

Outsourcing Performance Evaluation and Development of Strategic Objectives for Enhancing the Competitiveness of Entrepreneurial Entities

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Abstract. The priority issues in evaluating the effectiveness of outsourcing and elaborating strategic approaches to increase the competitiveness of entrepreneurial entities in the context of the development and complexity of the economic relationship of various types of enterprises are studied. We carried out a structural analysis of the main stages of determining an outsourcing service provider, criteria for economic evaluation of the profitability of an outsourcing service provider and calculation of the economic effect of outsourcing practice. According to the model of B.A. Anikin, I.L. Rudaya, the key trends in the development of outsourcing of management functions are determined and a set of methods for analyzing the effective evaluation of outsourcing is delineated, allowing the company to determine the effectiveness of implementation of this business process management tool. Outsourcing is contemplated as a business model that involves the conclusion of long-term, periodically possible short-term contracts, and during the process the economy can manage to experience several cycles. According to the cycles and milestones of the economic activity of the enterprise, the customer's business priorities alter, which can be suitable for the outsourcing concept in terms of increasing the business value.

Keywords: outsourcing, entrepreneurial entities, business processes, models, economic efficiency, evaluation methods, outsourcing services, outsourcing implementations.

Introduction. Outsourcing originated in 1930s in the USA has become widespread throughout the world these days. Not only large companies such as IKEA, Apple, Ford, but also smaller companies apply this practice, as it allows them to increase their competitiveness by reducing costs and focusing on the main activities and introducing innovations.

The relevance of the research topic is substantiated by the fact that in the context of the unbalanced development of Kazakhstani business, it is crucial to conduct theoretical investigation and develop practical recommendations for applying outsourcing in existing enterprises. On the one hand, it increase their efficiency and competitiveness, and, on the other hand, can contribute to the development of outsourcing services market.

Strategically, the use of outsourcing allows the company to concentrate on the core business without diverting resources and optimizing the organization's activities by focusing resources on the main subject and transferring non-core functions and corporate roles to external specialized companies.

In this regard, the purpose of the scientific article

is to examine the issues of evaluating the effectiveness of outsourcing and elaborate strategic approaches for enhancing the competitiveness of entrepreneurial entities in the context of market relations development in Kazakhstan, adopting the experience of advanced countries where this process is effective.

Literature Review. Nevertheless, in the conditions of market relations, the use of outsourcing by entrepreneurial entities is characterized by plenty challenges due to the absence of a single universal approach to the technology of managerial decision-making on the practice of outsourcing by various entrepreneurial entities [1].

The overview of theoretical developments has revealed that none of the existing theories can claim to comprehensively formulate and justify the concept of outsourcing. At the same time, together they are able to explain the peculiarities of the development of outsourcing in the economy and provide a theoretical rationale for concept of outsourcing in practice [2].

Considering the opportunities of other organizations' resources usage in order to develop own production, the company's management meticulously

addresses to the resolution of the problem «to produce or to purchase?» According to specific research studies, the following factors may influence the decision to produce rather than purchase [3, p. 116]:

- the volume of products is deficient, the lack of concernment of suppliers in its sale, as well as the quality requirements are inconceivable, which requires special processing methods that suppliers do not have;

- guaranteed supply or equilibrium of supply and demand, preservation of technological secrets during reducing costs and expenses;

- obtaining advantages and the absence of downtime of equipment and workers, ensuring the constant functioning of the corporation's own production facilities, while suppliers are inconvenienced by the instability of demand, as well as the lack of dependence on a single source of supply;

- competitiveness issues, political, social or environmental concerns may force a company to produce products, even if it is preferable for the company to purchase them.

When a competitor acquires ownership of a key source of raw material supply, this can trigger adequate actions. Several states insist that a certain amount of raw materials should be processed within national borders. A company located in an area with a high unemployment rate may decide to manufacture specific products in order to alleviate the employment situation. Basically, they decide to process by-products in order not to pollute the environment. In each of the above cases, the cost may not be the key factor.

