

THE EFFECT OF OUTSOURCING ACTIVITIES SELECTION ON THE BENEFITS OF OUTSOURCING

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Activities that a company considers for outsourcing must meet certain criteria so that the decision to outsource these activities could be justified. Based on this, the assumption is that the decision on activities to outsource should lead to creating more benefits of outsourcing for a company. According to the relevant literature, wherever outsourcing is approached strategically, the evaluation of activities to be outsourced is the foundation of future success. In accordance with this, this paper investigates if activities to outsource that meet the outsourcing criteria to a greater degree affect the benefits of outsourcing for a company. In conducted empirical research survey, connection between the selection of activities and benefits of outsourcing for the companies in Bosnia and Herzegovina has not been established. Contribution of this paper is in examining theoretical dogmas about activity – outsourcing relationship in B&H companies practice.

Key words: Activity, Outsourcing, Benefits of outsourcing

1. INTRODUCTION

Global business trends have led to the growth of competition, which urges companies to react more rapidly to market changes and to ensure high quality of products at low costs. In this battle, companies cannot ensure this quality in all segments on their own, and they are compelled to focus on those activities for which they specialized in the most, and to outsource the rest of activities. Sometimes those are activities that a company cannot handle on its own, or activities that a supplier can perform cheaper or simply better. Outsourcing less significant activities to companies specialized in those activities, enables a company to generate more value by focusing on its core activities.

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Activities that a company considers for outsourcing must meet certain criteria so that the decision to outsource these activities could be justified. The assumption is that the decision on which activities to outsource, made strategically and following certain rules, should lead to creating more benefits of outsourcing for a company. In accordance with this, this paper investigates if activities to outsource, that meet the outsourcing criteria, affect the benefits of outsourcing for a company.

This paper outlines the theoretical framework as well as the analysis and the discussion of the empirical results of the research, followed by the conclusion and the list of literature consulted. Outsourcing is recently a highly spoken subject in our society considering often unjustified “blame” on outsourcing for losing workplaces in big regional companies. Relevance of this subject is in highlighting outsourcing practice of B&H companies, as well in trying to show the strategic dynamics between selection of activities for outsourcing and final benefits for the company.

2. THEORETICAL FRAMEWORK

The existing literature has provided a relatively detailed insight into determinants when deciding whether to *make-or-buy* for a certain activity. Most authors agree that a company, having development and sustainability as goals, must focus on the activities and processes wherein it has a certain competitive advantage. On the other hand, it must outsource the activities and processes to other subjects on the market that have such a competitive advantage.

Undoubtedly, the Transaction Cost Approach has given a key contribution to understanding the mentioned decision making, although it has its limitations, especially when it comes to specifications of assets transactions necessary to outsource activities. The fewer demands for assets transactions there are, the easier it is to create more thorough and detailed contracts and the greater the probability of outsourcing an activity, and vice versa. To put it simply, an activity is outsourced if a total profit after increasing income and reducing costs is greater than the overall transaction costs of outsourcing. According to Williams and other authors, who empirically supported the role of transactional costs in making a decision to outsource (according to Espino-Rodríguez, Padrón-Robaina, 2006, 49, these authors are: Andersen and Schmittlein 1984; Joskow 1988; Lyons 1995; Masten 1984; Monteverde and Teece 1982; Murray et al. 1995; Walker and Weber 1984, 1987), the decision on outsourcing an activity depends on the transactional costs, that is, on minimizing the costs.

The Resource Based View investigates the relationship between internal characteristics of a company and its positioning, but also rejects two traditional hypotheses in the Porter neoclassical model. Those suggest that a sustainable competitive advantage depends on the market position and predicts that companies that have fewer internal skills and resources are more likely to outsource these activities. This approach views a company as a set of unique strategic resources, capable of creating a sustainable competitive advantage. Its goal is to determine competitive advantages and limitations of resources in using these advantages, as well as to consider a company's ability to identify such advantages, develop and protect them (Bustinza et al., 2010, 277 according to Penrose, 1959; Wernerfelt, 1984.).

Empirical reality shows how companies approach outsourcing of some but not all activities, so the outsourcing phenomenon can be discussed on the company level. Every single activity can be seen in the context of make-or-buy decision, so final decisions for all activities will represent the overall level of outsourcing for a company, which will be different for different companies (Kotabe and Mol, 2009, according to D'Aveni and Ravenscraft, 1994).

