

# An Investigation to the Trends of Outsourcing and Its Impact on Procurement, Planning Procedures and Organization in Construction Companies in Greece

Alexandros Verroioopoulos<sup>1</sup>, Eleni Sfakianaki<sup>2</sup>, \*

<sup>1</sup>Department of Civil Engineering, Piraeus University of Applied Sciences (Technological Education Institute of Piraeus), Athens, Greece

<sup>2</sup>School of Social Sciences, Hellenic Open University, Patras, Greece

## Abstract

Outsourcing is a phenomenon originated in the 1950s, but it was not until the 1980s that was introduced and performed by organizations in various business sectors. Since then the outsourcing strategy is facing a continuous evolution that passed initially through its usage as a powerful tool in order to reduce costs, later on as a tool to provide external skills/knowledge/competences necessary for a differentiation advantage and finally as a tool to create new business models that target to a more flexible and adaptive enterprise. While outsourcing is a well introduced and developed method in many business sectors, it was integrated in the construction industry in the early 1990s and since then has become an extremely important factor to the overall success of firms. Since the application of the outsourcing, many changes have been held in the Greek construction industry, this paper intends to identify its impact in procurement, planning procedures and organization structure of the Greek construction companies, as also to reveal the trends of outsourcing.

## Keywords

Construction, Outsourcing, Procurement, Greece

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## 1. A Theoretical Approach to Outsourcing

Outsourcing defined as “the transfer of activities and processes previously conducted internally to an external party, is one of the most sustained trends of concurrent business” [1]. What we have been noticing in the last decades is an outsourcing revolution, which has significantly changed the rules and practices in the way firms compete in a vast area of industries around the globe such as financial services, healthcare, energy systems, telecommunications, computers, constructions etc[2],[9],[10]. Outsourcing is a method that in present time is conducted both domestically and internationally. The transfer of the ownership and the location

of the operational processes of a firm it is called offshore outsourcing and it describes the international outsourcing. On the other hand the term offshoring refers to the strategy of transferring activities across national borders [3]. The present economic environment is highly competitive and can also be nominated as an outsourcing economy. The main aspects of this type of economy are an increased focus on core organizational activities and a simultaneous leveraging of external resources, competences, capabilities and skill [1, 13]. The first appearance period of outsourcing was called as ‘the era of the Bing Bang’ and lasted till the 1980’s. During this period companies outsourced noncore business processes basically to cut operational costs and outsourcing was used as a tool to increase the cost efficiency and profit maximization of organizations. In this period outsourcing was practiced

\* Corresponding author

E-mail address: [esfakianaki@eap.gr](mailto:esfakianaki@eap.gr) (E. Sfakianaki)

mainly domestically [1]. The era of the Bandwagon started in the early 1990s and that was when outsourcing really started its gaining momentum [4, 14]. A different orientation was followed by companies, that it was characterized by their willingness to provide value to more complex and strategically important organizational processes by seeking external skills, knowledge and competences. A new term 'Strategic Outsourcing' emerged [5], [6]. Global access to vendors and improved information technologies and communications links make possible to all companies to restructure their businesses and purchase resources from the global market. This development led to the current phase in the outsourcing history, 'The Era of Barrier-less Organizations' where boundaries of organizations have become loose and fading. A new form called 'Transformational Outsourcing' was born and aimed in creating new business models that generated competitive edge to firms and changed the rules of the game in their industries [7].

## 2. Research Objectives

Since outsourcing strategies seem to gain worldwide, this research main objective is to investigate the trends of outsourcing and its impact on procurement, planning procedures and organization structure of construction companies in Greece (see also [11, 12, 14]). More specifically the research aimed to explore relative issues such as the following:

- The most performed level of outsourcing (traditional, strategic or transformational outsourcing) at present,
- The main reasons that drive Greek contractors to outsource and the achieved overall reduction of cost
- The mostly outsourced processes/functions in the Greek construction industry,
- The outsourcing's impact to the organization structure and planning of the Greek construction companies,
- The outsourced activities which are considered the most important from the managers' point of view,
- In to what extent the most important five sources of outsourcing have been used by the Greek construction companies,
- The future expansion of the outsourcing strategy within the Greek construction industry,
- The use of specific forms of outsourcing such as co-outsourcing, micro-outsourcing, partial-outsourcing and reciprocal outsourcing by Greek construction companies.

