




# “The peculiarities and procedures of the transition to outsourcing by construction companies in Ukraine”

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# THE PECULIARITIES AND PROCEDURES OF THE TRANSITION TO OUTSOURCING BY CONSTRUCTION COMPANIES IN UKRAINE

## Abstract

The article analyzes the outsourcing services market and its consumption volumes in the recent years, assesses the industry range of outsourcing by paying close attention to the construction services companies, and evaluates the general trend in the development of the construction industry market in Ukraine. The paper determines the growth in demand for outsourcing services by construction companies by singling out outsourcing as an instrument of management in the construction industry. It demonstrates the expediency of the use of outsourcing for construction industry companies and describes the main reasons that prevent the making of decision regarding the transfer to outsourcing. The main objectives and the procedure of transition of construction companies to outsourcing are formulated. Given the importance of certain types of construction works, six stages of transition to outsourcing by construction companies were identified.

## Keywords

outsourcing, construction, partnership, company  
behavior

**JEL Classification** L23, L74

## INTRODUCTION

**Problem statement.** The desire to optimize business activities, to cut costs, to reduce inefficient business processes and thereby improve the competitiveness and flexibility of business management force companies to improve their management technologies. This also applies to the construction industry, where increasing competition forces companies to constantly adapt to changes in the external environment, to focus on those processes, where it is possible to realize their potential advantages, knowledge and experience. In the absence of or with overloaded skilled professionals, a construction company may use the resources of third-party outsourcing companies that specialize in carrying out certain business processes. Outsourcing makes it possible for construction companies to increase the quality of products and services, to reduce risks, to increase the efficiency of their activities, to respond quickly to changes in the environment, to optimize their organizational structure and the system of management.

## 1. ANALYSIS OF THE RECENT RESEARCH AND PUBLICATIONS

Outsourcing is one of the main factors of the modern business and one of the most popular methods of optimization of resources in different areas. One of the founders of outsourcing was Henry Ford, who discovered that no company can be self-sufficient. Therefore, it is expedient to transfer some functions to the companies that specialize in certain types of activities (Saveliev, Chebotar, Shtefanych et al., 2008).

The term “outsourcing” in the modern sense emerged in the mid-1970s, but particularly active corporations began to use it as an instrument to reduce costs and improve the quality of services about 20 years ago (Popovychenko, Spiridonova, 2011).

Ronan McIvor (2000) defines outsourcing as a strategic decision that is often taken for the long-term competitiveness of the organization and combines this term with “key competences” (skills, knowledge and technologies that affect the success of the organization).

Zhiwei, Zhu, Kathy, Hsu and Joseph Lillie (2001) characterize outsourcing as a transfer of responsibility for certain business functions focusing on the relationship between the seller and the buyer.

During the formation of the definition “outsourcing” Jesper Mommea and Hans-Henrik Hvolby (2002) take into account the process of strategic planning and define outsourcing as a component of the strategy.

Franceschini, Galetto, Pignatelli and Varetto (2003) believe that outsourcing is a management approach that makes it possible for the company to delegate some non-core functions to specialized service providers. They also focus on the fact that by using outsourcing it is possible to initiate the development of relations between companies.

John Heywood Brian (2004) understands outsourcing as a transfer of internal units or departments

of the company and all related assets to the organization, which is a provider of services offering to provide a service for a certain period of time at an agreed price.

Beach, Webster and Campbell (2005) define outsourcing as a form of partnership in which organizations can engage in mutual relationships.

Regarding the researchers in Ukraine or Russia, some of them also study these issues. Anikin (2009), Yevtushenko (2014) and Didukh (2012) associate outsourcing with the use of resources of outside organizations or providers.

Zoriy, Kovalenko (2013), Tishchenko and Khaustova (2012) consider outsourcing as a transfer of processes to outside organizations, selecting groups of objects for the transfer: functions, tasks, types of work, types of business processes, responsibilities, etc.

Labzhaniya (2013), Partyn, Mukan (2014) and Synyayev (2009) define outsourcing as a comprehensive strategic solution for effective management.

Sainchuk (2013), Grozny (2009), Spiridonova (2012), Ukrayinska, Tropitsyna (2015), Solov'yeva and Lebedev (2015) understand outsourcing as optimization of activities aimed at cutting costs, reducing the time of execution, increasing profits and enhancing competitiveness.