When it comes to levels of outsourcing which are important for this paper, the most appropriate would be tactical, strategic and transformational outsourcing (according to Brown, Wilson, 2005, 20-25).

On the tactical level, reasons for outsourcing are related to problems, such as the lack of financial means for capital investments, inadequate internal skills or the lack of talent to perform a certain job, the need for cutbacks, the wish to reduce the number of employees and similar. This type of outsourcing often causes greater organizational restructuring. By tactical outsourcing, a company tries to lower expenditures at a particular moment, to eliminate the need for future investments, to get the cash from selling certain assets and to make redundancies.

While tactical model is oriented towards solving present problems, by engaging the external suppliers, the strategic model implies doing business with a smaller number of "the cream of the crop" among integrated suppliers, in order to do business in the best possible way. In strategic outsourcing, the emphasis is on creating a long-term value and common benefits for both parties in a partnership. It is also important to coordinate goals and plans of outsourcing implementation with goals and strategies of the overall company.

Transformational outsourcing is the third generation of outsourcing – the first phase includes doing business by existing rules, the second uses outsourcing as a part of the organization redefining process, whereas the third one uses outsourcing in order to redefine business process. The real strength of the transformational outsourcing is in innovations that are brought into the company by professionals – suppliers are not only a means of achieving greater efficiency but also allies in changes necessary to make so the company could stay present in the market.

After analysing and summarizing outsourcing phases in the literature, the author of this work points out four basic phases of outsourcing process (adapted from Greaver II, 1999, 18; Power, Desouza and Bonifazi, 2009, 32-203; Brown and Wilson, 2005, 25): the process of building the outsourcing incentive, the process of contracting the outsourcing project, the transition of resources and the outsourcing implementation, and managing the relations with the supplier.

The process of creating the outsourcing incentive deals with the proper selection of activities to outsource, starting by defining the core activities of the enterprise, followed by analysis of the activities and in-house competencies. After estimating risks against advantages of outsourcing selected activities, an enterprise analyses costs and the performance of the decision, and it defines the aims of outsourcing. Finally, a decision is made on outsourcing the analysed activity.

It can be concluded that the choice of “the right” activity to outsource and the contracting stage of outsourcing are the most important points for achieving the final result in the outsourcing project, that is, these stages make the core of the outsourcing process which must be analysed in detail. When the selection of activities and the contracting stage are done by the book, a defined path is created for a company to follow in order to implement the project while at the same time it nurtures the partnership with the provider. If the outsourcing incentive is done superficially, or to put it more precisely: if the selection of activities to outsource is done superficially, all the results of further efforts to implement the outsourcing projects become coincidental.

In accordance with the above said, the defined subject of this research would be the answer to this question: *how can the selection of activities to outsource influence benefits of outsourcing for a company?*

3. METHODOLOGICAL FRAMEWORK

3.1. Research hypotheses

The main goal of this research is to determine the influence of the selection of activities to outsource on the benefits of outsourcing. Activities considered for outsourcing must meet certain criteria, so that decision on outsourcing could be justified. The assumption is that the decision on activities to outsource should lead to creating more benefits of outsourcing for a company. Wherever outsourcing is approached strategically, the evaluation of activities to be outsourced is the foundation of future success. Based on the above, the following research hypothesis has been formulated:

- H:** Activity/activities selected for outsourcing which meet the outsourcing criteria to a greater degree also influence the benefits of outsourcing for a company.

Identification and operationalization of research variables is shown in Table 1.

Table 1: Identification and operationalization of research variables

Indicators for the variable, related to outsourcing /benefits for an outsourcing company*	Criteria that an activity must meet when making a decision on outsourcing**
KO1 – focus on core activities KO2 – increasing business flexibility KO3 – focus on internal business improvements KO4 – strategic positioning improvement KO5 – solving problematic activities and functions KO6 – enables access to latest technologies KO7 – enables innovations KO8 – reduces organizational risks KO9 – improves operations in a technological sense	KA1 – connection with the core activity, KA2 – service providers on external market, KA3 – competencies in relation to supplier outsourcing, KA4 – outsourcing costs, KA5 – quality of supplier output in relation to the company, KA6 – supplier professionals in relation to the company, KA7 – greater access to supplier resources in relation to the company. KS10 – development of post-sales services

* Adapted from Bustinza, Arias-Aranda & Gutierrez – Gutierrez (2010, 278-282).