The strategic significance of outsourcing the business process is determined by the following conditions [4]: the process is not included in the scope of the companies` core competencies; the quality requirements are not so high; a high level of standardization; small interdependence of functions; the

availability of IT system compatibility; an opportunity to improve the market position by transferring the business process to outsourcing. The resolution on the feasibility of outsourcing shall be adopted after assessing the significance of these factors.

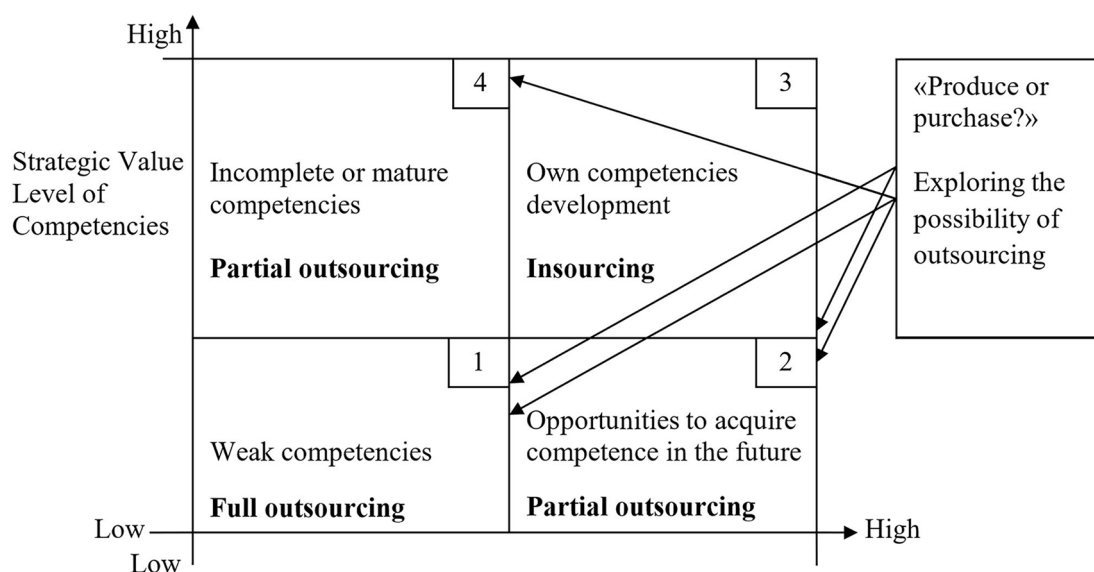
The analysis of the business process is carried out according to the primary criteria for taking an ultimate decision on outsourcing. There are four types of main criteria: the criterion of quality of performance, the criterion of cost-based pattern, the criterion of time and the criterion of the execution right.

According to the model of B.A. Anikin and I.L. Rudaya, the matrix «the level of strategic importance of competencies is the quality of competencies» is used to identify business processes for outsourcing (Figure) [3, p. 113].

The first group consist of processes that must be immediately transferred to the side. The second group includes processes that have competitive advantages, but are not of great importance for the main activity. The third group describes operations that allow to take unique advantages over competitors. The fourth group consists of approaches that have incomplete competencies. Nevertheless, this disadvantage may be compensated by using partial outsourcing. Economic efficiency of outsourcing for groups 1, 2 and 4 shall be analyzed.

Materials and methods of research. Previous studies by the authors consider the matrix model of B.A. Anikin and I.L. Rudaya in order to identify business processes for outsourcing, namely, «the level of strategic significance of competencies is the quality of competencies». According to the main criteria for evaluating the effectiveness of outsourcing, it enables sustainable development of enterprises.

The bottom line determining the success of outsourcing is the right choice of an outsourcing service provider. After all, outsourcing is not merely a type of partnership, but a company management strategy



that involves the implementation of a certain restructuring of internal corporate processes and external relations of the company as well. Currently, there is no clear description of the method of choosing an outsourcer in Kazakhstan.

The primary aspect of the methodological approach is that the decision «to purchase, not to produce» can be made for the following reasons:

- the aspiration to focus on core activities and the obligatoriness to improve the quality of products or services, and the high need to reduce costs as well;

- enterprises lack the administrative or technical experience to produce the necessary products or services, as well as excessive production can force enterprises to enter the market and even compete with its former suppliers. This can affect relations with other suppliers or customers;

- suppliers have an excellent reputation that encourages consumers to purchase their components kit. As a rule, such utilities are parts with a trademark that make the final product more attractive to the consumer.

