

# USING OUTSOURCING IN PUBLIC INSTITUTIONS IN CLUJ-NAPOCA, ROMANIA

Ioan LAZĂR  
Janetta SÎRBU  
Nicolae MĂRGINEAN  
Gabriela MĂRIEȘ-LEȘ

**Ioan LAZĂR** (corresponding author)

Professor, Department of Management, Faculty of Economics and Business Administration, Babeș-Bolyai University, Cluj-Napoca, Romania

Tel: 0040-740-021236

E-mail: ioan.lazar@econ.ubbcluj.ro

**Janetta SÎRBU**

PhD, Associate Professor

**Nicolae MĂRGINEAN**

PhD, Lecturer

**Gabriela MĂRIEȘ-LEȘ**

PhD, Lecturer

## Abstract

The increasing complexity of the activities of public institutions has required the delegation to other organizations, outside the public sector, of various services, works or activities in order to better meet environmental demands and to focus on core competencies.

The use of outsourcing by public institutions in Cluj-Napoca has started relatively recently, according to the results of the survey conducted in three public organizations: Cluj Napoca City Hall, the Agency for Payments and Intervention for Agriculture (hereafter APIA), the Agency for Payments for Rural Development and Fisheries (hereafter PARDF). The data gathered suggest that outsourcing by public institutions in Cluj Napoca is still in its early stages; there is however potential for and willingness toward implementing it in the future.

## **1. Introduction**

Dynamics and market instability, intense competitiveness nationally and internationally, and continuing demand mutations has determined enterprises and public institutions to seek a better way of performing their activities by outsourcing specific services in order to enhance the options to create and to sustain competitive advantage by making use of the resources, the knowledge and the skills that already exist in other sectors/organizations (because they can be difficult to obtain within the public sector itself or the entire process of acquiring them can prove expensive in terms of money and/or time).

“The development of outsourcing in the evolutionary systems has started from the development of certain fundamental tendencies: the globalization of markets, the development of the neo-industrial economy and of the knowledge-based economy, specialization on core activities, and the wide-spread of digital technologies” (Cantone, 2003, p. 28). Outsourcing can encompass a wide spectrum of activities ranging from operational processes and organizational functions; it implies the delegation of tasks and objectives to organizational segments belonging to foreign entities, which offer better value for money, better quality or have expertise in specialized areas.

Outsourced service providers worldwide expect that demands for such services will grow rapidly, according to a new global study conducted by Duke Off Shoring Research Network and PricewaterhouseCoopers (PwC). Consequently, outsourcing companies recruit and invest in new services with potential for development. The study showed that the economic downturn of 2009 again emphasized the importance of reducing costs and improving efficiency as the main strategic reasons for outsourcing (Roşu, 2010).

## **2. Outsourcing of services in Romania: private companies vs. public institutions**

European companies are seen as the major growth generators for Romania which has become a destination for outsourcing services. Romania attracts Western clients due to the high level of technical and English language skills of IT workers, its well-developed (albeit fragmented) IT industry, and availability of a vast IT labor pool, largely untapped by IT outsourcing companies (Radkevitch, 2006). ‘Romania maintains its attractiveness as a location for outsourcing, climbing 14 positions among the most popular sites, according to a recent study by consulting company AT Kearney, in the context in which important locations in terms of outsourcing, such as the Czech Republic, Hungary, Slovakia or Poland, declined in terms of attractiveness, given the rapid growth of wages and costs of currency appreciation against the dollar’ (Lipan, 2009). In 2009, Romania was ranked 19<sup>th</sup> in the world and 3<sup>rd</sup> in Europe, after Bulgaria (13<sup>th</sup> down from the 9<sup>th</sup> position they occupied two years ago) and Estonia (18<sup>th</sup> place). Outsourcing is one solution to lower the costs that companies pay only for services of a specialized company, thus ensuring their quality and speed. Thus, they lower

direct costs of management, accounting, HR, rent and maintenance of desktop, etc (Toma, 2009).

“The outsourced services have become more attractive to Romanian companies. Thus, companies began to reevaluate business models and this has led them to focus on increasing productivity, reducing operating costs and business agility” (Delinschi, 2009). With regard to as how the outsourcing market is divided among various services/sectors, the outsourcing of infrastructure has the largest share, being logically and traditionally regarded as the most easily outsourced and having the lowest risk when talking about security and privacy processes (<http://www.computerworld.ro>).

