

## OUTSOURCING IN DESIGN-PROCESS – PROBLEMS AND OPPORTUNITIES

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### ABSTRACT

This report reveals the essence of outsourcing as a modern business model. Depending on the field in which it is applied, outsourcing can be considered as production outsourcing and outsourcing of business processes and services.

The present study is focused on the outsourcing of business processes and services.

The subject of the study is the outsourcing of the design process by business organizations, through which they improve their quality, transfer risk and save money.

The purpose of the report is to identify the advantages and disadvantages, problems and opportunities of using outsourcing as a business model.

We consider that the research on outsourcing of design process, based on the theoretical formulations and the best practices in this area, will be of interest for researchers and practitioners.

**Key words:** outsourcing, design-process, furniture design, graphic design, problems, opportunities.

### INTRODUCTION

Outsourcing is, by its nature, an instrument for transferring specific activities from one organization to another external organization. The main purpose of outsourcing is to save the organization's financial resources, to increase the efficiency of its work, and to free resources for other activities. In the context of organizational management, outsourcing is not just a form of partnership or co-operation but a part of its management strategy. Outsourcing implies a transfer to an external organization not only of authorities, but also of responsibilities for the production of goods or the provision of services. The transition to outsourcing implies a refusal of the own business process for a fixed amount of time, signed by contract, and the assignment of a service for the realization of this process by other organizations (Alexandrova, M., 2008).

Globally, information and communication technologies (ICT) are the most advanced field of outsourcing. The outsourcing of ICT is expressed by the transfer of specialized companies to the full or partial functions related to information and communication technologies (Venkatraman, N., 1997). The active development of ICT outsourcing is linked to the rapid development of technologies, and therefore organizations are increasingly finding it difficult to implement emerging information and communication innovations as they lack sufficient qualified staff.

The speed of technological changes leads to an increase in outsourcing, as it allows organizations to use services based on modern technologies without incurring ever more frequent costs for adapting these technologies.

## 1. NATURE AND SCOPE OF OUTSOURCING

There is a controversy in the scientific literature regarding the definitions of outsourcing (Gilley, K.M. and Rasheed, A., 2000). In the following, some of the common definitions of outsourcing in synthesized form will be outlined (Deavers, K. (1997), Feenstra, R. and Hanson, G. (1996), Lei, D. and Hitt, M. (1995), Perry, C. (1997), Sharpe, M. (1997)):

- outsourcing is the production of components or other value added activities;
- providing components, subsystems or even finished products;
- transfer of activities carried out so far by own staff to the staff of other organizations;
- targeting to a provider those activities that are outside the scope of the organization's key competencies;
- Providing various opportunities for corporate actions and temporary employment.

Some authors such as Gilley & Rasheed (Gilley, K.M. and Rasheed, A., 2000) attempt to clarify the problem of the essence of outsourcing by associating it with the act of ordering (or assigning) the creation of a product (commodity or service) that was either actually provided (along the vertical integration), or it was technically possible to provide it through internal organizational resources, despite the fact that subcontracting was accepted.

The brief overview of the definitions and the essence of outsourcing provides an opportunity for its designation as a strategic management tool, in support of which there are also many theoretical views. Such understanding allows the organization's strengths to blend with the business environment.

In the following, we will stick to the definition of outsourcing as assigning /transferring/ of a specific activity adding value to the external organization.

## 2. OUTSOURCING-PRACTICES

Outsourcing – practices today are mainly in terms of support activities, but often also on key activities. For example, in 1997, Roberto Testore, director of Fiat Automotive, defines the key competencies of the company in two directions: engines and design (styling). However, the provision of both components is partly subcontracted (egex. Pininfarina provides much of Fiat's design).

Practices show that attractive outsourcing positions are constantly changing, with some climbing up, others dropping out, and others getting involved for the first time. Bulgaria is for the first time included in the 2005 issue Global Services Distribution Index of the A. T. Kearney Consultancy Company ("A.T. Kearney, Global Services Location Index, 2006]. Our country is ranked 15th among the 40 most attractive outsourcing destinations. In the 2006 index, Bulgaria has improved its image of an attractive business transfer and ICT transfer destination, ranked among the top 10 top outsourcing countries, taking the 9<sup>th</sup> place.

