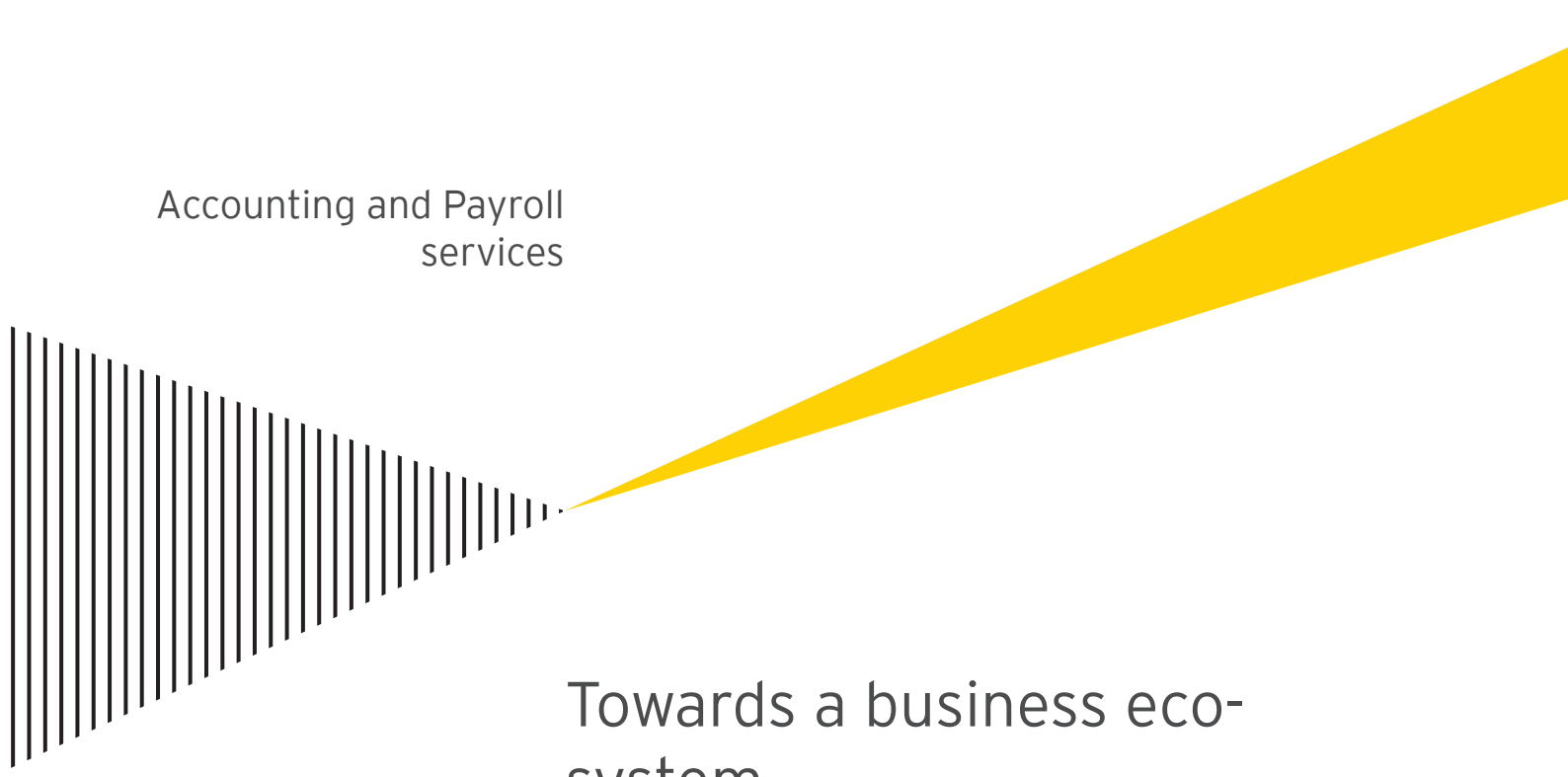


Accounting and Payroll
services



Towards a business eco- system

Analysis of the results of a poll on outsourcing taken by Ernst & Young Usługi Księgowe i Płacowe and Harvard Business Review Polska in October 2009.

