Concept of Transaction Costs and Its Influence on the Development of Offshore Outsourcing

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The theory of transaction costs is one of the major and most important trends of new institutional economics. It is concerned with selecting the most effective method of regulating transactions. The analysis of transaction costs requires a new look at the concept of hierarchy and market in a company. Whether companies pursue actions inside a company or whether they transfer them to a specialised supplier is determined by a comparison of both solutions, including comparison of their transaction costs. Companies implement solutions which are characterised by lower transaction costs. The article presents the concept of transaction costs and its impact on the development of outsourcing, in particular, one of its varieties, offshore outsourcing.

Keywords: outsourcing, offshore outsourcing, transaction costs, effectiveness, Poland

Introduction

The transaction costs reflect expenditures incurred in order to reduce uncertainty, namely costs of searching, gathering, and processing information, as well as costs related to selecting a supplier, drawing up a contract, and coordinating the course of its implementation. These costs accompany every transaction concluded in the modern economy. Until recently, transaction costs of actions implemented in internal structures of a company were lower than those related to implementation of activities by the market. This situation has completely changed in the last two decades. New conditions of operations of companies related to the process of globalisation and rapid technological development lead to modern business models being shaped. Outsourcing is such a phenomenon in the contemporary management of a company. For many years, this concept has been establishing its position in theory and practice of management. Outsourcing still evolves by offering new solutions in terms of operations of an organisation. As far as the transfer of tasks outside the company is concerned, they are transferred to outsourcing companies operating on the domestic market (outsourcing) and those available abroad (offshoring). Why do companies transfer certain areas of their previous activity outside so willingly? This is a result of changes in transaction costs. The suppliers of outsourcing services perform these actions cheaper than companies on their own.

The purpose of this article is an attempt to outline the influence of transaction costs on the development of offshore outsourcing. The article presents the method of determining the effectiveness of offshore outsourcing and the problem of measuring transaction costs. At the end of the article, the development of offshore outsourcing is considered.
outsourcing in Poland, which became an important place for offshore investments, is presented.

**Offshore Outsourcing—Definitional Approach**

The concept of outsourcing consists in sectioning selected functions (tasks) beyond a company and transferring them for implementation to specialised outsourcing companies. The definition of outsourcing is broad and ambiguous in world literature. The author presenting the idea of outsourcing highlights its various aspects. Lei and Hitt (1995) defined outsourcing as transferring production to external suppliers. Perry (1997) emphasised the role of employment in the concept of outsourcing. Tasks which used to be performed by the employees of a company are transferred to be performed by the employees of an external company. Sharpe (1997) stressed the definition of outsourcing that functions which are not basic competences of a company are subject to sectioning. Gilley and Rasheed (2000) defined outsourcing as something that was originally delivered internally or could have been delivered internally, but the decision to order it on the outside has been made. A broader definition of outsourcing was provided by Lysons and Gillinham (2003), who specified this concept as the strategic use of resources to perform activities traditionally handled by internal staff and their resources. This is a managerial strategy consisting in separating certain support functions from the organisational structure and entrusting specialised external organisations with implementing them. This is providing a third party with permanent managerial liability for performing a service specified in the contract.

Offshoring is a concept in company management which has become more and more significant in recent years. Business entities decide to transfer production activities abroad in order to achieve specific corporate goals. Subject literature often fails to distinguish between offshoring and outsourcing and uses the two concepts interchangeably. This is an incorrect approach. Outsourcing is a practice of separating by companies’ certain activities from their own organizational structure and transferring them to outside entities, to other business partners based in the same country. Offshoring leads to a separation of selected services and transferring them for implementation to companies based in a different country.

Offshoring is defined as a process as a result of that services are executed on the territory of another country. This process may be provided by the company internally (captive offshoring) or by a foreign business partner (offshore outsourcing). This leads to the differentiation of two basic types of offshoring:

- Captive offshoring is a process as a result of which the company forms a branch abroad or an equity related company. This allows the company to retain complete control over the transferred production or service processes;
- Offshore outsourcing is a process consisting of transferring selected production or service activities to an external company, non-equity related, conducting business activities in another country.

Another classification of offshoring is based on the criterion of location of the offshoring company. The following forms of offshoring should be then distinguished: offshore, nearshoring, and farshoring. Nearshoring is defined as cooperation among entities in markets which are geographically and culturally close. Offshore is the cooperation among entities in markets which are remote in geographical terms, but close in cultural and economic ones. Farshoring is a market which is geographically, culturally, and economically remote.

