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INFLUENCE OF OUTSOURCING ON THE COST MANAGEMENT

UTJECAJ OUTSOURCINGA NA UPRAVLJANJE TROŠKOVIMA

ABSTRACT

The goal of this paper is to research whether the outsourcing is directly influencing on reduction and control of expenses of companies, but also, indirectly on enhancement of competitive advantage of companies. Lately, the companies encountered numerous changes but one of the most important was the one that concerned customers' needs. In the midst of world economic crisis which, besides affecting the companies, did not bypass the buyers, mostly express buyers' requirements for products, namely services of high quality, with relatively low price. Companies, trying to attract the buyers, make their best to reduce the expenses where the purpose is to provide the price acceptable to the buyers. Very often, as the possible solution for reduction and control of expenses, comes the outsourcing as the possible solution. In this paper we are writing about outsourcing that explains company's efforts and resources on strategic activities, where the other activities are singled out and let to external specialized partners all with the purpose of focusing on primary activities, as well as to reduction of expenses and increase of the quality.

Intensive changes did not bypass the Croatia either. For that reason the research was done in 2014 to establish if outsourcing is possible answer to ever growing demands for reduction and control of expenses. Conducted research has showed that the companies operating within the Republic of Croatia implemented, at the most, outsourcing for the purpose of reduction of operating expenses and they stated reduction of expenses as their primary reason for engagement of external partners. Managers in Croatian companies find outsourcing as the solution for managing expenses, where the solution of research shows that outsourcing reduces the operating expenses from 5 to 10 %. Outsourcing can be considered as good strategy for managing expenses, but, as almost every solution, gives positive and negative impacts. But outsourcing also contains, within negative effects, the question of quality.

Key words: outsourcing, cost management, competitiveness, companies, Republic of Croatia

SAŽETAK

Cilj ovog rada je istražiti da li outsourcing izravno utječe na smanjenje i kontrolu troškova hrvatskih poduzeća, ali i posredno na unapređenje konkurentskih prednosti poduzeća. Poduzeća se proteklih godina susreću s mnogobrojnim promjenama, a jedna od najizraženijih je promjena zahtjeva kupaca. U jeku svjetske ekonomske krize koja, osim što zahvaća poduzeća, ne zaobilazi niti kupce, posebno do izražaja dolaze zahtjevi kupaca za visokom kvalitetom proizvoda, odnosno usluga, po relativno niskoj cijeni. Poduzeća, u borbi za kupce, teže smanjivanju troškova kako bi bila u mogućnosti kupcima osigurati njima prihvatljivu cijenu. Često se kao moguće rješenje za smanjenje i kontrolu troškova spominje outsourcing, fenomen koji objašnjava usmjeravanje napora i resursa poduzeća u strateške aktivnosti, dok se ostale aktivnosti izdvajaju i prepuštaju eksternim specijaliziranim partnerima i to u cilju fokusa na primarne aktivnosti te smanjenja troškova i povećanja kvalitete.

Intenzivne promjene nisu zaobišle ni Hrvatsku. Stoga je provedeno istraživanje kojim se nastojalo utvrditi je li outsourcing moguć odgovor na sve izraženije zahtjeve za smanjivanjem troškova. Istraživanje je pokazalo da poduzeća koja posluju na području Republike Hrvatske najviše primjenjuju outsourcing radi smanjenja troškova poslovanja i navode smanjenje troškova primarnim razlogom donošenja odluke o angažmanu eksternih partnera. Menadžeri hrvatskih poduzeća outsourcing smatraju izvrsnim načinom upravljanja troškovima, a rezultati istraživanja pokazuju da outsourcing smanjuje troškove poslovanja u iznosu od 5 do 10%. Outsourcing se može smatrati dobrom strategijom za upravljanje troškovima, međutim, kao i svako rješenje, nosi pozitivne i negativne učinke. Uz outsourcing se često veže, u kontekstu negativnih učinaka, i pitanje kvalitete.

