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**THE NEED AND IMPORTANCE OF OUTSOURCING FOR  
SMALL AND MEDIUM SIZED COMPANIES  
Case "PAQUS"**

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**ABSTRACT**

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## **TABLE OF CONTENTS**

<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>2. THEORY OF OUTSOURCING .....</b>	<b>3</b>
2.1. What is outsourcing? .....	3
2.1.1. Outsourcing in a small sized company .....	5
2.1.2. Outsourcing in medium sized company .....	5
2.2. Stages useful for outsourcing project plans .....	6
2.2.1. Preliminary research.....	7
2.2.2. Internal analysis and evaluation of the organisation .....	7
2.2.3. Core tasks of the outsourcing project.....	8
2.2.4. Implementation of the outsourcing project plan .....	8
2.2.5. Outsourcing Management Maturity Model (OMMM).....	8
2.3. Outsourcing strategies .....	10
2.3.1. Total outsourcing.....	10
2.3.2. Partial outsourcing .....	11
2.3.3. One contractor .....	11
2.3.4. Multisourcing.....	12
2.3.5. Insourcing or outsourcing.....	12
2.4. Types of outsourcing agreements .....	13
2.4.1. “Time plus materials” contract.....	13
2.4.2. Contract with constant price .....	13
2.4.3. Contract of common risks and benefits.....	14
2.4.4. Contract “costs plus gross profit” .....	14
2.4.5. Contract of actual use of resources.....	14
<b>3. RESEARCH AND ANALYSIS OF “PAQUS” COMPANY .....</b>	<b>16</b>
3.1. Data description .....	16
3.2. Outsourcing network analysis.....	17
3.2.1. Medium sized architectural company .....	17
3.2.2. Preparatory section .....	18
3.2.3. Installation section.....	19
3.2.4. Construction section.....	19
3.2.5. Electrical section done by “PAQUS” company .....	20

3.2.6.	Additional outsourcing possibilities .....	21
3.3.	How the system/strategy works.....	21
3.3.1.	How the whole network works .....	21
3.3.2.	How it works in “PAQUS” .....	22
3.3.3.	Types of contracts used by “PAQUS” company.....	25
3.4.	Advantages/profitability, disadvantages/risks.....	27
3.5.	Is there a need for improvement? How can the system be improved? .....	28
4.	CONCLUSION, RECOMENDATIONS & AUTOCRITIQUE .....	31
	REFERENCES .....	33

## GRAPHS

GRAPH 1.	Outsourcing Management Maturity Model .....	10
GRAPH 2.	Structure of “PAQUS” outsourcing network.....	17
GRAPH 3.	Workload level at different stages of a project .....	24
GRAPH 4.	Constant workload level of projects.....	25

## 1. INTRODUCTION

After three training periods in a small sized service and trading company called “PAQUS”, which takes care of electrical installations designs for buildings and facilities, a decision came upon, that the outsourcing system and the network used by the company and its partners, is simply amazing. A wonder that outsourcing is such limitedly covered subject by studies and researches, of course it is a natural thing in business life, but it became such a big part of good business practices that it requires more attention. It is a quite complicated yet beautiful in its simplicity. The goal and intention of writing this thesis is to make this outsourcing idea more popular and know as well as making outsourcing more common and better understood by future and existing managers. This thesis will describe the basics of outsourcing, how the outsourcing network of small & medium enterprises – SME works and how can it be implemented on an example of “PAQUS” company.

“PAQUS” company was established on 28<sup>th</sup> of October 1997 by an entrepreneur M. Sc. Mr. Sławomir Paśka who received his titles on Poznan’s (Poland) famous technical university. The company was established right after Mr. Paśka’s graduation and for a longer time it consisted of one person, Mr. Paśka himself. Throughout many struggles during years of existence it finally became what it is now, a small sized company with ten employees making quite a bit of profit on Mr. Paśka’s skills and genius. That is what was mesmerising, that the company albeit small can manage to somehow compete with big companies in the field. Then it was explained that few companies together with “PAQUS” created an outsourcing network that is able to take huge projects, same as a big sized company. The idea for the network was implemented by Mr. Paśka together with few friends meet during university times, who became entrepreneurs as well in a similar field.

The situation of the company right now is quite satisfactory but there is always space for improvements and that is another subject that will be covered in this thesis briefly, how can the network be improved so that profitability rises? How to improve the “PAQUS” profitability with outsourcing? Those questions should be answered at the end of this thesis. The companies of the network generously provided the data for the research

thorough a series of meetings with different sectors of the network but the main focus is going to be placed on “PAQUS” company and the network as a whole. There are also few significant books that helped greatly in understanding the principles and ways of outsourcing. Those will be mentioned in references but it is worth knowing that for any person interested in outsourcing or the outsourcing networks those books are a must read and analyse recommendations.

The main approach from which this thesis and all of its parts are taken would be profitability since it is the lifeline of the small sized companies such as “PAQUS”, also the focus will be more on the small sized companies rather than medium sized but those two types can hardly ever exist without each other so medium sized companies will be also covered briefly. There are certain things that might be improved in the system but the network, to be truthful, approaches its limits of development which means it is near its most perfect state to take an example from. To be competitive on a huge market with many bigger companies, so often smaller companies need to join forces to survive and this thesis will describe and research one of many examples of such struggles of the weaker companies against the stronger corporations. There are many roads to success and profitability and also many strategies and techniques that might be used. This thesis will also cover the agreement types that are followed in the outsourcing network.

This thesis is created in hope that it will prove a worthy experience of analysis, business life hand on experience, research and implementations experience and the creation of social network which is a vital resource for any person involved in any kind of business like activities. So to not to delay any further those that are truly interested in the outsourcing subjects, welcome to the simple, short and humble thoughts gathered, in writing, in strive for self-improvement.

## **2. THEORY OF OUTSOURCING**

### **2.1. What is outsourcing?**

In the modern world, independently from the geographical location, all companies are subjected to globalization, it forces them to focus on the core processes that the company specialises in so that they would be a competition in their respective markets while it also requires from them to be flexible as much as possible, that is where outsourcing comes in. There are other advantages of outsourcing as well and few is mentioned here such as: Access to modern knowledge impossible to reach with company's own resources. As mentioned focus of core specialisation of the company and higher competitiveness of the company. Higher effectiveness of market activity due to better market position and diversification or concentration of activities of the company. Better profit of the company by lowering the costs. Reduction and simplification of organisational structure and procedures. Much faster time of the development of the company's offer of services or products. Advantages of outsourcing will be further covered in the strategy section as well as the advantages section of the "PAQUS" example. (Dębicki, Dziamski, Kawecki, Kliber, Kraska Nowak, Przybylski, Rudnicki, Ślatała, Śliwczyński, & Żebrowski, 2010, 33.; Outsourcing, 2000)

Unfortunately as much as outsourcing is advantageous for companies it also bears dangers such as: Security and intellectual property rights are more prone for violation. High risks in case of failure but high profit if successful. (Power, Desouza, & Bonifazi, 2006, 37 – 48.). Also, in my, author's, personal opinion, the worst and main risk of outsourcing is that outsourcing is like a well built machine, if one of the parts is faulty or has problems with performance, then whole machine is not efficient enough and either needs improvement before it bring losses or needs to be gotten rid off. There are many aspects to be covered, risks that are involved in outsourcing processes as in any business activities but those as well as advantages will be mentioned in more detail, as much as needed for this thesis, later on.