As the main reason that certain countries are a preferred outsourcing partner, the lower level of unit production costs is established compared to other alternative destinations for outsourcing. The main factors determining the attractiveness of the countries are the total costs, the qualification of the workforce and the business environment.

In 2007, according to BAI, there are 4 centers for outsourcing of business processes – Sofia, Plovdiv, Varna and Sevlievo. The cities of Bourgas, Rousse and Blagoevgrad

have the Big potential for turning into new outsourcing centers in short terms.

(BAI – Bulgarian Investment Agency, 2007) In 2016 Bulgaria ranks 7th, according to Cushman & Wakefield's annual ranking, with a higher position than the previous year.

Outsourcing in practice is actively involved in the activity of many Bulgarian business organizations with different subject of activity. In Bulgarian business practice, the most important forms of outsourcing includes information services (data collection and processing, including creation and management of databases, etc.); developing additional program solutions for the extended integration of information and communication environments; outgoing and inbound communications with clients of the assignor; "Help desk" and "call center" (technical support and explanations by telephone, fax, e-mail, etc.); teleprocesses where the assignor provides a database of target customers to whom a product is submitted (sales, invoicing, collection of receivables, post-customer service, change of contract conditions, etc.); "Back office" (transfer of the financial, accounting and administrative servicing activities of the contracting entity, such as bookkeeping, preparation of paychecks, employment contracts, analysis and forecasting, etc.).

Both the outsourcing organization and its outsourcing partners are responsible for achieving the ultimate business results. At the same time, the organization is responsible for providing effective leadership, prioritization and support to outsourcing partners.

According to the Annual Report on Industry Development of the Bulgarian Outsourcing Association (BOA) for 2017, the amount of outsourcing in Bulgaria reaches up to 2.1 billion euros. The sector grows with a significantly higher growth rate than the national economy and is responsible for 4.8%

of the country's annual GDP. The annual analysis includes 477 Bulgarian Business Process Outsourcing (BPO) and IT Outsourcing (ITO) in 2017. The ratio between the two divisions is almost flat, with a slight margin of outsourcing of business processes of 51%.

### 3. OUTSOURCING OF BUSINESS PROCESSES /OBP/

This type of outsourcing is not a new phenomenon in management practice. In summary, it represents the conclusion of a contract with an external organization in order to transfer the responsibility for the realization of the process under consideration. The main varieties of BPO differ mainly in the volume of outsourced activities. Based on the "contracting authority – execution" model of the BPO, the following processes can be identified as the subject of the contract:

- business processes that are closely related to providing the core business – energy management, spare parts production, transport organization, repair and other auxiliary activities, logistics processes;
- business processes that are important to the organization's development, but their realization requires both the availability of appropriate equipment and special training for the employees, as well as the optimal organization in the implementation process – IT, marketing, design, advertising, accounting and legal services, staff training;
- business processes that do not require a high level of qualification for the staff but are voluminous, resource-intensive and monotonous in nature – importing large masses of information into databases, unskilled manual labor, cleaning of premises, courier services, etc.

Different business process definitions, similar to definitions of outsourcing, are found in specialized literature. Davenport defines the business process as "a structured and thoughtful set of activities needed to design a specific product for a particular customer and market" (Davenport, T., 1993). Hammer and Champs commented on the business process as "a set of different types of activity within which one or more types of resources are used at the entrance, and as a result of the output a product is created that is valuable to the consumer" (Hammer, M., D. Mac, 2000). Other authors use definitions that focus on customers, etc. "The business process is a series of steps designed to create and produce relevant goods and services." They differentiate the business processes of primary and secondary (Parashkevova, A., 2009).

The design process is, in our opinion, one of the main business processes that involve the organization's ongoing work related to the creation of goods and/or services and the provision of all stages of the product's life cycle. Usually, outsourcing decisions are based on identifying key and non-core business areas of the organization and analyzing the desirability of delegating certain functions to another organization. Appropriate for outsourcing are considered those processes that are not part of the organization's core (non-key, auxiliary, secondary processes).

Past practice has shown that features that are based on unique habits, knowledge and know-how such as: design, customer service, technology, logistics, etc. are not often transferred to external performance. It is widely believed that outsourcing should involve the transmission of only minor, peripheral functions and the core activity should be firmly controlled and precisely protected. However, outsourcing has long gone beyond

its original scope, enriching its practical application and transferring activities that require unique knowledge and experience such as design, advertising, logistics and more.