** Adapted from Akšamija, 1999, 90.

Source: Author

3.2. Methodological aspects of the research

The empirical study included legal entities on the territory of Bosnia and Herzegovina, which are classified into large and medium-sized companies. The research concentrated on the population of large and medium-sized companies. The companies that were under insolvency procedure or liquidation, unprofitable companies, and financial institutions were not included in the research.

In current statistical overviews by the Agency for Statistics and the Bureau of Statistics, there is a division of companies based on the number of employees and income category. The statistical data define medium-sized companies as having over 20 million BAM of annual income, and large companies with an annual income of over 100 million BAM. The basic set includes companies from table 2.

Table 2: Large and medium-sized companies in BiH

	Medium-sized companies	Large companies	Medium-sized companies	Large companies
	Number of employees		Income level	
Total	1080	191	313	67

Source: Adapted from *Publikacija SPR 30/06/12*, Agency for Statistics BiH, 10-11.

The classification on the basis of number of employees was chosen as a basic set. The register of business entities was taken from the Agency for the Financial, IT and Intermediary Services of FB&H for the territory of the Federation of Bosnia and Herzegovina, while the register for the Republic of Ruska was taken from the Agency LRC Ltd. Twenty per cent of the basic business entities set was selected randomly, therefore, poll questionnaires were sent to 255 different addresses. The expected return was 10% of the basic set, that is, 20 large companies and 108 medium-sized companies, 128 companies in total which would represent the research sample.

The research was conducted from November 2012 until March 2013 on the territory of Bosnia and Herzegovina, also including entities that did not implement outsourcing. The research included all entities that had actively been in business for the minimum of three years. However, 97% (88 out of 90) of those entities had been in business for more than 5 years. Researched entities which claimed to have implemented outsourcing, and are in the sample, had active outsourcing contracts for the minimum of 3 years within the observed

period, although 96% of the ones that implemented outsourcing had had outsourcing contracts for more than 5 years (67 out of 70). Companies that did not implement outsourcing, but they are in the sample, are companies whose managers claimed to have thought about outsourcing a part of activities in the near future (20 out of 90). The research was primarily focused on getting a satisfactory sample of companies that implemented outsourcing.

3.3. Research instrument and data processing

The empirical research was conducted using the questionnaire, which was first sent to email addresses of randomly selected 215 medium-sized and 40 large companies from the basic set of 1080 medium-sized and 191 large companies, classified according to the number of employees – 255 companies in total, that is, 20% of the basic set of 1271 companies. The questionnaires were completed by executive managers or company directors. After a period of one month, the polls were once again sent to the email addresses followed by phone calls. After another period of one month, the included companies were visited, that is, the field research began. Secondary, or so called desk research, was conducted by investigating database on the Internet and available literature in regional university libraries.

The questionnaire and measurement scales were created by the author, after consulting previous studies (Akšamija, 1999; Kotabe & Mol, 2009; Bustinza, Arias-Aranda & Gutierrez-Gutierrez, 2010; Letica & Dujmović, 2011).

All collected data were coded and input into a SPSS database and afterwards analysed by using several statistical techniques. Basic data processing was done within descriptive statistics in order to analyse significant characteristics of the sample. A mean value calculation was done for the questions answered using the Likert scale, and as a simple statistical method, correlation analysis was used to further analyse certain connections in the model. As far as complex statistical methods are concerned, a confirmatory factor analysis and path analysis were used.

