The role of outsourcing in the innovative activity development of food manufacturing plants

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Abstract. The main reasons of food manufacturing plants seeking for outsourcing are reviewed in this scientific paper. The basic trends in outsourcing are as follows: marketing outsourcing, project management outsourcing, HR outsourcing, accounting outsourcing, transportation outsourcing and technical maintenance outsourcing, and IT outsourcing. It is authors’ opinion that the popularity of outsourcing in the intellectual-and-creative field is due to the fact that outsourcing is related to blurring and expansion of property rights. The conditions hindering innovative outsourcing development in food industry of Russia and factors of its progress have been defined.

1. Introduction

Over the last three decades outsourcing has become an integral part of food factories business management. The world market of outsourcing is currently equal to more than 130 billion US dollars. Worldwide income from outsourcing has been on the unstable path since 2012. The revenue reached its climax in total 104,6 billion US dollars in 2014 but two years later it fell to 76,9 billion US dollars. The latest statistical data regarding outsourcing shows that growth trend and drop in income tendency persists. It is expected that the market value of business processes outsourcing will have reached 405,6 billion US dollars by 2027 [1].

Outsourcing statistics of small businesses shows that 37% of all accounting and IT tasks are outsourced. Efficiency is the main concern of small businesses owners. Comparing to larger companies, those enterprises usually cannot afford or do not have any access to the necessary resources. Outsourcing statistics in the USA illustrates that 18% of small businesses outsources to increase their knowledge and apply to highly qualified specialists. It has been established that, 52% of small businesses will continue outsourcing some functions throughout 2020.

In recent times outsourcing is getting more and more internationalized owing to relative differences in factor costs, also differences in the national legislation favouring or hindering the development of contractual relations. A new stage of innovative outsourcing market international development is foreign partners’ involvement not only in the production process and new goods, services, and technologies promotion but also in their design and development. At the present time, the leading companies are producing phased transition to establishing a great number of outsourcers different in functions and size abroad. Incorporation and location of outsourcing companies is taken place in countries with the lower level of salaries and in proximity to emerging markets. When choosing the country for outsourcing
companies' location, availability of highly qualified professionals and low expenditures on business incorporation and conduction (rental payment, employees’ salaries etc.) are taken into consideration.

2. Results and discussion

The most important management task is to strengthen food factories competitive position. One of the solutions of that task is outsourcing according to the opinions of modern enterprises managers.

The number of undertaken studies on that matter assumes the importance of outsourcing. Outsourcing has been studied in various fields, including manufacturing industry [2-3], healthcare [4], clinical research of new pharmaceuticals [5], transport [6], and banking [7].

As an object for outsourcing the following was studied: bookkeeping [8], IT [9], logistics [10], assembly [11], and units manufacturing [12].

The topical issue is disagreement about the definition of «outsourcing». In terms of one approach, outsourcing is considered as transferring of any function execution to the third party to gain some competitive advantage [13]. Within the second approach, the attention is focused on carrying some certain activities beyond the limits of company, those activities that were being performed within the company before [14].

The reasons for outsourcing may vary and, as a rule, are conditioned by enterprise-wide, number of employees, philosophy, and management style etc. Let us see the main reasons why food factories outsource:

- The intention to use all scientific and technical achievements to the maximum for the provision of their own competitiveness.
- The necessity of expenditures reduction and output quality increase.
- The company’s innovative capabilities value and tendency do not correspond to purposes and objectives of the innovative development.
- The lack of resources for establishing NIOKR in small and medium businesses.
- The necessity of the terms reduction for the introduction of innovative products into the market.
- Non-availability of the person in the company responsible for innovative activity development.
- The inexperienced and non-motivated staff for performing innovative activity.

Outwardly and pertinently outsourcing has a lot in common with subcontracted relations. Those services included: equipment repair, software development, cleaning, and accounting etc. However, there is an implacable expansion of the outsourced services in the modern world. The main kinds of outsourcing are:

- IT outsourcing.
- Accounting outsourcing.
- HR records keeping outsourcing.
- HR outsourcing.
- Project management outsourcing.
- Transportation and transport technical maintenance outsourcing.
- Marketing outsourcing.