The research will further assist the technological education

sector with outsourcing strategies and will enrich the relative literature with knowledge of the existing current in the Greek construction industry. Moreover, the present paper presents an interdisciplinary approach, that of outsourcing in the construction industry, which has not been discussed in the literature to a great extent.

## 3. Research Methodology

In order to achieve its objectives the research was developed in two parts. The initial part of the research was based on the review of the literature which investigated the application of outsourcing in various business industries. Through this review, it was possible to identify the most important surveys conducted until nowadays regarding outsourcing. The aim of the research was to apply a questionnaire survey in the Greek construction industry. In this respect the most important aspects and ideas of those surveys found in the literature were gathered and used along with other significant factors of outsourcing identified in the process and formed the structure of the questionnaire survey.

The subsequent part of the research was based on the data collection in the form of a questionnaire developed in the first part of the research. The questionnaire was distributed to a number of Senior Managers, Managers, Staff (Engineers or Architects) having some level of involvement or interest in the subject that the questionnaire was dealing with. During the main survey a total of (150) questionnaires were delivered or e-mailed to the people that had already been selected and a total of 120 were returned until the deadline for the collection of the results and represent an average response rate of 80%. It was considered that this response rate met the requirements for adequate provision of information required for substantial conclusions. The substantial number of questionnaires answered makes this survey an important sample of what is the perception in the Greek construction industry regarding the use and trends of outsourcing. The questionnaire survey consists of three parts, each of them aimed to collect a different cluster of information about outsourcing which are illustrated below:

- Part 1: Information about the age, professional status of the respondents, the size of their company and the main reasons of outsourcing by Greek construction companies. Furthermore an investigation on which of the basic sources and forms of outsourcing are currently being used in the Greek construction industry was held. Finally an investigation about the overall reduction of cost achieved by Greek construction companies performing outsourcing was held.
- Part 2: Information about the business processes/functions that are currently outsourced in the Greek construction

industry and also which others are taken in consideration to be outsourced in the future. Also an investigation on which are the services that Greek construction companies are willing to provide to foreign construction companies or governmental bodies in the future was held.

- Part 3: Information about the impact rate for general categories of activities in case they are outsourced with a view to the particular nature, attributes and characteristics of those activities.

### 4. Discussion

The results of the questionnaire indicated that Greek construction companies show nowadays an increased interest and a positive approach concerning the application of outsourcing. The target population of the survey was Senior Managers, Construction Managers/Head of division, Staff (Engineer or Architect). As far as respondent’s status was concerned, 42% of the respondents were Senior Managers, 25% were Construction Managers/Head of Division and 33% were Civil Engineers or Architects as illustrated in Figure 1.

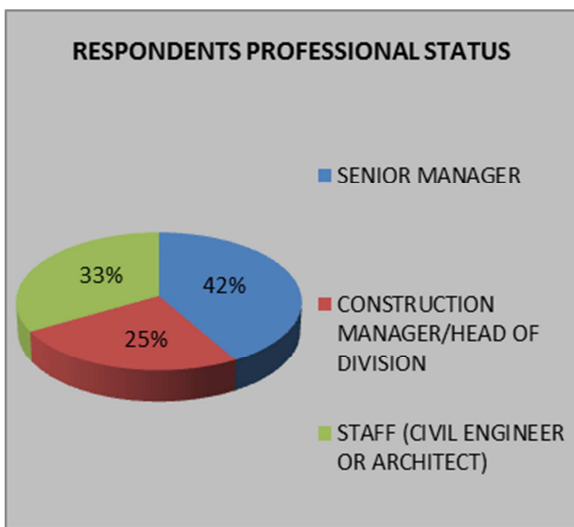


Figure 1. Target population of the survey.

These data reflected the current situation in the Greek construction industry and confirmed the economic crisis’s impact by showing that the mostly resistant categories of construction companies are the large and medium size. On the other hand the majority of small and intermediate construction companies struggle to survive or have stopped operating permanently due to a business environment which is highly competitive and with a short demand for private and public construction projects. The data indicate that the overall reduction of cost achieved by performing outsourcing is estimated approximately between (0% - 20%) by 42% and between (21% - 40%) by the 50% of the respondents (see also Figure 2).