Outsourcing can:

- generate cost savings and increased performance, determine organizations to achieve added value, flexibility and mobility, but, at the same time, self-management needs, different from that of the internalized activity (Rangu, 2010);
- help companies optimize and streamline business in times of crisis (Ungureanu, 2009);
- in the case of some non-strategic activities, it can mean for the company focusing only on activities that directly generate a profit, delegating the outsourcer's management skills for activities considered support (<http://www.maxservices.ro/Outsourcing.php>).

“Although one might expect outsourcing to be beneficial in the long run, there may be adjustment costs in the form of job losses, a process that is visible especially at the microeconomic level, since even in the advanced countries the outsourcing of services has just begun” (Comisia Națională de Prognost, 2009).

Outsourcing of public services is a practice frequently used in recent years by public institutions and, especially, in the central and local administration. Public administration services frequently outsourced are the IT ones, because “the outsourcing of analysis, development and configuration from the stage of implementation of IT projects proposed by the government is outsourced due to lack of specialized resources within the contracting authorities that can manage the effort of implementation of new projects in parallel with the operation of existing systems” (Christ, 2010). Thus, integrated platforms were created for “the management of specific activities within local government institutions, starting from the existent reality of small budgets assigned to integrated management solutions, for such complex needs as complex legislation, multiple and complex reports” (<http://www.cgsoftware.ro>). Use of outsourcing in public institutions aims (primarily) to reduce public spending, along with increased sensitivity of Governments, to increase the labor productivity of public institutions and public officials, with fewer resources at hand, and to optimize their business. This is also possible because in the public administration “has appeared a new trend, which involves decentralization of human resource management and adoption of flexible practices on payment, changes in the financial management (including the most

notable one, which is the transfer of responsibilities regarding budget processes to line managers), information management (computer systems in recent decades have been used to rationalize the information as part of the modernization of administration), time management - a useful tool in measuring productivity and rationalizing the working habits, as well as in improving public services performance by extending working hours" (<http://www.administratie.ro>).

## **2. Method**

In order to determine the level of outsourcing in public institutions in Cluj-Napoca, a survey has been developed and carried out. The research tool used consisted in a questionnaire comprising both open and closed questions for determining the attitudes, motivation and interests, as well as the moods and the inclinations of those targeted by the survey (Chelcea, 2001, p. 182). The questionnaire has ten core question, divided into two parts:

- Part I consists of general questions for identification purposes: name, scope of work, object of activity, number of staff, etc.
- Part II of the questionnaire refers to outsourcing: understanding the concept, the first year when outsourcing was used, the type of outsourced activities, the public institution's perception regarding the level of outsourcing (for past, present and future, levels: zero, low, medium, high), areas of outsourced activities, motivations for use (till now and in the future), challenges and barriers in using outsourcing, satisfaction regarding the use of outsourcing, outsourced works/activities that have produced the best and the worst outcomes.

The survey was conducted during the months of January and February 2010; the survey was filled out by public managers and public servants holding an executive position in each of the three public institutions already mentioned: Cluj Napoca City Hall, APIA and PARDF. The respondents were informed about the deontological rules of the research, most important of which is anonymity.

## **3. Results**

The concept of outsourcing is well understood by public managers in all the three institutions; recent examples of outsourced activities included cleaning services (2007-PARDF and 2008-APIA) and social assistance/social canteen (1998-Cluj Napoca City Hall).

The level of outsourcing was assessed by all three public institutions as low or medium for past and present timeframe. With the exception of Cluj Napoca City Hall, which expects a significant increase in outsourcing in the future, the other institutions consider that the level of outsourcing will remain low or medium (Table 1).

