CORRELATION BETWEEN REASONS AND EFFECTS OF OUTSOURCING: EVIDENCE FROM SLOVENIAN SME's

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Abstract

The aim of the paper is to present reasons for outsourcing and links them with different financial and non-financial effects of outsourcing. For the purpose of the paper, we use broad definition of outsourcing; as the fundamental decision of a company regarding the external supply of certain products and/or services.

However, only few studies can be found that examine the connection between the reasons that led to the decision to outsourcing and the measurement of the actual effects achieved. Therefore, we examine the correlation between reasons for outsourcing and its effects in small and medium sized companies. The paper presents results of empirical study among Slovenian SMEs which shows that there exist statistically significant connections between reasons and effects of outsourcing.

Keywords: outsourcing, reasons, effects, SMEs, Slovenia
JEL classification: L24, L25, L26

1. INTRODUCTION

Today markets are fast changing, characterized by globalisation, fast information spreading, intensive technological development and innovation. To response and succeed in those market conditions companies use different strategies and tools. One of them is outsourcing which is a commonly accepted business practice.

By outsourcing particular activities, business functions or processes companies of all sizes want to achieve different goals, such as flexibility, competitiveness, efficiency and effectiveness as well as innovativeness, while the primary purpose of outsourcing is to contribute to the company’s efficiency. For the purpose of the paper, we use broad definition of outsourcing; as the fundamental decision of a company regarding the external supply of certain products and/or services. Outsourcing can derive from two aspects [Gilley & Rasheed; 2000]. First, the company may decide to outsource certain activities that have thus far been carried out internally. Second, the firm may make a decision regarding the external supply of products that, until now, were neither produced internally nor acquired on the market.
Outsourcing results are new types of cooperation, changed company’s boundaries and more complex relationships in the company and in its environment. The initial phase in outsourcing process is the decision on whether to select the outsourcing as a business strategy. Decision-making involves primarily estimating and weighing the factors for and against the outsourcing.

Much of the literature on the outsourcing deals with the reasons that affect the decision, both for and against it. However, in the literature could be found various reasons. While some authors only give the general reasons that are not empirically tested, have other authors them empirically examined. However, found can be only few studies to determine the link or connection between the reasons that led to the decision to outsourcing and the measurement of the actual effects achieved. Furthermore, the approaches to analyzing and studying the reasons for outsourcing in the literature are heterogeneous. Therefore, we decided to examine the correlation between reasons for outsourcing and its effects in small and medium sized companies.

2. REASONS FOR OUTSOURCING

Companies outsource some of their activities or processes for different reasons. Among the most frequently mentioned reasons for outsourcing is reduction of costs [Espino-Rodriguez, Padron-Robaina, 2004; Jennings, 2002, Arnold, 2000, Aubert et al., 1996; Biens-tock, Mentzer, 1999; Bergsman, 1994, Brandes et al., 1997; Fan, 2000, Kriss, 1996; Laarhoven et al., 2000, Vining, Globerman, 1999, Willcocks et al., 1995]. However, the companies also cooperate on other grounds, which have been even before costing reasons in recent years [Quinn, 2000]. Studies on the reasons for outsourcing have different results. Some authors have found that among the main reasons is focusing on key competencies and skills [Yang et al., 2007], lack of adequate employees, the satisfaction of end users, and company’s flexibility.

The cost aspect of outsourcing was particularly important in the past. However, in recent years, there is a shift from costs reasons to more sophisticated and soft reasons, while the cost aspect is only partially relevant. Thus, Quinn [1999] states that the reasons for outsourcing changed in the time from primary cost reasons to a strategic repositioning of a company, development of key skills and to achieving higher value added. However, cost reduction still remains among the key reasons as identified in the survey of Elmuti and Kathawala [2000]. Yang [Yang et al., 2007] has similarly established that the costs are no longer a main reason for the outsourcing. Cost savings are still a reason to outsource, but not anymore a crucial one, while companies are seeking to achieve other benefits, such as focus on key skills that relate to the intellectual activities of employees.