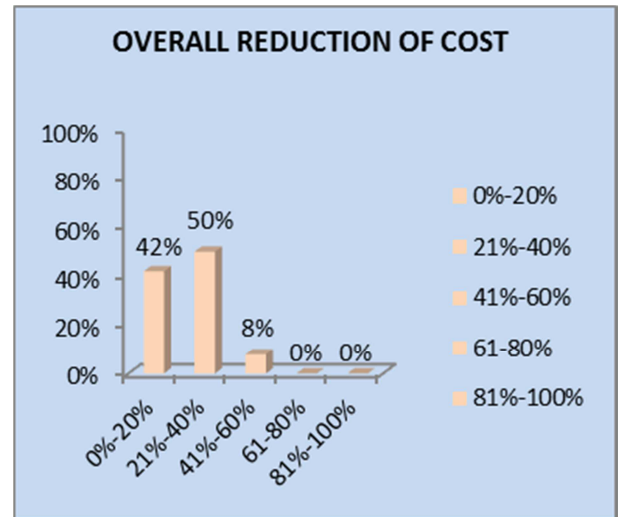


Figure 2. Overall reduction of cost achieved by performing outsourcing.

The current use of outsourcing was mainly justified by Greek construction managers, through their willingness to cut operational costs (83%), reduce headcount (33%) and reduce production costs (50%). These three main reasons of outsourcing represent the economical efficiency orientation that Greek construction managers pursue. The data analysis also indicate a second cluster of reasons to perform outsourcing by Greek construction managers and was consisted by their willingness to improve service quality (58%), to get access in new construction technologies (33%) and to increase competitiveness by seeking external skills, knowledge and competences (42%).

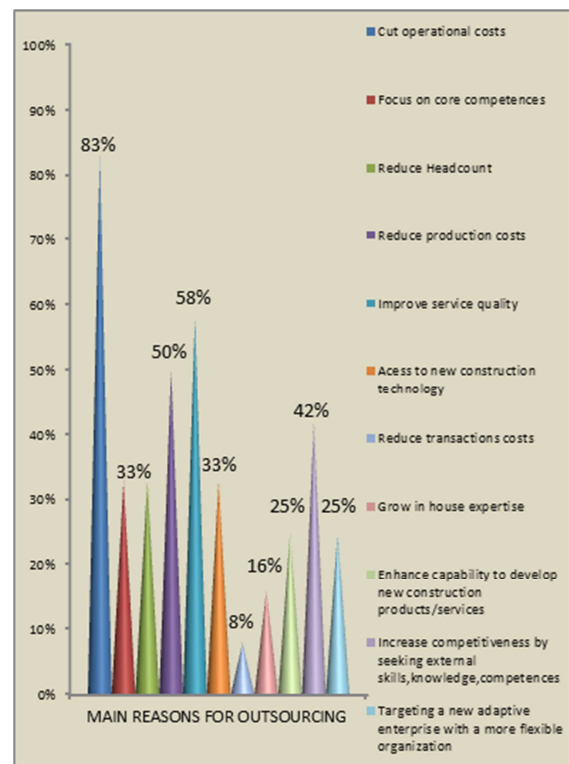


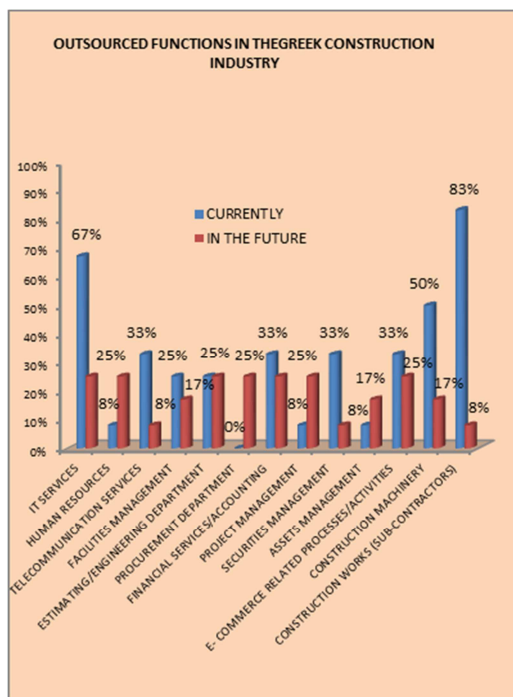
Figure 3. Main reasons for outsourcing.

These two main clusters of reasons reveal that outsourcing was introduced in the Greek construction industry later than in other foreign countries and that nowadays it is transitioning from an economical-efficiency oriented stage (traditional outsourcing) to an increased-competitiveness oriented stage (strategic outsourcing) by focusing on core competences and outsourcing of more strategic functions such as human resources, estimating/engineering department, procurement department, accounting and project management. Furthermore this survey revealed the most popular forms of outsourcing used currently in the Greek construction industry as illustrated in Table 1.

