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ARTICLE

JUSTIFICATION OF EXPEDIENCY OF RESTRUCTURING OF ENTERPRISE BY MEANS OF INDUSTRIAL OUTSOURCING

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ABSTRACT

One of the main criteria of successful application of restructuring outsourcing is competent definition of degree of expediency of use of this tool at the enterprise. Weighing possibilities of development of own production with opportunities of application of resources of outsourcers, the management of the company closely approaches the solution of a task "to make or buy". On decision-making to make, but not to buy, such factors as lack of dependence on the supplier of components, decrease in expenses of not used capacities, preservation of control over own resources and others can affect. On decision-making to buy, but not to make, such factors as desire to concentrate on primary activities, receiving quality components, decrease in expenses of the enterprise and others can affect. It should be noted that transition to outsourcing can be considered expedient if thus the enterprise gains certain competitive advantages and achieves goals. Reasonable combination of outsourcing and insourcing where management of them is constructed on in advance defined accurate principles, and identification of exact borders of outsourcing are pledge of effective application of this model of management at the enterprise. Therefore at the solution of a task "make or buy" the management of the company needs to weigh carefully all pros and cons, and also to consider experience of use of this or that tool by other enterprises, including competitors. The purpose of this article is development of a technique of justification of restructuring of the industrial enterprise by means of outsourcing application.

KEY WORDS
Out sourcing, insourcing, make or buy, advisability, economic effect.

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INTRODUCTION

One of the main criteria of successful application of restructuring outsourcing is competent definition of degree of expediency of use of this tool at the enterprise. Weighing possibilities of development of own production with opportunities of application of resources of outsourcers, the management of the company closely approaches the solution of a task "to make or buy". On decision-making to make, but not to buy, such factors as lack of dependence on the supplier of components, decrease in expenses of not used capacities, preservation of control over own resources, economy on transportation of components, preservation of technological secrets, absence in the market of the corresponding suppliers and others can affect. On decision-making to buy, but not to make, such factors as desire to concentrate on primary activities, receiving quality components, decrease in expenses of the enterprise due to existence at the supplier of effect from the scale of production, redistribution of expenses, decrease in risks due to collective investments, redistribution of risks and others can affect. It should be noted that transition to outsourcing can be considered expedient if thus the enterprise gains certain competitive advantages and achieves goals. Reasonable combination of outsourcing and insourcing where management of them is constructed on in advance defined accurate principles, and identification of exact borders of outsourcing are pledge of effective application of this model of management at the enterprise. Therefore at the solution of a task "make or buy" the management of the company needs to weigh carefully all pros and cons, and also to consider experience of use of this or that tool by other enterprises, including competitors.

Today in scientific and practical literature a large number of various techniques of making decision on application of outsourcing and insourcing is presented. For example, matrix approach is the most widespread method of an assessment of expediency of application of outsourcing [1]. It is possible to allocate the following matrixes of outsourcing applied by the consulting companies and the industrial enterprises:

1. Outsourcing matrix K. Vitasek and M. Ledyard [2]. This matrix is based on use of the following factors at decision-making on application of outsourcing and insourcing: potential value for the organization and organizational expert knowledge.
2. Matrix of outsourcing of Ronan McIvor, Paul K. Humphreys, Anthony Wall, Alan McKittrick [3]. This matrix is based on use of the following factors at decision-making on application of outsourcing and insourcing: relative possibility of realization and importance of process to competitive advantage.
3. Matrix of outsourcing of Mingu Kang, Xiaobo Wu and Paul Hong [4]. This matrix is based on use of the following factors at decision-making on application of outsourcing and insourcing: risk of outsourcing and influence on profit.
4. Kurbanov's model it is based on use of the following factors at decision-making on outsourcing use: level of system effectiveness and index of expediency of outsourcing/insourcing [5].
5. The PricewaterhouseCoopers model is based on use of the following factors at decision-making on outsourcing use: competitive and strategic importance of an asset.
6. The McKinsey model is based on use of the following factors at decision-making on outsourcing use: appeal of branch and competitive position [11].
7. Kuryanovich V. model is based on use of the following factors at decision-making on outsourcing use: strategic importance for the company of this element of business and a business element assessment in relation to a foreign market.

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8. Also in the literature there are models of Moiseeva N.K., Malyutina O.N. and Moskvina I.A., Khlebnikova D., Ochneva V.V. and Nuzhdin R.V. and others.

It should be noted that all models given above are kinds of matrix approach as "outsourcing matrix" is the most widespread and demanded method. However an essential lack of "outsourcing matrix" is the two-factoriality.

Also for the solution of a task "make or buy" the following approaches are applied:

- comparison of costs of own performance of function or business process and purchase of service or a component at the supplier [5];
- card of agreements with suppliers [6];
- emergence of the new functions necessary for business in modern conditions on which performance at the enterprise are insufficient or there are no competences [7] and other approaches.

All listed ways are based are inapplicable for restructuring outsourcing as they, were generally developed for an assessment of expediency of application of other types of outsourcing.

MATERIALS AND METHODS

The Today allocate the following criteria defining efficiency of restructuring outsourcing: decrease in constant expenses of the enterprise, reduction of prices of purchased components of a product at increase in volumes of the order at the outsourcer [8], increase in capacities due to decrease in "narrow places" [9] and other criteria. Therefore we will offer the following technique of determination of expediency of outsourcing.