When analyzing other literature sources it is possible to select the definitions of outsourcing that are associated with contracting, the form of cooperation, business relationships and management instruments. Despite different definitions of outsourcing, all experts believe that it is a modern and successful business model that makes it possible for companies to achieve competitive advantages.

Along with the studies regarding the essence of outsourcing one of the key issues is the study of its scope. Outsourcing is widely used in many areas and regions. Labzhaniya (2013) examined the place and role of outsourcing in the field of services and manufacturing, Grozny (2009) – in the industrial production, Prokhorenko in

machine-building companies, Kotok – in commercial enterprises, Jesper Mommea and Hans-Henrik Hvolby (2002) – in heavy industry.

A large number of foreign and Ukrainian scientific papers are devoted to the study of outsourcing in the field of construction: Beach, Webster, Campbell (2005), Spiridonova (2012), Popovychenko (2011), Tyshchenko, Khaustova (2012), Synyayev, Zhukov (2009), Solov'yeva, Lebedev (2015), Partyn, Mukan (2014) and others. All researchers note the importance of the use of outsourcing in construction companies to increase the volumes of work, to cut costs, to reduce the time of work execution without sacrificing quality.

In Ukraine, construction companies consider outsourcing with certain reservation. Such decision always brings changes to the company's activities. It is well known that any change meets resistance. The reasons for such resistance to changes may be ignorance, uncertainty, the fear of transition to outsourcing, the feeling of loss, different perceptions of the situation and personal interests of individual employees. For the company's management the transition to outsourcing is an opportunity to reduce costs and improve quality, and for employees it is a threat of the loss of jobs, position and status. Therefore, for the construction companies the decision to outsource is not an easy one.

The procedure of transition to outsourcing is presented differently by the Ukrainian experts.

Yevtushenko (2014) and Sainchuk (2012) define four phases of the transition to outsourcing not taking into account the process of selection and assessment of the outsourcing company.

Didukh and Martynyak (2016) divide the process into three stages connecting them with the functions of management and focusing only on the manufacturing companies.

Ukrayinska and Tropitsyna (2015) also offer their vision of the stages paying, in our opinion, very little attention to the assessment of the companies' own capabilities and the process of selection of certain functions and business processes.

Ronan McIvor (2000) performs the transition to outsourcing through four stages not paying attention to the assessment of effectiveness in the use of outsourcing.

Zoriy (2013) sees six stages of transition to outsourcing thereby overlooking the process of selection of business processes.

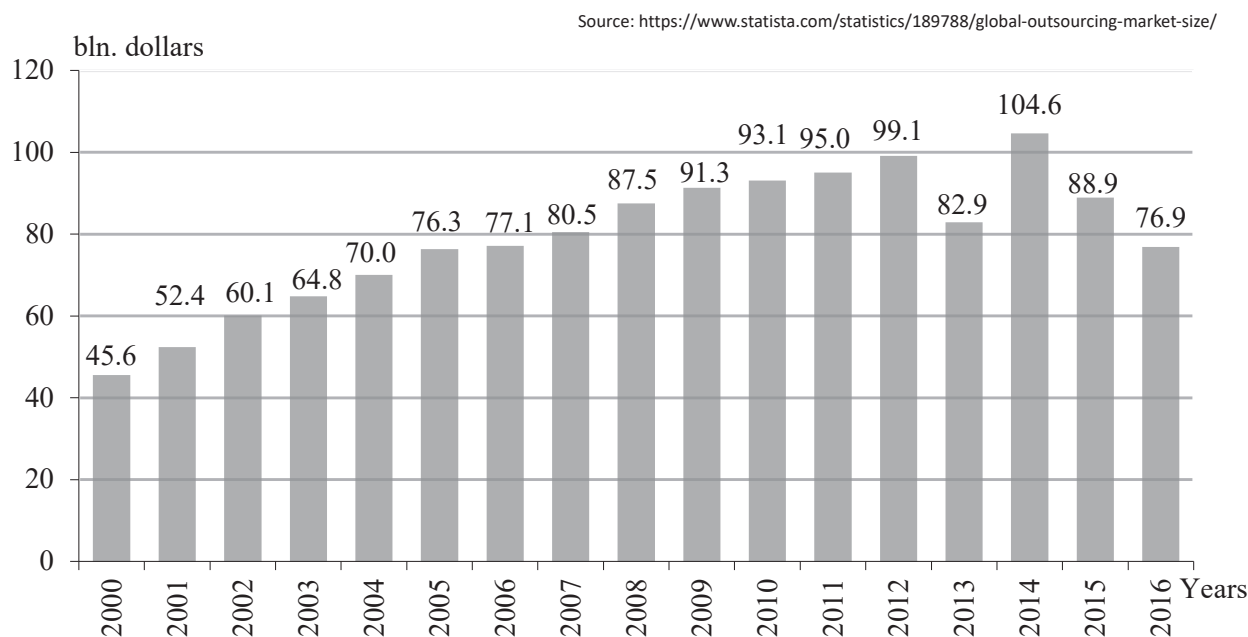
Russian researchers Solov'yeva and Lebedev (2015) identify seven, and Synyayev (2009) six phases of transition to outsourcing. The structural sequence of stages presented by the authors, in our view, is quite successful and contains a detailed breakdown into processes and types of work in the construction industry.

