



## OUTSOURCING OF LOGISTICS SERVICES AS A KEY ELEMENT OF STRATEGIC MANAGEMENT IN AN ENTERPRISE

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**Abstract:** The paper focuses on the characterization of outsourcing as a concept of enterprise management. The features that characterize outsourcing of logistics services were described and the concept of logistics services was brought closer to the reader. The essence of strategic management was discussed and its characteristics were highlighted. A strategic model of logistics outsourcing was proposed to assess the need for implementation of outsourcing and to analyse its current functioning. The benefits of its use were described in the case study.

**Keywords:** strategic outsourcing, logistics services, strategic management

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### Introduction

The unstable and less and less predictable environment contributes to the search for solutions in the area of strategic management. In the face of these changes, enterprises are expected to use strategic management methods that allow them to meet contemporary challenges (Nowakowska-Grunt et al. 2014, p. 123). To that end, managers of modern enterprises use a number of management concepts and methods. One of them, described many times by scientists and very popular among managers, is outsourcing. This solution allows for maintaining and improving competitiveness by separating functions which do not affect the market position of the enterprise from its structures. With the help of external entities and partners operating in the market, enterprises can improve the efficiency of the organization.

Including strategic outsourcing in the main assumptions of enterprise functioning has become the preserve of many enterprises in the logistics services market. Modelling the strategic management process strengthens business relations, helps achieve long-term goals and ensures the effective functioning of the enterprise on the market.

### Outsourcing of logistics services

Growing market competition forces enterprises to search for ways to improve their operations and to reduce costs at the same time. One of the solutions that meets market needs is *outsourcing*, whose objective is to outsource certain functions performed in the parent company. This allows the enterprise to focus on its core tasks.

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The word outsourcing is derived from English, which is the abbreviation for *outside resource using* (Foltys 2012, p. 45-47). Polish counterparts of outsourcing are the terms meaning separation or isolation. Outsourcing consists in the transfer of resources of an organization to an external entity for use. Outsourcing means “projects aimed to separate functions performed previously by an enterprise from the organizational structure and performing these activities in a more effective way by other business entities”. Outsourcing is the separation of selected areas, functions, processes, projects or using external sources (present in closer or further surroundings of the enterprise) in relation to the enterprise from its organizational structure (Diaz-Mora, Triguero-Cano 2012, p. 38). Outsourcing is defined as an act of transferring certain repetitive internal activities of an enterprise to external suppliers through contractual arrangements. The analysis of the characteristic features of outsourcing presented in literature reveals that it represents a management method consisting in transferring responsibility for the management of business activity areas to a specialized external partner. Outsourcing is used to produce both qualitative and quantitative benefits and provide opportunities for the development of core competencies of the enterprise and adding new value to improve market advantage and help the enterprise grow.

Contemporary enterprises assume that the most effective way is to optimize logistics activities by contracting them out to specialized logistics operators. J. Witkowski characterizes logistics outsourcing as “the separation of resources and the use of logistics services offered by specialized internal entities” (Witkowski 2010, p. 59). The main strategic assumption of enterprises involved in outsourcing is to execute orders for their customers based on close cooperation with the entity that carries out logistics processes within outsourcing and to develop favourable relationships and raise process implementation standards.

“Logistics services include services of freight forwarding, transport, warehousing and related services and those that support the process of flow of goods between the supply chain links. The areas of logistics activities taken by logistics providers in commercial enterprises include supply, production and distribution” (Grabowska 2012, p. 85). The logistics services are organized and provided by specialized enterprises that manage the logistics system of another enterprise.

### **The essence of strategic management**

The high variability of the environment of modern enterprises requires taking effective and efficient actions based on available information and adequate methods of enterprise management that allow for the achievement and maintaining a high competitive position on the market. Effective competition between enterprises requires efficient management processes and long-term planning.