The goal of factor analysis is the reduction of a number of variables to a few factors that can be used to generate original correlation matrix. (Rozga, 2010, 52). Path analysis (PA), as an extension of multiple regression, allows observing more than one dependent variable at a time and allows variables to be dependent in relation to some variables and independent in relation to others observed in the same model. In this analysis there are endogenous and

exogenous variables instead of dependent and independent ones. In drafts, endogenous variables are always followed by an e – a mark which shows that endogenous, or in terms of multiple regression, dependent variables, are always measured with a smaller or bigger error. Path analysis is based on the same grounds as the SEM¹ analysis. However, the path model uses the observed variables, instead of latent variables, by calculating the means for operationalized indicators. Its common usage is related to testing the existing models (Norman, Streiner, 2003, 159). The goal of the path analysis is to confirm whether a model corresponds to supposed relations. If the model does not correspond, it does not mean that it has no value. Maybe there are extra factors, whose input would result differently because one cannot measure something that does not exist. When it comes to significance of the results, this analysis has an advantage to standard statistical techniques.

4. DISCUSSION OF RESEARCH RESULTS

Data were collected from 90 companies, which is 70.31% of the sample, consisting of 128 companies. Out of the received responses, 70 respondents (77.8%) implement outsourcing and 20 (22.2%) of them do not. According to the form of ownership, most of the companies are privately owned (87.8%), while others are state owned (6.7%), or are under mixed (4.4%) or some other type of ownership (1.1%). As far as the size is concerned, the companies mostly have up to 50 employees (17.8%) or from 50 to 249 employees (70.0%). Companies in the sample are mostly under domestic ownership (87.2%). There are 53 companies (58.9%) that are medium-sized and 37 large companies (41.1%).

In the data preparation stage, accuracy of the data was checked, logical analysis of responses was performed and the missing values were estimated. In the process of data input, each variable was given a corresponding mark (which corresponds to the overview of variable operationalization in Table 1). All operationalized indicators were measured by using the Likert scale with five levels of agreement.

More than one activity was outsourced by 74.3% of the respondents who implemented outsourcing. All the respondents were asked to list which activities were outsourced. The structure of their answers is presented in table 3.

¹ SEM analysis = Structural Equation Modelling with latent variables.

Table 3: Outsourced activities

Activity	Responses		Percentage of cases
	N	P	
Production	15	6.8%	17.0%
Supply/sales	16	7.2%	18.2%
Marketing	28	12.6%	31.8%
Finance	2	0.9%	2.3%
Accounting	15	6.8%	17.0%
Legal affairs	31	14.0%	35.2%
Transport/distribution	35	15.8%	39.8%
Storage	3	1.4%	3.4%
Usage of information technologies	34	15.3%	38.6%
Import/export services	27	12.2%	30.7%
Protection/maintenance	14	6.3%	15.9%
General/administrative work	1	0.5%	1.1%
Other	1	0.5%	1.1%
Total	222	100.0%	252.3%

Source: Author.

The column marked “N” presents the number of responses related to a single activity. The next column in the table, “Pct of Responses”, represents a percentage of the total number of responses that refer to a single activity. The last column, “Pct of Cases”, shows how many companies indicated that the stated activity was outsourced. The total exceeds 100%, due to the fact that respondents could list several outsourced activities.

For instance, 39.8% of all respondents stated they implemented outsourcing or they were considering to outsource the activities of transport/distribution in the near future; 38.6% of them implemented outsourcing or considered to outsource the activity of information technologies and 35.2% outsourced or would outsource the company’s legal affairs. The reasons why companies decide to outsource are presented in Table 4.

It can be noticed that reduction and control of costs is one of the basic reasons why companies decide to outsource. More than a half of companies (58.4%) stated this reason for deciding to outsource, while other supported reasons are: focus on the core activities (39.3%) and providing internal resources for other purposes (37.1%).

Table 4: Reasons for outsourcing

Reasons	Responses		Percentage of cases
	N	P	
Costs reduction and control	52	25.1%	58.4%
Focus on the company's core activities	35	16.9%	39.3%
Improvement of performances by connecting with partners of top-class reputation	11	5.3%	12.4%
Providing internal resources for other purposes	33	15.9%	37.1%
Unmanageable activity – dissatisfaction with internal performance	9	4.3%	10.1%
Distribution of risk with outsourcing supplier	10	4.8%	11.2%
Flexibility increase	15	7.2%	16.9%
Access to new markets and business opportunities by supplier's business network	19	9.2%	21.3%
Enhancing credibility and image by cooperating with a superior supplier	2	1.0%	2.2%
Increasing the capacity of production/sales in the periods when otherwise it would not be possible	10	4.8%	11.2%
Other	11	5.3%	12.4%
Total	207	100.0%	232.6%

Source: Author.