From ancient times, the notion of “outsourcing” existed, the name was used firstly somewhere in the last 10 years of 20<sup>th</sup> century but the idea exists far longer than that. It was always quite common to pay another person to do something that we could not do or to do it better than us. That is how people specialised in their own areas of expertise and that is also how craftsmanship came into existence. Henry Ford, one of the fathers of modern business world, once said: “If there is something we can’t do more efficiently, cheaper and better than our competition, there is no sense in doing it and we should employ someone to do the better work for us.” Henry Ford. Outsourcing closely follows this gentleman’s idea. (Kuźma, 2005, 1.)

Outsourcing is quite hard to define actually, there are many definitions and many of them are entirely different than others, but basically outsourcing is a notion of transfer of a process of a company to a company independent from the original one, it is contracted as a service purchased by the original company from the independent company, also it may have a form of limited-time transfer of employees to the business partner or be a contract that gives another company the right and duty to produce and control certain processes, (Keys To Effective, 2012). Just to give a simple example: company “A” produces cars, but production of driving wheels in the company’s “A” country of origin is expensive due to high prices of raw materials or labour, “A” company then contacts a foreign business partner, company “B”, to produce those parts so that the costs of production of a car can be lowered and the profit of the company maximised. In the same way we can express limited-time employment between companies.

Definitions mentioned above are the simplest views on outsourcing processes but the subject is getting much more complicated since the times that it was incorporated in the managerial area of expertise. It will be shown further how it developed and how it is working in different types of companies and situations, to be honest though the theoretical part is a fusion or summary of all the theoretical materials used in the creation of the thesis and with accordance to the title of the thesis.



### **2.1.1. Outsourcing in a small sized company**

Outsourcing is a vital process for a small sized company, or so are the thesis author's thoughts coming from analysis of the subject and personal experience. Since most of the time the company, no matter from which area of expertise, gets a project that requires more elements and specialisations than the employees of the company have or can have, so for it to be competitive on the market outsourcing is needed, most of the time outsourcing of accounting is also used. It then provides the company with an opportunity to hire an employee of another company to do the workload that the small company is not able to do. That is, the mostly used type of outsourcing in small sized companies, is human resources outsourcing. Instead of hiring an employee, a specialist that will be needed probably only few times during a year, to whom we would need to pay monthly wages plus all the taxes, it is more efficient to use outsourced employees for those few times that we actually require their skills.

It is understood from reference material that this improves greatly the profitability of the company and lessens the burden on employer who would need to pay the employee for unused work time. In other words the costs of the company will be reduced by the reduction of salary and human resources costs that would exist when a specialist employee is hired. Also the quality of service or product will improve greatly due to higher experience and specialised skills of the subject that the projects are outsourced to. Though, the lead times might be lengthened, in the long run the company performance will improve which will also improve the profitability because improved performance stands for better customer satisfaction, bigger projects done by the company, more projects done by the company and more diversification in the area of expertise of the company. This subject of profitability of small sized company due to outsourcing will be explained in more detail in the practical section, especially in the exemplary company section, of this thesis. To be truthful part of this theory as well as the following medium sized company theory for outsourcing is based, as well, on the meetings that were done with people that created the outsourcing network which will be mentioned further on. (Kopczyński, 2010. 53 – 94.; Power et al. 2006, 55 – 88.; Outsourcing, 2000)

### **2.1.2. Outsourcing in medium sized company**

In case of medium sized companies the importance of outsourcing is also high, but it is not as vital as in the small sized companies, at least not for the survival of the company because medium sized companies already can specialize in more areas than small sized ones, so in the medium sized companies outsourcing involves more cost reduction and profitability that survival ability of the company. Of course the competitiveness is getting higher when outsourcing is applied but the company than has grown from a small sized company by employing people with the skills that the company previously needed to outsource, does not need outsourcing for this type of purposes as much, mostly in case of a company based on outsourcing usage it will be required. Yet again this is the thesis author's idea of how it looks and it will be, as well, better understood in the practical part of this thesis.

In medium sized companies, outsourcing focuses more on accounting, production and logistics, not as much as in corporations but it starts to bear its significance. Also law cases are often outsourced in medium sized companies. This as well happens in the small sized companies but in the case of medium sized company the scale will get comparatively bigger. The need to focus on those mentioned above is due to those areas becoming more complicated, requiring more specialised employees and much more workload time. In that case hiring a full time employee is again more costly than hiring a company to take care of this Business Processes Outsourcing – BPO. As mentioned in the small sized company outsourcing theoretical part, part of this statement is based on the knowledge gained during the meetings with the companies that are part of the “PAQUS” outsourcing network. It is not so vital in small sized companies due to that that the skills of the employees are more and higher than in small sized companies. Of course, medium sized companies, will engage in outsourcing to heighten their profits in the same way it is done in the small sized companies, just on a bit larger scale. (Kopczyński, 2010. 53 – 94.; Power et al. 2006, 55 – 88.; Outsourcing, 2000)

## **2.2. Stages useful for outsourcing project plans**

As in every process that is implemented in life, we need a plan. In case of outsourcing we can follow few guidelines that improve the success rate of our outsourcing activities. We can divide this kind of plan in four sections, all things mentioned below should be executed in the order to keep project planning time & cost efficiently, also in the last stage we can use the Outsourcing Management Maturity Model (OMMM) for the monitoring and determination of maturity of the outsourcing project. This is a model that can be applied in any outsourcing project but it is not necessarily the general model used by the business world, it is more of a guideline for a manager to follow when learning about outsourcing and attempts to improve outsourcing. This guideline was created by several experienced people, that created the one of the source documents for this part of the theoretical framework, it is stated in the publication named “Realizacja procesów B2B z wykorzystaniem technologii ICT” created in year 2010. (Dębicki et al. 2010, 35 – 36.; Power et al. 2006, 213 – 219.; Bravard, & Morgan, 2006, 26. )

### **2.2.1. Preliminary research**

This stage consists of determining the goal of our project (this thesis will be focused more on financial benefits of the company when outsourcing is applied), choosing functions or processes that will be outsourced, preliminary evaluation of the planed project (strategic, operational, financial, risks and business benefit evaluations of the future project) and preparation of business plan for the project. (Dębicki et al. 2010, 35 – 36.; Power et al. 2006, 213 – 219.; Bravard, & Morgan, 2006, 26. )

### **2.2.2. Internal analysis and evaluation of the organisation**

Second stage of outsourcing project planning is executed by detailed analysis of organisation's and operational situation, careful choice of the outsourcing team, determining the strategy for the outsourcing project, preparation of the documents that describe the requirements of the project and an analysis of the processes that run in the company at the time of creation of the project. (Dębicki et al. 2010, 35 – 36.; Power et al. 2006, 213 – 219.; Bravard, & Morgan, 2006, 26. )

### **2.2.3. Core tasks of the outsourcing project**

In the third stage of the project planning it is required to do a refinement of the goals and needs of the project, determination of potential partners (contractors), degree in which they would be interested in participation and getting in contact with them, preliminary selection of the contractors and passage of information and terms of agreement as well as negotiations of contracts and agreement as to the characteristics of the services agreed in contract, creation of the detailed plan for the transfer of the outsourced process and determining the schedule and methods of evaluation of the project. (Dębicki et al. 2010, 35 – 36.; Power et al. 2006, 213 – 219.; Bravard, & Morgan, 2006, 26. )