One of the definitions of management says that the *essence of management is to control diversity and transform potential conflicts into cooperation* (Koźmiński, Piotrowski 2006, p. 63). The cooperation is not limited to the inside of the organization, but also includes relations with external entities while all activities are aimed to ensure the organization's survival and development. This consists in conscious

creation of appropriate conditions for the organization to act in accordance with its assumptions: to carry out its mission, achieve its objectives in accordance with the mission and maintain the necessary level of cohesion to enable its current functioning and further stable development (Kozłmiński, Jemielniak 2008, p. 16).

Management is the process of coordinating employees' efforts to achieve organizational objectives using technology within organized structures and based on the assigned tasks (Mintzberg 2013, p. 36). This type of management consists in conscious and rational shaping of mutual relations between the separated elements of the organizational system.

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. *Strategic management* is used synonymously with the term strategic planning. Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals a commitment to specific markets, policies, procedures, and operations. Strategic management means defining long-term objectives, directions of development, and methods of operation of the enterprise in the context of the allocation of its resources (Nasierowski 2018, p. 13). Strategic management is also an information and decision-making process, which is supported by such company functions as planning, organization, motivation and control, aimed to help solve problems related to its development and survival, taking into account the impact of the environment. Strategic management has several features that distinguish it from other management concepts:

- strategic management is based on quantitative data
- uncertainty related to the results of planning is quite high
- management strategies can be based on a variety of examples, rules and theories
- there is no single best way to develop a strategy
- the strategy developed should include both quantitative and qualitative approach and deductive or empirical methods.

In order to be able to effectively overcome various adverse events and circumstances, the enterprise must ensure adequate guarantees of its survival, even in extremely unfavourable and unpredictable operating conditions. This means that the enterprise has to use strategic management, which involves the development of the organization of the future. Strategic management is a continuous and dynamic process of monitoring the environment and resources of the enterprise, and building and implementing an effective strategy aimed to develop and improve competitiveness in the long term (Mesjasz-Lech, Skowron-Grabowska 2016, p. 137). Strategic management is, therefore, the process of developing, preparing, implementing and controlling a strategy. It should be noted that this process results from the response to, or anticipation of, the changes in the environment, and, in certain circumstances, even triggering such changes.

### A model of strategic logistics outsourcing

Nowadays, it is believed that outsourcing should be approached as an undertaking included in strategic management processes. Quinn and Himler are considered the creators of the term ‘strategic outsourcing’. They pointed to the evolution of outsourcing, from performing simple business tasks in the early 1970s, to the method of strategic shaping of the structure of business activities. Strategic outsourcing means “separation related to the development strategy of the enterprise (and therefore permanent) within the strategic perspective” (Nowicka 2016, p. 93).

