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## THE RISKS OF OUTSOURCING TRANSPORT FUNCTIONS IN RELATIONS BETWEEN THE COOPERATION FIRMS

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***Abstract.** The paper presents the thesis that in the process of analysis and decision-making on the scope, duration and depth of cooperation in the framework of outsourcing in the area of transport is necessary to follow a set of business rules-oriented, both the strategic and operational aspects of business operations. The paper also discusses the errors committed in the decision making process concerning the selection and cooperation with suppliers of transport services.*

***Key words:** outsourcing, cooperation strategy, errors in decision-making.*

## РИСКИ АУТСОРСИНГА ТРАНСПОРТНЫХ ФУНКЦИЙ В ОТНОШЕНИЯХ МЕЖДУ СОТРУДНИЧАЮЩИМИ ФИРМАМИ

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***Аннотация.** Указано, что при анализе и принятии решения по проектам, для соблюдения совокупности деловых договоренностей, как по стратегическим, так и операционным бизнес-процессам необходимо длительное сотрудничество в рамках транспортного аутсорсинга. Также в статье описаны ошибки, возникающие в процессе принятия решений по выбору поставщиков транспортных услуг и сотрудничеству с ними.*

***Ключевые слова:** аутсорсинг, стратегии кооперации, ошибки принятия решений.*

## РИЗИКИ АУТСОРСИНГУ ТРАНСПОРТНИХ ФУНКЦІЙ У ВІДНОСИНАХ МІЖ ФІРМАМИ, ЩО СПІВПРАЦЮЮТЬ

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***Анотація.** Вказано, що у процесі аналізу та прийняття рішення по проектах, для дотримання сукупності ділових домовленостей, як по стратегічних, так і операційних бізнес-процесах, необхідним є довготривале співробітництво в рамках транспортного аутсорсингу. Також у статті описано помилки, що виникають в процесі прийняття рішень з вибору постачальників транспортних послуг і співробітництва з ними.*

***Ключові слова:** аутсорсінг, стратегії кооперації, помилки прийняття рішень.*

### Introduction

It is estimated that currently over 90% of economic organization use outsourcing in its business, at least in one area, mainly in transport. For comparison, in the mid-forties of the twentieth century, only 20% of the added value of the average American production company came from an external partner [1]. However, it is estimated that current failure rate

for the cooperation on the basis of outsourcing is at a level of about 60–70%. It should be noted that cooperation with a strategic dimension, based on outsourcing, is associated with partial loss of control over their own resources in obtaining partial control of a partner's one. It goes directly to a disproportionate risk of dependence in the relationship, and therefore – the legitimate concerns arising from the uncertainty behavior of parties to the agreement.

It can also adversely affect (and usually do) on the common goals of partners, carried out under the cooperation.

### Publications analysis

Outsourcing, as a restructuring project is a strategic dimension of a long-term impact and only in exceptional circumstances – tactic one. Because of these characteristics outsourcing can not be classified in the short-term contracts for the implementation of transportation services by carriers with the client [2]. The main difference between outsourcing of the transport functions and the normal (typical) transportation's order is mainly in the fact that outsourcing makes the reconstruction of the system around its core business, and sometimes covered – start the process of building lasting partnerships [3].

Outsourcing, in its various forms, should be regarded as an important platform for strategies cooperation between transport operators and production companies. Finally, using the services of subcontractors has gained status as one of the most important instruments of strategic business management. So if the strategy of cooperation between the client and the carrier, achieved through outsourcing, is to be effective, it must be assessed in the context of the strategic situation of cooperating parties. So thoroughly occupies a strategic assessment was very important phase in the process of transferring the functions of the transport carrier. Then the client defines its business goals and track of their implementation and expected benefits as well. To make this possible, it's required to examine core competencies and also – identification these transport functions that are planned for outsourcing. It must also create a team of outsourcing and assess strategic risk, and within that – the operational and financial one.

### The research goal and tasks

The publication goal is to make the theoretical background for estimating the risks of outsourcing transport functions in the relations between the co-operation firms. The research subject is the process of transportation firms' cooperation. To achieve the research goal the next tasks are worked out: the characterizing of the outsourcing as a platform of cooperation, the outlining of errors in the appropriate decision making process.

