. This should represent one of the central priorities in the new economy, as it would encourage organizations to grow and develop, by also increasing their team spirit, their professionalism and performance.

Understanding the new economy and recent changes in the organization of social and economic life entails a complex and detailed consideration of shifts in the structure of labor markets and workplaces, as well as the ways in which workers are responding to new economic conditions (Pupo & Thomas, 2010).

Keeping up with the competition means trying all that is beneficial to the company, in order to achieve the goals of the organization. The faster the firms respond to the economic changes, while keeping in mind the competitors and the quality of their services and products, the more easily the road towards success gets.

Amongst crucial elements for competitive advantage and economic growth, state-of-the-art telecommunication and internet services are considered to be very important. Falling communication and transactions costs help to create larger markets and to better exploit economies of scale, as well as opportunities for competitive outsourcing (Audretsch & Welfens, 2002).

The Statistical Office of the European Union (Eurostat) defines competitiveness as "the ability of an enterprise, economic sector, region or supranational assembly to generate in sustainable and competitive conditions, a relatively high level of income and employment factors." (Agenția pentru Dezvoltare Regională Centru, 2010).

The world economy has lately experienced problems that generated social instability, through high unemployment, job insecurity and instability, declining productivity, etc. All these problems have resulted in a low living

standard and destabilizing financial and economic bottlenecks. Increased competitiveness of organizations that can bring a plus in productivity, in performance, and in increasing consumer confidence in this hostile environment can successfully participate in the process that can lead to the discouragement of this global phenomenon.

At global and European level there are concerns regarding the ways of stimulating economic competitiveness. Along with the EU, our country (Romania) develops and sustains such projects, being aware that it can raise the employment rate of the labor force, by increasing the GDP and by aiming at a decent standard of living for the population. According to this strategy, Romania, although has achieved some progress on privatization and on the streamlining of the economic and financial sectors, still records disparities compared to other European countries, in terms of competitiveness. This is reflected in relatively low productivity and in difficult access to capital, technology, research and innovation. The ability to adapt to the standards imposed by the economic globalization and by the crisis that was triggered, is affected by the low purchasing power of our market, by underfunding and by the infrastructure that is unable to sustain a competitive activity.

Competitiveness is influenced by the policies implemented by the government, being able to create a business environment that is more or less favorable. Better said, the activity of companies is closely linked to the involvement of the state through sustainable policies. The chain closes with the companies that generate added value that are more or less capable to handle the competition in the internal or international markets.

The competitiveness of organizations should be regarded as an attribute of internal competition, offering the advantage of low prices in the commodity market, the increase of product quality and product diversification.

Competitiveness can be related to many factors such as economic development, infrastructure development, legislative regulations, technological access, labor market flexibility, the quality of the business environment. The complexity of these influences makes the mission to capture the essence of competitiveness in boosting the living standards of the population very difficult.

Therefore, a number of factors may underlie the achievement of increased competitiveness in the organizations, but a healthy and efficient institutional environment can be helpful for entrepreneurs, heavily put to the test by the crisis. In the new economy, to be successful, managers know they

need to grow the productivity of their firms. But to achieve the proposed goals, they have to change, restructure and reengineer some processes, components, services or products.

3. Outsourcing and competitiveness – Literature review

It is still possible to gain and sustain competitive advantage in the new economy. Indeed, the kinds of capability that have always been the source of sustained competitive advantage in the old economy – capabilities that are rare and costly to imitate – can create sustained competitive advantages in the new economy. If anything, these capabilities are even more important in the new economy, since so many other potential sources of advantage are destroyed in the costless-information and worldwide competitiveness of the new economy (Capasso, Dagnino, & Lanza, 2005).

As noted above, a priority in the new economy for the current organizations is the competitive mentality that helps them align themselves with the values of the international market through innovative and qualitative products. A solution to the arising problems in the current economy can come from outsourcing.

The activities of the firm lead to the creation of competitive advantage, activities which are integrated into a value chain (which in its turn includes both primary activities and secondary activities that create value for the customer).

In an attempt to increase their productivity, the organizations resort more and more to the so-called outsourcing of secondary activities from their value chain, in order to focus its resources, attention and time on core primary activities of the business by resorting to professional support from companies specialized on outsourcing. This approach is a reasonable solution for both businesses that outsource, as well as for companies that are specialized on doing the outsourcing; the gain is mutual, with long-term benefits in terms of improving living standards and in terms of improving the favorability of the business environment, and also in terms of increasing the overall competitiveness of the country on the international level.

The value chain of an organization has to be seen as an essential system and its restructuring through outsourcing implies the elimination of the non-core activities/functions, the main result being the fact that it facilitates the creation and sustainability of the competitive advantage, whilst improving

the business performance and increasing the efficacy and efficiency of the main primary core activities.