Ključne riječi: outsourcing, upravljanje troškovima, konkurentnost, poduzeća, Republika Hrvatska

1. Introduction

The authors in this paper are enveloping the notion of outsourcing and what is its impact on Croatian companies. In the literature it is possible to find many definitions that explain this "phenomenon, as many authors call it. According to Young and Macinati (2012, 773) outsourcing is a phenomenon of transmission services that were previously performed within the company to a third party. According to Drljača (2010, 57) outsourcing of the part of the company or to abandon activities in which the competition is better, with which the company is usually related. Companies focus on their main business and other activities, in which they are weaker than the competition, they externalize. Outsourcing is one way to improve the efficiency of operations. It is an act of letting less important internal activities to the external supplier focusing on main business activities (core business). Davidović et al. (2010) argue that outsourcing is the relocation of business processes to another company and delegation of tasks, operations, activities or functions to a third party under a service contracts. A Nedović Čabarkapa and Šibalić (2010, 76) wrote that outsourcing is a strategic use of external partners for the purpose of performing the activities which are traditionally in charge of internal staff and resources. It is contractually switch side of non-core activities of a company to the specialized service providers. From the above definition it is possible to conclude, in simple terms, that the companies put their efforts and resources in main activities, while other activities are left to specialized external partners. Companies are doing that in order to focus on primary activities and to reduce costs and increase quality. Outsourcing is applied among companies for many years and has become a common form of business. Increasingly, it is gaining importance due to the orientation of management to maintain the highest possible

efficiency and effectiveness in order to achieve the greatest possible profit (Nedović Čabarkapa and Šibalić, 2010, 76). Outsourcing, with regard to the meaning and scope, can be divided into three main groups according to Thomsett (2003). The first group includes the strategic outsourcing that occurs when entire process functions are left on the market, while retaining supervision and control. The second group includes tactical or partial outsourcing that occurs when a part of a business process is left on the market. And the third group includes the targeted outsourcing that occurs when in project work in the market are hired experts or specialized agencies that have to do a certain job. It is also the most common form of outsourcing.

The notion of outsourcing occurs at the end of the 1980s (Pavić, 2009, 41). The authors Nedović Čabarkapa and Šibalić (2010, 76) points out that outsourcing is not a new concept, and the beginnings of outsourcing could be found in the 14th century in Venice where was built the first commodity warehouse for the needs of traders from all over Europe. The warehouse was a point of collection and distribution of goods. In the US, the outsourcing of transport services and storage was common during the 1950s and 1960s. During the 1970s, manufacturers put great emphasis on cost reduction and improved productivity. The result was increased interest in outsourcing of any function that is not directly related to the main activity of the company and more and more manufacturers began to rely on the services of their suppliers. Using sophisticated technology, suppliers are increasingly delivering value-added services which resulted in entrusting inventory management, transportation and supply chain from the manufacturer to the supplier (Nedović Čabarkapa and Šibalić, 2010, 76). Table 1 shows the waves in the outsourcing from the 1980s.

Table 1 Outsourcing waves

Time	1st wave (since 1980s)	2nd wave (since 1990s)	3rd (since 2000)
Activity	Manufacturing	IT	Business activities
Place	China, middle and east Europe, Mexico	India, Ireland	India, Pakistan, soth Africa
Type of companies	Manufacturing companies	Manufacturing companies, banks	Financial services, and common services
Motive	Reducing costs of working force	To get IT experts and to reduce costs	Reducing costs of working force and providing services under 24/7

Source: Nedović Čabarkapa, M., Šibalić, V. (2010): Orijentacija gospodarskog subjekta na temeljni biznis primjenom outsourcinga, Poslovna logistika u suvremenom menadžmentu, p.76.

Special attention in Table 1 should be paid to the motive of outsourcing. It is possible to observe that in all of these periods as their primary reason for using outsourcing is the reduction in costs. Author Harrow (2010, 57), as well as many other authors, who for many years was engaged in research outsourcing, points out that the most important reason for making a decision on outsourcing to external sources is that they perform certain activities more efficiently and at lower costs. The conclusion is that the very essence of outsourcing is to use external resources, ie. to reach for resources outside of the company, and the cause for outsourcing is in increasing pressure on companies in terms of increased efficiency and efficient cost management.

From everything aforementioned emerged the aim of this paper. Therefore, the objective of this paper was to investigate whether outsourcing in Croatian companies directly influence on a reduction of costs and whether indirectly affects the increase of competitiveness. The paper presents the existing researches in the above mentioned area as well as the results of the research conducted by the authors in 2014 among companies in the Republic of Croatia.