### Outsourcing as a platform of cooperation

When the business objectives of the strategy of cooperation based on outsourcing will be precisely defined and agreed with the carrier, one can then proceed to the next phase and begin activities related to the transfer of transport tasks to perform outside. It is important that companies must to prioritize their needs from most important to least important and define the operational level one or more projects, which will focus attention later. The next phase focuses on the needs analysis. At this stage the requirements must be defined for the substance of the relationship with the carrier and evaluate them in the context of the objectives set during the strategic review, and then integrate these requirements in queries addressed to potential carriers. The next step is an interview with the carriers, the evaluation of offers presented by them and choose the one that best meets the needs of the recipient. The next phase are the negotiations that should be run until formulating the terms of the contract and signing of the agreement, which codifies the scope of customer relationship - the supplier of transport services. It is essential to emphasize the details of the contract. In the implementation phase the transport functions will be transferred to the contractor. This step seems to be the most important for the relationship between the client and the carrier – adopted earlier assumptions clash with reality. At the stage of relationship management, it is very important to maintain good cooperation, and key activities should focus on assessing the quality of interactions, the resolution of potential problems and misunderstandings, and to manage communication between partners.

Management of the carrier's relationship is a continuous process. Customer should periodically assess the conditions existing outsourcing contract with the subcontractor to determine whether it is better to continue to work, change the conditions or terminate it. Before the beginning of each next phase, one should identify and then mark the so-called critical points. First, one must follow the required procedure, observe the sequence of steps, do not leave nor enter any two at a time. It's much easier to make difficult decisions. When the client considering outsourcing activities for the first time in the area of transport in strategic terms, he must to analyze that point is extremely large number of options.

It is hard to find the right solution, because the search space is vast and really unlimited. However, after a strategic assessment and the analysis of transport function to be outsourced, this area considerably narrows. In the next stage one should concretize assumptions, and thus – to make the right choice group of carriers, and negotiate only with them.

Due to the strategic dimension of transfer services on the outside, responsible of the team of the outsourcing is high. Therefore, it should create a description of the project business objectives. The team is responsible for starting the whole process, also determines whether the strategic assessment has been completed and then one can go to the next stages. It creates the ground for future relations within the framework of cooperation with the carrier which means that it determines feasible, realistic and objective schedules of activities, analyze, evaluate and accept the carriers offer, and suggests changes to minimize the risk of failure of the project. Besides, the team is considering how to combine the co-operator with the internal business functions such as IT, design, quality, finance, project management, customer service, logistics, contracting, and beyond that – monitors the implementation of the plan.

Examination the compatibility of the concept of co-operation with the carrier, based on the outsourcing with the company's strategy is the final step aimed to evaluate the business benefits. This implies a need to analyze the existing strategy, also in future, possible changes of its parts. The dynamics of economic processes, as well as the relationships between the actors make the strategies of these entities are rarely static and unchanging. Increasing globalization, innovation in the market, new (growing) customer needs, emerging new competitors and changes in the legislative area - are the elements which have an enormous impact on them.

In order to define business goals of cooperation with the carrier and enter it in the current and future business operations, it is necessary – of course – commitment from management. This explains why one should build at the beginning a team of the so-called sponsors. The management company must think about how it will function in the long term. Such far-reaching gaze directs attention to the changing areas in which they must remain flexible and do not

include long-term contracts. On the other hand, managers may indicate functions that are not subject to be changed, in which growth is dying – saturated market exerts pressure to reduce costs and lead to whoever is cheaper. Then it pays to include multiyear agreements to use economies of scale offered by cooperation with a permanent provider of transportation services. Ultimately, the point is to assess the business benefits the company gave guidance, how and what should be outsourced, both for reasons of competence, and strategic.

At the stage of the operational assessment potential partners should identify potential benefits of cooperation within the project outsourcing. To do this one need to assess whether the company carried out are "mature" processes that will support the project and whether one are running proven methods of measuring outcomes, as well as comparative data that will be used to assess the degree of maturity and competitiveness of companies offer carrier. In this phase, the outsourcing team should answer the question whether the company understands all internal and external depending on the results of operational and project-related transfer functions of transport to the outside. At that focuses on operational assessment, which includes: process mapping organizations, exploring their nature, their comparative analysis and management of key elements in the environment processes.

In order to begin the operational evaluation, one must have a map of current processes of the organization. Its development requires a list of processes and their definitions. Then the map should be applied interdependencies between processes. Map helps to understand the consequences of outsourcing transport processes, and shows what to look at each of the types of relationships: temporal, spatial, and evolutionary. Relationship between processes occur in all spheres of activity and until a global map creation, the operator can easily make a mistake and decide to order out a single transportation process, without taking into account the fact that its results may depend on many others. The basic question at the stage of the nature of the processes is: how the process is structured? Without any doubt, with a systematic process is easier to measure than with chaotic one. Besides, each process is structured with time, as the company gains experience.