Table 5 shows the overview of average responses by the respondents in relation to the statements on the implementation of outsourcing.

It is interesting to note that the highest average rating was related to involvement of management in the outsourcing process (4.09) and the balancing of the outsourcing project with the company's strategy and goals (4.07), while the lowest was given to employee resistance (1.70).

Considering the fact that the data was collected from executive managers, who were in charge of implementation and supervision of the outsourcing projects, these responses some interesting insights on the nature of doing business in Bosnia and Herzegovina.

Table 5: Outsourcing – implementation, goals, relations

	N	Average	Standard deviation	Variance
We are satisfied with the results	70	3.80	.861	.742
Set goals have been achieved	69	3.75	.793	.630
There was an implementation plan	70	3.49	1.018	1.036
The supplier is a strategic partner	70	3.01	1.409	1.985
We are satisfied with the supplier	68	3.85	.697	.486
Supplier payment depends on the achieved result and performance	70	3.67	1.032	1.064
Supplier performance is better than internal units performance	70	3.76	.970	.940
Analysis of internal units performance was done in detail prior to the decision	70	3.43	1.347	1.814
Employees put up strong resistance to outsourcing	70	1.70	.998	.996
Top management and board of directors were actively included in the process	70	4.09	1.087	1.181
Outsourcing initiative is entirely balanced with basic goals and strategies	69	4.07	.773	.598
Some outsourced activities were again internally done after a period of time	69	2.49	1.451	2.107
There is a future intention to outsource more activities to an external supplier if there is any justified need for it	69	3.38	1.099	1.209

Source: Author.

Table 6 shows the results of descriptive analysis for the convenience criteria for outsourcing, where it can be noticed that the statement “*Outsourcing supplier has a greater and easier access to resources needed to perform activities than the internal unit of the company*” had a slightly higher rating, in comparison to other statements.

So, if average ratings, related to the professionalism and quality of supplier output are taken into account, this reveals the significance of skills and access to potential suppliers for the final selection of activities to outsource.

Table 6: Descriptive statistics for the criteria used for measuring the convenience of outsourcing

Item	N	Mean*	SD	Skw	Kurt
The outsourced activity is not connected with the core activity	69	3.58	1.52	-0.65	-1.10
The choice and number of suppliers for outsourcing an activity is great in external market	70	3.43	1.22	-0.34	-0.84
The company's competency to perform an activity is low in comparison to the supplier	69	3.39	1.23	-0.26	-0.88
The costs of outsourcing an activity are smaller than the costs of an internal unit which performed the activity	69	3.68	1.33	-0.77	-0.60
The quality of output of the outsourcing supplier is higher than the internal unit of the company	70	3.79	1.01	-0.78	0.32
Professionalism of the outsourcing supplier is higher than the internal unit of the company	70	3.89	1.00	-0.84	0.51
Outsourcing supplier has a greater and easier access to resources needed to perform an activity than the internal unit of the company has	69	4.2	0.92	-1.36	1.91

Source: Author.

Including all mentioned benefits, descriptive statistics shows consistency of average responses of the respondents when it comes to indicators of outsourcing benefits (Table 7).

The reliability of measurement scales for attitudes was first analysed by Cronbach Alpha coefficient (it is desirable that this coefficient is 0.7, taking into account that values above 0.8 present good reliability). Also, indicators "alpha-if-deleted" and correlation coefficients "item-to-total" were used with the aim of identifying possible statements that influence the reduction of the value of Cronbach Alpha coefficient, as well as those that have a weak correlation with the total value of the associated measurement scale (values lower than 0.3 are generally considered problematic).

Table 7: Descriptive statistics for indicators of outsourcing benefits

Item	N	Mean*	SD	Skew.	Kurt.
The level of focusing on core activities	70	3.61	0.86	0.28	-0.78
The level of increasing business flexibility	70	3.44	0.99	-0.53	0.46
The level of focusing on internal improvements of doing business	70	3.54	0.93	-0.63	0.34
The level of improving strategic positioning	70	3.34	0.92	-0.04	0.19
The level of dealing with problematic activities and functions	70	3.49	0.88	0.44	-0.62
The level of enabling access to the latest technologies	69	3.33	1.09	-0.64	0.09
The level of innovations	70	3.14	1.01	-0.21	-0.06
The level of reducing organizational risks	70	3.09	1.06	-0.33	0.02
The level of improving operation performance in terms of technology	70	3.11	1.06	-0.23	-0.29

Source: Author.