**Table 1.** Forms of outsourcing.

Specific sources/Forms of outsourcing	
Outsource activities to overseas subsidiaries	16%
Outsource activities to current and new suppliers	83%
Outsource activities to end use/intermediate customers (micro-outsourcing)	8%
Outsourcing to competitors (partial outsourcing)	16%
Outsourcing to strategic alliance partners (co-outsourcing)	42%
Outsourcing arrangement construction company (reciprocal outsourcing)	25%

These are outsourcing of activities to current and new suppliers (83%), outsourcing of activities to strategic alliance partners (Co-outsourcing) (42%) and which consist the upstream vertical outsourcing strategy. Another important strategy identified in the Greek construction industry was the horizontal outsourcing consisted of the partial outsourcing (outsourcing to competitors) (16%) and the reciprocal outsourcing (25%) (see Table 1).



**Figure 4.** Outsourcing future trends.

Moreover the information gathered by this survey showed for the years to come a significant growth of the use of outsourcing by a raise of (+25%) respectively in activities related to human resources, IT services, estimating/engineering, procurement, accounting, e-commerce, project management and a raise of (+17%) in activities related to facilities/assets management and construction machinery. More specifically, according to the data analysis of this research, the most outsourced activities in the future within the Greek construction industry will be sought for engineering/estimating services by (50%), financial services/accounting by (58%), construction machinery (Plant) by (67%), and IT services by (92%). (Figure 4).

## 5. Conclusions

The research findings demonstrate that the Greek construction industry seems mature to adopt the outsourcing philosophy. The services that seem easier to be outsourced are plant, engineering and estimating and accounting and surveying. The third party companies that can provide such services have constant collaboration with the core departments of a construction company and with senior management department which monitors and dictates the operating policy of the site and procurement department and also monitor/negotiate the arrangements with the third party companies. It is clear from the present research that an outsourcing strategy has advantages such as reduction of costs, improved performance and flexibility, focus on core competences and increased access to knowledge/skills [8, 11]. On the other hand there are, as anticipated disadvantages the most important of which is the danger to lose managerial control over outsourced activities, the risk of losing security and confidentiality, the uncertainty of the quality of the outcome, the hidden costs and the reallocation of teams used to work in the departments that have been outsourced [8].

The research, considering all the above, provides a set of guidelines for the effective and successful application of outsourcing in the Greek environment. It all starts with the in-depth knowledge of the general manager and the rest of the managers of the company and its strengths and weaknesses but also the market environment. It is important to understand what is the desirable market share and also the strengths and weaknesses of competitors. Also managers should pursue a good managerial control over outsourced activities and take significant efforts to minimize the risk of losing security and confidentiality. Managers should have the certainty that outsourced activities will not create a quality problem. When a manager decides to outsource a department or activity should take the appropriate measures in order to keep the moral high and avoid that fear flood along the

personnel. Finally managers should monitor the performance of all outsourced activities and if they become aware of any failures must be ready and courageous to relocate them back again in the company's structure and perform in house.

It should be mentioned that the pursuit of such a survey was not an easy task. Construction managers in Greece faced the research with skepticism and denial. Despite the difficulties useful conclusions were provided. It would be worth conduction a further investigation with detailed economic and quality indexes about the use and impact of outsourcing in the organization of a Greek construction company. Furthermore an investigation on how specific forms of outsourcing such as micro-outsourcing, partial outsourcing and reciprocal outsourcing can be evolved and expanded within the Greek construction industry and which will be the benefits in the reduction of cost, management of materials/resources and how it can influence the strategy plan of a construction company. Moreover a research on suitable techniques and strategies capable to enhance and boost the benefits of the advantages of outsourcing should be conducted and documented. Also a research on techniques and strategies capable to minimize the negative effects of the disadvantages of outsourcing should be held.

All the data collected by performing the above research together with the findings of future actions briefly described above could form eventually an "Outsourcing Manual" for Construction Managers in Greece. This manual's mission will be to provide useful information, techniques and tips for a successful and efficient use of the outsourcing strategy. Also this outsourcing manual could provide helpful advice about the way construction departments should be organized internally in order to optimize their control over the outsourced activities and therefore operate and collaborate with more efficiency with the third party companies.

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