by Marcin Jurczak*

When we run this poll, our aim was to compare how outsourcing, as a management tool, is perceived in Poland - an emerging market - and in Western Europe, i.e. on mature markets. The following answers are given by 133 managers of Polish enterprises together with their short analysis. We believe the obtained data make an interesting material and the observations based on them go well beyond a single tool which the outsourcing is. This is because comprehensive differences are clearly visible between management practices preferred by Polish managers and the problem solving strategies preferred by managers operating on more developed markets.

Use of outsourcing

The first question we asked the managers pertained to how popular the use of outsourcing is. We have not been surprised to see that Polish managers express keen interest in using this tool, and the proportion of respondents who use it is higher than in the case of Western Europe. 9 out of 10 managers encounter outsourcing in their company in some measure.

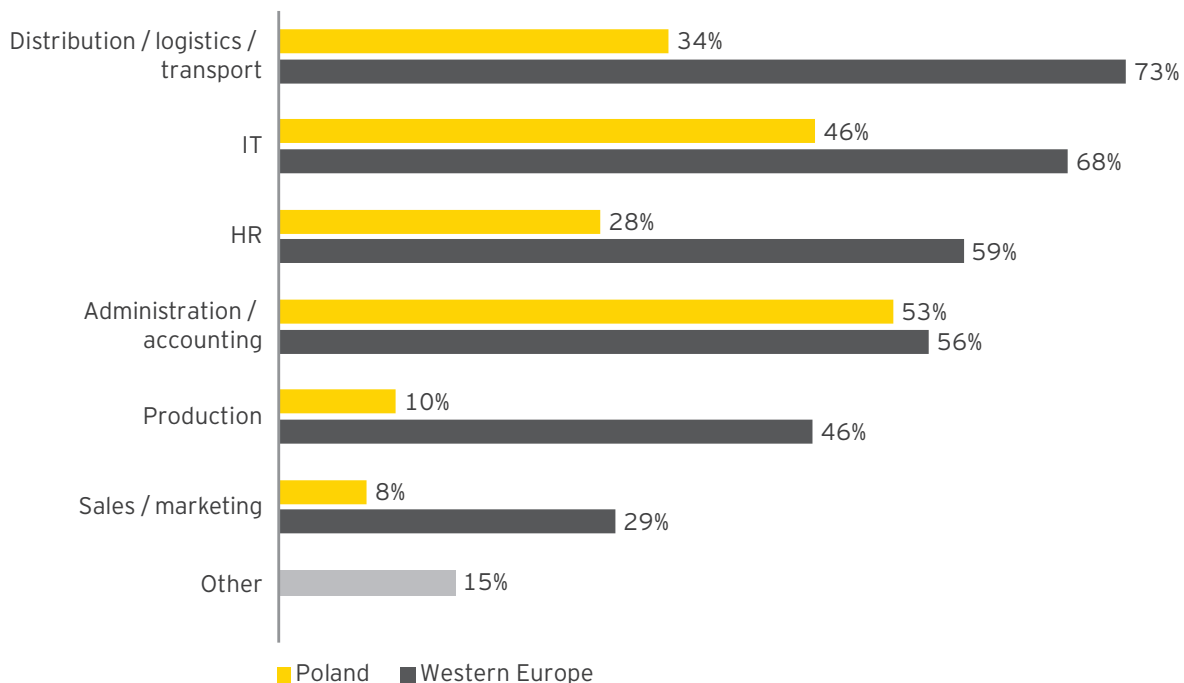
In the western part of Europe, every seventh manager answered 'yes' to this question. Naturally, this reply can depend on many factors, primarily historical determinants. Most companies here in Poland started developing in 1990s when outsourcing was already a well-known way to acquire necessary processes from external resources. In the Western Europe, there is still a considerable number of entrepreneurs whose structures and organisations were founded only on the basis of company's internal resources, back in those times when outsourcing was making its first steps.