### **2.2.4. Implementation of the outsourcing project plan**

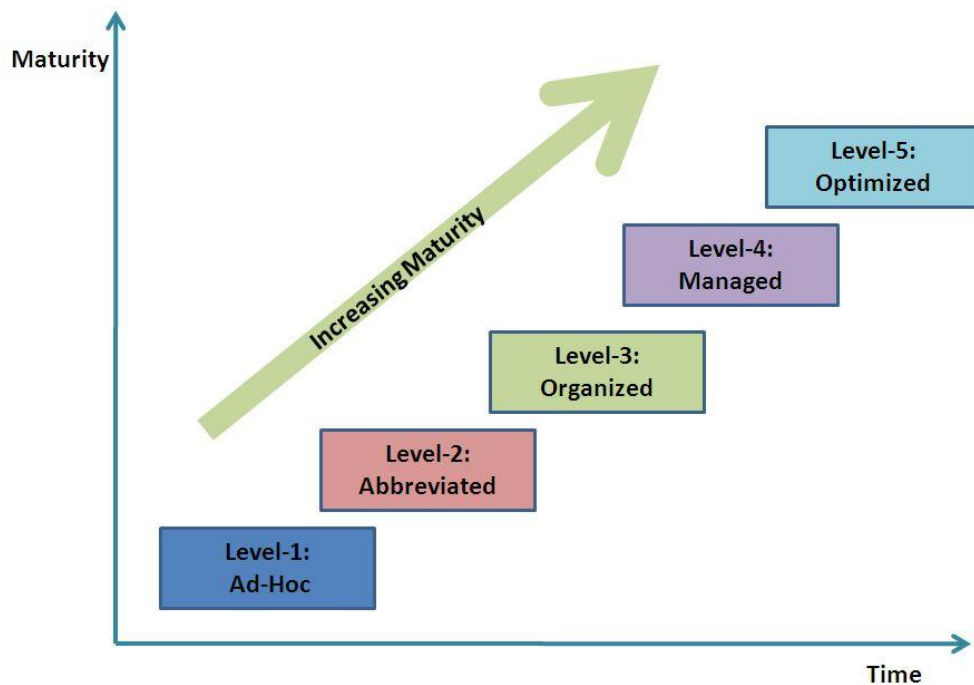
In the last stage of the project planning or actually already in the last stage of the project it is needed that we again determine appropriate methods and schedule of evaluation for the project as well as agreement from both sides upon the rules that will be followed in case of not reaching the contracted results, creation of Relationship Management Office - RMO (working schedule, information management, Human Resources - HR management, finance management) and the decision about the modification and continuation of the outsourcing contract is made. (Dębicki et al. 2010, 35 – 36.; Power et al. 2006, 213 – 219.; Bravard, & Morgan, 2006, 26. )

### **2.2.5. Outsourcing Management Maturity Model (OMMM)**

Models of maturity are quite common in every area of business processes because they will help to determine the stage of advancement that the project or process is in. Usually with time and advancement people become more experienced and specialised in the tasks given so the cooperation in the case of business goes more smoothly, project brings profits, reaches maturity and its end as well. This model was created based on Capability Maturity Model – CMM created by Software Engineering Institute of the Carnegie Mellon

University in a book called “The Capability Maturity Model: Guidelines for Improving the Software Process” in year 1995. I There are five stages of the OMMM (Graph 1):

- 1<sup>st</sup> stage – the organisation is chaotic, there is not enough knowledge about the outsourcing cycle, the details of stages of outsourcing are not well known and seem incomplete. There are none or marginal profits at this step.
- 2<sup>nd</sup> stage – some of the stages of the outsourcing process are improved but there are still many that are underdeveloped and incomplete.
- 3<sup>rd</sup> stage – the stages of outsourcing process are working, not many of them is underdeveloped anymore, basic outsourcing system is created between contractors. Basic measurements are possible at this step.
- 4<sup>th</sup> stage – the outsourcing system is working well, all processes are developed and complete, experience gained during previous stages is apparent in results. Good level of measurements is possible due to the outsourcing project finally bringing profits. The knowledge and experience gained is being documented for further use at this stage.
- 5<sup>th</sup> stage – new methods to improve the outsourcing project are researched, project is fully mature and well working. Decisions about continuation of the project are done at this point. (Introduction, 2010.; Pramod, Rao, 2011.; Power et al. 2006, 220 – 224.)



GRAPH 1. Outsourcing Management Maturity Model

(<http://pramodrrao.wordpress.com/tag/project-management-maturity-model/>)

### 2.3. Outsourcing strategies

To decide which form or strategy and tactics of outsourcing is the most efficient for the project or the company it is required to define what is going to be outsourced (human resources, logistics, production or information systems and technologies), will the outsourcing process be one or many projects and is it truly worth to outsource to an independent company or just open a branch of our own in a new location that will take care of the outsourcing process. At times strategies are mixed with each other or tend to be adjusted with time in accordance to the company's situation, maturity or the success rate of the project. There are six main strategies of outsourcing that are worth to be mentioned for the needs of this thesis. (Power, 2006, 97 – 98.; Kopczyński, 2010, 53 – 66.)

#### 2.3.1. Total outsourcing

Total outsourcing is used when the contractor processes over 80% of the project. It is quite a risky strategy since the company does not have control over the project and it usually takes more time for it to mature properly and if it fails, because of inadequate contractor

choice or other risks involved, the loss will be quite scarce. On the other hand, most of the time the profits are much more higher than with other strategies because the company has good opportunity to propose a favourable price of the contract to the outsourcing contractor due to the complex and wholesome project size and with a vision for a long term contract. It is a strategy advised for an experienced company with trustworthy contractors. (Power, 2006, 98 – 99.; Kopczyński, 2010, 53 – 66.)

### **2.3.2. Partial outsourcing**

A strategy that is an alternative for total outsourcing. It composes of outsourcing of sub processes and parts, projects of whole process. This strategy provides us with more means of control over the whole since the company, in case of failure of some contractor, can just take back the project part with the least harm done, outsourcing process and gives us experience necessary to apply total outsourcing later on. It is considered more safe strategy than total outsourcing. Also it allows the company to keep sensitive and more dangerous parts of the process in the company so the risk will be lowered. From another point of view thou, this type of strategy makes communication and control quite complicated and time consuming because the customer needs to have a clear outlook of the future projects already when outsourcing present projects so that there won't be any confusion between the projects and that it won't collide with the long term plan of outsourcing. (Power, 2006, 98 – 99.; Kopczyński, 2010, 53 – 66.)

### **2.3.3. One contractor**

This type of strategy is quite efficient because it does not require large communication network since you outsource to only one contractor. But on the other hand it brings certain risk because everything is put “into one basket”, so if there is a problem on contractor's side then we would not have a choice and work it out with that one contractor. Also if the cooperation last long the contractor will know you well and in case of need to change to another contractor it will be not only expensive but difficult as well due to the contractors side making it difficult for us with the contract and the cost being lower/experience being high of the original contractor. So in the end we might be faced in this case with a decision, to work with an incompetent contractor or bare the high cost of changing contractors. It is

often used together with total and partial outsourcing. (Power, 2006, 99 – 100.; Kopczyński, 2010, 53 – 66.)