It should be noted that all studies of the phases of transition to outsourcing were done by scientists mainly in relation to industrial and service enterprises, whereas for the construction industry in Ukraine such studies are not available.

**The goals of the article.** A large number of scientific works is focused on determining the nature and types of outsourcing, substantiating the approaches to its definition and the analysis of its use by the companies. However, the transition to the new way of doing business in the construction industry remains understudied. Therefore, the goal of the article is to continue the study of peculiarities in the use of outsourcing in the construction industry and generalization of procedures regarding the transition of such companies to outsourcing.

## 2. PRESENTATION OF THE MAIN MATERIAL

On the global market the leader in the consumption of outsourcing is the United States, where the services of outsourcing structures are used by 70% of companies; in Europe, this indicator reaches 40%, in Ukraine – only 5% (retrieved from: <http://ubr.ua/business-practice/innovation-in-business/outsourcing--ekonomiia-ili-utechka-informacii-46946>). The market of outsourcing services in the world is shown in Figure 1.



**Figure 1.** The market of outsourcing services in the world in the period 2000–2016

The following chart shows that revenues from outsourcing were steadily growing, but in 2013 we see a decline in the volume of such services to 82.9 billion US dollars. The market recovered in the following year, reaching 104.6 billion US dollars, but then fell again in 2016 to 76.9 billion dollars. The largest share of these services belongs to Europe, Middle East, Africa and the North America. A much smaller share belongs to the Asian-Pacific region.

As regards the sectoral division, the financial sector of outsourcing covers 33% of all contracts and 26% of their total cost, the manufacturing sector – 17% and 15%, respectively, telecommunications – 13% and 12%, business services – 9% and 12% and other services – 9% and 5%. According to the research of the Industry Week Census on manufacturing, 54.9% of US companies use outsourcing in manufacturing and 43.8% in the servicing of equipment. In the UK all information systems of taxation departments are outsourced, while in the US the collection of federal taxes is done via outsourcing. The companies that actively use outsourcing include: Selestica (Canada); Flextronics (Singapore); Manufacturers Services Ltd, Solectron, Sanmina / SCI, Jabil Circuit, Benchmark Electronics, Viasystems, ACT Mfg (USA); Elcoteq Networks (Finland) (Tyschenko, Khaustova, 2012).

In general, the Ukrainian market demonstrates the trend towards the growing demand for outsourcing. It should be noted that according to the results of 2015, Ukraine rose by 17 positions in the global ranking of outsourcing Global Services Location Index and now occupies the 24<sup>th</sup> position (retrieved from: <http://ubr.ua/business-practice/laws-and-business/ukraina-podnialas-v-global-nom-reitinge-autsorsinga-373802>).