As it has been already mentioned, offshoring is a concept in business management successfully implemented all around the world. Companies adopting offshoring seek mainly the following benefits:

- the possibility opportunity to focus on primary activities;
- improvement in the quality of provided services, resulting from the work of highly-qualified employees;
• improvement in competitiveness or gaining a competitive advantage;
• introduction of innovative solutions;
• greater customer satisfaction (Marcinkowska, 2013).

The development of offshoring commenced successfully many years ago, when international companies transferred their production services abroad. Various industry branches, in particular, the clothing industry (e.g., Puma and Nike) and the automotive industry (e.g., Porsche and Daimler—Chrysler), transferred their production to the Far East as well as to Central and Eastern Europe. The next widely used offshoring service was the IT service. The share of service offshoring has been growing for several years. Typical business functions became of a dominant significance in offshoring services. Offshoring companies began to create service centers on a global scale in order to efficiently and effectively handle their customers. Offshoring entities operating in the international market include:
• shared service centers (SSC);
• business process outsourcing (BPO);
• information technology outsourcing (ITO);
• research & development (R&D);
• call centers (CC).

Such a wide service offer on the international level requires offshoring entities to employ workers with varied competencies and qualifications. Some offshoring services are typical of a repeated nature and do not require specialized knowledge. However, highly-specialized services based on knowledge (knowledge process offshoring—KPO) are becoming more and more significant in offshoring activities. The implementation of these services requires employees to have high qualifications, experience, and knowledge.

**Theoretical Perspective of Transaction Costs**

The problem of transaction costs in business management was introduced by a Nobel Prize winner, Coase (1937), in his article *The Nature of Firm*. Coase (1937) raised a question about the purposefulness of the existence of companies. He began his discussion on this topic with a definition of market system. The market system is the coordination of business activity through a system of prices. The fact that market coordination requires sustaining costs is of fundamental significance. Coase (1937) distinguished the costs of the operation of the market mechanism and the costs of organizing transactions inside the company. Each transaction concluded in economy is accompanied by transaction costs. The author was of the opinion that as long as the costs of organizing transactions within companies were lower than the costs of purchasing this service on the market or contracting it to another company, companies would increase their size, expanding their organizational structure. Coase (1937) stated that companies were established in order to decrease the costs of transactions, and thus he assumed that the internal implementation of actions was cheaper than their implementation by the market, which was confirmed by the economic practice of that time. For a few decades, the companies expanded their structure, creating new departments, units, and etc.. They implemented their functions on their own, using their own material, capital, and human potential.

Even at the beginning of the 1990s, another Nobel Prize winner, dealing with transaction costs, Williamson believed that the implementation of actions within the company was more profitable than contracting them outside. This resulted from the fact that transaction costs of actions implemented outside were still higher than the savings which companies achieved by delegating them to suppliers. Subsequent decades
brought changes in transaction costs and the implementation of actions outside became more effective from the implementation in one’s own organizational structure.

What are transaction costs? To answer this question, this paper has to introduce the notion of transaction. Transaction is the basic unit of economic analysis. Transaction takes place when goods or services go through technically specified limits. One sphere of activity ends and another one begins (Williamson, 1985). Transaction does not only imply market exchange, but also includes other acts of exchange within the organization.

The notion of contract is associated with the transaction. This is a transaction with a clearly outlined structure, not always a formal one. Furuobotn and Richter (1997, p. 53) defined a contract as a “bilateral transaction, in which both parties agree as to their certain obligations. Apart from the parties’ agreement concerning their relations (planning relations), the existence of legal sanctions (enforceable by law) is regarded as a characteristic feature of the contract”. Each contract involves costs related to its handling, regardless of whether or not it is internalized within the organization or proceeds as a market transaction. The method in which the contract is managed is selected on the basis of the criterion of minimizing transaction costs and this is the basic assumption of the economics of transaction costs. Therefore, it can assume that transaction costs are the costs of the operation of the socio-economic system; they reflect the expenditures incurred as a result of all possible types of concluded transactions.

It can express transaction costs as a function of three components: specific nature of assets, frequency, and uncertainty (Williamson, 1998).

