

## **CHALLENGES OF OUTSOURCING AND LOGISTICS SERVICES QUALITY: THE CASE OF CROATIA COMPANY**

**Mirjana Nedović**

College of Applied Sciences, "Lavoslav Ruzicka" u Vukovaru, Department of Trade, Croatia

[mnedovic@vevu.hr](mailto:mnedovic@vevu.hr)

### **Abstract**

*Business efficiency is becoming the key element of survival on the market, and not only in regard to the domestic market, but also the world/global one. It is a widespread fact that enterprises have always hired subcontractors in order to perform certain business tasks for them. Outsourcing entails a partnership between the two parties with the aim of cost decrease or business rationalization, but it also enables for the enterprise to focus on the fundamental business. The purpose of this paper is to elucidate the dilemma on the implementation of logistics outsourcing in a Croatian real sector enterprise. Logistics services measurement results will show the logistics outsourcing quality. Outsourcing implementation and the way in which outsourcing is perceived is connected to the management of the changes since it paints a clear picture of enterprises' flexibility and adaptability to changes. Head manager's knowledge and skills greatly determine the way in which workers will react to a new way of working. Therefore, the management quality represents the key factor in regard to the workers' adaptability to changes, or logistics outsourcing in this case. Objective of this research show that implementing outsourcing will not degrade the quality of delivery, and can make business more efficient. Data for analyses is based on the questionnaire which has been sent to consumer goods stores by random sampling. The results of the research which has been conducted indicated that respondents are familiar with outsourcing delivery services and they are satisfied with the delivery of goods in qualitative terms. Outsourcing company takes full responsibility for delivery services and they work in a professional manner. It is recommended that all departments/sectors within the company that are not core business should be outsourced and it is not to be viewed in a negative way.*

**Keywords:** Outsourcing, logistics, delivery, service quality, Croatia

## INTRODUCTION

The term “outsourcing” is often seen as a synonym of the term “privatization”. However, there is a certain difference in the meanings of these two notions. Privatization in government (federal, state, or local) is conducted in efforts to bring about better services and programs and generally involves situations in which private contractors provide services and products for governmental agencies. However, privatization has been used to describe many types of contracted services (Palm, 2001: 5). Outsourcing can be defined as a strategic usage of subcontractors for the performance of tasks traditionally in charge of internal staff and resources. It stands for contractual transfer of secondary (*non-core*) business activities to specialized service providers (Zrilić, 2009). *Outsourcing* originally comes from the English language; “out sourced services using“, in Croatian meaning “the services used outside of enterprises”.

Real sector enterprises work in a distinctively turbulent environment; the technology is not the same as it was five or ten years ago. It is changing rapidly, the number of workers is decreasing and business processes have undergone transformations in such a way to make them more efficient. Special attention is given to saving money and cost control, while seeking high quality of goods and services at the same time. Modern customers have become very picky due to large market competition. Therefore, one should not be surprised at the increasing need for enterprises to focus on the fundamental business while outsourcing secondary activities, and thus maintaining the quality sought by end consumers. Outsourcing can lead to more efficient business, although weighing the pros and cons should certainly precede its implementation. Undoubtedly, outsourcing serves its purpose only when the costs have decreased, but with no deterioration of goods and services quality.

## OVERVIEW OF OUTSOURCING IN CROATIA AND EU COUNTRIES IN PUBLIC SECTOR

Croatia has neither precise data on the number of outsourcing companies, nor data on their profit and staff number. However, the available data shows the increase in yearly profit of such companies, e.g. companies that provide cleaning services, security companies and those dealing with commercial, technical or infrastructural maintenance. They are very successful, their profit grows each year and they are improving their business, as well as hiring more and more workers. When it comes to Croatian public institutions, outsourcing uses Central Registry of Insured Persons (REGOS) whose organizational structure contains a network of outsourcing partners. The majority of EU member states has separated the service industry and the public sector. According to Croatian Employers’ Association, the income of such activities amounts to 25 billion euros in Great Britain, in the Benelux countries that number represents 21 billion euros, 17 in Germany, Austria and Switzerland, while in southern European countries the

number reaches 16 billion euros. CEA lists Italy as a good example of a country which successfully excludes auxiliary tasks from public administration as well as features excellent cooperation of the government, employers and trade unions (Škugor Hrnčević, 2015).