**Table 1:** Perceived level of outsourcing

Institutions	Past (until 2009)	Present (2009-2010)	Future (after 2010)
CITY HALL	Medium	Medium	High
PARDF	Reduced	Reduced	Reduced
APIA	Medium	Medium	Medium

The outsourced activities are different for each institution, in accordance with their specific attribution. Table 2 shows the type of outsourced activities and the fields in which their number is likely to increase:

**Table 2:** Areas of activities where outsourcing has been used, is used or will be used

Institutions	Past (until 2009)	Present (2009-2010)	Future (after 2010)
CITY HALL	- Canteen - Social assistance	- Technical services - Parking management - Consulting services for attracting grant money	- Technical services - Land use management - Local police - Management of public and private assets hold by the city - Consulting services for attracting grant money
PARDF	- Cleaning activities	- Cleaning activities	-
APIA	- Security services - Cleaning activities - Data storage	- Security services - Cleaning activities - Data storage	- Security services - Cleaning activities - Data storage

The motivations for using outsourcing are different. Four different levels in the intensity of motivation for outsourcing were determined: high, medium, low and zero. Specific motivational factors were identified for each level.

High level:

- Compliance with the deadlines imposed by EU bodies (for APIA);
- The price offered by the service provider (for PARDF).

Medium level:

- A more efficient allocation of internal resources (for PARDF);
- Embracing new technologies and knowledge, more efficient allocation of internal resources, tax benefits, the attitude and the economic stability of the supplier, the supplier's performance with other customer companies, quality of performed public services, better stewardship of the business (for Cluj-Napoca City Hall).

Some challenges that determined a somewhat limited use of outsourcing were also evaluated based on a continuum ranging from very relevant to non-relevant. Below are some examples from the survey.

Cluj-Napoca City Hall defined as partially relevant the following:

- long periods of adaptation to business needs;
- fear of increased contractual power of the supplier;
- fear of having an excessive connection with the supplier; and
- inadequate monitoring by firm receiving the service offered by the provider.

In addition, Cluj-Napoca City Hall defined as relevant the following challenges:

- difficulties in managing contractual issues with the supplier;
- difficulties in having an adequate database that presents the suppliers and their offers, unpredictable additional costs; and
- difficulties in properly managing contracts.

APIA defined as a very relevant challenge the inadequate level of monitoring by the firm receiving the outsourced service.

When initializing a process of outsourcing, the three analyzed public institutions use a limited number of sources of information (Table 3).

**Table 3:** Sources of information regarding outsourcing

Sources	Public institution
Existing national legal framework	CITY HALL
Specialists/technical experts	CITY HALL
Recommendation from other companies/public institutions that have resorted to outsourced services	PARDF
Existing EU legal framework	APIA

The three public institutions were requested to assess their level of satisfaction regarding the use of outsourcing (Table 4). Despite their different level of usage, they all rated their satisfaction as good. The highest scores for satisfaction were obtained for the outsourcing of parking management and child care (for City Hall), and data base storage and operation (for APIA).

**Table 4:** Level of satisfaction regarding the use of outsourcing

Public institutions	Level
CITY HALL	good
PARDF	good
APIA	good

#### 4. Conclusions

Based on the data gathered from the survey in these three public institutions, in Cluj-Napoca, several conclusions can be depicted:

- Institutions have started to use outsourcing as a method for delegating or transferring services to exterior organizations fairly recent (since 2007); being used and known) in some form or another in a rather recent field of activity, starting with 2007;
- Though the public authorities are informed about the process itself, about advantages and disadvantages, the level of usage is estimated by the institutions to remain low or medium; the only exception is Cluj Napoca City Hall.
- Outsourced activities tend to occur in the same fields of activity, though some diversification is expected to happen for the City Hall.
- Managers of public institutions in Cluj-Napoca first analyze the situation; know exactly what to do and in what field can outsourcing be applied; as evidenced

by the different motivations that led to the use of outsourcing, as well as the relevant barriers identified.

- The willingness to use outsourcing can be determined by the level of information. Though the level is fairly good, there are limited sources from where public managers derive their knowledge about outsourcing.
- The degree of satisfaction regarding the use of outsourcing is good for all three institutions; this can act in the future as a possible trigger for more outsourcing.

The rapid development of human society in the last decades has led to an increasing complexity of public institutions and enterprise activities; in this context the delegation/transfer of such activities, services and works to exterior organizations and even individuals is becoming an appealing solution which can allow public organizations to focus more on core competencies/attribution and to become more adaptable to environmental pressures.

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