#### **4. THE OUTSOURCING OR HIRING OF SUBCONTRACTORS FOR THE CREATION OF A NEW PRODUCT DILEMA**

Business process outsourcing and outsourcing are two completely different types of services and each of them brings benefits to the organization in different situations. The development of new products is one of the most challenging processes for any business, so the right choice between outsourcing or subcontractors to expand this business unit can help the business developing of any organization. We will look at the problem of phases of the algorithm of the process of creating new products. The European Network of Subcontractors provides valuable practical guidance on the choice of outsourcing or subcontracting at the different stages of product development.

##### **4.1. PRODUCT RESEARCH**

When the process of researching a new product is an indispensable part of the organization's business responsibilities, outsourcing and awarding the process to subcontractors yields good results. The biggest difference between the two types of services, however, is the frequency of demand. If the release of a new product takes months or years, it is better to bet on subcontracting. It is easy and hassle-free to conclude subcontracts for short-term and periodic services, while outsourcing usually requires long-lasting and ongoing business relationships. In both cases, the pre-product and market research phase is one of the most appropriate processes that may be outsourced to an outsourcing company or subcontractors.

#### 4.2. PRODUCT DESIGN

The real work on planning and product design specifications requires close monitoring of the process step-by-step and control over the performance of tasks, whether this service is subcontracted or outsourced. When choosing between the two types of services, hiring subcontractors provides better control and, therefore, better results.

Sub-contracting or outsourcing of product design raises the risks of theft of intellectual property, but greater control over the process reduces this risk. One way in which a business organization can cope with the risk of theft of intellectual property is to assign different stages of the product design process to different subcontractors.

#### 4.3. PROTOTYPING

Almost every company needs to hire prototyping services, but in this case the difference between hiring subcontractors and outsourcing is tremendous. Different subcontractors have a variety of machines and facilities that can speed up the process of creating product models and prototypes. Compared to these, outsourcing companies usually have a more limited arsenal of prototype machines and a longer production cycle. When choosing to hire different subcontractors, the assigning organization has the freedom to order different types of prototypes while focusing on maintaining the current product lines.

#### 4.4. TESTING

This process is one of the most commonly outsourced processes, the purpose of which is to test the product whether it meets expectations and whether it will cause consumer interest. The European Subsidiary Network gives access to a number of reputable sub-brands across industries and facilitates the choice of the right subcontractor. No matter what safety and testing regulations the product has to meet, there is a choice between

companies that can provide the right certificates.

#### 4.5. MARKETING

The use of subcontracting or outsourcing marketing services can significantly promote the new product, but it also hides the risks of mixed branding signals that do not match the built image. In order to eliminate the risks, the business organisation must have full control over all the materials created for the new product and brand that are outsourced to subcontractors or outsourcing companies.

#### 4.6. PRODUCTION PREPARATION

Almost all manufacturers require outsourcing or hiring subcontractors for the final stage of creating a new product. In terms of speed and variety of machine bases, hiring subcontractors is the better alternative than outsourcing. Working with different subcontractors allows organizations to be more flexible when new product creation requires new technologies and machines. Hiring of subcontractors who already have needed machines and technologies will save time than outsourcing the existing outsourcing company that works with other technologies.

Sub-contractors can take over every stage of the product's production cycle. The subcontractors' catalog in the European subcontracting network can find product designers, prototyping and 3D printing services, subcontractors with specialized machinery and technologies, and more. Obviously, most of the stages of the new product creation process are better suited to hiring subcontractors than outsourcing organizations. In our opinion, the latter is appropriate to use in the stages – product research and various marketing activities.