The results are summarized and presented in Table 8.

Table 8: Results of reliability analysis

Construct / indicator variables/	Cronbach alpha (N=90)	Cronbach alpha if item deleted
Convenience for an activity to outsource	.777	.823*
Outsourcing benefits	.900	

* After excluding the item „Outsourced activity is not connected to the core activity“.

Source: Author.

As demonstrated by Table 8, reliability coefficients are slightly lower for the construct “benefits of the activities to outsource”. Reliability coefficient can be somewhat fixed if ka1 statement “*Outsourced activity is not connected to the core activity*” is excluded, which was done.

Validity analysis was done by creating measurement models and using Confirmatory Factor Analysis for constructs, related to convenience of the activity to outsource and the outsourcing benefits.

To estimate parameters within CFA, the estimation method ML (maximum likelihood) was used, and the results are presented by Table 9 and Table 10.

Table 9: CFA for convenience of outsourcing

Short description	β	<i>B</i>	<i>SE</i>	<i>p</i>
The possibility of choice of the supplier	0.575	1.000		
The company's competency to perform activities	0.562	0.981	0.259	0.000
Outsourcing costs	0.588	1.128	0.289	0.000
The quality of the output of the supplier	0.848	1.213	0.246	0.000
Professionalism of the outsourcing supplier	0.839	1.194	0.249	0.000
Access to resources the outsourcing supplier has	0.731	0.951	0.211	0.000

Source: Author.

The measurement model has shown a remarkably high representation: χ^2 for CFA is insignificant ($\chi^2 = 9.67$, $N = 70$, $df = 9$, $p = 0.38$), CFI = 0.996, TLI = 0.993, RMSEA = 0.033, SRMR = 0.040.

Table 10: CFA for outsourcing benefits

Description	β	<i>B</i>	<i>SE</i>	<i>p</i>
Increasing business flexibility	0.688	1.000		
Internal improvements of doing business	0.696	0.950	0.174	0.000
Improving strategic positioning	0.708	0.953	0.176	0.000
Dealing with problematic activities	0.476	0.616	0.164	0.000
Access to the latest technologies	0.828	1.329	0.217	0.000
Innovations	0.771	1.147	0.205	0.000
Reducing organizational risks	0.731	1.139	0.208	0.000
Improving operationalization in terms of technology	0.807	1.255	0.206	0.000

Source: Author.

The initial measurement model has had a slightly lower representation: χ^2 for CAF is significant ($\chi^2 = 64.50$, $N = 70$, $df = 26$, $p < 0.01$), CFI = 0.887, TLI = 0.844, RMSEA = 0.145, SRMR = 0.077. By eliminating the first manifest variable, representation has increased and for the final model and equals: $\chi^2 = 45.94$, $N = 70$, $df = 20$, $p < 0.01$; CFI = 0.907, TLI = 0.870, RMSEA = 0.136, SRMR = 0.055. It must be pointed out that RMSEA is above desirable 0.10 or less, which is probably the consequence of the lack of adjustment of this indicator to the samples (Tabachnick and Fidell, 2007, 717). The verification of

univariate distribution was done by calculating the index of symmetry (skewness), the index of curvature (kurtosis) and by observing frequency distribution on the histogram. For the most variables used to measure attitudes, skewness and kurtosis do not significantly deviate from zero.

In the CFA analysis, indicator related to *focusing on the core activities* was excluded, since it disturbed validity. Furthermore, convergent and discriminant validity were estimated.

Table 11: Internal consistency of constructs

Mark	Construct / indicator variables/	Cronbach alpha (N=90)	Cronbach alpha if item deleted
PAZO	Convenience of activities to outsource /ka1-7/	.777	.823*
KS	Competitive capacity /ks1-10/	.936	
FM	Financial measures /fm1-5/**	.884	

* After excluding the item „Outsourced activity is not connected to the core activity“.