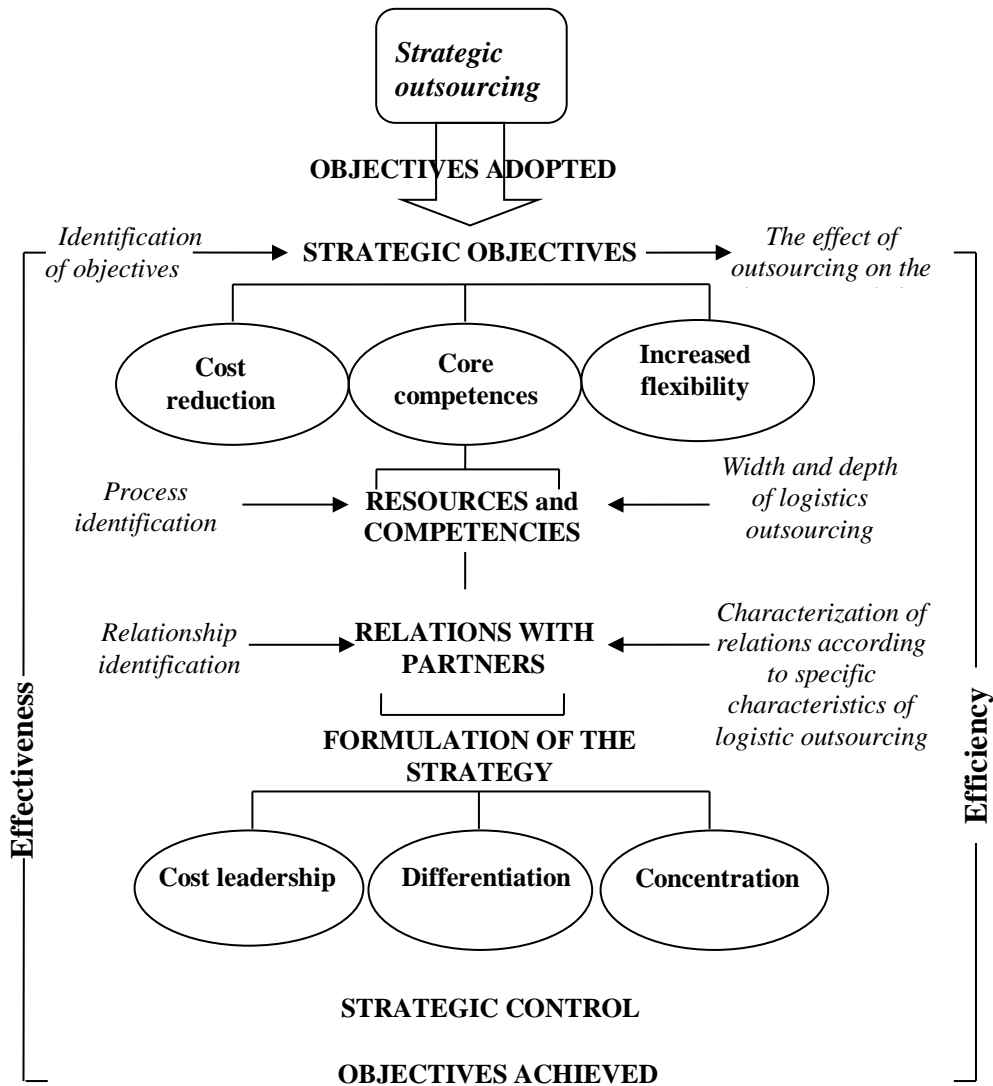


Figure 1. The model of logistics outsourcing as a strategic activity

Source: Based on (Porter 2006)

The broader definition considers strategic outsourcing to be an organizational system with enterprises performing specialized functions and complementing the capabilities along the value chain of the parent enterprise. However, it remains unclear whether strategic outsourcing is the separation of only strategically important functions and processes and whether the fact that the strategic objectives of the enterprise are achieved through separation means that outsourcing is 'strategic'. Outsourcing treated as a strategic activity affects the overall strategy of the enterprise, but it should also be influenced by this strategy. The problems of strategic logistics outsourcing are common because nowadays, more and more frequently the outsourced activities include those related to logistics processes. Not only transport or warehousing are outsourced, but also customer service, forwarding services, additional services, which are to be performed by specialized entities at a high level. More and more depends not on the resources of the organization itself but on the speed and quality of customer service. The major factors that determine the strategic importance of logistics outsourcing include cost reduction, emphasis on core competencies, growth and flexibility. However, the model should also take into account the appropriateness of the use of logistics outsourcing in relation to the company's capabilities.