However to cope with the environmental changes of today, business organizations have to be proactive in order to deal with highly competitive markets and the changing needs of the demanding customers...To achieve this, the business organization has to ensure that all business processes are cost-effective and efficient. But it is not possible for a single organization to have expertise in all of its business operations. They have to first identify their area of expertise, and for the process they do not possess expertise in, they have to take help of a third party, which has the competency to perform that function cost-effectively and efficiently. The way out to stay competitive is by outsourcing the non-core business functions (Sople, 2009)

Outsourcing is when a company decides to hire-out jobs traditionally done in-house. Empirical evidence suggests that carefully crafted outsourcing strategies increase the overall performance of the firm. Outsourcing is generally considered as a very powerful tool to cut costs and improve performance. Since building core competencies and serving customer needs is critical to firm success, anything that detracts from this focus may be considered for outsourcing. (Salwan, 2007)

From the definitions and opinions stated above it is apparent that outsourcing can be the equivalent of entrusting services, processes that are not part of an organization's core business to another company that specializes in those services. The benefits experienced by the company that has resorted to the outsourcing of secondary activities include the solving of problems, increasing production efficiency and streamlined costs.

While outsourcing improves the performance of the areas of the business that do not provide a unique competitive differentiation, it also frees needed capital and resources for investment in those areas that do, therefore reducing both direct costs and opportunity costs (Corbett, 2004).

4. Competitiveness and outsourcing in the new economy

In this new economic situation, many companies have tried to find and adapt and create strategies in order to survive and to increase the efficiency of core activities, so that the resources are used where most necessary, for the achievement of maximum possible performance, in the context of the given conditions. In this way, the value chain is restructured and re-engineered so that all expenses are carefully planned and costs are reduced accordingly.

One obvious influence of the new economy is that it reshuffles firm structures, as the enhanced ability to communicate and to manage has allowed a sizeable increase in the outsourcing of firm activities. Many of these activities were never part of the firm's core competency (Siebert, 2002).

In the past a business would have preferred, in principle, to locate factories as near to its markets as possible. However, the trend over the past few years, most particularly in Europe and the USA, has been to "outsource", that is to move the low added value activities "offshore" to lower cost and developing regions such as Turkey (from Western Europe), Mexico (from the USA) and China (from USA and Europe) (Asch & Wolfe, 2001).

In order for companies in the new economy to manage the inevitable ongoing change, it is necessary to have access to new technologies, putting them in touch with competitive and highly qualified employees/companies. One of the ways towards the success of a business in the economic crisis is the use of outsourcing, through which risks and costs are reduced, by "getting rid of the load" and focusing on the most important and needed functions so that the customer needs are met in the most efficient and effective way possible.

In a number of disciplines, including geography, sociology, economics, cultural studies, management, psychology and policy studies, there has been a good deal of research devoted to understanding contemporary global capitalism and the new economy. The latter, often juxtaposed against the old economy is characterized by the de-materialization of production and a shift away from dealing with raw materials and machines towards dealing with other minds; physical dexterity is still a skill asset but mental processing ability is now often more important. The acceleration of information available to firms, organizations, and other agents are also bound up with growing uncertainty. Economic competitiveness now has less to do with new materials per se than with new ways of producing, using and combining diverse knowledge (Daniels, Leyshon, Bradshaw, & Beaverstock, 2007).

When a company buys another company's services or products it needs to have specialized staff that knows how to work according to the requirements of those products. This strategy is called outsourcing and is the fact that an organization entrusts certain functionalities to external providers, specialized in the field. This transfer has in view the increase of the added value of the organization that outsources certain functions and activities, by re-engineering the value chain and maintaining/increasing focus on the main purpose of the organization.

The current trend toward increased outsourcing of both manufacturing and services represents the most significant change in the structure of employment. In the 1990's, there was a rapid expansion in the outsourcing of a more diverse array of functions, including everything from payroll and human resource administration to manufacturing (Benner, 2002).

The reality is that organizations that embrace outsourcing and leverage their resources to focus on their core business will continue to be the market leaders of tomorrow (Burkholder, 2006). But, we must keep in mind, that if a company decides to outsource one or more of its functions, that does not mean the outsourced function(s) is not important to the company's well being and to its success in the accomplishment of its goals and objectives. The outsourced activities are just better off being done by a specialized outsourcing company, instead of the company itself devoting, time, money and effort on them, when all that can be better used, and with better overall results, on the core activities of the organization.

