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**Property miscellanea**

Размышления на тему собственности



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## The Ownership Concept in Modern Management – How to Become More Efficient (Outsourcing Viewpoint)

### Introduction

Modern management is an area of organizational operations which is the subject of more and more attention nowadays. It is simply due to the increasing need to search for effective competitive advantage. This is true not only for business oriented organizations but also for those involved in public administration. In the first case, the need to be more competitive results from globalization and from domination of the so-called customer market. Globalization makes it easy to move operations between boundaries so there are no more safe areas to hide from competition anywhere. The customer market makes it easy for customers to choose, but difficult for producers to sell – so competition increases.

The public sector has been undergoing many changes in recent years<sup>1</sup>. This is due to the increasing will to participate in local management by local companies and inhabitants as well. Moreover, the competition between local offices to attract business is a fact which is hard to deny. Thus, the needs of target customers must be heard and the management must make offices flexible enough to adjust to changeable needs<sup>2</sup>.

In both of the above cases the management system seems very attractive as far as gaining a competitive advantage is concerned. One reason for this is the fact that it has been rather neglected in recent years and thus, being the first to improve the area may result

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1 M. Kulesza, Samorząd terytorialny w Rzeczypospolitej Polskiej – stan obecny i perspektywy rozwoju [online]. Biblioteka tekstów o samorządzie terytorialnym i reformie administracji publicznej [access: 2013-11-10]. Available at: <http://sztuki.awardspace.info/samorzad/kulesza2.htm/>.

2 M.E. Porter, *Competitive Advantage*, The Free Press, New York 1985, p. 87.

in some kind of advantage: flexibility, costs, time of operations, quality of management and the product itself.

In a management system there are some aspects that have to be taken into consideration in order to achieve possible improvements. The main aim of the article is to explain what the concept of modern management is and what the role of ownership is in becoming more competitive.

## 1. From administration to management

There are various definitions of management in the literature, but one will be presented here that shows the evolution from simply administering the organization to efficiently managing it. The general idea is presented in figure 1.

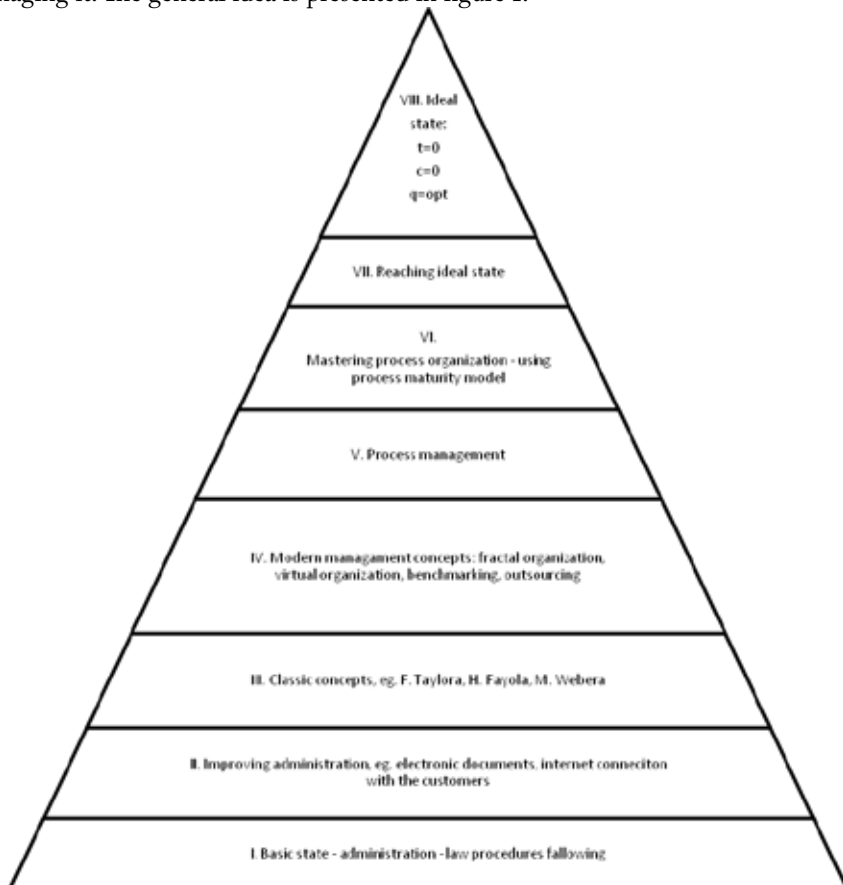


Figure 1: Management evolution concept

Source: Author's concept

As figure 1 shows, the basic level is number I and with each level upwards the management's professionalism increases<sup>3</sup>.