The field of information technologies has very close connection with outsourcing. The outsourcing covers the following areas: communication network management, technical and software tools maintenance, applications management, information systems, and business processes. According to the Deloitte Outsourcing Report for the year 2016, 72% of IT respondents are involved in outsourcing business, and 28% outsource some activities for having an access to the knowledge-based capital.
The key point is that outsourcing is related to blurring and expansion of property rights. That is the secret why intellectual-and-creative work outsourcing particularly in the sphere of IT is so widespread these days.

Outsourcing in intellectual-and-creative areas of activity is inextricably intertwined with copyright loss by a company or a person that are outsourcers. As in accordance with the existing legislation, a lot of creative and intellectual objects copyright is inalienable, so outsourcing in those fields is linked to ramified system of informal institutions.

Factors hindering the innovative outsourcing development in the food industry of Russia:

- Imperfection of legislation with regards to outsourcing services market.
- Poor marketing communications.
- Lack of professionals on the outsourcing market.
- Leakage risks from outsournee as well as outsourcers.
- Groundlessly inflated expectations on the part of customers.
- Poor consolidation among the major outsourcing service market entities.
- Lack of long-term development strategy at nearly all food manufacturing plants.
- Absence of unified labour-consumption standards of outsourcing services rendering.

Innovations more and more often become a vitally essential element of outsourcers’ offer and customers rely more and more on their outsourcers in the field of innovative activity development. Special mention should go to factors of success of innovative outsourcing:

- Availability of innovative development strategy in the company. It is necessary to decide on the provider (outsourcer) that is capable to ensure the company’s innovative development according to its goals and tasks. For taking the final decision the manager has to estimate the efficiency of outsourcing implementation for the certain business process as regards aims the company has to achieve.
- Trust and confidence in an outsourcer. In scientific and methodical literature outsourcing provider selection justification is traditionally called an outsourcing implementation bottleneck in company. Notwithstanding the professionalism and high qualification of outsourcer’s employees, it is impossible to assess their acceptability as for fulfillment the tasks until they start actually doing their job.
- Outsourcer’s performance appraisal. It is required to discuss with a provider its activity evaluation criteria and to decide on performance indicators, considering innovative activity goals of the customer.
- Examining the outsourcer portfolio. Prior to the contract conclusion it is essential to learn experience summary of all candidates. They have to be able to introduce their successful projects and what is even more important to present what hard tasks and issues they could have solved and overcome.
- To start with minor projects (pilot). It is reasonable to give the outsourcer a pilot project before some major and important task. It will make project outputs monitoring easier and will allow taking more informed decision concerning the choice of outsourcer.
- Building up some unified communication space and development of functional customer-provider collaborative mechanism. It gives the possibility to the customer’s employees to gain new knowledge and experience owing to joint activity with highly qualified outsourcer’s professionals, and to control the outsourcer. The customer determines the instrument of partnership that depends on the preparation and ability to control and coordinate the activity of outsourcer. Modern relations with outsourcers are able to provide much more than just cost cutting. They can modify business.
3. Conclusion

Thanks to the outsourcing there is not only innovative project efficiency increase within targeted frames but certain innovative outsourcing decisions allow generating additional profit, which is under the principle of feedback is partially left with the outsourcer itself and is partially returned to the investor and innovator.

The positive role of support of the food manufacturing plants innovative activity from the side of outsourcer is as follows:

- The increase of the design and engineering efficiency of innovative activity outcomes.
- The decrease of risky factors of the innovative project.
- The final innovative product costs reduction.
- Reduction of payback period of the innovative project.
- Market promotion support of the innovative product.
- The innovative product prospective development and improvement.
- The opportunity to carry out an independent expert examination of any innovative decision.
- Impact forecast of the innovative product market penetration.

The significant problem, preventing from outsourcing relations establishment, from the one hand is the lack of information for large companies about small businesses potential opportunities, from the other hand is the majority of small and medium-sized businesses cannot freely get to the top management level of large enterprises to discuss the prospects for cooperation. The most effective interlink among various economic entities can become local and regional authorities plus associations of entrepreneurs in the food industry.

Outsourcing is expected to have a promising future worldwide and in Russia. It is necessary to realize the logics and development prospects of that form of contractual relations and to channel it into a meaningful activity that allows our country to take the rightful place in the world economic division of labor.

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