#### **2.3.4. Multisourcing**

On the other hand we can also multisource, which means that we will outsource chosen processes to many contractors. That requires for a division of the project into parts so it will stay under control. In this case it works well in case of cost because contractors need to compete between each other in performance and prices for our company's satisfaction so that the part of the project being done by one contractor won't get transferred to another. So in short multisourcing limits the risks that you might be faced with but it also complicates the communication processes usually due to simple human miscommunication and misunderstanding, it also creates often an unhealthy kind of competition and relation. It has sense only when there is a possibility of clear division of the process into many projects while keeping the status quo between the contractors so that it will stay on reasonable and efficient level. It is often used together with total and partial outsourcing. (Power, 2006, 99 – 100.; Kopczyński, 2010, 53 – 66.)

#### **2.3.5. Insourcing or outsourcing**

Another type of strategy for outsourcing is insourcing. This is basically outsourcing but inside of the company's structure. In this case the process will be transferred internally if to give an example, another unit of the company has better results in this type of process than first unit. It is a good solution if in the organisation there are units that work much better with certain processes than with other. It has certain advantages: no waste of time for the contractor to learn and analyse the process, there is no problem with integration of different companies structures, negotiation and communication will take less time because of internal connection and social network of the company and there should be less problems with accounting and rights or patents violation because it all stays in the company. On the other hand this type of strategy might create certain unhealthy competitiveness between branches of the organisational structure due to people ambitions. Outsourcing to another company might be much safer in that case but of course it all depends on the size of the company, situation and financial abilities of the company. (Power, 2006, 100 – 102.)



## **2.4. Types of outsourcing agreements**

There are several types of contracts used in the modern world for outsourcing, depending on the type of project, structure of the company and type of the company, those are:

- “time plus materials”
- contract with constant price
- contract of common risks and benefits
- Contract “costs plus gross profit”
- Contract of actual use of resources (Leighton, Syrett, Hecker, & Holland, 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **2.4.1. “Time plus materials” contract**

In this type of contract the contractor sets a price of the outsourcing based on the work time needed for completion and the resources and materials used during the project. Mostly, this type of agreement is used in outsourced processes. It is quite efficient for short term, one time cooperation, when the workload is easily foreseen and the price is usually non- negotiable. Most common when the product is needed in the agreed quality on the given deadline on a short notice. (Leighton et al. 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **2.4.2. Contract with constant price**

Contract with constant price has a constant price set by the contractor for the whole project or a set of services, based on the guidelines given by the customer. For every additional service the customer will pay separately. The price is easily negotiable. When the workload is high enough it is easy to negotiate discounts. This type of contract is used when the customer buys something in big quantities or a set of services so the company should know beforehand exactly how much is needed of the services provided. The price of additional can easily go over the price of the original contract if the customer is not careful. (Leighton et al. 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **2.4.3. Contract of common risks and benefits**

In the unstable times of an economical crisis passed and another one looming over the world, the contract of common risks and benefits seems to gain popularity to build mutual trust of the sides of the contract. This type of contract has sanctions and bonuses that enable the sides to constantly improve the processes and services provided to avoid mutual risk and gain from common benefits, lets present an example: financial penalties for not meeting the terms of the contract, bonuses if the results are better than expected, if the contractor is able to generate additional profit due to savings he is allowed to keep them. Basically this type of contract strive for common benefits and good, possibly long-term, relations of both sides due to bonuses that can be gained if companies perform well. (Leighton et al. 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **2.4.4. Contract “costs plus gross profit”**

Another type of contract is “cost plus gross profit” contract, and that is, as the name indicates, the basis of the negotiations between sides. This type of contract is used commonly in research projects, in which the role of the contractor is to research, analyse and find possible solution to the problem. This thesis is such kind of contract in a way. In this kind of contract the customer should be monitoring it constantly since all risks lay with the customer and commonly the contractor will not care to minimize costs since he will get his gross profit anyway. (Leighton et al. 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **2.4.5. Contract of actual use of resources**

In this type of contracts the client pays for the service only as much as he actually uses it. This type of agreement give huge flexibility to the client. Because of that, this type is more common lately as well, especially for the small and medium sized companies. F. ex. if a client outsources printing of the newspaper, to be paid monthly, he will only pay for the time of work of the machines and the amount of materials that are actually used plus the work time of employees. This type of contract is especially popular in IT market since the services and software provided is used limitedly most of the time so companies rent out

programs, network space or hardware with the price of usage attached. (Leighton et al. 2007, 206 – 212.; Power et al. 2006, 143 – 158.)

### **3. RESEARCH AND ANALYSIS OF “PAQUS” COMPANY**

Introduction of the company was done thoroughly in the introduction section of this thesis so this will be only a short reminder of it. This is a small sized company that is a part of an outsourcing network of a medium sized company. All of the companies in the network work in building architecture and construction section of the market. This company is one of direct contractors of outsourcing projects from the main company. After acquiring a good understanding of the theory of outsourcing need for this thesis we can now proceed to the example of outsourcing which is also the main part of this thesis.