- the need to maintain the long-term technological and economic viability of non-core activities and the combination of general pressure and inertia of management contributes to the preservation of the existing situation;

- it is challenging to determine the true long-term costs associated with a production decision. Experience has proven that it is not hard to calculate in such a way as to justify the initial decision and its implementation, when management is definitely committed to a particular supply policy;

- there is a lot of flexibility in choosing feasible sources and substitute products. In addition, companies should also figure out where their value-added activities can be a part of the core business and where they claim to separate themselves from others. In the last decade, there has been a tendency to revise production or purchase decisions in view of the competition that exists today. This trend, along with significant market opportunities, has prompted majorities to acquire or pursue an external source of supply.

Results and discussion. Discussing the pros and cons of outsource implementation into the company's practice, it is imperative to adhere such a factor as the successes achieved by competitors using this tool and relevant incentives to apply or abandon the out-

sourcing. The opinion of the company's top management also plays a significant role here, whether the management sees real prospects and enhancements that the use of outsourcing brings in each case, the decision to use outsourcing is always associated with a certain risk, and the reality of obtaining immediate benefits in the form of cost reduction raises considerable doubts [5].

Contingent to the practical experience of companies that practice outsourcing in their activities, there are five main stages of selecting an outsourcing services supplier (Table 1).

The decision-making procedure on the use of outsourcing, designed by V.G. Shadrin consists of five stages: establishing outsourcing goals; definition and analysis of business processes performed at the enterprise; designation of possible executors of business processes; substantiation and decision-making on the appliance of outsourcing; drawing up an outsourcing project management plan [6].

At initial stage, the organization-customer of outsourcing services establish the purpose of outsourcing. Goals can be both quantitative and qualitative. The quantitative goals of using outsourcing include reducing operating costs, increasing profitability and cost-effectiveness, creating a variable cost structure, increasing output, growth of market share, etc. The qualitative goals of using outsourcing include access to equipment and technologies, deepening specialization, achieving competitive advantages, etc.

At the second stage, the enterprise-customer of outsourcing services are compelled to comprehensively assess its capabilities and ascertain hidden development resources. If it is possible to promptly master a new product or service and achieve a price and quality acceptable to the market, then outsourcing may not only be ineffective, but also unnecessary, since it is associated with a certain risk. At this stage, it is also determined which areas of activity are the main, strategically important for the enterprise, and business processes that can act as outsourcing objects are identified.

At the third stage, the market situation is investigated, the possibilities of suppliers and competitors are analyzed and the economic situation in a particular field of activity of the enterprise is studied. To obtain data, both marketing tools can be applied such as research, surveys, competitive intelligence, etc., and

Table 1 – The main stages of selecting an outsourcing service provider [4]

Stages of selecting an outsourcing service provider	List and types of performed activities
First	Analysis of the outsourcing services market and searching for potential outsourcers
Second	Outsourcing service provider assessment
Third	Selection of an outsourcing service provider
Fourth	Development of the contract terms for the provision of outsourcing services
Fifth	Contract performance

experts involved for quantitative and qualitative assessment of business processes. In addition to analyzing the financial statements of potential suppliers, it is necessary to assess the quality of their products or services, experience in providing services, and reputation. Besides, when determining possible performers of an outsourcing contract, enterprises should take into account the possible risks of outsourcing and then proceed to substantiate the decision to use outsourcing. The paper reviews the risks of outsourcing by large, medium and small enterprises, discern the major causes of their occurrence.

The fourth stage of the procedure for adoption of the resolution on outsourcing is the decision to use outsourcing. The key point at this stage is the attribution and evaluation of the economic efficiency of outsourcing. At this stage, a document is being developed which is an integral part of the outsourcing contract, namely the goals and objectives of outsourcing, which reflects the goals of outsourcing, business processes transferred to outsourcing, the benefits of outsourcing, terms, risks of cooperation. A decision shall be taken according to the results of the analysis and comparison of costs and benefits.