Does your company commission to an external provider (outsource) at least one business percent?



The situation is different when it comes to the extent of the use of outsourcing in those companies which commission external suppliers to perform some of their processes. Polish enterprises acquire outside only a small number of the most basic functions. Those are activities traditionally associated with back office (accounting, IT). In the Western Europe, managers - once they decide to outsource - use this tool more confidently. They are gaining typically specialised knowledge (production, sales and marketing) more often this way. A great number of processes management outside the company on mature markets proves that there are entire management strategies developed around outsourcing in terms of assets in their broad sense. It is not only an *ad hoc* idea to cut the costs and eliminate from the company everything which is not a core competence.

Which processes do you outsource entirely or partly?



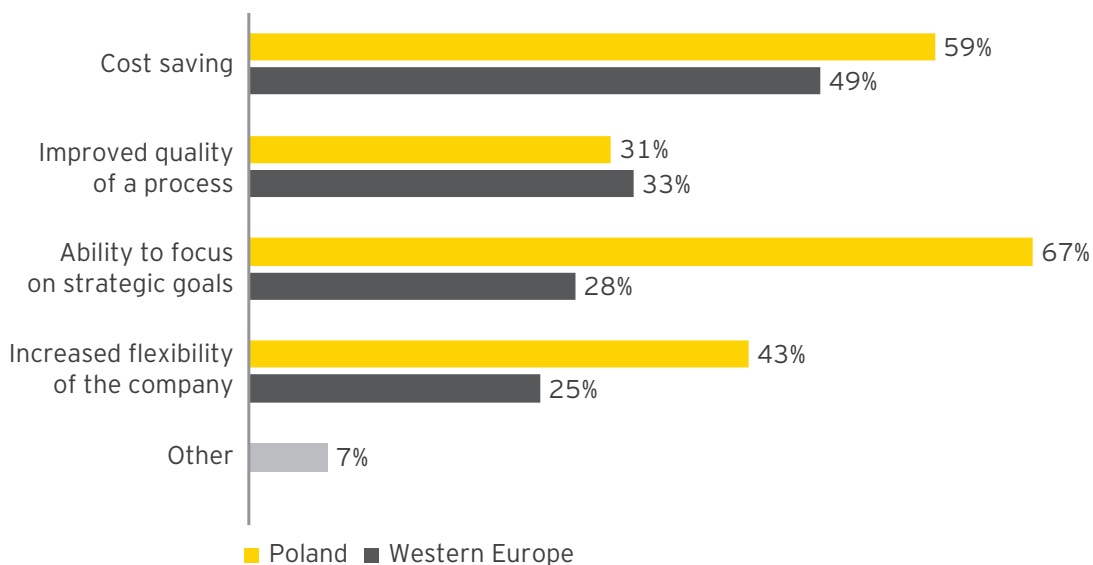
The approach to outsourcing

The replies to questions about the advantages and disadvantages of outsourcing confirm, in our opinion, fundamental differences in the approach to resources management that exist between Polish managers and managers from developed countries. Here in Poland, what managers appreciate about outsourcing is that it allows them to focus on basic functions of the company. They believe that such a change must bring immediate economic benefit. At the same time, they believe that there is no one better prepared to handle strategic affairs than managers of a given company. It is them who hold necessary knowledge to meet