The specific nature of assets results, essentially from their high value, rareness, and the lack of substitutes and idiosyncrasy. Specific assets are those which may not be easily transferred for other applications and also cannot be easily replaced, e.g., the specific nature of tangible assets, the specific nature of human assets, the specific nature of location, and the specific nature of the intended use of assets. If the transaction is characterized by specific assets, the effect is the growth in the complexity of contracts concluded between market entities and, as a result, growth in transaction costs. The second significant factor affecting the amount of transaction costs is uncertainty, presented in two dimensions as the uncertainty of the external environment and behavioral uncertainty. When companies conclude transactions, they are not able to take into account all factors which may affect their course. The occurrence of new facts leads to the renegotiation of contracts and this, in turn, leads to the growth in transaction costs. The last factor determining the level of transaction costs is frequency, which is less frequently displayed in the literature on the subject. According to Williamson (1985, 1998), if transactions are characterized by high frequency, companies are more willing to use vertical integration.

According to the theory of transaction costs, the basic management function is to limit costs related to the coordination of the implementation of a given transaction, namely the selection of such a structure of managing transactions inside the company, so that the costs of coordination are as low as possible. Transaction costs are saved by connecting transactions of various attributes with management structures in a diverse manner. Theoretically, this paper may distinguish two extreme methods of regulating transactions: market regulation and administrative (hierarchical) regulation. Between the two extremes which are the market and the hierarchy, there is a spectrum of methods for conducting transactions. The effectiveness of particular forms of regulations depends on the previously characterized transaction attributes, namely on the specific nature of assets, the frequency of transactions and the uncertainty.
Combining management structures with transaction attributes serves the purposes of effectiveness. Transaction costs are saved by connecting transactions of various attributes with management structures in a diverse manner. It is assumed that the amount of transaction costs determines the adopted solution. If these costs are at a low level, companies decide to transfer their activities to the market, many transactions are concluded, based on the market mechanism. When transaction costs are high, companies avoid or limit the number of transactions on the market and execute actions in their own organizational structures. As mentioned earlier, there are situations when transaction costs are high, regardless of whether the transactions are conducted on the market or internally in a company. Then, companies choose to function in the so-called hybrid forms. These are intermediate solutions between the market and the internal hierarchy (for instance the network).

**Measurement of Transaction Costs**

As it has already been mentioned, a weakness of transaction cost theory is the problem with measurement of these costs. It is difficult to determine the exact level of transaction costs. Calculations of these costs are to a large extent based on assumptions, since a part of these costs are costs that will occur in the future (estimates). However, this is not a premise to disregard measurement of transaction costs. If the basic reason for using offshoring is to reduce costs of business operations, failure to measure transaction costs may result in a failure of offshoring. Underestimation of transaction costs with assessment of offshoring effectiveness affects the increase in risk. The risk of offshoring increases due to shortcomings in preparation of the separation process (at every stage of preparation of the course of the process, transaction costs should be calculated). An example of increase in the risk of offshoring is, e.g., increase in the price of services provided by foreign suppliers. At the stage of preparation of the contract, a company should secure itself against possible unfavourable situations.

Another important element of accurate measurement of transaction costs results from the fact that most often, these measurable transaction costs are definitely higher in the case of offshoring than in the case of implementation inside the organizational structure of the company. An important factor will be the amount of total transaction costs. The total value of transaction costs should affect the decision on offshoring. What is equally important, practice proves that total transaction costs are dominated by those with variable cost nature. If these are variable costs, then people, as managers, can affect their amount and respond to changes in variable costs relatively quickly.

Companies that perform measurement of transaction costs do it within the information system of the company, both in financial accounting system and in the managerial accounting system. The main tool used for that purpose is, obviously, the cost account. Managers must have information on whether the transaction costs are higher within the market or within the organization. A particular role, when estimating transaction costs, can be played by the tools of management accounting, such as activity-based costing and balanced scorecard.

Caring about achieving the objectives of contracting, management structures are adjusted to transaction conditions. These structures vary between one another in the capacity for an effective reaction to interferences.

**Effectiveness of Offshore Outsourcing**

Effectiveness is not a clear notion. Literature often mentions terms with similar meaning, like efficacy, productivity, profitability, or economy. An important publication, containing a comprehensive analysis of the notion of effectiveness is the work by Holstein-Beck (1987) entitled *Sketches About Work*. The author presents
efficiency as the main element shaping today’s understanding of “effectiveness”. The main value of effectiveness is efficacy, gainfulness, and economy (Kotarbiński, 1955; Kieżun, 1977). Such perspective on effectiveness is a result of impact of the Polish praxeological school in the theory of organisation on works by many authors. Efficacy is an action which leads to the effect intended as a goal. A measure of efficiency is thus the degree of achieving the goal. The model below (Figure 1) can be used for assessing effectiveness of offshoring. In this model, the praxeological approach has been adopted and thus the achieved goals are expressed in the identified effects.