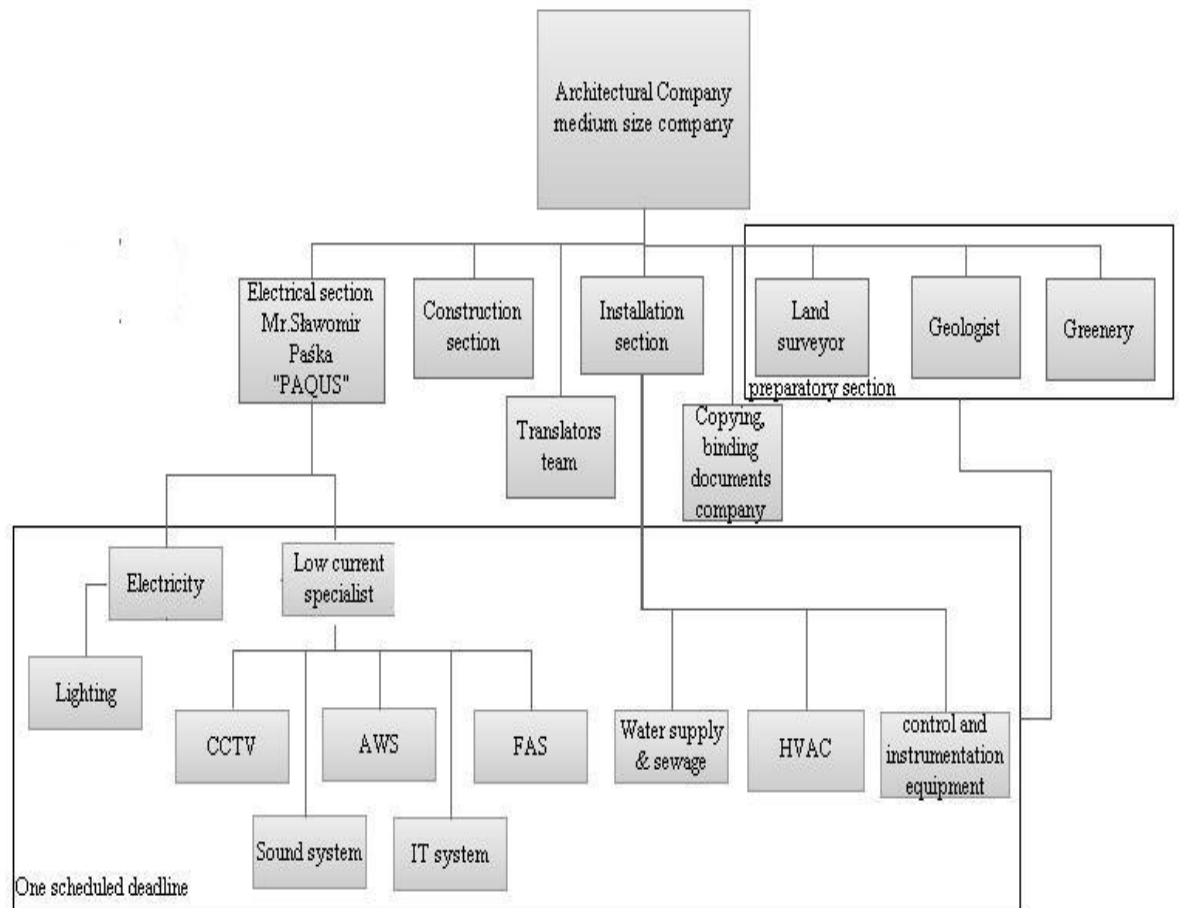
#### **3.1. Data description**

Written data is mostly based on notes taken during a series of meetings with the company's employees and the CEO, M.Sc. Mr. Sławomir Paśka. Courtesy of the company we owe that it was possible to meet and discuss the related topic as well with the other companies included in the network. In a way, it can be said that in accordance with the theoretical definition, author was an employee outsourced from “PAQUS” to other companies so that the work will be completed in a better way so that the thesis will benefit other companies as well. It was agreed that only the name of Mr. Paśka and the “PAQUS” company name will be used during this thesis. Thou I was allowed to use the data acquired, other names won't be used. As this company is small sized, only a little of the accounting data was available since the data is not only outsourced (as mentioned in the SME outsourcing theoretical parts 2.1.1. & 2.1.2., financial area is often outsourced) to an accounting company but also the requirements for the amount of accounting data needed is quite low.

Also, examples of the agreements were provided for the research, there will be a whole section covering this subject later on in the text. We were as well provided with a set of graphs that describe: structure of the company (not a complicated structure since there are 10 employees total in the company: CEO, secretary, 5 – 6 engineers, depending on the workload, working in different sections such as architectural design, electrical installation design, lighting and fire security systems and usually 2 trainees that change constantly), Timeline of the workload plan of the company's projects and the structure of the outsourcing network which is likely the most interesting part of this thesis.

### 3.2. Outsourcing network analysis

As mentioned already before, this is the most interesting part of the thesis as this is the subject that gave the idea to write this thesis to begin with. Basic concept of the structure can be understood by the following graph, abbreviations that can be found in the graph will be explained further in the report (Graph 2.).



GRAPH 2. Structure of “PAQUS” outsourcing network

#### 3.2.1. Medium sized architectural company

This company is the beginning of every project. It hires only architects and maintenance staff so all architectural designing is done at this company. It takes on big projects, does the architectural designing work for them and then outsource it to the other companies in the network to do the other parts required to finalize the project. After the architectural work is done the project gets sent to the preparatory section, it will be described wider in the next paragraph. This company takes the highest risks, because if something goes wrong

in the network and the schedule then all responsibility for any contract violations or missing the deadline falls on the medium sized company. In turn the profit is the greatest for this company in comparison to the whole network so it's a high risk high return almost totally outsourced strategy to multiple contractors. With this data we can more clearly understand the theoretical outsourcing & strategies risks and benefits statements mentioned earlier in theory.

Accounting in this company is not outsourced, they have their own accountant. This company only keeps in touch with core contractors, so the six other companies most of the time. Of course, at times there is a need for a bigger amount of core outsourcing contractors but most of the time it relies on six of them. From respective department so from one contractor there can be other companies hired, on the same level as the core contractor but the control and responsibility of that part of the project lies solely with the core contractor, it will be shown more clearly on the example of "PAQUS" company. With the architectural company lies the responsibility to decide which contractor will take part in the particular project and how much responsibility he will bear. It is mostly done in accordance with all of the stages of successful outsourcing mentioned earlier in the theoretical part 2.2., since this is the main outsourcer.

In that manner it is quite hard to say on what stage of OMMM model this company is since all of the project require separate OMMM but with this particular network the company is in the last stage of OMMM model because the network exist for a long time and have accumulated a lot of experience. This network, in which "PAQUS" is included is only one of many networks devised and managed by the architectural company, they also freely exchange elements of network, after analysis of efficiency, to achieve higher profits while minimizing the time required with good quality of results so that the competitiveness level can be kept high between the outsourcing contractors.

### **3.2.2. Preparatory section**

This section gets the project right after the architectural company does with it what lies in its competency. In addition, it is worth mentioning here that all core contractors are small sized companies so the theory from the outsourcing of small sized companies theoretical part 2.1.1. applies. In a sense, that the processes, risk and outsourcing looks pretty similar

in all core contractor's companies as in the theory. This section consists of land surveyor, geologist and greenery specialists. Surveyor takes measurements of the land, researches, makes the ground even and devises the best placement for the building to exist. Pretty much the same thing is done by the geologist but while the surveyor checked and prepared the area above the ground, geologist does that in the ground. Greenery department specializes in designing the layout for gardens and all the greenery in the area. It also takes care of legality of the greenery in the vicinity.

After their respective work is done, the project gets sent to the other core contractors, namely electrical section, installation section and construction section. Those sections have common, although quite long, deadline and cooperate with each other to finalize the project, all outsourcing contractors that work under those companies work as well to achieve the same deadline. Those preparations were done so that the other sections will have the boundaries in which they should work. Similarly as with what the architectural company did for the preparatory section but at that point it is not a new outsourcing project of the preparatory section, just a continuation of the outsourcing project of medium sized company with accordance to the total, multisourcing theory.

### **3.2.3. Installation section**

All installations, except electrical, are done by this core contractor. It consists of water supply & sewage installations, heating, ventilation, and air conditioning – HVAC installations and control and instrumentation equipment installation designing. Depending on the workload of the core company it may be chosen to outsource some of the above processes to side contractors that are also a part of not only the bigger network but the smaller one, belonging to the installation section as well.

### **3.2.4. Construction section**

As the name indicates, this section takes care of constructional work, design, research of construction, materials etc., required so that the building can last standing for a long time. The deadline here as well is common with the installation and electrical sections most of the time. It also has its outsourcing subcontractors but unfortunately no data could have been acquired at this time about them.

### **3.2.5. Electrical section done by “PAQUS” company**

This section is done by our exemplary company as it is one of the core contractors of the architectural company. This part of the project covers all electrical installations designs prepared for the architectural project of the building. The deadline is the same as in the case of construction and installation sections. In the case of this company we know quite a bit of details. “PAQUS” company has an outsourcing network on its own as well (as pointed out in theory chapter 2.1.1., it is quite vital to outsource for bigger projects be possible). It is as well, part of many networks. It has long-term agreements with six outsourcing customer and two long-term outsourcing contractors. In the case of this thesis we will only mention one customer, that is the architectural company. It was also mentioned that there are few safety precautions taken in case of heightened workload or failure of delivery of the outsourcing subcontractors of the company. “PAQUS” company cooperates in those cases with two other companies from the electrical section on a basis of mutual trust.