## 5. NEW PRODUCTS DEVELOPING PRACTICES IN BULGARIA AND ABROAD

When design is an outsourced activity for a company, the most common options for implementing this organizational function as well as solving the following issues arising in relation to intellectual property on future products are as follows:

- Under the product always stands the name of the designer who created it, regardless of which company it was produced – examples of companies using this practice are IKEA, KINNARPS, but there are also some Bulgarian companies that apply this approach – NIKROM, Colorado and etc. Then the designer owns all product intellectual rights, and the manufacturer pays the so-called royalties – percentage of each sale is given to the author. There is also a determined fixed amount for product development that is paid to designer before the product is placed in production,
- The product is launched as a product solely by the manufacturer – then the company holds the copyright, the name of the designer is not widely advertised, but on the other hand it receives a much larger amount for the product development (if it is a series of products – even more). Most large furniture companies are working on this principle. More often, offering more accessible furniture do not advertise the design value of their products, because unfortunately there is no such thing. In this case, the target customer group has a lower solvency and the cost of the items is most often the lowest in the market. This is the competitive advantage in this case, not the

uniqueness and outward appearance of the products.

When a company wants to develop its own furniture series, which is always an indication of a high standard in production and design, the best solution is the imposition of its own, recognizable style. This can not be done without designers – whether they work in the company's own design department or as an outsourcing activity. An example is almost all major furniture manufacturing companies in Europe and the world – Calligaris, Rolf-Benz, SCIC, Molteni and others.

But what is more prestigious – having your own design department or paying a famous designer for his work? The answer to this question depends on the company's, in particular the product and marketing strategies to which the organization belongs. Many large companies pay to renowned designers to create products for them, with the name of their author, such as Philip Stark, Karim Rashid, Zaha Hadid and others. They have been created quite unusual products, proven if not as successful, at least certainly as attracting attention.

There are also Bulgarian companies that develop their own furniture and even a series of furniture. One of the good examples in this direction is the ORT. The product "Seat-table" of the designer Ilian Milinov is owned by them, but the company has widely announced the author of the product, which has won a number of awards later. Another furniture factory in Bulgaria, which has its own design department, is Ergo Design – Rousse.

In expert surveys it seems that, in our country the more common model of outsourcing of the design process is the second one – the outsourcing process and the product is the property of the company. It would be interesting to explore whether the choice of outsourcing is related to whether the products will be offered abroad or just on our market

... And where is it more prestigious to show that you have paid for a designer in our country or abroad ... or is it most prestigious to have your own design department?

We must not overlook the extremely popular and successful platforms for crowd-funding and freelance. Their appearance and development prove that outsourcing has many other developing directions, and thanks to modern technologies it can now become easy, convenient, secure and successful. Perhaps the publicity of these platforms makes it easier to prove intellectual property of the products and services being developed and turns them into a powerful generator of ideas, products and business solutions.

### CONCLUSIONS

In recent years, the outsourcing industry has already had a national presence. The biggest outsourcing hubs remain the big cities with universities, with a tendency for more and more export outside Sofia, Plovdiv and Varna to Veliko Tarnovo, Bourgas and others cities in the country. More than half of the companies (52%) in the outsourcing are owned by Bulgarians. As in foreign-owned companies, 53% are from the UK, US, Germany and the Netherlands. Among the foreign clients of Bulgarian outsourcing companies are companies from Western Europe, the United Kingdom and the United States.

As a leading global outsourcing destination, our country ranks first place in attractiveness in Southeastern Europe, second in Europe, after Poland and 15th in the world according to Global Services Location Index 2017 of the analyst company A. T. Kearne. The fastest growing subsector is in companies that offer outsourced processes based on specific knowledge and information such as database management, analysis and data processing. The design process also requires specific knowledge and information.

Any specific solution for outsourcing a business process, in particular the design process, has its good and bad sides.

As the most important advantages in outsourcing of business processes, incl. design process, can be mentioned: saving of funds and releasing resources; use of new technologies; combining the strengths of implementing organizations with the capabilities of the external environment; improving the quality and efficiency of the process.

As deficiencies in business process outsourcing incl. product design, through outsourcing, we identify the following: lowered control; longer period for product's design; a limited set of prototyping machines; reduction of the protection of intellectual property objects; risks of mixed branding.

Practice shows that most large companies led by good and visionary managers understand that designing of their own products (whether or not outsourced) gives them that specific added value which allows them greater profit regardless of the investments made, and is a competitive advantage that is difficult to be copied.

The controversy in theory and the contradictory signals from practice provoke researchers and experts to focus on researching and solving the problems of outsourcing business processes that are important to the future of the organization. In the era of fast-growing technologies, existing outsourcing practices are enriching, opening up more opportunities for development, change and growth.

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