Due to the wide range of possible effects and form diversities, measuring them is often hindered and complicated. Therefore, dividing the effects into direct and indirect ones is the main differentiation.

Direct effects of outsourcing are any kinds of results or events caused by a change introduced throughout the implementation process which influence the resources used directly during the implementation (human, financial, material, and etc.). Indirect effects of outsourcing are any kinds of results or events related to the
implementation of outsourcing which are identified in different areas of activity of an organisation. Based on the assumed occurrence criteria of effects, a three-stage evaluation leading to a complete analysis of the effectiveness of outsourcing may be performed.

In Table 1 below, proposes measures assess the effectiveness of offshore outsourcing.

Table 1

<table>
<thead>
<tr>
<th>Effectiveness of offshore processes (services)</th>
<th>Direct long-term effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimension</td>
<td>Measures of assessment</td>
</tr>
<tr>
<td>• economic</td>
<td>• cost reduction</td>
</tr>
<tr>
<td>• organizational</td>
<td>• number of reduced workplaces</td>
</tr>
<tr>
<td>• technical and technological</td>
<td>• number of complaints</td>
</tr>
<tr>
<td>• qualitative</td>
<td></td>
</tr>
<tr>
<td>• legal</td>
<td></td>
</tr>
<tr>
<td>• other</td>
<td></td>
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<table>
<thead>
<tr>
<th>Effectiveness of organization</th>
<th>Strategic effectiveness</th>
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<tbody>
<tr>
<td>Operational effectiveness</td>
<td>Effects: new products, new markets, new technologies, introduced innovations, focus on basic activity, and etc.</td>
</tr>
<tr>
<td>Strategic effectiveness</td>
<td></td>
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</tbody>
</table>

Effects of separation and transfer for implementation under offshoring are identified in two planes: the effectiveness of offshore operations and the organizational effectiveness of offshoring. The main differentiation is the division into direct effects (short-term and long-term). Direct effects are any kinds of results or events caused by the change introduced into the implementation of the functions (action/service). Indirect effects are identified results of offshoring having impact on the whole organization. In the proposed model for assessment of effectiveness, several dimensions of effectiveness have been adopted, such as economic, organizational, technical and technological, qualitative, and legal dimension. Each dimension can be attributed to measures reflecting degree of achievement of goals for which offshoring has been used. These dimensions of effectiveness might not only be used in the assessment of the separated function itself and direct effects that it yields, but also can be used to assess the effect of offshoring on effectiveness of the whole company. These effects are indirect and they can be additionally divided into operational and strategic effects.

**Transaction Costs and Development of Offshore Outsourcing in Poland**

The theoretical assumptions of the concept of transaction costs are applied in economic practice. An example of the application of the theory of transaction costs in economic life is outsourcing. This concept involves a transfer of certain activities (functions) outside the company’s structure and realizing them by specialized external companies. In the last two decades, companies all around the world and in Poland more and more often use outsourcing. In the first phase of outsourcing popularity, companies decided to transfer additional functions, often referred to as peripheral, in the company. These were functions which were not complex, which did not require the involvement of specific resources for their implementation. However, with time, apart from additional functions, companies widened the scope of separations covering also functions...
critical for the company. Companies transferred such areas of activity as production, tests, development, and customer service to external suppliers.

The impact of changes in transaction costs may be noticed in a certain variety of outsourcing referred to as offshore outsourcing. This is a form of outsourcing, in which tasks are transferred abroad.

The market of offshoring services has been growing for many years. Figure 2 presents the value of offshoring transactions concluded all over the world in the years from 2004 to 2009.

A sudden growth in separations of activity and their transfer to other countries results from the change in transaction costs. The main drivers of that change are development of information technologies and globalization.

As a result of the development of new information technologies, especially the internet, the costs of communication decreased, as well as the costs related to searching for information and suppliers. But these are not the only benefits resulting from the application of new technologies in the field of IT. Companies use modern technologies to collect and send data all around the world. They do it cheaply and safely.