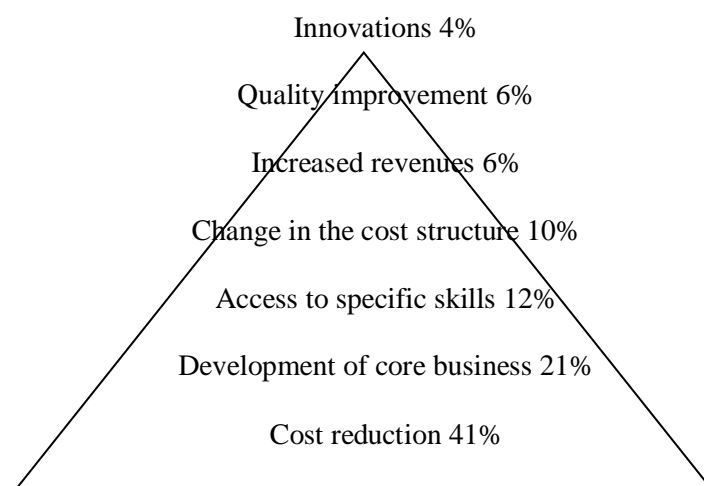
It is of key importance in strategic outsourcing to evaluate the need for its implementation based on the identification of resources available in the organization and skills in relation to objectives. If the organization has the possibility to perform processes on its own, it analyses the possibility of using outsourcing, which in this case determines the adopted and strategic goals. Strategic control is designed to assess the effect of strategic outsourcing on relations with partners and the formulation of the strategy. An economic indicator of the legitimacy of separating tasks to be performed by external entities is the verification of effectiveness in a given area. Strategic logistics outsourcing is a long-term concept of the company based on stable business relations with entities specialized in logistics services. It is essential to recognize logistics outsourcing as the main strategic element in enterprise management and mutual business relations determining beneficial cooperation, enabling the development of both the ordering party and logistics service providers.

### **Case study: the use of the model of strategic logistics outsourcing in the X enterprise**

The model of strategic logistics outsourcing was designed for enterprises that use or intend to use outsourcing in a strategic perspective. Consequently, these entities, seeing the opportunities and benefits resulting from the possibility of long-term cooperation, can develop their business by reducing costs and concentrating on the core business while getting professional services and customer satisfaction. The model was proposed and introduced in enterprise X where logistics outsourcing was used. The X company is a small enterprise operating in the chemical industry and employing 20 people. Model application was aimed to identify the resources and capabilities of the company, analyze the processes and the resulting business relationships. This helped formulate the strategy and define the elements that are subject to strategic

control. The changes allowed for observation of a correlation between the adopted objectives and their implementation in the enterprise. Strategic logistics outsourcing defined the objectives to be achieved and the expected benefits of redefining and separating the logistics processes outside the organization.

Strategic management is an information and decision-making process that is used to make decisions with a long-time horizon and a wide material horizon. As such, it differs from tactical management and operational management (*Figure 1*). The time horizon means the time range or temporal perspective of decisions. The material horizon means the organizational whole to which the decision relates.



**Figure 2. Benefits of strategic use of logistics outsourcing in enterprise X**

Source: Author's own elaboration based on the interview in enterprise X

The basic benefits to enterprise X are cost reduction and focus on the core business. However, from a strategic point of view, improving quality or introducing innovations that result from good business relations are becoming more critical factors.

## Conclusions

The model of strategic logistics outsourcing refers to the situation of enterprises facing the decision whether to perform certain processes on their own or to separate them. The basis for the success of the logistics outsourcing concept in the contemporary world is the advantage of building business relationships based on mutual learning and improving qualifications, which is facilitated by the long-time horizon of strategic management.

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## OUTSOURCING USŁUG LOGISTYCZNYCH JAKO KLUCZOWY ELEMENT ZARZĄDZANIA STRATEGICZNEGO W PRZEDSIĘBIORSTWIE

**Streszczenie:** W artykule skupiono uwagę na charakterystyce outsourcingu jako koncepcji zarządzania przedsiębiorstwem. Opisano cechy charakterystyczne dla outsourcingu usług logistycznych i przybliżono, czym są usługi logistyczne. Omówiono istotę zarządzania strategicznego wraz z wyszczególnieniem cech charakterystycznych. Zaproponowano model strategicznego outsourcingu logistycznego służącego do oceny potrzeby wdrożenia outsourcingu, jak i analizowania jego bieżącego funkcjonowania. Korzyści z jego zastosowania opisano w studium przypadku.

**Słowa kluczowe:** outsourcing strategiczny, usługi logistyczne, zarządzanie strategiczne