** Financial measures: profitability, liquidity, market share, increase in sales, cost efficiency (based on managerial assessment).

Source: Author.

Convergent validity was estimated on the basis of standardized factor loading, composite reliability and extracted variance. Almost all standardized factor loadings for the conceptual model are higher than 0.5, which indicates convergent validity. The loading factor was 0.48 only for the variable related to *dealing with problematic activities and functions*, which is lower than the preferable value of 0.5. Composite validity for each construct was higher than 0.8, which confirmed the presumption about convergent validity. Finally, the percentage of the extracted variance should be 50% or higher. In this particular case, it equals 49% for outsourcing convenience and 52% for outsourcing benefits. Although the extracted variance for the outsourcing convenience construct is slightly lower than desired, convergent validity is not questionable.

Discriminant validity was estimated on the basis of comparison of correlations between a construct and the square root of average variance extracted (AVE) for each construct. The average of each construct is obtained by calculating the average of its indicator variable. In order to ensure evidence for discriminant validity, the root of extracted variance of the construct should be higher than the correlation of that and other constructs in the measurement

model (according to Hair, Black, Babin & Anderson, 2006, 243). These values are shown in Table 12, which confirms the discriminant validity for all observed constructs.

Table 12: Correlations and the root of average variance extracted (AVE) for observed constructs

	Composite reliability	Outsourcing convenience	Outsourcing benefits
Outsourcing convenience	0.849	0.701 ^a	
Outsourcing benefits	0.894	.092	.720

Source: Author.

Descriptive statistics for the variables to be used in the path analysis is presented by Table 13.

Table 13: Descriptive analysis for variables used in the path analysis

Description	N	Mean	SD	Skw	Kurt
Activity is not connected with the core activity	69	3.58	1.52	-0.65	-1.10
Convenience of the activity to outsource	70	3.73	0.84	-0.60	0.55
Outsourcing benefits	70	3.31	0.75	-0.41	0.21

Source: Author.

Estimated standardized and non-standardized parameters are presented by Table 14.

Table 14: Standardized and non-standardized coefficients for the initial path model (FM)

Exogenous → endogenous variable	β	<i>B</i>	<i>SE</i>	<i>P</i>
Direct effects:				
Outsourcing convenience → Outsourcing benefits ($R^2 = 0.11$)	0.088	0.079	0.112	0.480

Note: β - standardized coefficients, *B* – non-standardized coefficients, *SE* – standard error, Two-tailed *p*- value.

Source: Author.

It can be noticed that the model did not confirm that “convenience of the activity to outsource” has any influence on “the benefits of outsourcing”, because the coefficient is not statistically significant². Therefore, the hypothesis has not been confirmed, which required the correlation analysis to be performed, as to obtain the additional information on the managerial perception (see Table 15). Only the benefits that correlated to the selection of activities are presented (the level of focus on the core activities and the level of solving problematic activities and functions), while other eight measures of outsourcing benefits are not significantly correlated to the selection of activities to be outsourced.

Table 15: Correlation between the managers’ perceptions of the influence of activities selected for outsourcing and the outsourcing benefits

		The level of focus on core activities	The level of solving problematic activities and functions
Appropriate selection of activities to outsource has a definite influence on final results of outsourcing, measured by business performance of a company.	Correlation Coefficient	,240*	,319**
	Sig. (2-tailed)	.045	.007
	N	70	70

Source: Author.

The theoretical framework strongly supports the hypothesis of this paper: activity/activities selected for outsourcing which meet the outsourcing criteria to a greater degree, affect the benefits of outsourcing for a company, that is, according to theoretical thesis, the more carefully an activity is selected to outsource, the greater the success of the outsourcing project. This is true when outsourcing is viewed as a long-term strategic tool of management. In this study, such a hypothesis has not been confirmed. However, the relationship between the selection of activities and benefits of outsourcing for the company has not been established. This can be explained by business environment and the way of doing business in Bosnia and Herzegovina. The research has shown that managers in B&H do not see outsourcing as a strategic tool that leads to focusing on a company’s core activities and improves doing business in the long run. This has been proved by exclusion of the variable, expressing that “*The outsourced activity is not connected to the core activity*”. In addition,