2. Advantages and disadvantages of outsourcing

Before making a decision on the application of outsourcing as a business strategy, it is necessary to thoroughly analyze the situation of the company. According to Drljača (2010) it is necessary to consider which systems and processes can be outsourced, to create communications channels for efficient implementation and support, which is the best use of available and new resources, to establish a new partnership and how to better shape the partnership model in order to ensure continuity of success. Also, before making a decision on the application of outsourcing it is necessary to conduct an analysis of strengths and weaknesses with respect to market position, staff, equipment and finances. Based on the identified strengths and weaknesses, the company identifies the crucial activities and determines what can be outsourced, and what does not (Schniederjans et al., 2005, 10).

Thomsett (2003) suggested several guidelines for successful use of outsourcing. Therefore, it is necessary to monitor the productivity and costs; it is necessary to professionally and precisely define the scope, objectives, quality, costs, benefits and risks of outsourcing and is crucial to create a "win - win" relationship.

Literature suggests a number of reasons why companies choose outsourcing. Ferruzzi et al. (2011, 60) conducted a study in 2011 on a sample of 184 respondents of the reasons for the use of outsourcing. Research has shown that companies resort to outsourcing because of three primary reasons of the positive effects of outsourcing; because providers are highly specialized; outsourcing allows you to reduce and control operating costs and outsourcing of non-core activities allows a greater focus on core business.

From the foregoing reasons why companies choose to outsource certain processes, operations or activities could carry out the objectives of application outsourcing (Ferruzzi et al., 2011, 60):

- achievement of high quality products or services through the specialized knowledge of external partners and providers of outsourcing services;
- reducing costs: services of external partners are preferable then setting up own infrastructure, hiring own staff, resources, etc. in order to produce a particular product or provide service, or the process, operation, activity should be conducted internally;
- exclusion and turning over non-core activities to external partners allows focus on the primary or strategic activities of the company and directing all available resources to achieve excellence in the implementation of the "core" business.

Citra (2002, 25) "containment" of costs considers a key reason for outsourcing and wrote: Thanks to outsourcing, companies can avoid a large part of the costs that are not necessary and concentrate only on the essential activities, those that create greater value (which are helpful). It is likely that on the level of costs alone external service providers may in turn offer additional benefits that can be reduced to a greater experience and the potential economies of scale. Outsourcing allows companies liquidation of fixed costs that are structurally related to the internal supply of services, such as equipment and software, and allows you to minimize future investment in research and development. In addition to the above objectives which are considered to be the most common, companies also tend to increase the efficiency, flexibility, agility and transparency. The whole is thus aims to increase the competitive ability of companies. Application of outsourcing should result in improved operations, which ultimately results in increased company profits (Pavić, 2009, 44).

In addition to those major reasons why companies choose to apply outsourcing, Pavić (2009, 45) states a number of other reasons as increase flexibility, increase the value of products and services, customer satisfaction and shareholder value, improve operational performance, acquisition of innovative ideas, increasing the credibility and image of connectivity with top partners, gain access to new markets and business opportunities through business network outsourcers, accelerating expansion by using developed capacity, processes and systems of outsourcers, converting fixed costs to variable, the possibility in promotion of employees and shortening development time.

Companies that accurately planne and professionally manage outsourcing create a useful baseline for the implementation of the following benefits that outsourcing can provide. The authors Nedović Čabarkapa and Šibalić (2010,78-79) explain in detail how outsourcing produces aforementioned advantages. When focusing on core competencies, outsourcing enables management focusing on strategic issues and activities which are unburdened with regard to non-core activities. Outsourcing non-core activity indirectly increases the quality of the product. Company put all resources to the product itself or its improvement, design, etc., which will result in customer satisfaction. By reducing costs due to application of outsourcing, the authors emphasize the reduction of labor costs. For example, if the IT services are not outsourced, company must have a number of experts from various fields of information technology. By separating the IT functions outside of the company is requiring possibly one employee as a link between the company and the IT service provider. It is similar to a service call centers that company because of expensive infrastructure and employee training are increasingly separating from operations.

Production requires a large number of workers and the manufacturing companies are increasingly deciding to relocate from market with high labor costs on the market with a lower labor cost (eg. India). From the aspect of competitiveness, companies that have their secondary activities and processes outsourced can better respond to market changes because they are oriented on their core competencies and to the new market conditions and dynamic environment they must adapt less. The price of outsourcing is included in the price of the product; the product cost will be lower, because outsourcing is cheaper. By using outsourcing, companies are using the latest technology that can not be used when those activities they performed internally. In this way companies do not have to waste time and resources on improving operational activities and there is a possibility of directing resources to strategic activities. For example, instead of investing significant resources in transport equipment, companies can use external transportation services, and they could invest those resources in research and development to improve product quality. Also, a very significant advantage of outsourcing is to use the knowledge and skills of outside experts to supplement limited capacities within the company for product development. So, outsourcing provides access to intellectual property and the experience and knowledge of external experts.