In accordance to the theory of good outsourcing practises in chapter 2.2., it is vital to determine which tasks are required to be outsourced and to whom. Lets now consider the two outsourcing subcontractors. One of them is electricity section or specialist which takes care of e.g. Lighting. It can, and usually is, as well outsourced by the electricity section company. The second one is low current installation section company, here there are many parts of the project to consider, five to be exact: sound systems, IT systems, closed-circuit television – CCTV, fire alarm systems – FAS and audible warning systems – AWS. Again, as well each of those can be outsourced by the subcontractor even further, but most of the time it is done by the “PAQUS” company’s subcontractor, similarly as with the other outsourcing subcontractor. The accounting section in this company is outsourced as well. Some other sections, depending on the type of project, might be additionally outsourced as well, such as translator work or 3d design.

Of course this company has other possible contractors but those mentioned above are established, trustworthy ones with long time experience of cooperation. It can be said even, that one of the previous employees of “PAQUS” company became entrepreneurial, and is right now an outsourcing contractor for the low current electrical section as well. The whole system is working as a well fitted machine, in which we sometimes exchange part



but the core stays the same regardless. It works like in an “Swiss watch”, when the core functions begin to fail then the whole network needs to be established anew, so that the frictions between sections will be lowered, due to the high amount of experience of one section in comparison with relatively low experience in working with the network by the new contractor.

### **3.2.6. Additional outsourcing possibilities**

Additionally there are also few functions of the network that get outsourced only from time to time, are only one time agreements and are used in accordance with the projects that are happening. In those cases, as pointed out in theoretical section 2.2., keeping a close and up-to-date outlook of the placement of companies on the OMMM model stages as well as the good outsourcing practises guidelines is quite important so that a failure in the project and master schedule can be avoided and thus a financial and social loss can be avoided as well. To those we can count: translation work done by independent outsourcing contractors if the project is done for a foreign company, photocopy and printing works, documents binding which is usually done by the same company that does the printing and photocopying work. It is also worth mentioning that on almost each stage of the network the one process that is outsourced is the legal advice section of the network, that is due to the legal system of Poland, there are not many lawyers that are working outside, independently from any bigger lawyer company.

## **3.3. How the system/strategy works**

### **3.3.1. How the whole network works**

Firstly the architectural company takes up the large project work. Then it creates an architectural design for it, while determining what type of sections are needed for the project, which means which core contractors will work with this project. Again it is highly recommended by the staff to follow good practises guidelines (chapter 2.2), to avoid project problems and errors. Even that is not enough at times to avoid risk and losses, that is why the system, strategies and guidelines are evolving. There are core contractors in this network that manage the deadlines and time schedule of the whole project, they are responsible for any subcontractors of theirs and for any other problems. Additionally there

are contractors that are also used from time to time but do not have the same rights and responsibilities as the core contractors. Then the project gets passed to the preparatory section, they have quite a bit of time to do detailed research for the safety of the future building and to manage all the necessary documents from the governmental institutions.

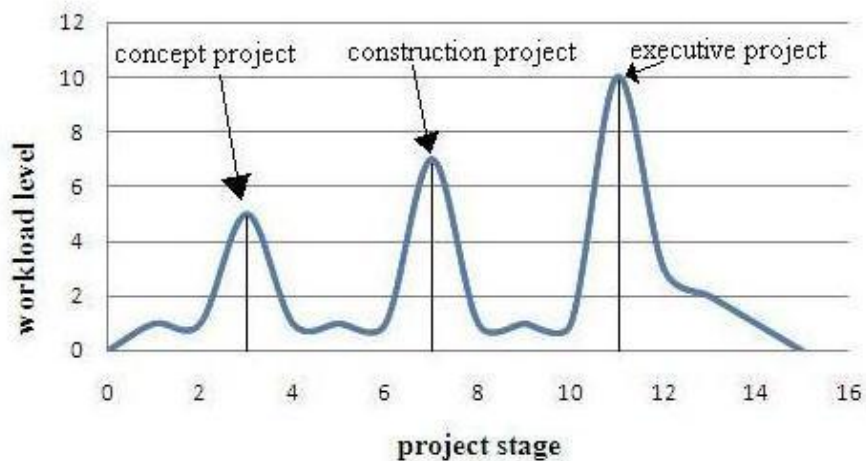
After the above, the project lands with the construction, installation and electrical sections, those three have a common deadline so they are in constant contact with each other to meet the deadlines with ease. Depending on the workload and human resources of the core companies there is also possibility to either outsource parts of the project to their subcontractors or to outsource the parts of project to a company of equivalent competences as our company but without the rights and risks of the core contractors. After this part is done, the project lands, firstly for confirmation with the core contractors and then secondly in the architectural company. If the approval is given then the project gets sent to the printing and binding in accordance with the rules of the country, so in this case in four copies. As it was already mentioned earlier, we can say that risk as well as benefits are lowered exponentially the further the outsourcing goes from the architectural company. It can be said that the network works well only if all of the parts work well as well.

### **3.3.2. How it works in “PAQUS”**

To start with, it is required that we define in what stage of OMMM model is the “PAQUS” company right now with the current, outsourcing network. As the cooperation with the network lasts already several years, we can easily say that the experience required has been gained and that the processes needed for the projects are in constant, correct usage. The only part that changes is research for improvement of the network and broadening usage of the network. Knowing those things we can define that the network, or at least the part that is done by “PAQUS” is in the last, fifth, stage of the OMMM model, Optimized section in which the outsourcing works well and only strives for improvement and heightened usage. The core process/competence of “PAQUS” company is the design of electrical structure of projects so we can say that anything other than that is mostly outsourced, from that we can deduce that the company’s main business transactions are: outsourcing and taking up outsourcing contracts for survival.

As mentioned before, “PAQUS” company has six main customers that outsource the project to “PAQUS”, those are long term cooperation agreements, then it also has two main contractors it outsources parts of the projects to. As the part of a bigger network, this company is a core outsourcing contractor that is held accountable only by the main company, architectural company. When “PAQUS” company receives an project from the upper links of the network, it is decided, what actions should be taken, is there a need for additional electrical companies to take part in the project if the project is big and to how many subcontractors the project should be outsourced to. Yet again, it is connected to the theory because in “PAQUS”, the stages guidelines (chapter 2.2.) are followed more closely than in other parts of the network. This company also has few subcontractors that the work is outsourced to only at times when their skills are required in the project. Also in “PAQUS”, many times the outsourced printing and binding of the final documentation is done.

So in other words we can say that “PAQUS” company, as well as the whole network, works with the strategy of either partial or total (depending on the situation, project, and level of experience of contractors) multisourcing outsourcing. Most of the work done by “PAQUS” company is done on the basis of commission contract type of agreements, it applies as well for the company’s subcontractors. That term is not exactly used in the theoretical part (chapters 2.4. – 2.4.5.) of this thesis but it will be more widely covered in practical agreements chapter in a way that it will explain clearly why it is so. Usually length of the project is in the range of six to twenty-four months for the “PAQUS” which means it is also the same for the whole network. The main strategy of the company about accepting the projects is to create a master schedule of different project’s timeline’s so that the workload will be constant, this kind of practise is quite common when creating an project plan and further implementation of the plan as mentioned in chapter 2.2.4. It happens to be so because most of the time, projects have jumps in the workload, which means that during one project there is a lot of time that the workload is minimal and then at certain points it jumps to a heavy workload. This situation will be better understood by the following graph (Graph 3.).