It should also be accurately assessed currently performed in-house transport processes. It is not possible to answer the question whether the carrier performs the work better and cheaper, if not measured the transport function at a time when it were implemented within the self-service. There are two reasons for measurement their processes in the phase of operational evaluation. First one is that such measurement will show the actual effectiveness and efficiency of processes (current state) and become the basis for this in future assessment the external entity. Secondly, the measurement results will reveal the weaknesses and limitations of the process in order to help determine the expectations of the carrier. In other words, the measurement results of transport processes before contracting them out set the bar at a level at which it is to be found after the intervention of the management staff of the company.

Like any other processes, including those - transport is measured through the use of objective and subjective information. The objective information are facts such as the number of errors made, or whether the values of performance indicators. They help to measure the process from the operational side. It also allows comparing the same process carried out by different carriers. Conversely, information derived from a subjective opinion about the processes of transport, expressed by others out of transport firms for example, about the strengths and weaknesses of carriers, areas of cooperation to be perfect, etc. they help to better understand the process. The combination of both types of information gives a clearer picture of «present» and than what improvements can be expected in the future, regardless of whether the transport functions will be carried out on their own, or to arrange for them outside.

The minimum required level of transport services is an important variable in defining the expectations of the results of outsourcing project, because it is a threshold that determines the carrier's contractual responsibility. One of the key elements of the operational assessment are the quantitative parameters herein for the provision of transport services. Constructing an agreement which takes into account a constant level of transport services, one must define the overall business objectives of cooperation with co-operating, process and methods of measurement commissioned used to assess the comparative performance of the contract.

Without the determination of these factors, provider of transport services, even if fail to comply with the provisions of the contract, may not meet real business needs of the client. It is necessary to designate viable service parameters, including the lowest acceptable level of results. It's should also determine the criteria for success of the project, the results indicate a level at which the project is deemed successful. It should also identify factors that influence the outsourcing project execution, and therefore - the expected level of performance of the carrier. Expected results of cooperation in the field of transport should be clearly defined so that one can effectively manage and monitor them. It also must be able to refer these measurements to the parameters of transport services: the availability, timeliness, quality, productivity and cost efficiency.

### **Errors in decision making**

Outsourcing – a platform for cooperative relations with carriers – once legitimate financial aspects, is becoming a strategic base. The emphasis here is on the use of specialized knowledge and processes outside of the existing enterprises, and the main objective is to increase the effectiveness and efficiency of implementation at the operational level. Outsourcing as a result of strategic activities, if conducted properly and consistently, can not only improve company performance, but also help to build its competitive advantage. It should be noted that the benefits associated with the transfer functions of transport on the outside appear mainly in the outsourcing projects that are well planned, wisely implemented and properly managed. Unfortunately, the economic practice provides many examples where companies insufficiently estimate the own commitment and not sufficiently respect the discipline required to achieve these benefits. It also should be noted that enterprises do not always see the impact that outsourcing will have on their employees, processes and used methods and tools. As a result, «contracted» co-operation may fail. Such companies break off existing agreements with carriers, and then outsource the same thing in the same way the next transport firms.

Analyzing the relationships between companies in outsourcing one should pay attention to several common mistakes that can make the cooperating companies. These errors

undoubtedly be seen as threats to the parties to the contract. These are mainly [4]:

1. Lack of or insufficient involvement of managers.
2. Insufficient knowledge about methods of outsourcing.
3. Lack of communication plan.
4. Lack of or inadequate recognition of business risks.
5. Skipping a decision-making processes external sources of knowledge.
6. No / insufficient involvement of specialists.
7. Haste in implementing outsourcing.
8. Skipping / playing down cultural differences in the approach to conducting business (mainly transnational relations).
9. Skipping / underestimation of the factors determining the efficiency of the carrier.
10. Lack of skills in managing business relationships.
11. Inadequate involvement of operational staff.

### Conclusions

To avoid or reduce the above-described risks, one should definitely rely on outsourcing clear and transparent rules, which greatly facilitates the subsequent resolution of the issues and disputes. Partners who are no longer satisfied with the results of cooperation can then check whether the established factors have not changed and that the components related to the

cooperation are at an appropriate, regulated by a model developed by the parties – level. Therefore, assessment of business benefits resulting from the cooperation of companies absolutely requires the compilation of the characteristics of the relationship between the parties to the agreement. This plays a special role in conditions of severe impact of the outsourced transportation services on the market achievement of the companies.

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