Globalization has also affected the decrease in transaction costs to a significant degree. Conducting transactions “with the whole world” emphasized numerous differences in the area of shaping prices, costs, and conditions in which production is implemented. Globalization has also showed cultural differences in organizations. Companies very quickly responded to these differences and moved transactions, where the conditions for their implementation were more attractive.

As it has already been mentioned, companies transfer selected actions to offshoring suppliers for implementation. Actions related to IT and BPO, but only these, are most often separated. They transfer production, tests, development, and other functions considered basic to suppliers.

Even at the beginning of the 1980s, such companies as Adidas or Puma used to employ thousands of workers in Germany who manufactured sports shoes. Today, these companies do not have a single factory. They contracted the whole production of shoes and clothes to partners in the Far East and Southeast Europe. Nike submitted key elements of production to offshore outsourcing, focusing on unique activity, such as research and development and post-production actions (distribution, sales, and marketing). Argyle Diamonds, one of the largest manufacturers of diamonds in the world, went even further. It outsourced all mining and
distribution operations, conducting on its own only actions related to the separation and sorting of diamonds. Similarly, the company Apple Computers submitted 70% of its production and other essential elements, e.g. designing and part of marketing activities to outsourcing in order to focus on the production of unique parts, such as Apple DOS (disk operating systems) and systems supporting macro software which are unique for Apple products, and therefore key (Quinn & Hilmer, 1994).

Production activities in the automotive industry are also no longer basic competences for the manufacturers of vehicles. Production is an action of a low specific nature. Supplier specialized only in production appeared on the market. The company Porsche decided to completely subject the production of the model US Boxer to outsourcing to the company Velmet from Finland. Porsche focuses on engineering, marketing, and controlling suppliers. Daimler Chrysler, a vehicle manufacturer, transferred the management of his supplier portfolio to Andersen Consulting in the form of outsourcing.

Offshore outsourcing has also become strong in the electronic and telecommunication industry. A new situation has emerged in the electronic industry and this situation is slowly being transferred onto the whole industry. Large renowned companies with strong brands transfer production to companies with a network of production sites all around the world. It turns out that these companies have higher skills in manufacturing than their clients. Even though they are unknown to the general public, these companies form a new industry which is referred to as contract manufacturing industry. Large contract manufacturers (Solectron and Celestica) implement orders from the largest competitors. The assembly belts of Flextronics (100 sites in 30 countries, including Poland) handle mobile phones from the companies Sony Ericsson, Nokia, and Alcatel (Polish Press Agency, 2002).

The dominant reason why companies resign from the domestic market and move the implementation of tasks to the global market is the possibility to reduce costs. This cost reduction results mainly from the access to cheap workforce. When China, India, Brazil, and Mexico entered the global market, they gave the opportunity to employ more than one billion low-qualified employees.

Searching for savings in costs on the global market, the potential of developing countries has also been noticed. These potential results from having qualified employees whose employment costs are still lower than in highly-developed countries. Such an attractive labor market with educated employees is, above all, Poland and the remaining countries of Central-Eastern Europe. For many years, the employees support a Western European companies doing for them services in the field of finance, accounting, tax, customer service, and etc..

The attractiveness of offshore outsourcing services location is confirmed by report results. The report entitled Offshoring Opportunities Amid Economic Turbulence presented a list of the most attractive offshore outsourcing locations in the world. Table 2 presents leaders of provided offshoring services. The order in which the countries have been presented results from the investment attractiveness index level which is shaped by such parameters as low costs including taxes, infrastructure, quality and availability of employees, and business environment.

Transferring various actions abroad, where the costs of their implementation are definitely lower, affects the economic performance and the competitiveness of companies. The low costs of wages, low taxes, and political-economic stability determine the fact that India, China, and Malaysia have been leaders of the ranking for several years. Poland is also gaining a stronger and stronger position on the map of attractive locations. Within two years, Poland moved up in the ranking from the 38th place to the 24th place.
Table 2