In addition to the expected benefits, it is necessary to take into account the negative effects of outsourcing. Harrow (2010, 62) states most often questionable quality of external service providers; loss of insight into the business processes of external service providers; resistance to outsourcing because of "lossess" in the domestic economy; corruption of local officials in the poorer areas and security of data outside the company. The disadvantages of outsourcing actually arise from urgent, improper or inadequate surrendering part of the business to subcontractors. By using outsourcing, risk reduction in the quality of products or services can occure. So, there is a possibility that the product or service become faulty due to poor execution activities. Therefore, it is necessary and very important to establish direct communication between the company and the service providers. Client expectations and instructions regarding outsourcing services must be elaborated in detail. Outsourcing for reasons of reducing costs may have a negative effect on the actual performance of the

company. As previously stated, the company is often moving production facilities in areas with a lower cost of labor in order to reduce costs and increase productivity. It should be borne in mind when deciding on outsourcing, that is increase in the effectiveness result of exemplary tools and methods that are used in the process, rather than hiring more workers with lower labor costs (Nedović Čabarkapa and Šibalić, 2010, 81-82).

There is no doubt that outsourcing provides numerous benefits for which the companies belonging to different industries are turning in their business strategy. However, management should bear in mind that outsourcing is not without its drawbacks, which require long-term and complex preparation and ready-made solutions to potential problems.

3. Overview of previous research in outsourcing application

3.1. World practice in outsourcing application

When it comes to international practice, it can be said that the application of outsourcing is far more common in respect of Croatia. Large multinational companies are long been accepting outsourcing as a business solution, primarily as a strategic outsourcing. They have been recognizing the advantages of outsourcing and in practice gradually prevailed all disadvantages.

Harrow argues (2010, 61) that in the world today there are whole regions for which it could be said that they are the region of outsourcing. To all known example is India. Apart from India, the Asian continent, as well as frequent outsourcing destinations, according to Tholonsu (2013), are the Philippines, China, Vietnam, Malaysia, Sri Lanka and Singapore. In the area of the African continent, known outsourcing countries are: South Africa, Ghana, Morocco, Egypt and Kenya. As for America, Tholons (2013) states Chile, Argentina, Brazil, Uruguay, Brazil, Mexico, Colombia and Peru. The reason lies in the fact that the southern and southeastern Asia, South America and Africa are areas of low labor costs as these areas makes it attractive to companies that tend to reduce labor costs. This is exactly what many multinationals leads to the displacement of activities or even entire production facilities in India and the region of similar or identical characteristics. American Express Company is in 1994 moved part of their processes to India, establishing a financial center for East (Thomsett, 2003). In the US, over 90% of companies use outsourcing (Berger, 2008). Below we will give some examples of outsourcing projects of known companies.

IBM is in the context of the global service, created to offer a minimum, partial or complete takeover of the IT function from its clients. Offer applies to technical support, monitoring functions of the system, information system security management, user administration, database management, etc. (Berger, 2008). Some of the most important and certainly the most famous clients using IBM outsourcing services are: General Motors, Fiat, JP Morgan, American Express and Deutsche Bank (Brkić, 2013). The contract value of the basic service offering ranges between 100,000 and \$ 10 million for a period of 5 -10 years. According to Goransson et al. (2007, 34) H & M, famous Swedish fashion brand, does not own production facilities, the entire production is outsourced. However, H & M fully coordinated around 700 independent suppliers, mostly in Asia and Europe. Also, have numerous offices in Europe, Asia, Central America and Africa, responsible for monitoring and verifying whether products are produced according to the standards and in the right conditions. As for the textile industry, we have witnessed that today it is almost impossible to find clothes of European brands produced in Europe and it is mainly Asian origin.