Level I is characteristic for organizations which base their operations on simply following the rules of legal regulations. They assume that there is no need to become more efficient in the area of management or they do not have the awareness that they should improve in this area. Nowadays, the last situation is not rare, which indicates the need to develop managers' knowledge in the economy.

Level II is very close to the first one. The only difference is that administration becomes smoother by using electronic programs, for example electronic documents or making it possible for customers to get and send documents through a web site etc. The advantage of this level is the fact that managers start to feel the need to improve though they still probably lack the knowledge to go much further in their actions<sup>4</sup>.

The next level is characteristic of the classical approach to administration and management. It is mostly due to academic programs which provide students with knowledge according to rather dated programs, seeing Taylor and Fayol's concepts as the only ones applicable to management. It must be said that some of the thoughts and rules provided by the classics are still true, but some of them do not stand the test of time. Moreover, there are many more modern concepts which match modern businesses better and are the key to effective management.

Level IV can be called modern management in its simplest form. It means that the managers have the knowledge and the will to implement modern management concepts in their strategic, tactical and daily operations. They build a whole system and match it accordingly with human resource management. Among the most important concepts are: fractal organization, virtual organization, net organization, system organization, learning organization, lean management, outsourcing and benchmarking. Each of them is complex and usually requires the employment of another one as most of them are complementary. To construct such a system a lot of knowledge and experience is needed.

The next level is even more difficult to reach because it is connected with changing the whole organizational structure. To achieve this, it is usually necessary to first introduce the process structure at the same time as the traditional one, and then remove traditional structure and operate only with the process one. To implement process management it is necessary for the managers to know the concept well, understand it and be able to conduct dramatic changes in the organization. Such changes require complex activities for all the different concepts and, first of all, human resource adaptation to a new way of thinking and operating.

Once the process structure is introduced we must go to level VI which is about constantly improving processes within the organization. Here, the process organization

3 Z. Martyniak, *Metody organizacji i zarządzania*, Kraków 1999, p. 23–25.

4 M. Miłek, *Wybrane problemy administracji publicznej*, Sulechów 2004, p. 9.

must become mature, which means it must go through the levels of maturity listed in the maturity model. Only then will the organization become flexible enough to move closer and closer to the ideal state, which brings us to the next level and then to the last one.

The ideal state in the model is defined by three characteristics: time of operations is zero, cost of operations is zero and the quality is optimum. Of course, the ideal state will never be reached but it is still possible to keep the characteristics in mind as a kind of target when it comes to changing the organization.

## 2. Outsourcing in process management. The exreengineering concept

Process structures are basically alternatives to classical ones. Traditional structures divide the organization according to functions, e.g. marketing, finance etc. Process structures are different. They see the processes within the organization according to figure 2.

Figure 2: Process within the organization:

income → operation 1 (worker or team 1) → operation 2 (w/t 2) → outcome

Source: Author's concept

The process begins with the resources which may be material things like money, machines, half-finished products etc., and non-material like knowledge, skills, information and so on. They are then handled by worker or team 1 who is responsible for operation 1. The result of this operation is then submitted to worker/team 2 responsible for operation 2 and then finally the outcome – the product or service appears.

What is very important in the process is the relationship between the workers. They are in a deliverer/customer relationship which means that each worker must recognize the needs of the following one and then, accordingly, match the mini-product to these needs. This is also called marketing activities inside the process. In cases where the following worker is constantly dissatisfied with the work he receives from his deliverer, there is a possibility to remove the delivering worker and replace him with someone from outside of the company – thus we may say that a special kind of outsourcing appears. This possibility makes the company more flexible in process formation and also

adds a kind of pressure to the workers, who feel they must adjust to the needs<sup>5</sup>. If not, they are exchanged and simply removed as a source of costs for the company.

At this point it should be mentioned that for such a mechanism to work, a special kind of worker is necessary. They must be able to communicate very well and to exchange useful information. There is also a lot of freedom of action, which requires workers who are able to organize themselves without ongoing help from managers. On the other hand, the manager must provide workers with the freedom. So we may say that the managers must empower their workers as much as is possible.