Cost aspect of outsourcing includes various types of costs. Some companies are outsourcing in order to achieve better control over costs [Alexander, Young, 1996], other wanted to change fixed costs in variable [Anderson, 1997]. On a theoretical level, outsourcing reduces costs, when are costs of outsourcing together with remained costs in the company (e.g. general expenses, transaction costs) lower than own performing of the same activities or processes [Bersa, 1992; Harler, 2000 ]. Factors for the lower costs achieved by an outsourcing provider, are mainly specialization and economies of scale [Kakabadse, Kakabadse, 2000, Quinn et al., 1990].

There exist several approaches to analysis costs of outsourcing. In the decision to outsource particular activities company has to compare costs that would accrue at outsourcing
with all internal costs of providing the same activities. It is sometimes difficult to assess because of differences in costs treatment in companies. However, in practice it is very difficult to include all costs for evaluation [Ellram, Maltz, 1995]. Ellram and Maltz [1995] analyzed business decisions for outsourcing on the total cost of ownership. Beimborn [2006] analyzed the decision making for outsourcing on the basis of a comparison of own production costs and the transaction costs. Own production costs are all costs arising from the internal implementation. However, transaction costs are a function of several types of costs in his model, consisting of costs of adaptation, negotiation costs, costs of coordination (relationship management) and agency costs. The total cost of internal production consists of fixed and variable costs. At outsourcing there remain only variable costs, which are totally dependent on the quantity of provided activities. However, at the operationalization of this concept most problems are created by identifying different costs associated with individual activities.

Empirical research on the impact of outsourcing costs showed different effects. Thus, some studies found significant cost savings [e.g. Blumberg, 1998]. Beside the positive evidence on costs in the literature is significant evidence of negative impact of outsourcing on costs [e.g., Bryce, Useem, 1998; Vining, Globberman, 1999].

In the literature, there is a shift from the primary cost reasons for the outsourcing to other reasons. Thus Greaver [1999] lists the following groups of reasons for outsourcing and their consequences: organizational, developmental, financial, income, cost and human factors. Brown and Wilson [2005] argue for the elimination of a range of activities including a clarification: acquisition of new skills, access to better management, focusing on strategy, avoiding large investments, to support rapid growth, improve flexibility, improve the financial situation, beginning a new strategic initiatives to improve business performance, reduce costs, acquire credibility and use of outsourcing as do other companies.

3. CORRELATION BETWEEN REASONS FOR OUTSOURCING AND PERFORMANCE OF COMPANIES

Companies decide to outsource because they want to achieve certain positive effects, but in reality these effects are not always positive. Companies should achieve those effects for which they have decided to outsource. So the effects of outsourcing are associated with the reasons for it, as identified by some authors [e.g. Hendry, 1995]. In the literature, there are mentioned many different effects, among which are most often mentioned positive effects: focus on core activities, increased productivity and quality, utilization of capacity, creativity, improvement in financial indicators, positive financial impact, cost reduction, access to specialized knowledge, reengineering of processes in the company, new services, increased employee productivity, improved company image [Schniederjans, Zuckweiler, 2004, Hendry et al., 1995, Zhang, Cao, 2002, Lankford, Parse, 1999, Franceschini et al., 2003]. Between negative effects of outsourcing are often mentioned: high hidden costs, difficulties in developing new management skills and decision-making capacity, errors in identification of key and support activities, poor management of the outsourcing relationship, loss of control over critical functions, problems with the quality, dependency on partners [Schniederjans, Zuckweiler, 2004, Harland et al., 2005, Hendry et al., 1995].
4. METHODOLOGY

4.1. RESEARCH QUESTION

In the empirical part of our study the main research question was, if there are positive connections between particular reasons for outsourcing and its effects? However, we predicted that there are statistically significant positive correlations between particular reasons for outsourcing and its effects on the company’s level.

4.2. MEASUREMENT OF REASONS FOR OUTSOURCING

In the literature, there can be find different aspects of examining reasons for outsourcing. Many authors study reasons for outsourcing on the Likert scales of importance [e.g., Bhatnagar et al., 1999, Bailey et al., 2002], while others only identify different reasons that influenced the decision to outsource with [e.g., Fan, 2000; Espino-Rodriguez, Padron-Robaina, 2005].