When Procter & Gamble began to use outsourcing, the number of their innovation has increased by 60%. Today, almost half of the innovation of the company is resulting from outsourcing (Heric and Singh, 2010). General Electric has used outsourcing for development

of its largest integrated R & D hub in India (Ibid, 2010). Nike designs its products in America, and then has contracted production in countries such as South Korea, India, China or Indonesia. Women employed in Nike's manufacturing facilities are paid 20% below the existential minimum for an adult (\$ 2.25 a day), and there are estimates that it was "stolen" \$ 800,000 in wages in the same period in which Nike had net profit of 1.4 billion dollars (Šabarić, 2008, 45). Delta Air Lines has managed to save \$ 15 million per year because they have transferred basic services as plane tickets provision to India and to the Philippines (Ibid, 46). It is estimated that the cost of wages in Eastern Europe are about 50 - 60% below western levels. That was the reason for the relocation of data processing operations of companies such as DHL, Siemens and Lufthansa in the Czech Republic (Ibid, 49). Companies such as Dell, Apple, Microsoft, IBM, Cisco Systems and General Electric, apply the outsourcing of IT services, while India in this field is leading. Listed companies in India are opening new plants, but plants are moved from the US to India due to, again, cheap labor, but also educated and professional labor. In recent years, there is also relocation of research and development, software testing and design operations. The Indian stock market in recent years has risen by 200% and records growth thanks to billions of dollars of foreign investment triggered by outsourcing and daily flows into the Indian economy (Brkić, 2013, 26). This statement certainly best describes how outsourcing is a huge business that changes the look of modern companies and the way of doing business.

3.2. The use of outsourcing in Croatian companies

Drljača (2010, 60-61) in 2004 has conducted a research in Croatia on a sample of 91 large companies (size of more than 250 employees). The questions referred to the use of outsourcing, to the measurement and achievement of the objectives and to the association of outsourcing and implementation of set objectives. The results showed that 73% of surveyed companies used outsourcing (61% of the surveyed companies in two or more activities or processes); 70% of surveyed companies were satisfied or very satisfied with the outsourcing; 70% of the surveyed companies consider the outsourcing of an excellent management tool and 68% of companies believe that outsourcing has no or little effect on the achievement of the objectives of the companies.

Outsourcing in Croatia is used as a business strategy for many years in the real sector, and of the Croatian accession to the European Union, the public sector is faced with changes to the strategic restructuring. Croatian Government in 2013 produced a document called "Project Implementation Plan for the long-term reform of fiscal consolidation measures for the 2014-2016". The government is outsourcing, among other measures, recognizing as an appropriate measure to reduce deficit. The plan states that outsourcing from the public sector, and thus the budget, entirely planned to allocate services that do not constitute the basis of the activity of the institutions in which they are provided. The goal is to extract the "non-core" activities like cleaning services area, laundry service, food preparation and beverage, maintenance and repairs while during the process to consider the inclusion of security services and transport services of passengers and goods, all in order to remove from the state budget all items and all expenses related to the cost of personnel, material and other costs of those services. Also, the Government points out that in addition to greater efficiency and quality will achieve savings as the difference between the current cost of the current irrational system and costs (expenses) for the payment of services according to the actual demand for the service user. In the Plan Government has lists a number of reasons for the application of outsourcing, especially in the field of education and health sectors: reduced costs, shorter time span, reduced the need for working space, reducing the cost of employees, continuous investment in the latest technology, contribution to greater economic activity in the sectors covered by outsourcing,

and so on. It is important to note that the stated reasons for outsourcing attributed to reduced costs (savings) as the primary reason.

When we talk about the real sector in Croatia, the results of research from 2009 (Pavić, 2009, 51-52), conducted on a sample of 32 large Croatian companies, shows that Croatian companies usually allocate activities like transport and distribution (60.87%), information technology (52.17%), production and maintenance of facilities (both activities 26.09%), marketing activities (21.74%), security services (17.39%), storage and legal affairs (both activity 13.04%), sales, procurement, accounting and administrative activities (8.70%), human resources, technical documentation - drawings, aftersales, canteen (4.35%). Again, research shows that the most common motive for outsourcing in Croatian companies is reduction and cost control (60.87%). However, even 50% of the surveyed companies stated that the most common adverse effects of outsourcing, among other things, are increased costs occur because of outsourced activities and the emergence of unforeseen costs (30%). Berger (2008) states the following facts that favor the development of outsourcing in Croatia: companies are increasingly aware of the fact that it is necessary to outsource activities that are not helping in reducing costs and increase profitability and they do not have a best practice in the "non-core" activities. According to Berger (2008) as barriers to outsourcing in Croatia state that a major international "players" who specialize in the provision of services in certain areas are not interested in the Croatian market, there are bureaucratic obstacles which prevent the relocation of activities in Croatia, the immaturity of the domestic market for individual providers of outsourcing services, labor and civil service unions can be a great obstacle to outsourcing activities, most contracts are concluded through public procurement based on the lowest price as the main criterion and the company with dumping prices, but not the abilities pose a threat to professional outsourcing companies, the issue of data protection, especially in the area of IT outsourcing activities.