Global Services Location Index 2009 and 2011

<table>
<thead>
<tr>
<th>Rank 2011</th>
<th>Country</th>
<th>Rank 2009/change in ranking</th>
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<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>1 (0)</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>2 (0)</td>
</tr>
<tr>
<td>3</td>
<td>Malaysia</td>
<td>3 (0)</td>
</tr>
<tr>
<td>4</td>
<td>Egypt</td>
<td>6 (+2)</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>5 (0)</td>
</tr>
<tr>
<td>6</td>
<td>Mexico</td>
<td>11 (+5)</td>
</tr>
<tr>
<td>7</td>
<td>Thailand</td>
<td>4 (-3)</td>
</tr>
<tr>
<td>8</td>
<td>Vietnam</td>
<td>10 (+2)</td>
</tr>
<tr>
<td>9</td>
<td>Philippines</td>
<td>7 (-2)</td>
</tr>
<tr>
<td>10</td>
<td>Chile</td>
<td>8 (-2)</td>
</tr>
<tr>
<td>11</td>
<td>Estonia</td>
<td>18 (+5)</td>
</tr>
<tr>
<td>12</td>
<td>Brazil</td>
<td>12 (0)</td>
</tr>
<tr>
<td>13</td>
<td>Latvia</td>
<td>22 (+14)</td>
</tr>
<tr>
<td>14</td>
<td>Lithuania</td>
<td>21 (+7)</td>
</tr>
<tr>
<td>24</td>
<td>Poland</td>
<td>38 (+15)</td>
</tr>
</tbody>
</table>


Poland is the Central and Eastern European leader in the sector of modern business services. This country has more than 470 business services centers with foreign capital which employ more than 128 thousand employees. Additionally, the employment in this sector is systematically growing every year by 20%. Poland’s attractiveness on the map of offshoring investment projects results mainly from a very well qualified and cheap workforce. Offshoring centers located here offer both BPO and KPO services. Employees need to have specialized knowledge and education, very often technical, in order to provide this type of services, especially those based on knowledge.

Strong centers of advanced business services in Poland include large cities, such as Krakow, Warsaw, Poznan, Wroclaw, and Lodz. These cities are not selected as business service centers by accident. These are cities in which thousands of young people learn in universities. Those who are well educated and who know foreign languages will easily find employment in business service centers. An educated personnel is the basic factor for which foreign investors open their centers in Poland. Poland’s policy of supporting the sector of modern services is also of significance. Investors may obtain tax allowances when investing in Special Economic Zones. After meeting specific conditions (Polish Information and Foreign Investment Agency), they may obtain direct budget subsidies for their investment projects. R&D activity enjoys a special interest and support from governmental authorities in the form of subsidies (Marcinkowska, 2013).

Polish attractiveness stems from the growing importance soft factors when companies select a country. Over 40% of companies include soft factors when selecting a country (Figure 3).

Cost reduction remains the overarching objective of offshoring. But location criteria goes beyond benchmarking of hard facts and is influenced by soft factors, such as following competitors, promotion by target countries, and internal lobbying by a foreign affiliate (Figure 4).

The business services sector is one of the priority sectors of the economic policy in Poland. The polish investment incentive policy gives special preferences for this sector. Key investment incentives for the business services sector are:
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- tax reliefs on Special Economic Zone (CIT tax exemption);
- direct budget subsidies for new investment/employment;
- support for R&D activities.

![Figure 3. Approach for country selection—Soft factors. Source: Prepared by the author; United Nations Conference on Trade and Development (2004).](image)

![Figure 4. Soft factors. Source: Prepared by the author; United Nations Conference on Trade and Development (2004).](image)

**Conclusions**

The changes that have occurred in transaction costs in the past two decades have influenced the development of offshore outsourcing. Enterprises are looking for the best fit business models for your needs. Companies decide to transfer the implementation of previous tasks outside the company’s structure. Outsourcing is a method that reduces transaction cost. Domestic outsourcing and offshore outsourcing are booming. Moving business processes abroad proves to be an effective solution for multinational companies.
That’s why today Poland becomes obvious location for business processes for companies from Europe and the USA. Company managements make initial decisions on the separation of certain actions on the basis of the conducted cost benefit analysis, which is possible to obtain as a result of introduced changes. The first hint for the separation is a surplus of benefits over costs obtained as a result of the analysis. This means that the costs of implementation outside are lower than the costs of implementation within a company. However, this result should not decide the separation. The generated benefits should also cover the transaction costs. It should be born in mind that there is a real problem with the quantification of transaction costs. They may take the form of financial costs and benefits, as well as qualitative costs and benefits. Therefore, the effectiveness of outsourcing is of a praxeological dimension. This specific nature of transaction costs and the difficulty to measure them affect the fact that many companies probably do not take them into account in the process of offshore outsourcing analysis.

References