In our empirical study, respondents expressed a degree of agreement (on a five-step Likert scale from disagreement to full agreement of) with the number of claims. Based on the literature we selected nine groups of reasons for outsourcing: cost, revenue, developmental, organizational, personnel reasons, improving control and reduce risk, focus on core activities, too high initial investment and rarely needed particular activity.

In our study we used the following statements base on the literature review:

- The company wanted to reduce different groups of cost, such as fixed and operating costs, labor costs (cost reasons).
- The company wanted to increase revenue and expand the market and entry new markets (revenue reasons).
- The company needed new knowledge and technology, new ideas, and improved and new products (developmental reasons).
- We wanted to transform a company, improve flexibility and reduce the problems with management (organizational reasons).
- The company did not have adequate employees with the right skills and capabilities (personnel reasons).
- The company wanted to improve control of operations and reduce risk (control and risk reasons).
- The company wanted to focus on our core business (the focus reasons).
- Initial investments for the implementation of the particular activities were too high (investment reasons).
- The scope of particular activities is too small for their implementation in a company or is needed only occasionally (occasional need of activity).

4.3. MEASUREMENT OF EFFECTS OF OUTSOURCING

At the company level, effects of outsourcing are measured by financial and non-financial indicators. Financial indicators were collected for three years, among which we selected in the literature the most frequently mentioned financial indicators of company performance.
Non-financial effects of outsourcing were collected by the questionnaire. Respondents were asked about the consequences of cooperation with other companies over the past three years on 5-level scale from great negative impact to great improvement in the following areas: quality and flexibility, innovation and cost savings.

By the impact of outsourcing are understand the effects of outsourcing on the company. It can be measured by the company level because the analysed companies were small and medium sized. Although companies mostly expect the positive effects of outsourcing, it can also be negative, as have found some authors in their empirical research [e.g. Gilley, Rasheed, 2000]. In the literature, there are mostly exposed positive effects, perhaps also because some authors focus only on the positive effects [e.g. Croom, 2000; Gay, Essinger, 2000], while others take into account both of them [e.g. Espino-Rodriguez, Padron-Robaina, 2005; Bailey et al., 2002]. In our study we decided to study the impacts of outsourcing relationship with performance at the enterprise level. Measuring the success of the company includes the measurement, evaluation and assessment through the selected financial and non-financial indicators. By the term performance, we also cover the concept of efficiency as it refers to an internal category in terms of transforming inputs into outputs, and some of other non-financial performance indicators.

Most of the problems arise by the operationalization of measuring the effects of outsourcing. After reviewing the literature, we found that authors use different types of performance criteria, including financial and non-financial. Many authors measured the impact (both financial and non-financial) on the Likert scale [e.g. Gilley, Rasheed, 2000; Freel, 2002]. In doing so, the respondents estimate what positive or negative effects, measured by selected indicators, outsourcing has on the company. In our study we decided to examine financial and non-financial effects using several indicators.

Data on non-financial effects were obtained on the basis of a questionnaire. For the purpose of the survey a list of effects was prepared, based on existing literature. Effects were assessed on a 5-level Likert scale (1 - great negative impact, 2 – partial negative impact, 3 - unchanged, 4 - partial improvement, 5 - great improvement) by respondents:

- Number of process innovation;
- The number of new products and services;
- Expenditure on R&D;
- Access to people with experience;
- Quality of services;
- Quality of own performance of activities;
- Free up resources for other business purposes;
- Flexibility of the company;
- Focus on core business activities;
- Complement existing resources in the company;
- To acquire skills and competencies of other companies;
- Cost of service obtained in the market compared with costs of own implementation.

Financial effects were measured from the official balance sheets data of companies, although in such cases, the results of the connections between causes and consequences can be less statistically significant. Namely, respondents’ perceptions of positive and negative effects are often different than shows official balance sheets. However, by choosing the official data we wanted to avoid bias. Financial indicators were collected for three years (from 2005 to 2007), among which we selected in the literature the most frequently mentioned financial indicators of company performance: productivity, efficiency and return on
assets. Based on the official Slovenian database, we calculated the growth rates of these indicators in that time period.