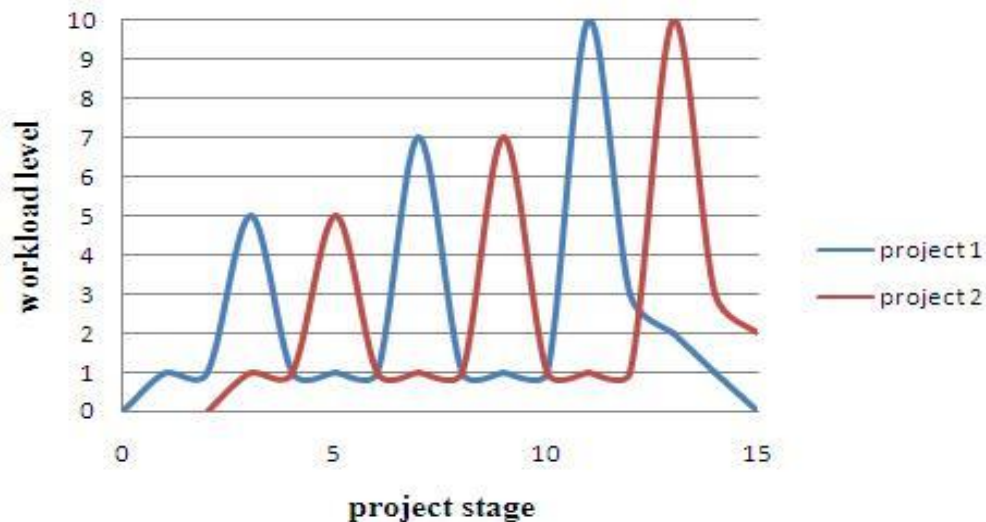


GRAPH 3. Workload level at different stages of a project

From this graph (Graph 3.) it can be easily understood that at point 0 we do not know anything about the project. This graph (Graph 3.) can be also understood as an modified OMMM model of the theoretical part (section 2.2.5.) especially for the purposes of each project. It is different from the standard represented by the theory but that is how the company implemented it in this case. Then at stage one the workload is light because it is the part in which the company decides if the project will be taken and what means are needed to complete the project. If the project is accepted then the company prepares in short time an concept project, so called draft project, that is where the first jump of workload in the chart is, then the concept project gets sent into the network and architectural company to confirm it with the client, that is the time of light workload, only contact is kept in this stage, then we get a second jump, which is a little bit more heavy workload than the previous one, here, after confirmation and guidelines given by the customer and architectural company, “PAQUS” creates a construction project for the governmental legality and official purposes.

This project gets sent to the government office of the city or area. In wait for approval the workload is again light. Then comes the last stage of the project, executive project. It is the final version of the project with every detail worked out so the workload is the highest. This is how the building will be, in case of “PAQUS” company how the building’s electrical structure will look like. After this stage, there are also additional services and corrections to be done but the workload varies there from medium to light so it is not difficult to do. The project finally ends then with the rest of the payment give, but that will

be covered in profitability section of this thesis. This was an example how one project works. In the “PAQUS” company workload is constant as mentioned before. The light workload time of one project is filled with heavy workload of other projects so that the heavy workload level will be kept in the company. This can be better understood from graph (Graph 4.).



GRAPH 4. Constant workload level of projects

Of course the graph (Graph 4.) shows only two exemplary projects but because of the duration of one project, 6 to 24 months, there can be a number of bigger and smaller projects implemented in light workload times so that the workload of the whole company will be truly even. Of course this kind of strategy of the company brings certain dangers. If the system doesn't work properly, because outsourcing subcontractors are included in the workload schedule, then the heavy workloads of different projects might overlap, in that case the company outsources immediately the parts of project to a greater number of subcontractors so that the workload level will be covered well and deadline reached without problems or negotiated with a slight delay.

### 3.3.3. Types of contracts used by “PAQUS” company

There are two main types of contracts used by “PAQUS” company inside of the network, outside of the network those vary greatly, but this thesis will only cover the network side. In this section the understanding of how the contracts of theoretical chapter 2.4. are used and why in the previous chapter there was a term that did not appear in theory. It is because it was specific for the “PAQUS” company and not to the general types. First type

of contract used is the commission contract, in other words, either: contract with constant price or “time plus materials” (because materials are already mostly calculated by preparatory section) type of contract. Those types are covered in details in the theory (chapters 2.4.1. & 2.4.2.). It is most common type used in the company because it leaves no space for misunderstandings and abuses of the contract. Also it is a comfortable, ready to use format usually, so it’s quickly usable type of contract, also used in situations when the contractor is not fully known, researched or has low experience in cooperation with the network or field or with subcontractors of core companies.

It spans certain amount of work, described briefly in the contract, to be done and services provided so in other words it is an agreement that covers a project to be done. The payment and deadlines are clearly stated. Most of the time the payment is agreed to be delivered 30 days from the day the invoice was accepted. If there are no comments during the first 3 days from the time the contract was received then the contract is considered accepted. In most of the agreements signed by the company, the penalties are stated to be: in case of work not done, 10% of the original payment will be paid to the customer and if the deadline is delayed 1% of the original payment will be paid for each day of the delay. All parts are negotiable but that is the basis that the company uses. ISO standards are required to be fulfilled.

Second type of the agreement is an agreement for long term cooperation, in this case the type of contracts used is either a contract of common risk and benefits or “cost plus gross profit” type of contract which are again described more closely in theory (chapters 2.4.3. & 2.4.4.). Both of above are used with companies that are the main customer of “PAQUS”, in this case the architectural company or if the agreement is between core contractors. They are modified but since they give steady benefits to both sides and provide companies with assurance and stability they are used by “PAQUS” company as well as in the whole network. It is mostly signed with the main outsourcing companies of the network. It is of course framework agreement so the rules might vary, but basically it is a long term contract for many projects with unlimited time of expiration.

The rules of this type of agreement are lighter than in the previous type but due to the amount of subjects and matters to be covered in such agreement the amount of pages of such agreement is quite high while the previous type can be as small as one page. This type

of agreement can be called limited partnership agreement as well. The only type not used by the company but mentioned in the theory is the actual use of resources type of contract. It is rarely used by the company since the clients are business to business customers of the same field and the field that the work is done in is hardly a measurable type of environment, not only because its service field but because the measurement of work required is quite hard to do.

### **3.4. Advantages/profitability, disadvantages/risks**

Let us start with the part that is most interesting to us, profitability. For small sized company profitability is vital for survival (as mentioned in chapter 2.1.1.) and any place in which savings can be made is found and exploited. Outsourcing gives a whole new meaning to profitability of a small company such as “PAQUS”. Let us start with an example of an accountant, monthly wage rate for an accountant for such company would be at least 2000zł (zł/PLN – polish currency, 3,45zł = 1€) while the work time required each month, when accounting is outsourced, is around four work hours, that is about 200zł. From that, huge difference in costs can already be seen, besides this is only when we think about wages, but having a new employee, we need to consider as well other costs such as working space in the office, possibly a computer and such. This is connected closely with the theory of outsourcing from chapter 2.1. That kind of strategy is advantageous from financial point of view but has a big risk of the company’s financial status as well as financing embezzled.

Another place where in which financial advantages can be easily seen of outsourcing are projects themselves. When the project is underway, it is obvious that only specialists from certain areas should take care of their specialities. Unfortunately, most of the time, small sized companies such as “PAQUS” have only employees hired in the field that the company specialises in or in case that at least 60% of the projects require certain skill. In this case, for example, 50% of projects accepted by “PAQUS” company require a specialist in low current installations sector. Up until recently that rate was a bit higher so the company had a specialist in the field hired, but now when this rate became as it is it is more beneficial for the company to outsource the required skill.