Šabarić (2008, 82-84) states that the Croatian banking sector is leading when it comes to outsourcing. They recognized outsourcing as a solution for IT services, cleaning services and maintenance of premises and services to protect property and people. The survey from 2008, which refers to outsourcing in Croatian banks, shows that over 93% of Croatian banks when relying on outsourcing wants to lower cost, and 57% of the surveyed banks stated that the expected benefits of application outsourcing is in the future reduction of costs (Šabarić, 2008, 84).

Regardless on the number of obstacles, the domestic market increased when it comes to the number of specialized providers of outsourcing services. The demand for outsourcing services is recorded in the areas of accounting services, IT services, call centers, catering services, cleaning services and maintenance space.

4. Empirical research results

In this part of the paper authors presents the results of the empirical research (Krnjić, 2014) about outsourcing in Croatian companies. The research will show whether the awareness and practice of outsourcing in Croatian companies has changed compared to the previous years and are Croatian companies responding to dynamic market requirements by outsourcing in order to reduce costs. The survey was conducted among companies in the Republic of Croatia. For the purpose of interrogation the questionnaire was made that was sent to 70 companies by e-mail. Companies were selected from the Register of business subjects in Croatian commercial Chamber with usage of simple random selection procedure and it was necessary to select companies of all sizes in order to have representative sample. And indeed, from 70 contacted Croatian companies, 29 of them decided to take part in the survey and fill it. This gave a response rate of 41,43%. Of 29 companies which answered on questionnaire,

16 of them are small companies, 8 medium and 5 large companies. According to the Accounting Act (Accounting Act, 2007) in Croatia companies are recognized regarding their size as small, medium and large companies. The companies are defined on the last day of the fiscal year preceding the fiscal year for which the financial statements are prepared according to the following three criteria: total assets value; the income value; and average number of employees during the financial year. So the small companies are those which do not exceed two of the following criteria: total assets value of HRK 32.5 million, the income of HRK 65 million, average number of 50 employees during the financial year. On the other hand, the medium companies are those which do not exceed two of the following criteria: total assets value of HRK 130 million, the income of HRK 260 million, average number of 250 employees during the financial year. Large companies are those which fulfilled two requirements for medium-sized companies.

The first part of the questionnaire examined the size of the company according to the Accounting Act, type of activity which surveyed companies perform and the area of their business. The second part of the questionnaire was conducted with the aim of gaining insight into the familiarity of respondents with outsourcing: does management knows about outsourcing, opinion of respondents on outsourcing and similar. The third part of the questionnaire is designed in a way that enables specific information on the application of outsourcing: whether companies used outsourcing and still use, do they consider outsourcing as suitable option for cost management, use outsourcing to reduce costs, with which the effects of outsourcing have they meet, etc. The information gathered through the questionnaire enable us to establish cause - effect relationship between the use of outsourcing in Croatian companies and reducing costs. The questionnaire was designed in a way that makes it simple to use, and the questions are short and understandable. After collecting responses from the company, analysis of results has been done in the Statistical Package for Social Sciences (SPSS).

The largest number of surveyed companies belongs to the sector of trade, transport and services, 22 companies out of 29 respondents. 7 companies belong to the sector of industry, energy and construction. 14 out of the 29 surveyed companies operate around the world, while only 10 of the 29 surveyed companies operate exclusively on Croatian territory.

Table 2. shows the familiarity of management with the concept of outsourcing. Answers are ranked from 1 to 5. Rank 1 - not familiar, and rank 5 - totally familiar. It is apparent that only five out of the 29 surveyed companies is fully familiar with the concept of outsourcing, which relatively presents only 17.24%. However, if we add to that number 19 companies that are mostly familiar with the concept of outsourcing (65.52%), we get almost 83% of managers who are familiar with the concept. That is very high and satisfactory rate, and shows that the awareness on outsourcing in Croatia is developed as an important precondition for the development of outsourcing practices in Croatian companies.