In Ukraine, there is also an increase in the number of companies that provide outsourcing services. The International Association of Outsourcing Professionals (IAOP) has offered the rating of the world's best providers of outsourcing services – The Global Outsourcing 100. In 2014 100 of the best countries included only 4 companies with offices in Ukraine, in 2016 – 10 companies. Six of the ten companies are international R&D companies in Ukraine: EPAM, Ciklum, Luxoft, Intetics, Softjourn and TEAM International Services. Four other participants of the rating are Ukrainian companies: SoftServe, Eleks, Sigma and Miratech (retrieved from: <http://ubr.ua/ukraine-and-world/technology/ukraincy-popali-v-reiting-luchshih-postavshikov-autsorsinga-382656>).

The sphere of the use of outsourcing in Ukraine is constantly expanding. The construction industry is one of the most important areas, which in

**Table 1.** The volume of construction works in Ukraine according to the types of construction production\* (million UAH)

Year	Construction, total	Buildings	Including		Engineering structures
			residential	non-residential	
2010	42918.1	19659.1	6876.5	12782.6	23259.0
2011	61671.7	26745.4	8137.1	18608.3	34926.3
2012	62937.2	28104.8	8523.0	19581.8	34832.4
2013	58586.2	28257.3	9953.1	18304.2	30328.9
2014	51108.7	24856.5	11292.4	13564.1	26252.2
2015	57515.0	28907.5	13908.8	14998.7	28607.5
2016	70942.4	36298.9	17253.0	19045.9	34643.5

*Note:* \* with the exception of the temporarily occupied territory of the Crimea and Sevastopol, as well as the zone of the counterterrorist operation in the period 2014-2016.

times of economic crisis makes it possible to bring the country out of the difficult situation, because the development of construction gives rise to the development of many related industries. Today in Ukraine there is an increase in the volumes of construction works (Table 1) (Source: <http://www.ukrstat.gov.ua/>).

It should be noted that in addition to the growth of the volume of construction works there is also an increase in the number of business entities in this area. In the period 2012-2015 their number increased by 4298 units reaching 55128 units in 2015 (retrieved from: <http://www.ukrstat.gov.ua/>).

This state of the construction industry forces companies to compete for competitive positions, improving the quality of services, focusing on innovations and implementing effective instruments of management including outsourcing (Siniaiev, Zhukov, 2012).

Outsourcing is used in construction to attract investors, projects, IT-outsourcing, manufacturing processes, organization of advertising campaigns, the search of markets for the sales and maintenance of buildings, etc. (Soloviova, Lebedev, 2015).

However, on the Ukrainian market of construction industry, outsourcing is underdeveloped. One of the reasons is a lack of experience in making the decision about the companies' transition to outsourcing.

The decision to shift to outsourcing is a complex task, which belongs to the company's strategy. This task depends on the branch of construction (industrial, transport, housing and civil), the type of construction (frame, precast-monolithic frame, brick, wooden, panel-frame) and the type of activity (new construction, reconstruction, repairs, restoration, expansion, completion, installation and dismantling). Various types of work to be transferred to outsourcing directly depend on the presence within a company of units and divisions that ensure their implementation. For example, according to the types of construction works, the Russian construction companies have a significant share of outsourcing (Siniaiev, 2009): organization of procurement, marketing, transport and storage operations, express delivery of software (28.5%); development of project documentation (10.1%); services of basement waterproofing, roofing (8.5%); market research (3.2%); landscaping, gardening and installation of small architectural forms (9.8%); heating, plumbing, security systems (5.3%); gold plating of walls, ceilings, doors in luxury apartments (3.1%); other services – accounting, recruitment, etc.

The chief aspect during the transition to outsourcing is that a construction company should analyze its tasks, correlate them with the strategic goals and determine the amount of works that should be transferred to outsourcers. For the transition to outsourcing a construction company needs to



form a clear plan identifying the key elements of the production cycle, which are subject to change, and have a complete picture of the planned changes by using outsourcing (Soloviova, Lebedev, 2015). That is, the process of transition to outsourcing must consist of certain stages.

Analyzing the previous studies, based on the experience of specialists in the construction industry and taking into account its specific features it is possible to identify six stages of transition to outsourcing by construction companies.