Outsourcing is a relatively new term in the Republic of Croatia, although the first implementation of outsourcing (without it being called as such) is thought to be a *business move* from the 14<sup>th</sup> century, when the merchants throughout Europe rented Venice ware houses for storing their goods. Hence, it can be concluded that the term “outsourcing” has come quite late to Croatia. Whilst other, developed countries in Western Europe have been using secondary tasks outsourcing for many years, the process is still finding its feet here in Croatia. According to Pavić (2009), large Croatian enterprises have traditionally performed a great number of business activities. But numerous activities which are not essential, and which Croatian enterprises perform through internal sources, can be done faster, cheaper and more efficient by external specialized partners.

On one hand, outsourcing implies certain savings in the organization which employs it by transferring the tasks to specialized professionals to do their best. On the other hand, there is a number of disadvantages that every enterprise has to be aware of before implementing outsourcing in their work.

## LEVELS OF OUTSOURCING LOGISTICS

To profoundly understand the outsourcing, here are four levels of logistics outsourcing:

1. *In-house logistics* or insourcing logistics, meaning that the company operates its logistics activities in-house. The company owns transport, warehouses, handling equipment, and other features, including staff to process the logistics functions.
2. *Logistics service provider (LSP)*, or asset-based logistics (2PL) is the management of traditional logistics functions such as transport and warehouses. The company who does not own or have sufficient number of facilities or adequate infrastructure may hire an LSP to provide the vehicles or the basic service. Its major aim is to reduce the cost or capital investment.
3. *Third party logistics (3PL/TPL)*, or contract logistics. The term TPL originally denotes the usage of external organizations to perform the logistics functions that can be the entire logistics process or selected activities. A relationship is characterized by a longer-term, more mutually beneficial relationship.
4. *Fourth party logistics*, or supply chain logistics is an evolution of supply chain outsourcing. It manages and integrates all kinds of resources and oversees 3PL functions throughout the supply chain in the sense of the global market, strategic advantages and long-term relationship (Ding et al. - 2004).

A positive, constructive relationship between the two parties is far more likely to create a mutual benefit. Achieving such a happy state of affairs depends on the perception between the parties as well as on the quality of the communication between them (O'Byrne, 2014).

Outsourcing serves its purpose only when it is useful to both business parties; neither of the partners should suffer because one of them has failed to fulfill their task. Communication, as well as the exact requirements for successful completion of the task have to be clearly defined, together with all possible deviations in regard to set standards. Outsourcing can be limited to a sole type of service, e.g. storage services (Nikolić & Zorić, 2009), but it can also include logistics services, namely transport, distribution, etc.

Consequently, there are different levels of outsourcing services, which are not inherently limited, with the mutual purpose of excellent provision of services. Pupavac (2011) states that transport and stock-keeping costs dominate the logistics cost structure. These costs can amount up to 85% of all logistics costs. Accordingly, the existence of link between logistics costs and transport costs as well as stock-keeping costs can be proved. In wish of decreasing logistics costs large enterprises frequently use outsourcing for delivery services.

### **OUTSOURCING OF LOGISTIC ACTIVITIES: QUALITY OF DELIVERY SERVICES**

Logistics service quality entails, apart from costs decrease, another extremely important factor which can instigate the employment of external service providers. Outsourcing allows companies the freedom to concentrate their energy on activities critical to maintaining their competitive edge (Bajec & Jakomin, 2010: 287). Tasks fulfillment and logistics management is left in charge of the third party which has invested in the specialization of its work force, information system and specialized equipment in order to be highly competitive in regard to that particular activity (Dunković, 2010:7). In this way, outsourcing implementation can contribute to a greater market competitiveness of an enterprise. Logistics outsourcing is considered to be an excellent source of competitive advantage for companies (Salanta, Ilić and Muresan, 2012). Hence, hiring external partners for secondary tasks fulfillment can represent an actual competitive advantage.

Service characteristics are not truly tangible and that is why it is not easy to decide which service providers to employ. Enterprises focused on their fundamental business become the users of one or more various services provided by other enterprises. When choosing a certain service, e.g. logistics service, the focus is primarily on the quality of the service. The most undesirable outcome is surely the one in which, after one has entrusted a second party with a certain task, the quality of the performed task is below standard.