² In order to be statistically significant, p must be lower than 0.05. On the contrary, there is not enough evidence to state that the coefficient is different than 0. In other words, in this case it cannot be claimed that the exogenous (independent) variable has any influence on the endogenous (dependant) variable.

within the CFA analysis, it is strongly associated to the variable of outsourcing benefits, describing focusing on core activities. In other words, for a company to focus on core activities, it should first be aware of the core activities and those of less significance, all in accordance with the vision and strategy of doing business. This is the first step and the first aim of outsourcing. Obviously, for managers in Bosnia and Herzegovina, outsourcing is a tool for reducing and controlling costs (which was listed as the basic aim of outsourcing by more than a half of respondents). Using outsourcing to achieve operational goals, mostly to reduce costs, refers to the tactical level of outsourcing implementation, which is actually only the first generation in the development of using this tool.

Therefore, it can be concluded that management in B&H does not use outsourcing as a long-term strategic tool but as an operational tool for solving short-term problems. When directly inquired about their attitude to the influence of the selection of activities on outsourcing results, it is interesting how managers perceive the strong association between the two (Table 15). This can be explained by the importance and the level of involvement of these managers in the project itself, and by their tendency to attach significance where it should be attached in theory.

5. CONCLUSION

The paper started from the assumption that the “right” decision on activities to outsource should lead to creating more benefits of outsourcing for a company. Considering the main goal of the paper: *“to determine the influence of the selection of activities to outsource on the benefits of outsourcing for a company”*, and the hypothesis of the paper: *“activity/activities selected for outsourcing which meet the outsourcing criteria to a greater degree also influence the benefits of outsourcing for a company”*, it can be concluded that research among B&H companies did not establish connection between outsourcing activity selection and benefits of outsourcing. The main reason for this is managers’ nonunderstanding of the importance of activity selection for the success of the outsourcing process. But, definitely findings are influenced by the research limitations:

- Limitations of the sample – entry in the sample was limited to medium-sized and large companies, based on the assumption that they are more likely to have experience with outsourcing process. Also, all companies in the sample had to be active a minimum of 5 years prior to research to be able to determine effects of outsourcing decisions.

- Difficulties in data collection – the survey proved to be problematic due to the complexity of subjects versus managerial willingness to enter into the matter and fill in the questionnaire.
- Difficulties with statistical data processing – even though SEM method was the best choice for data processing, due to the small sample, author used the path analysis, which is the best possible alternative adapted for smaller samples.

Contribution of the paper is in highlighting outsourcing practice in B&H companies as well as in trying to prove strategic dynamics between selection of activities for outsourcing and final results of it in benefits for a company. Also, research shows the circumstances in which the B&H companies' management decides on outsourcing – outsourcing is primarily used for the control and reduction of costs, only then for focusing on key activities. It is seen that the companies mostly outsource activities of transport and distribution, information technology, legal affairs and imports and exports.

Recommendations for further research include the necessity of conducting an overall research of the observed connections, examination of alternate criteria for the selection of activities, and finally, expansion of the research by including a greater number of companies.

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UTJECAJ IZBORA AKTIVNOSTI NA KORISTI OUTSOURCINGA ZA PODUZEĆE

Sažetak

Aktivnosti koje poduzeće razmatra za outsourcing moraju udovoljiti određenim kriterijima kako bi odluka o outsourcingu bila opravdana. Pretpostavka je kako odluka o outsourcingu aktivnosti na osnovu takvog rezoniranja treba dovesti do generiranja viših koristi outsourcinga za poduzeće. Odnosno, prema relevantnoj literaturi tamo gdje se outsourcingu pristupa sa strategijske razine procjena aktivnosti koja se daje u outsourcing je temelj budućeg uspjeha. Sukladno navedenom, ovaj rad istražuje da li aktivnost/i odabrane za outsourcing koje više zadovoljava/ju kriterije za outsourcing više utječu na koristi outsourcinga za poduzeće. U provedenom empirijskom istraživanju putem anketnog upitnika, veza između odabira aktivnosti i koristi outsourcinga za poduzeće nije ustanovljena. Doprinos rada je propitivanju teorijskih predrasuda o povezanosti između aktivnosti i outsourcinga u praksi BiH poduzeća.