During the first phase the construction company should determine the goals of transition to outsourcing. The decision to shift to outsourcing belongs to the strategic objectives of the company and concerns the reduction of costs or risks, the increase in competitiveness or quality, optimization of the system's structure and management, etc. The main goal of outsourcing in the construction business is a reduction of total costs and the time of execution of the received orders. The use of outsourcing operations in the construction industry makes it possible to reduce by 30% the costs of activities and thereby increase profitability (Didukh, Martyniak, 2016).

During the second phase the construction company should assess its own work, that is, its own capabilities. The decision about the execution of business processes by the company itself or the transfer to outsourcing is the basis for the analysis of the processes of management, production and sales based on strategic perspectives. The company assesses its own processes by analyzing possible costs and benefits, indicators of production, quality and competitiveness. Diagnostics of the construction company's own capabilities is based on the assessment of strategic alternatives by analyzing the factors of external and internal environment. This helps reveal strengths and weaknesses of the construction company. The possible risks of outsourcing projects are also assessed with identification of opportunities and threats in the construction company's activity.

During the third phase the construction company by using the preliminary analysis of its capabilities should select secondary or non-core functions to be outsourced. In the construction industry the

company has the right to give to the external party some functions or business processes to be executed – from the initial permissions and design documentation, monolithic, plumbing, sewer and joinery works to telephones, radios, security systems, design and landscaping of the adjacent territory. On this stage it is important to make an informed decision and answer the questions: "What functions should we retain?" and "What functions should be outsourced?" (Siniaiev, 2009).

During the fourth phase the construction company analyzes the market of outsourcing and selects a business service provider-outsourcer. Outsourcers tend to have diverse experiences, have sufficient technical capabilities and the required potential. The assessment of an outsourcing organization is based on the analysis of relationships on the construction market, new and advanced instruments, efficient and professional personnel, responsibility for its own actions. An important role belongs to the assessment of the outsourcer's experience in working with different companies and its observance of the ethical principles of doing business. The quality of work performed by an outside organization is caused by the laws of competition: if the results of the outsourcer's activity are unsatisfactory, he will be replaced by another one. On this stage it is important to answer the question: "What does this company do better than others?" (Siniaiev, 2009).

During the fifth phase the construction company should assess the possible results of the use of outsourcing and the related risks. The assessment is made on the basis of forecasts of quantitative and qualitative changes in certain parameters, the calculation of the projected increase in revenues, the analysis of costs and risks. The use of outsourcing considers the rationale for its use, determines the total costs, the duration and effects of its use (Partyn, Mukan, 2014). However, if the costs of the business process realization by using the company's own capabilities are higher than the costs of the use of outsourcing, then such transition is justified.

During the sixth phase the construction company adopts and implements the decision about the transfer to outsourcing. The decision to use outsourcing involves the preparation of the necessary

decisions and documentation. This phase is associated with the decisions based on the analysis of the previous phases of the formation of reporting. It also studies the main functions, rights and responsibilities of the construction company and the outsourcer during the execution of the transferred business processes. During the conclusion of contracts and agreements it is necessary to discuss the risks of information leakage, loss of property, inadequate quality, disclosure of commercial secrets, of force majeure circumstances, etc. The phase ends with the conclusion of agreements. The introduction of outsourcing into the activity of construction companies will be effective only if

the implementation of agreements and contracts is closely monitored. Control is very important in the construction industry: over the procurement of materials, their quality and quantity; over the progress of construction works, their deadlines and quality; over the acceptance of the finished structures, their suitability and the level of customer satisfaction. Control is important not only to investors, but also to any contracting firm, because it eliminates many potential problems and conflicts with the customer.

The process of transition of the construction company to outsourcing is presented in Table 2.