One can hardly foresee the quality of the service; only when the tasks is fulfilled can one decide whether it was performed in accordance with the expected quality level or not. To assess the quality level, the following questions have to be answered (Bloomberg, LeMay and Hanna, 2002):

1. Was the issue/question resolved to your satisfaction?
2. Would you again seek the service of the same supplier?
3. Does the service satisfy your quality expectations?
4. Is the service worthy of the price you paid for it?
5. Did the service meet the deadline?
6. Was the service provider professional in their behavior?

If all the answers to the questions are positive, it can be concluded that the service provided satisfies the service recipients' expectations.

## REASERCH METHODOLOGY

For the purpose of this paper a research has been conducted on a sample consisting of 62 consumer goods stores with the aim of assessing their delivery service quality. Consumer goods stores were selected by random sampling. Employees in stores whose goods are supplied from the outsourcing provider *X* (*X denotes the company which provides logistics service, since its name is not to be disclosed in this paper*) were asked to express their satisfaction or, in other words, to mark the logistics delivery service quality by filling out a questionnaire.

A call for participation was sent by email to the stores that comprised the sample (after having confirmed the email addresses of the branch managers). Two weeks later 50 questionnaires were returned. Twelve stores did not send the feedback and were therefore excluded from the sample. After gathering the returned questionnaires, an analysis of the results was conducted.

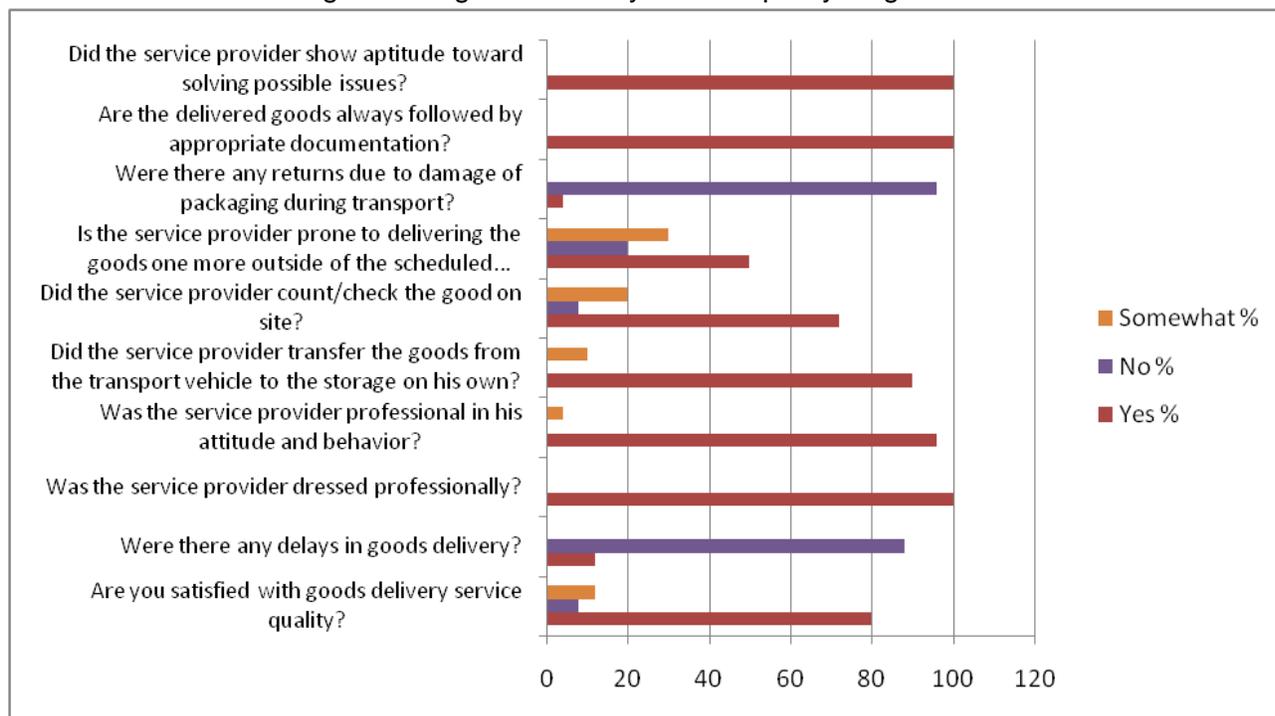
## ANALYSIS & RESULTS

Each and every enterprise strives to achieve competitiveness on the market, especially when it comes to being perceived as a reliable, high-quality partner. For this reason, the assessment of service performance quality is beneficial to all the participants in the logistics chain. The analyzed logistics goods delivery service shows the following results (Table 1 & Figure 1).