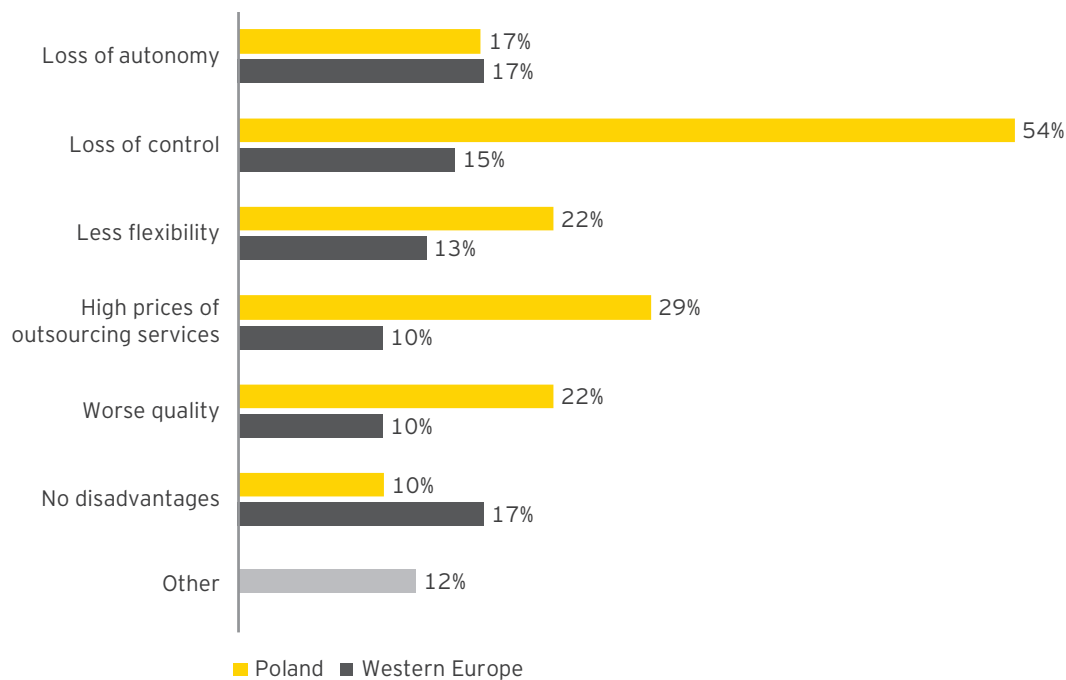
challenges faced in the key processes. The picture would not be complete without the answers to questions about drawbacks of outsourcing. Polish managers are annoyed with the loss of traditional control over assets and they always think that outsourcing services are too expensive. They also fear that the quality of an outsourced process would deteriorate.

Managers on mature markets who decide to outsource do not expect fast economic profits and probably they would be hard pressed to understand the weight their Polish peers attach to "strategic context". This might be because they outsource strategic processes more often than Polish enterprises.

In your opinion, what are the advantages of outsourcing?