Table 2 *Familiarity of management with the concept of outsourcing*

	I am not familiar	Mostly I am not familiar	I know something about	I am mostly familiar	I am fully familiar
Number of companies	-	-	5	19	5

Source: authors

Table 3 shows agreement and disagreement of the surveyed companies with the claim that outsourcing is an efficient way of doing business. Comments are ranked from 1 to 5. Rank 1

means "strongly disagree" and rank 5 means "strongly agree". The table shows that only 5 of the 29 (17.24%) of Croatian companies outsourcing considered fully efficient way of doing business, while 15 of 29 (51.72%) companies outsourcing generally considered as an effective way of doing business. Summed, even 68.96%, or 20 of the 29 managers, consider outsourcing as an effective way of doing business.

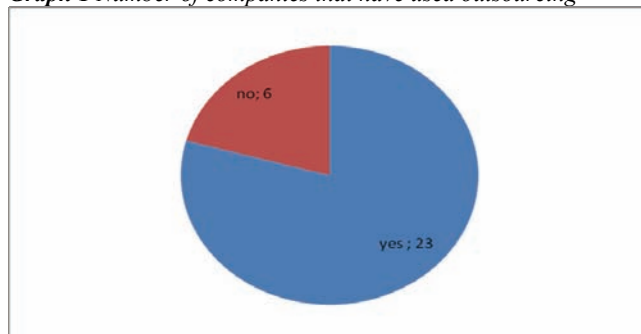
Table 3 *Wheter outsourcing is considered to be an effective way of doing business*

	I strongly disagree	Mostly disagree	Do not disagree or agree	Mostly agree	I strongly agree
Number of companies	2	2	5	15	5

Source: authors

Primarily it was necessary to find out if awareness of outsourcing in Croatia developed and whether the company is prone to outsourcing. Research has shown that a very high percentage of surveyed companies applied outsourcing and that it still applies it, and that certain activities, processes or functions at the time of the survey were entrusted to external partners. Even 23 of 29 (79.3%) of the surveyed companies had been applying outsourcing, and 7 (20.7%) of the surveyed companies had never applied outsourcing.

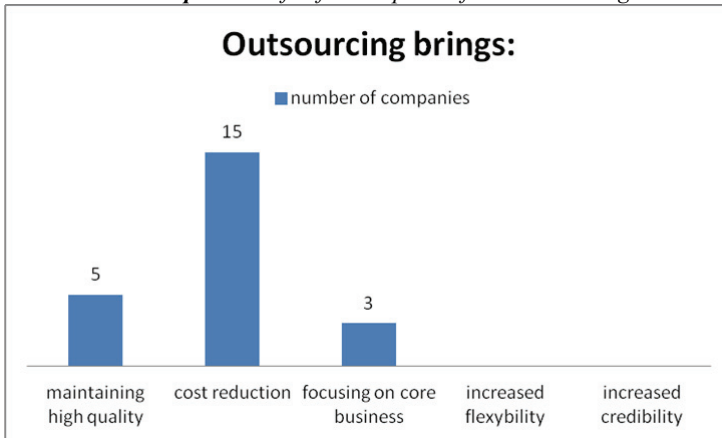
Graph 1 *Number of companies that have used outsourcing*



Source: authors

Furthermore, research has shown that companies that are applying outsourcing are continuing to use outsourcing. Thus, 79.3% of the surveyed companies that had previously expressed that are outsourcing, to a question about the current outsourcing responded positively. The result of 79% of companies that have used or still use outsourcing services is very high and satisfactory and shows that outsourcing is accepted as a business solution in the Republic of Croatia and as a business model has a future in Croatian companies.

Graph 2 Benefits for companies from outsourcing



Source: authors

From Graph 2 it is evident that Croatian companies recognize benefits from outsourcing. The largest number of companies answered that benefits of outsourcing are visible in reduction of cost, then in maintaining high quality and then in the ability to focus on their core business. The above shows the responses to the questions related to outsourcing in general. Moreover, we will do statistical testing of the specific questions on outsourcing in order to draw a relevant conclusion.

Testing the hypothesis cause - effect relationship will be tested in application of outsourcing and cost reduction in company. More specifically, does really outsourcing reduces costs and thus increase the competitiveness of companies in the market. In order to test assumption two hypotheses were formed and we have used one-tail z test about a population proportion. SPSS statistical software calculated the values on which it was conducted testing. Because of the small sample the t-test was used.