At the fifth stage, the project implementation plan and its managers are approved, and a mechanism for monitoring and controlling the implementation of the outsourcing contract is developed. One of the main milestones of the transition to outsourcing is the signing of a service level agreement, which is the link between the technical conditions set out in the contract and the provision of services, which creates a legitimate basis for evaluating the effectiveness of the service provider. This document delineates the quality of services provided by the outsourcer in each particular case.

For effective assessment of an outsourcing service provider, it is required to highlight certain criteria that make it possible to make the right choice. Table 2

presents the criteria for evaluating the supplier.

The method of absolute or comparative efficiency can be applied during the calculation of the economic effect of outsourcing usage.

When calculating the economic efficiency of outsourcing, the condition of «equality of the parties effect» should be ensured, providing for the followings:

- accounting for all direct collateral profits and losses of all participants in outsourcing processes, and qualitative alterations in related areas of activity;
- analysis of costs and results in different time periods and bringing them to a single point of reference of time;
- assessment of the costs and results of outsourcing for the entire period of its application;
- considering the risks and uncertainties generated in the outsourcing process when calculating performance indicators;
- multivariance of methods for calculating costs and results at the stages of the outsourcing life cycle.

In view of the above conditions, along with the benefits for the customer, the outsourcing process should be adequately attractive for specialized infrastructure firms performing the functions of an order executor. Outsourcing is attractive for these firms if it provides: 1) stability of interaction with the enterprise-customer of services; 2) the possibility of obtaining an effect on scale (for instance, by attracting a large number of customers); 3) rise of income by ameliorating cooperation and specialization. Overall, the criterion for evaluating the use of the organizational and economic mechanism of outsourcing is the cumulative effect derived by the economy of the region.

If the stages of the implementation of outsourcing processes are different in phase (investing costs and obtaining results), we should use the method of bringing them to the same time base i.e., the estimated date (year). The period preceding the commencement of outsourcing costs is taken as the esti-

Criterion	Evaluation of the activities of an outsourcing service provider
Trust	Evaluation of the supplier`s experience, i.e. the number of clients served
Reliability	Assessment of the supplier's compliance with the requirements submitted by customers
Service	Analysis of the service level of the supplier and its comparison with the level of the customer, or with the level of other suppliers
Cost Savings	Comparison of the price level of a preferred supplier with the prices of other suppliers
Flexibility	Assessment of the supplier's ability to work under conditions of changing customer needs, in case of expansion or curtailment of its activities
Personnel Policy	Analysis of the supplier's personnel policy and the possibility of its impact on the customer's employees
Rigidity and liberalism in the Contract	Ascertaining the supplier's desire regarding the conclusion of a «rigid» or «liberal» contract with the customer, detecting any possibility to amend the contract.
Internal Qualification and Control	Assessing the willingness of the supplier to assist the customer in order to ensure the necessary qualifications of its employees, which will not only maintain the business at the proper level, but will also facilitate its expansion

mated date. Bringing costs and results requires the discounting method, which is extensively used in calculations to determine the feasibility and effectiveness of investments. Therefore, in order to calculate the performance indicator we used net present value (NPV), which characterizes cash receipts and total costs reduced to a single point on the timeline.

At each phase of outsourcing, the NPV allows us to estimate the cost result in the form of a surplus between the inflow of funds and their outflow, equal to the costs incurred. When $NPV > 0$, the outsourcing process can be considered cost-effective. It ensures real revenue during the billing period.

When $NPV < 0$, the outsourcing process is economically unprofitable and can lead to substantial losses. A positive NPV for the billing period is a condition for the economic feasibility of outsourcing. When comparing alternative options, the option with the highest NPV is recognized as the preferable option.

As required, other indicators of the economic feasibility of outsourcing are calculated. Consequently, a relative indicator of efficiency (profitability) is calculated that characterizes the savings per one ruble

of investments (index of return – IR), and the internal rate of return (IRR) as a discount rate at which equality is ensured the cost of expected cash outflows and expected cash inflows for each year of the calculation period, etc. [7].