When a company is constructing the process it is not necessary to limit the possible operations and workers only to the resources the company has. It is possible to somehow divide the process between different organizations. For example, a few operations may be in one company and the next few in another. Thus, it is possible to handle the processes which one company would not be able to conduct. Then, of course, the ownership of the process is shared, but the process still exists. Such a configuration is called *exreengineering*<sup>6</sup>.

### 3. Ownership outsourcing in business

The decision whether the organization should operate under its own ownership is taken in all kinds of organizational structures. In the traditional approach, where the functions are the main criteria for dividing the structure, it is quite common to use the services of other companies. It means that the organization decides to resign from its own ownership in the area. The main drive to do that is to build competitive advantage, usually through cost savings or through specialization. Outsourcing companies are usually highly specialized in the area they operate in and so they are more competitive. It is simply cheaper and more effective to use them than to finance such activities inside the organization. On the other hand, the company that outsourced the operations may focus on its own main field of operation and thus may enlarge the profits coming from outsourcing<sup>7</sup>.

The main areas to outsource in the traditional approach are financial management, human resource management, IT services or marketing support. It is also possible to outsource production operations or all the production, as, for example, Nike does. Financial outsourcing means that the company does not employ accountants and so it has no need to pay them, control them and teach them. It is a very common situation that the

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5 P. Grajewski, *Organizacja procesowa. Projektowanie i konfiguracja*, Warszawa 2007, p. 79–88.

6 W. Dziemianowicz, M. Mackiewicz, E. Malinowska, W. Misiąg, M. Tomalak, *Wspieranie przedsiębiorczości przez samorząd terytorialny*, Warszawa 2000, p. 17–19.

7 M. Trocki, *Outsourcing. Metoda restrukturyzacji działalności gospodarczej*, Warszawa 2001, p. 13.

external company not only manages the invoices and so on but may also have the direct possibility to operate on the company accounts. It is, of course, possible using computer systems and the internet.

As for human resource management, the most common approach is to let the external company search for new employees, recruit them and then very often plan and conduct the training system. Usually, the advantages of such an approach are many – from cost savings to time and organizational effort minimalizing. Such companies must cooperate very closely with each other because it is necessary to know the specific conditions and requirements very well. This is crucial to matching the worker exactly to the needs the company has.

A typical area for ownership outsourcing is the IT sector, in which high class specialists are usually employed. They not only have the knowledge, skills and experience but also the equipment, which is a huge investment. Taking the above into consideration, it is often much cheaper and more effective to employ an external company to deliver IT services, rather than organize the new IT section within the organization<sup>8</sup>.

What may be quite surprising is the fact that whole production systems are often outsourced. In such cases, the company usually delivers only the designs and the technical requirements for the products to be made and the external company handles all the production processes. Control here is an important issue because of quality requirements. Moreover, the way the products are made, for example by using cheap labour in China, may be a problem in home markets. Customers may not want to buy products made in such a way<sup>9</sup>.

It is sometimes necessary to outsource operations because the market is completely unknown to the company. This is the case when the company wants to enter new markets, new cultures or geographical destinations. Then, complex marketing research is needed and it is often best to outsource the research process to a company which comes from the region and knows and understands the clients' habits well. Although the services and complex research are usually very costly, they minimize the risk of failing in the new market. Thus, it is usually worth spending even large amounts of money on outsourcing because potential failures may result in huge losses.

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8 S. Cyfert, K. Krzakiewicz, *Nauka o organizacj*, Poznań 2009, p. 160.

9 GAP company faced such problems in their home US market.



#### **4. The pros and cons of resigning from ownership**

As the nature of outsourcing has been explained above, we should take a closer look at the potential profits which it may bring and also at some threats which are connected with losing ownership of operations.

The main advantage is usually connected with cost cutting. When the company uses the services of a smaller and more specialized company it does not have to keep the production capabilities itself, which may result in considerable savings. Very often it is not necessary to keep the capabilities all the time because the service which it outsourced may be needed only in some periods of time. Then fixed costs may be minimalized, which makes outsourcing so attractive.

Another advantage is flexibility. In the era of fierce competition, flexibility seems to be one of the main requirements to keep the customer satisfied. One way to become more flexible is to find a way to build or rebuild an organizational structure quickly and cheaply<sup>10</sup>. This means that when it is necessary to change operations, outsourcing seems one of the best ways to do so.