The main criteria of efficiency of outsourcing are:

1. Change of level of profitability of the enterprise:

Low level of profitability is one of key characteristics of effective and competitive activity of the enterprise. Optimization of floor spaces and decrease in a share of constant expenses in prime cost of a product is a consequence of application of restructuring outsourcing that positively effects on the provision of a point of profitability. However not any application of restructuring outsourcing conducts to decrease in level of profitability of the enterprise. Namely:

- lack of compensation of rise in price of product cost at outsourcing application by increase of its price can lead to increase of a point of profitability;
- application of multi sourcing's model of the relations can lead to emergence of new administrative expenses and increase of costs of research and development that can lead to increase in constant costs of production and, therefore, to increase of a point of profitability.

2. Change of capacity of the enterprise:

Fatigue of production – the main problem of the Russian industrial enterprises which means strong wear of the equipment and poor quality of products. Therefore some companies apply production outsourcing or to possibility of continuation of production in case of breakage of own equipment, or to increase of capacities by decrease in number of "narrow places" and use of capacities of the outsourcer.

3. Change of coefficient of reaction of variable expenses:

Application of restructuring outsourcing conducts to increase in a share of variable expenses in prime cost of a product. In this case the main part of variable expenses is made by costs of purchased components. Therefore for effective application of outsourcing it is necessary to achieve degressive behavior of cumulative variable expenses that is the relative gain of variable expenses has to be less, than relative increase in output. In other words, the increase in volumes of the order at the outsourcer has to be followed by reduction of prices of its production. Such it is possible as constants and investment costs of a unit of production decrease and, moreover, the outsourcer can reduce or clean a risk extra charge the price and apply various systems of discounts.

4. Change of a share of "single" expenses in constant expenses:

Today one of the main problems of the Russian industrial enterprises are high constant expenses. As a rule, production of non-basic products of a product generates losses for the enterprise as this production practically always remains not loaded. It is possible to give a situation with the Volgograd tractor plant when the new team of managers made the decision on a conclusion of production of a hardware in outsourcing as this production was loaded for only 10% [10] as an example. Therefore one of the main reasons for application of restructuring outsourcing, besides decrease in constant expenses, decrease in a share of "single" expenses in constant expenses is.

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RESULTS AND DISCUSSION

The technique of an assessment of expediency of application of restructuring outsourcing is under construction on the listed above criteria. Values of each of these criteria define expediency of outsourcing at the enterprise. Therefore for an assessment of expediency of use of this tool the summary table of the main criteria in which value of an indicator and percent of its change at application of outsourcing [Table 1] are reflected is under construction.

Table 1: Summary table of the main criteria for the appropriateness of outsourcing

№	Indicator (criterion)	Value of an indicator	Change percent
1.	Change of level of profitability of the enterprise	y1	x1
2.	Change of capacity of the enterprise	y2	x2
3.	Change of coefficient of reaction of variable expenses	y3	x3
4.	Change of a share of "single" expenses in constant expenses	y4	x4

The maximum expediency of restructuring outsourcing is reached at positive changes of quantity of indicators and percent of change of each indicator at outsourcing application [Fig. 1].

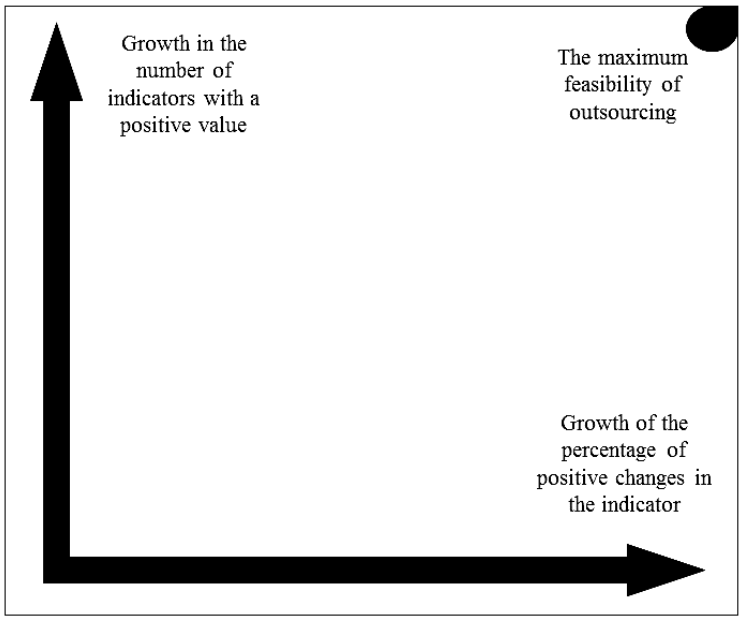

Fig. 1: Feasibility of restructuring outsourcing.

Some explanations to [Fig. 1]:

1. At application of restructuring outsourcing indicators of expediency can accept various values therefore there is a lot of options of various data sets of values. However for effective application of outsourcing it is necessary to achieve positive values of all indicators.
2. The percent of change of indicators is individual for each enterprise.

Advantage of the developed technique is possibility of application of restructuring outsourcing most effectively, considering all main positive changes, such as decrease in a point of profitability, "single" constant expenses, coefficient of reaction of variable expenses and increase in capacities of the enterprise. It is very important to consider these changes by optimization of the enterprise as further competitiveness of the company will depend directly on the criteria given above.

Also further the given technique can be improved by introduction of new criteria of expediency of outsourcing and expansion of the model presented in [Fig. 1].

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CONCLUSIONS

The offered technique is of interest both to economists-theorists, and to practicians and heads of the large industrial enterprises as its application in practice allows to perform more effectively restructuring and optimization of business by means of outsourcing application.

From the point of view of the theory the offered technique allows to open possibilities of outsourcing and to add the ways of justification of expediency and efficiency of restructuring of business existing today in scientific literature.

CONFLICT OF INTEREST

There is no conflict of interest.

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