Nevertheless, we should emphasize the fact, that the indicator calculated in this way can be entitled as the gross effect. Consequently, it represents the final total change in the state of the enterprise, but cannot serve as decision-making tool for the outsourcing implementation by virtue of the mechanism of mutual compensation of terms embedded in it. In contrast to the existing multi-criteria methods, the calculation of this indicator is an intermediate, not the final stage.

Conclusion. The results of the study revealed that the currently applied assessments of the effect of outsourcing can not serve as a tool for deciding on the feasibility of its implementation. In the case of single-criteria models, a substantial disadvantage can be the focus on evaluating single parameter (cost savings). Multi-criteria models are ineffective due to the mechanism of mutual compensation of the terms embedded in them.

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Кәсіпкерлік құрылымдардың бәсекеге қабілеттілігін арттыруда аутсорсингтің тиімділігін бағалау және стратегиялық бағыттарын әзірлеу

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Аңдатпа. Аутсорсингтің тиімділігін бағалаудың басым мәселелері және әр түрлі типтегі кәсіпорындардың экономикалық өзара байланысының дамуы мен күрделенуі жағдайында бизнес құрылымдарының бәсекеге қабілеттілігін арттырудың стратегиялық бағыттарын әзірлеу қарастырылған. Аутсорсинг қызметтерін жеткізушіні таңдаудың негізгі кезеңдерінің құрылымдық талдауы, аутсорсинг қызметтерін жеткізушінің кірістілігін экономикалық бағалау критерийі және аутсорсингті пайдаланудың экономикалық тиімділігінің

есебі жүргізілді. Б.А. Аникин, И.Л. Рудой моделі бойынша басқару функцияларының аутсорсингінің дамуының негізгі тенденциялары анықталды, аутсорсингі тиімді бағалауды талдау әдістерінің жиынтығы сипатталады, бұл компанияға осы бизнесті жүзеге асырудың қаншалықты тиімді екенін анықтауға мүмкіндік береді. Аутсорсинг ұзақ мерзімді, кейде мүмкін қысқа мерзімді келісімшарттарды жасауды көздейтін бизнес-модель ретінде қарастырылады, оның барысында экономика бірнеше циклдардан өтуге мүмкіндік береді. Кәсіпорынның шаруашылық қызметінің айналсоқ уақыты мен кезеңдері бойынша бизнестің құнын арттыру тұрғысынан аутсорсинг тұжырымдамасына сәйкес келетін тұтынушының бизнес басымдықтары өзгереді.

Кілт сөздер: аутсорсинг, кәсіпкерлік құрылымдары, бизнес-үдерістер, модельдер, экономикалық тиімділік, бағалау әдістері, аутсорсинг қызметтері, аутсорсингі ендіру.

Оценка эффективности аутсорсинга и разработка стратегических направлений по повышению конкурентоспособности предпринимательских структур

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Аннотация. Исследованы приоритетные проблемы оценки эффективности аутсорсинга и разработка стратегических направлений по повышению конкурентоспособности предпринимательских структур в условиях развития и усложнения экономической взаимосвязи различных по типу предприятий. Проведен структурный разбор основных этапов выбора поставщика аутсорсинговых услуг, критерия для экономической оценки выгоды поставщика аутсорсинговых услуг и расчет экономического эффекта использования аутсорсинга. Выделены ключевые тенденции развития аутсорсинга функций управления по модели Б.А. Аникина, И.Л. Рудой, описана совокупность методов для анализа эффективной оценки аутсорсинга, позволяющих компании определить, насколько эффективным является для нее внедрение этого инструмента управления бизнес-процессами. Аутсорсинг рассматривается как модель хозяйствования, которая предполагает заключение долгосрочных, иногда и возможно краткосрочных договоров, за время действия которых экономика успевает пройти несколько циклов. Соответственно циклам и этапам экономической деятельности предприятия меняются бизнес-приоритеты заказчика, который к концепции аутсорсинга подходит с точки зрения увеличения ценности бизнеса.

Ключевые слова: аутсорсинг, предпринимательские структуры, бизнес-процессы, модели, экономическая эффективность, методы оценки, аутсорсинговые услуги, внедрение аутсорсинга

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