When the company turns to outsourcing it usually cooperates with smaller and more specialized firms. Specialization means that the service which is outsourced will probably be more effective than if it were under the ownership of the company. This way it is possible to get a better product and save money at the same time. Moreover, during the cooperation with the highly specialized company it is possible to learn a lot. A new perspective may be gained and this makes it important from the strategic point of view.

Managing a business nowadays is very often connected with deciding which problems should be solved personally and which may be delegated outside. Management effort reduction is also one of the main drives which brings companies to outsourcing. Once the service is outsourced the managers may focus on their own area, which may make their work more effective. Of course, they still have to monitor the cooperation with the external company but when the cooperation moves forward and the trust appears, the mechanism becomes automatic – it does not require day to day care.

In building a competitive advantage it is necessary to create so called relative capital. It is the relationships (formal or informal) which the company has with others which make the functioning as a whole become easier. This relationship is often based on trust and shared experience and so with time it may result in easier cooperation and in new business contacts. The network of possible cooperators and clients grows and thus new business opportunities appear.

On the other hand, there are some threats connected with outsourcing. One of them is the control issue. When an external company becomes responsible for our opera-

<sup>10</sup> G. Bartoszewicz, *Projektowanie wdrożenia modułów logistycznych zintegrowanych systemów klasy ERP: podejście procesowe*, Akademia Ekonomiczna Poznań 2007, p. 295–299.

tions it is still important to keep the quality or time arrangements as if it were our own company. However, it is not our own company and management control inside another company may be difficult. It is necessary to communicate well. Another way is to use computer systems more effectively and the internet, of course. Such control also has another difficulty – in different companies it may happen that different management styles are used and managers and workers may simply have problems with cooperation and communication. Corporate cultures may also differ and culture specific language may be used which makes things even more difficult.

When companies are highly specialized they may also lack the will or knowledge to understand the operations of other specialized companies. This is one of the disadvantages of specialization in general<sup>11</sup>. Specialized workers assume that their point of view is the only one and thus they are often not flexible enough to match the requirements of cooperators. And then, after the cooperation starts, there may be problems with understanding each other's point of view. This problem may be solved with time – mutual experience may lead to cooperation mechanisms which are effective.

When searching for cooperators within the outsourcing mode it may be necessary to reach companies which are geographically dispersed. In theory, such virtual organizations should be very effective but in practice geographical distance also means that there are many differences and obstacles to be overcome. Language differences; norms and behavioral standards; as well as legal and political backgrounds may all add up to making the problems with outsourcing considerable. And again, as usual, the length of time of cooperation and mutual experience helps here and after some time the obstacles may be overcome.

## 5. Conclusions

The ownership issue is quite common in contemporary management and it may be a very important source of competitive advantage. There are many different ways to use the ownership change as a way to improve business operations.

One of them is the outsourcing of processes or their particular operations. It is then called *extreengineering*. Such process configuration may result in cost savings and greater flexibility of production or other internal processes. In such cases communication and cooperation must be very close and intense, which additionally helps to create relative capital.

When a company does not employ a process structure it may still use outsourcing in a traditional way which means selecting specific functions to be given to the external

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11 M. Romanowska, M. Trocki, *Podejście procesowe w zarządzaniu*, Warszawa 2004, p. 65.

company. At the same time, the organization may get rid of the function, which results in savings of money and managers' time. Typical functions which are outsourced are finance, marketing, production, human resources and sales.

There are many advantages and also threats connected with outsourcing. The main advantage is saving costs and time but also learning in the chain of companies and building relative capital. The threats are communication problems and possible control difficulties. However, it must be said that the opportunities usually outnumber the threats.

To use outsourcing and to decide on the ownership of operations or whole functions, it is necessary to have a real management system in the company, not only an administration mechanism. It is necessary to gain the knowledge and the will to use modern management concepts. In this way, companies may achieve a competitive advantage and survive in turbulent markets.

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SUMMARY

**The ownership concept in modern management – how to become more efficient (Outsourcing Viewpoint)**

The aim of the study is to present the ownership concept in modern management in the scope of the outsourcing viewpoint. The author analyses the reengineering concept of the outsourcing in management – the process configuration that may result in cost savings and greater flexibility of production or other internal processes.

KEYWORDS: ownership concept, modern management, outsourcing