Testing the hypothesis H_1 (H_1 : Companies that operate in the Croatian market are likely to use outsourcing) will examine whether companies used outsourcing as a strategic option and whether outsourcing has been accepted as a business solution in Croatia. The respondents were asked asked: "Have you applied outsourcing in your company?". Therefore, it is assumed that more than 60% of the surveyed companies has used outsourcing. Thus the test hypotheses are: $H_0... p \leq 0.60$, $H_1... p > 0.60$. Conducted statistical test confirmed that assumption. In other words we reject the null hypothesis at significance level of 5% (test statistic = 2.1227, p-value = 0.0169). Consequently, at significance level of 5% we reject the assumption that 60% and less companies operating on the Croatian market apply outsourcing. That is, one can accept the assumption that more than 60% of companies operating on the Croatian market applies outsourcing. Based on the test results, it is evident that companies use outsourcing as a strategic option and that outsourcing in practice has been accepted as a solution. The results show that outsourcing as a business model has a future in Croatian companies. Therefore, we have confirmed our first hypothesis.

Testing the hypothesis H_2 (H_2 : Outsourcing reduces costs in the amount of 5 to 10%) will be examined in which percentage outsourcing results in the reduction of costs in relation to the costs that would arise using the insourcing. Respondents were asked: "According to past experience, in what percentage, according to the assessment, the outsourcing has cut costs?".

It is assumed that more than 50% of companies will reduce costs in the amount of 5-10% by using outsourcing. Thus the hypothesis test is as follows $H_0 \dots p \leq 0.5$, $H_1 \dots p > 0.5$

Conducted statistical test confirmed that assumption. In other words we reject the null hypothesis at significance level of 5% (test statistic = 2.4004, p-value = 0.0082). At the significance level of 5% we can reject the assumption that 50% or less of the company realized savings in the amount of 5 to 10% by outsourcing. That is, one can accept the assumption that more than 50% of companies achieved savings in the amount of 5 to 10% by outsourcing. On that way, we also confirmed our second hypothesis in the paper.

5. Conclusion

Frequent changes in the business environment have forced companies to continuously find new ways to maintain competitive abilities and possibilities of improving business. At the beginning of the paper asked question was whether outsourcing is possible response to the growing pressure in order to reduce operating costs. By using outsourcing company directs all available resources on key activities, and supporting activities are outsourced to specialized partners that such activities performed better and cheaper.

Lower costs and better performance of non-core activities enables companies to improve business by focusing on key activities. To make the entire outsourcing successful, it is necessary to thoroughly plan each step carefully and choose partners. But most important is to properly identify key actions that companies should not be outsourced because they create value and form the foundation of their business.

Numerous studies conducted on the topic of outsourcing show that companies which outsource non – core activities reduce operating costs and increase the quality of products or services. Therefore, in this paper it was assumed that Croatian companies apply outsourcing and meet with the positive effects of outsourcing in the form of reduced costs.

The results show that the majority of Croatian companies' apply outsourcing and managers of Croatian companies outsourcing consider as an effective means business. Also, the results showed that companies that are applying outsourcing still use the services of external partners, which may point to the satisfaction of Croatian companies with the effects of outsourcing outcomes.

Companies are applying outsourcing to reduce operating costs (cost reduction) and cite cost reduction as their primary reason on the involvement of outsourcers. Also, the management of the surveyed companies consider outsourcing as an excellent way to manage costs. The research results show that outsourcing reduces operating costs in the amount of 5 to 10%, which is by no means negligible percentage. Most of the surveyed companies consider that outsourcing has a positive effect on the competitiveness by reducing price of the product or service as a result of cost reductions resulting from the application of outsourcing. This result is very important for the development of outsourcing in the Republic of Croatia.

Based on the research concluded that the size of the company significantly influence the decision on outsourcing, and that small businesses often outsource, and the reason is lack of financial and human resources. Small businesses are usually not financially powerful enough, and they lack human resources for internal performance of activities. Outsourcing enables to small businesses access to advanced technology, knowledge, innovation, etc. That enables them to compete on an equal footing and fight for their share of the market.

The research results show that the awareness about outsourcing is developed, that the management of Croatian companies is familiar with the concept of outsourcing and that realizes the advantages and disadvantages of the concept. The above is a very important prerequisite for the further development of the concept in Croatia. Research shows that domestic companies adopt and introduce new ways of doing business. Among companies of

developed countries outsourcing is present for several decades and Croatian companies are adapting to global trends.

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