Table 1. Questionnaire on logistics service quality

Questions / Response	Yes	%	No	%	Somewhat	%
1. Are you satisfied with goods delivery service quality?	40	80	4	8	6	12
2. Were there any delays in goods delivery?	6	12	44	88	0	0
3. Was the service provider dressed professionally?	50	100	0	0	0	0
4. Was the service provider professional in his attitude and behavior?	49	96	0	0	2	4
5. Did the service provider transfer the goods from the transport vehicle to the storage on his own?	45	90	0	0	5	10
6. Did the service provider count/check the good on site?	36	72	4	8	10	20
7. Is the service provider prone to delivering the goods one more outside of the scheduled deliveries?	25	50	10	20	15	30
8. Were there any returns due to damage of packaging during transport?	2	4	48	96	0	0
9. Are the delivered goods always followed by appropriate documentation?	50	100	0	0	0	0
10. Did the service provider show aptitude toward solving possible issues?	50	100	0	0	0	0

Figure 1: Logistics delivery service quality diagram



Through answers to the first question “Are you satisfied with goods delivery service quality?”, it can be noted that 80% service recipients are satisfied with the service. This percentage implies a high quality outsourced service. For the 20% of service recipients who did not answer

positively on the question, it is necessary to invest additional efforts to achieve their satisfaction. When it comes to the issue of delays in goods delivery, 88% of service recipients said that there were no delay which is yet another indicator for the logistics management to work on the quality of the delivery feature "*just in time*". When asked about the appearance of the service provider (proper attire), 100% of service recipients confirmed that the service provider was dressed professionally which creates a very positive public image of the enterprise, as well as shows high professionalism. Also, service providers' pleasant behavior and attitude have a huge impact on the general perception of the enterprise. Namely, 98% service recipients were satisfied when it comes to the communication with the service provider. Regarding the issue of manual transport of the goods from the transport vehicle, a truck in this case, 5% of service recipients said that the service provider somewhat followed the protocol, meaning that the management should additionally train its workers. Since the delivery can contain large amounts of various goods types which come in small amount units, service providers might at times disregard the on-site goods control in fear of delay when delivering goods to another customer, or simply for lack of time. 72% of service recipients answered positively on the question of on-site goods control, thus it is necessary to try a little bit harder to improve this service feature. The table also shows that the service providers are not always prone to repeat the delivery of the goods due to, e.g. ordering mistakes (wrong product or insufficient amount of the product delivered). Connected to this, it is necessary to conduct cost calculation. 96% of service recipients were satisfied with goods condition upon delivery, meaning that the goods manipulation is on a very high level since there are no damages on the products due to carelessness or insufficient amount of knowledge. Appropriate documentation is always delivered together with the goods (100%). Last but not the least, service providers' aptitude toward solving possible issues is unquestionable, which testifies of high-level professionalism.

## CONCLUSION

Logistics delivery service outsourcing contributes to enterprises' competitiveness on the market. Implementation of such system allows the enterprises to focus solely on their fundamental business at which they can then excel, while entrusting external professionals with secondary tasks. Consequently, beneficial relationship is created between service producers, logistics service providers and retailers. Croatia needs a logistics strategy with the aim of goods delivery quality and reliability. Outsourcing features advantages in the sense of greater competitiveness on the local as well as on the global market. Outsourcing implementation entails several phases of analysis and advantages assessment, together with the assessment of all the possible risks. Business changes are becoming a necessity and should not bear negative connotations as

such. As a consequence, the management has a key role in the changes, since the management's perception of the change greatly affects the successfulness of its implementation as well as workers' attitudes toward it. Croatia still has a lot of space for the implementation and development of outsourcing services, while logistics outsourcing is the most common in commercial activities.

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