**Table 2.** The procedure for the transfer of the construction company to outsourcing

Phase	The list of components
1  Determining the goals of the transition to outsourcing	<ul style="list-style-type: none"> <li>• shortening deadlines on the completion of works;</li> <li>• raising competitiveness and investment attractiveness;</li> <li>• improving the quality of non-core activities;</li> <li>• increasing the market segment of the construction company;</li> <li>• reducing expenditures on personnel, training and re-training;</li> <li>• the use of new building technologies;</li> <li>• the sharing of risks between the construction company and the supplier</li> </ul>
2  Assessment of the construction company's own capabilities	<ul style="list-style-type: none"> <li>• assessment of external environment and internal capabilities;</li> <li>• analysis of goals, strategies, opportunities, problems and possible costs;</li> <li>• analysis of indicators of the construction program;</li> <li>• diagnostics of the quality of construction works;</li> <li>• analysis of indicators and factors of competitiveness;</li> <li>• assessment of organizational structure of the company's management;</li> <li>• analysis of possible revenues;</li> <li>• risk assessment of the outsourcing project</li> </ul>
3  Selection of functions to be outsourced	<ul style="list-style-type: none"> <li>• obtaining of construction permits;</li> <li>• development of project documentation;</li> <li>• development of technical requirements of the project and their approval;</li> <li>• management of supplies and logistics technologies;</li> <li>• marketing research;</li> <li>• accounting;</li> <li>• plumbing, heating, sewage works and security services;</li> <li>• landscaping, gardening and decoration of the surrounding area</li> </ul>
4  Analysis of the market of outsourcing and selection of provider (outsourcer)	<ul style="list-style-type: none"> <li>• capabilities of organizations-outsourcers;</li> <li>• interaction of the outsourcer with the construction company;</li> <li>• experience of organizations-outsourcers;</li> <li>• material responsibility of the outsourcer for the actions of its employees;</li> <li>• compliance of outsourcers with all requirements regarding the quality and safety;</li> <li>• effective recruitment by the outsourcer</li> </ul>
5  Analysis of the possible results of the use of outsourcing	<ul style="list-style-type: none"> <li>• forecast assessment of quantitative changes in construction parameters;</li> <li>• forecast assessment of qualitative changes in the company's functioning;</li> <li>• increase in revenues at each stage of implementation of certain functions;</li> <li>• increase in revenues of the construction company;</li> <li>• assessment of risks and costs</li> </ul>
6  Adoption and implementation of the decision about the transfer to outsourcing	<ul style="list-style-type: none"> <li>• preparation of reports;</li> <li>• discussion of responsibilities of the parties;</li> <li>• preparation of contracts and agreements;</li> <li>• appointment of persons responsible for the implementation of the decisions;</li> <li>• contracts and agreements;</li> <li>• control over the implementation of contracts and agreements</li> </ul>



The time spent on the execution of the specified stages of transition to outsourcing depends on the size of the construction company, the volume of works, consumer demand, technical and technological provision. In general, the process takes from 10 days to six weeks (retrieved from: <http://ubr.ua/business-practice/innovation-in-business/outsorsing--ekonomiia-ili-utechka-informacii-46946>).

During the implementation of all stages of the transition to outsourcing, the outsourcing it-

self, which is based on the principle of partnership, is beneficial for both the construction company and for the outsourcer. The peculiar feature of this process is that both companies focus their efforts on core activities and, as a result, the consumer demands and the interests of both companies are satisfied. Overall, this is a smooth and easy transition (retrieved from: <http://ubr.ua/business-practice/innovation-in-business/outsorsing--ekonomiia-ili-utechka-informacii-46946>).

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## CONCLUSION AND RECOMMENDATIONS FOR FURTHER RESEARCH

Analyzing the market of outsourcing it can be said that it is rapidly developing in the world and in Ukraine. There is a growing number of companies that provide outsourcing services and the number of companies that attract outsourcers. One can also observe an increase in the fields of outsourcing, an expansion in the scope of its use.

Outsourcing is a major factor of the modern business, while outsourcing in the construction industry is an important reserve for the construction industry's development.

Construction companies have a high degree of autonomy in executing a complex of works. In such a situation the companies are burdened by non-core activities, which reduces the efficiency of the construction industry. As the construction industry is one of the most important sectors of the national economy, which makes it possible for other related industries to develop, we can confidently state that construction companies should consider all options for increasing their competitiveness, including the transition to outsourcing.

In general, the transition of construction companies to outsourcing is a process that consists of a certain number of successive stages. If all stages are observed, outsourcing contributes to the rapid obtaining of permits, effective preparation of project documentation making it possible for the construction company to improve the quality and efficiency of construction works, to reduce the company's costs, to increase the company's revenues and investment attractiveness, to meet the customer's demands in the best possible way.

In the future the demand of construction companies for outsourcing services will grow despite the related risks.

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