A major role in the success of this transfer is the reputation of the elected collaborator (outsourcer). Not only his professional skills but the results of previous work can influence the efficiency of the activities of the organization that has outsourced the function. Digital outsourcing began to take a large share, which consists in making available to several companies specialized services in areas such as telecommunications and informatics. Finding a partner that can provide the organization with specialized services/activities, based on mutually convenient costs, can reduce the time and expenses that would have been higher if the company would have invested in qualified personnel and in specialized equipment for those secondary activities (action not justified in the "big picture" regarding the company's mission and central objectives). This way, the resulted saved capital can be reinvested in the points of the organization where it is most needed, thus, increasing its profits and overall performance. Through outsourcing, the organization reduces the entrepreneurial risk and is stimulated to maintain and even increase their competitiveness, by turning its attention more and more to the most important aspects of the organization that actually lead to increased added value for the, extremely important "judge of the organization", the customer.

It is estimated that up to two-thirds of Fortune 500 firm currently outsource some part of their operation overseas and that outsourcing levels are

expected to increase rapidly as companies strive to improve performance and increase efficiency levels, especially as the global competitive marketplace continues to develop. In many cases, firms have quickly realized that outsourcing can lead to the development of successful competitive strategies (Sarkar, 2009).

As shown above, the new economy is moving fast and sometimes with syncope, which can disrupt the default strategies of the organizations involved in the economic process. Therefore, the connection that is formed between organizations through outsourcing can only be beneficial for both parties and in the end to the consumer. Many innovative services, due to high costs, cannot be accessed directly by companies. Through the outsourcing of some functions towards those companies that provide services that use innovative applications, the organization is able to have access to "cutting edge" solutions and thus to increase their economic competitiveness.

To respond to this hyper-competitive, performance-driven environment, organizations are becoming better focused and more specialized. They are evaluating each activity to determine if and how it provides a unique competitive advantage. Those areas that provide an advantage are likely to receive increased internal investment. Those that do not are likely to be either eliminated entirely or put in competition with an ever-expanding marketplace of external service providers. That is, they are considered for outsourcing. Outsourcing, then, is in direct response to these realities of the modern world (Corbett, 2004).

Many companies have been forced to resort to these outsourcing strategies due to fierce competition in the market. Maintaining the competitiveness of firms is difficult in the absence of ongoing concern to professionalize and streamline those departments whose activity was outsourced. So the idea of "transfer" of those departments / services that could not be developed or upgraded to other specialized companies emerged. The appearance of the effects of these migrations wasn't delayed, being reflected in the increase of profits and cost reduction.

5. Conclusions

The current uncertain and constantly changing economic environment maintains the business environment in the same state of unknown. Limited

resources, laws unfavorable to the business environment and the demands of the competitive market increase the tensions within the organization.

Unexpected global market developments affect the entrepreneurial thinking. Often, the use of strategies that are adopted and adapted on the fly to the new conditions, in order to achieve the initially set objectives, can be a successful solution. A method becoming more often used by successful entrepreneurs is outsourcing. Through outsourcing of some support functions (secondary activities) and very rarely of some core functions of the organization, a manager can reboot the activity of the company and can gain beneficial advantages for his company and for the company towards which the activity was outsourced to, and none the less, satisfying the customer needs with a product or a service that has a good price-quality ratio (restructuring the value chain in order to make it more efficient and effective, so that the performance of the organization increases).

Targeting entrepreneurial success is facilitated by an ability to adapt to decisive changes that occur, by being flexible and by having the ability to fully capitalize on managerial experience and readjust it to the new technology.

The awareness on current trends and future market needs of the business environment is an important step in the current new economy. The competitive business environment amplifies the need for outsourcing, which highly relates to this trend. The biggest challenge for an organization is that of reinvention, of finding a balance between labor, services and customers, in the context of the increased technological flow and economic globalization.

Due to advances in communication technologies, nowadays it is much easier to communicate overseas and transfer information. That has led many companies to transfer its back-office tasks to other firms (many of them located in Asia). This type of outsourcing is the most efficient way of cutting down costs, increasing productivity and meeting customer demands. A company must take great care into selecting a partner towards which to outsource certain activities, because outsourcing can backfire and can decrease the overall productivity of the company (for example, the firm to which an activity was outsourced is unable to meet the deadlines or does a very sloppy job).

Another reason why outsourcing is a very helpful tool in this new economy is that due to very rapid changes in the market, the firms must become highly specialized in order to overcome them and gain competitive

advantage. That means that the companies must concentrate the majority of their efforts and resources to their core activities, and shutdown or outsource the activities that are not included amongst the central, primary ones.

Prioritization of competitiveness in the new economy is beneficial to organizations because it stimulates the trust in the potential of innovative teamwork, strengthening the winning spirit, getting in line with the international market values through qualitative, helpful and efficient services and products.

This new economy brings a new entrepreneurial mindset that is based on a realistic vision, focused more on the details that sometimes make huge differences in the achievement of the goal and objectives. Thus the focus is not on reducing costs, as on outsourcing. Existing organizations, in order to keep up with competitors, must react quickly to constantly changing market conditions, at the same time making sure they do not sacrifice the quality, and at the same time searching new market segments that can bring their success.

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