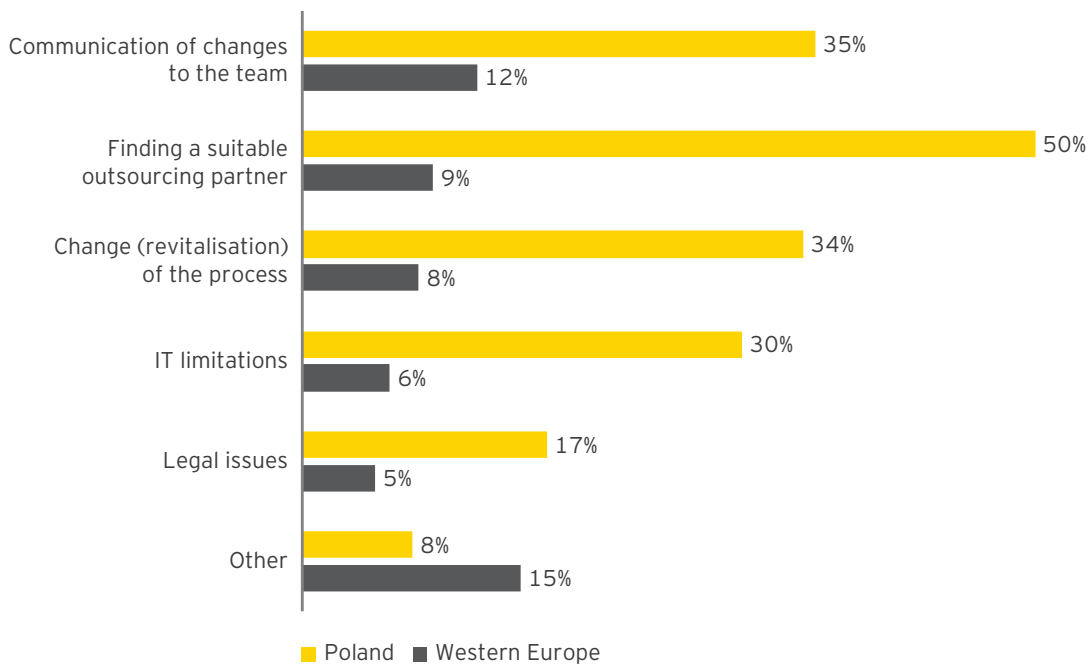


In your opinion, what are the disadvantages of outsourcing?



Considering the questions we have discussed so far, it should come as no surprise that the change involved in choosing an outsourcing solution is very painful to managers in Poland. It is difficult for them to find a suitable partner, they encounter considerable problems during transformations in the team itself and the revitalisation of a given process is not always successful.

What problems have you encountered when establishing an outsourcing relation?



Poles are increasingly eager to outsource, but still understand it in a very simplified way. As a result, they try to keep it within boundaries that go against the very nature of this solution. To outsource means to partially give up control over resources in exchange for a better quality of a given process and foreseeable economic benefit. The latter cannot be without the former. It is not possible to achieve a satisfactory quality improvement and, as a result, certain savings, if control is not partially given up. No visible results can be expected if there is not enough investment in the range of the venture and a sceptic approach is taken to its implementation.

Managers on mature markets, who have been outsourcing for years, seem to have a firm belief that people in charge of very advance or even outright strategic functions do not need to sit in the company's offices. They also do not have to be employees of that company or be subject to traditional, hierarchy-based control to let the important business processes function smoothly and effectively or even be as flexible and innovative as never before. This approach is still alien to many Polish managers.

Measurement of outsourcing results

Both in Poland and in the Western Europe only a little more than half of entrepreneurs measure the effectiveness of their adopted outsourcing solution. Reasons can vary. In the case of enterprises that use this solution to a large extent (strategically), the effectiveness of the commissioned process is regulated somewhat parenthetically, and the measurement is made at the entire company results' level. However, where outsourcing is used in a highly limited manner, implementing a system of criteria and measures seems to be unprofitable.

Have you established a system of criteria and measures which would allow you to assess the efficiency of the implemented outsourcing process?



The future of outsourcing in Poland

Polish managers notice that outsourcing is to expand to cover more and more advanced processes. Sales and marketing, production and logistics are going to be commissioned to external providers. This is because it will become more and more frequently necessary to expand one's knowledge and skills in management - also in the areas strategic to the company. There will be a need to come up with more and more bold compromises to acquire the required knowledge and skills outside.

The research carried out in the Western Europe was called "Outsourcing - the Birth of Fragmentation". However, the Polish part should be known as "Towards a Business Eco-system". As technologies develop and communication speed increases, all processes performed in a company take place within a broad eco-system of co-operating partners. A company's development is not as much hinged on operating perfection any longer, but rather on the networks of horizontal relations within our eco-system. Our poll shows that Polish companies only learn to manage resources they do not own directly. Managers realise, however, that they are condemned to gain increasingly important competences this way.



*Marcin Jurczak is a Partner with Ernst & Young where he manages the Accounting and Payroll Services Outsourcing Department. The Department employs over 100 people in 4 locations in Poland and provides services to nearly 200 clients. He is also a graduate of General Management Program at the Harvard Business School in Boston.

The article was published in Harvard Business Review Polska in December 2009

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

For more information about our organization, please visit www.ey.com/pl

Ernst & Young

Usługi Księgowe Sp. z o.o.
ul. Domaniewska 50
02-672 Warszawa
tel. +48 22 557 7000
fax. +48 22 557 7001
mail: ernst.young@pl.ey.com

© 2011 Ernst & Young
All rights reserved.

Note

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.