For example: Let us say that a big project requires two additional subcontractors, the cost of such subcontracts is 36.000zł each per six months. That gives 72.000zł total for the work done while the costs of hiring specialist (three specialised employees would be needed for this project) would be 7000zł per month per specialist which gives us a total of 126.000zł for finalized project. Those numbers are true with accordance to the data received. This example again shows how much more profitable it is to outsource than to hire employees. Yet again we need to mention that the risks are also a bit higher. We do not have full control of the project then so only on the basis of trust we can be sure that the deadline will be met. Also the company's secrets might be leaked. The danger of not meeting the deadline is also higher. Communication is also limited when outsourcing so much more stress accumulates in the "PAQUS" company's employees and the workload gets quite high if there are some problems.

As told before this kind of outsourcing network works well only when everything goes perfectly or if the companies in the network, have such high amount of experience in the field and with the workings of an outsourcing network, that safety measures are devised and taken at all times so that the project won't generate losses, with higher amount of working hours as well included in the safety measures (it was told that when huge workload amasses because of failures and mistakes then a working day can amount to more than 12 hours). This type of outsourcing network is high risk high profit type so all elements of the network should be experienced, trusted companies or specialists. And while it is true that companies are not only profitable from outsourcing in itself, for this type of company in which the outsourcing process is its lifeline it is a quite important profitability point.

### **3.5. Is there a need for improvement? How can the system be improved?**

There are always ways for improvement. Any technique, process of thing can be improved until it's limits. But is there truly a need for improvement of this system? This system works well for the needs of the companies that are part of the outsourcing network. This strategy is at its limits of improvement (last stage of OMMM, chapter 2.2.5.) so for it to improve it would need to be wholly remade or build from the scratch yet again. It is worth for sure to further research and improve the good outsourcing guidelines (chapter 2.2.) so that even though the strategy achieved good results it can still be improved in some minor



details. Another way of improvement would be to discard the network and create a limited partnership for each and every company that is a part of the network, that would make the network into a corporation, probably big sized when all subcontractors would be included. The problem with this kind of idea is that the small sized companies and private entrepreneurs are existing exactly to avoid being part of a bigger company and to stay independent of someone else's rules.

On the other hand this idea would improve the profitability of the companies since all things would happen inside of the corporation. That again poses a problem, because without a good set of rules, such system could be easily abused. Another way of improvement of profitability would be a creation or purchase and implementation of software and servers capable of covering the whole networks needs, one of many ERP – Enterprise Resource Systems might be a base for such idea. This idea would improve the communication and lead times inside the network since whole data required would be available to everyone inside of the system. It would require a capable administrator and quite a bit of server space but this type of idea is quite popular in recent world, to outsource part of the services into the e-business area of expertise. Of course, as any idea, this one has a few setbacks: servers and internet are not stable sources, they have failures, are broken into, have shutdowns and bugs in the systems.

It is not a perfect solution and a time consuming one but with enough resources it might prove to be quite an interesting improvement. Also the biggest setback of the existing outsourcing network right now is the reliability of the parts of the network. That probably can't be improved in anyway, however, from a psychological point of view, the profits, reliability and quality can be raised if the competitiveness between the elements of network or networks can be raised. Right now the network is working well but the problem is that it is stagnant, each company knows another in the network to well, too much experience was gained in one place, so the competitiveness of the companies died out naturally. New, trustworthy, potential business partners should be found to rise the competitiveness.

And while it would be a good idea, the problem with this type of improvement is the recent situation on the market. This type of work is always needed since humans will always build and renew building but it still poses a problem that because of the recent world financial problems, customers tend to not build, rather they chose to buy already build

facilities simply restoring and reconstruction them to their own purposes. This is a cheaper way. That is another idea for improvement, too try out new markets but in a similar field that the network and “PAQUS” company are in. Hotel, apartments, office building namely restoration of unused building might be an interesting idea for additional profits. Another field of specialisation to be focused on (theory chapter 2.1.) so that the area of business can widen but still be specialised and the company can grow further. Parts of this type of projects can be also outsourced to a company that will become a part of the network, so that the resources of the network can be used there as well.

#### 4. CONCLUSION, RECOMENDATIONS & AUTOCRITIQUE

So now, can questions about the importance, profitability and need of outsourcing be answered? The subject of this thesis covered mostly only small sized companies but it is clear that outsourcing is important for SME companies (it can be seen well in chapter 3.4.), especially the ones like “PAQUS”, that consider outsourcing their main source of income and projects, in that sense it is also their main profitability point. To show it on general, SME scale, it was concluded that because of the outsourcing and outsourcing networks (like in “PAQUS” case) the level on which the SME companies face competition is higher than in the case of solitary SME company that does not use outsourcing, which in turn means that the risk will be higher but the profit of the companies will be also higher if it is successful. This type of strategies are forced on the SME companies due to globalisation of business because SME companies would get destroyed by corporations if not for the said strategies.

From the theory point of view the exemplary company, which was treated as research work since this thesis is one of the projects ordered by the “PAQUS” company, it is quite a good example of basic outsourcing structure and strategies. It goes even deeper into subject, possibly adding a bit of new things to the theoretical part since it is about outsourcing networks created by small and medium sized companies. So yes, we can clearly state that outsourcing is an important process of SME and that it is highly profitable, especially for small sized business but the last question still remains: is it needed? In this case there is unfortunately no clear answer available. If we consider the case of “PAQUS” company and the network in which the company works then yes, it is needed since the whole network and the “PAQUS” company itself is based mostly on the notion of outsourcing. Most of the business of the networks contractors are outsourcing contracts with other parts of the network so outsourcing is needed, but just in this case and cases that are similar to this one.

Let us consider for a while such situation of another SME company (let’s take for example something from art sector, such as garden sculptures). That company is not a part of any network and is highly specialised in what it does, and the sector of business it works in is working by such a way that no outsourcing is required and production on small scale is still profitable since the products are only sold locally and to the bigger distributors. If such a case arises then it is so that outsourcing is not necessarily needed because the business can

still sustain itself and be profitable without outsourcing but for it to grow some kind of outsourcing might become important so that while the company grows it will be able to survive. This thesis describes only “PAQUS” case and outsourcing network case. In that sense the answer to the questions of our thesis might differ if another cases were taken into consideration but that is a subject for another time and place.

Improvements can be made to the system, but any improvement with such an advance strategy will require drastic changes and large amount of resources so it is a case, most likely, for a bigger project than this thesis. Small adjustments, except of livening up the competitiveness between element companies of the network, could not be found or devised. The treatment of the subject in this thesis is a little bit too focused on the exemplary company but it covers the main questions of the thesis well enough. Much more could have been said but on the other hand keeping it brief has its good points as well. All in all this thesis is deemed a good basis for a serious, more detailed research of the subject, may be even a doctorate level if taken more broadly.

As to the appliance, of the thesis and the system of outsourcing devised, into reality of today’s business world and world in general, it is highly “on time” and will become more popular in the future probably due to the expanding and evolving globalisation of business happening in every possible domain of human life. Humans are creatures that do not trust others easily (especially when it comes to business) and tend to strive only for their own wealth but this stereotype will need to change for the SME to survive in the business world of the future so that the type of strategies described in this thesis will assimilate into the society as a norm.

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