Efficiency shows the intensity of the divergence of the total revenue from total expenditure. The company is commercially successful, if the value of this indicator is greater than 1 (which means that the total expenditure of $100 reached more than $100 total revenue). Productivity and average growth rate of efficiency was calculated as follows.

\[
\text{efficiency}_t = \frac{\text{total income}_t}{\text{total income}_{t-1}}
\]

Where the \( k \) is a year

\[
\text{average growth rate of efficiency} = \sqrt[\text{number of years}]{\frac{\text{efficiency}_t}{\text{efficiency}_{t-1}}}
\]

Productivity indicator shows what the total revenue in the company per employee was. The company is commercially successful, if the employee is found to maximize the amount of total revenue and the net income is found. Productivity and average productivity growth rate was calculated as follows.

\[
\text{productivity}_t = \frac{\text{total income}_t}{\text{number of employees}_t}
\]

where the \( k \) is a year

\[
\text{average growth rate of productivity} = \sqrt[\text{number of years}]{\frac{\text{productivity}_t}{\text{productivity}_{t-1}}}
\]

4.4. STATISTICAL POPULATION AND SAMPLE

The empirical study was performed on Slovenian SMEs. The studied population consisted of small and medium-sized enterprises in two industries – namely, (1) manufacturing (D standard classification) and (2) real estate, renting, and business (K standard classification) in accordance with the standard classification of activities from 2002. The size of the companies was defined by the number of employees; this study included companies with 10 to 249 employees in 2007. The sample (\( N = 154 \)) comprised 31 percent respondents from the K classification and 69 percent respondents from the D classification. Given the number of employees per company, 21 percent of the companies were medium-sized (50 to 249 employees) and 79 percent were small (10 to 49 employees).

The study is based on outsourcing of particular activities. We predefined thirteen activities, namely purchasing, production, marketing, sales, distribution and transportation, accountancy and finance, administration, human resource management, information technology and information systems, research and development, legal services, after sales services and other services. If a company was outsourcing one (or more) of examined activ-
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...it was assumed that the company is involved in outsourcing. The main thesis of the study is that there exist statistically significant differences between outsourcing of core and supportive activities at outsourcing total or part of an activity, at duration of contract and at number, size and location of outsourcing providers.

5. RESULTS OF EMPIRICAL RESEARCH

Results of empirical research represent results of analysis of reasons for outsourcing, the results of analysis of non-financial effects of outsourcing and the correlation analysis of reasons and effects of outsourcing. In the table 1 are the results of analysis of reasons for outsourcing.

Table no. 1- Results of analysis of reasons for outsourcing

<table>
<thead>
<tr>
<th>Reasons</th>
<th>N</th>
<th>Average value</th>
<th>Standard deviation</th>
<th>Standard error</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>The focus reasons</td>
<td>154</td>
<td>4.01</td>
<td>1.07</td>
<td>0.09</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Occasional need of particular activity</td>
<td>154</td>
<td>3.84</td>
<td>1.14</td>
<td>0.09</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Developmental reasons</td>
<td>154</td>
<td>3.78</td>
<td>1.16</td>
<td>0.09</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Cost reasons</td>
<td>154</td>
<td>3.63</td>
<td>1.29</td>
<td>0.10</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Control and risk reasons</td>
<td>154</td>
<td>3.60</td>
<td>1.12</td>
<td>0.09</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Personnel reasons</td>
<td>154</td>
<td>3.55</td>
<td>1.27</td>
<td>0.10</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Organizational reasons</td>
<td>154</td>
<td>3.53</td>
<td>1.24</td>
<td>0.10</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Revenue reasons</td>
<td>154</td>
<td>3.45</td>
<td>1.39</td>
<td>0.11</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Investment reasons</td>
<td>154</td>
<td>2.91</td>
<td>1.27</td>
<td>0.10</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 1 shows the results of analysis of reasons for outsourcing. The companies surveyed mainly outsource to focus primarily on its core activities (M = 4.01, SE = 0.09), coinciding with other studies, which conclude that there are other reasons more important than cost. In our study the cost reasons were in fourth place (M = 3.63, SE = 0.10). Small and medium-sized enterprises are characterized by a discontinuity need for particular activities, which was an important reason emerged in the survey (M = 3.84, SE = 0.09). Small and medium-sized outsource also in order to have access to new technologies, skills and ideas, and to access to improved and new products (M = 3.78, SE = 1.16). One of interesting results is that companies do not outsource often to lower their investments (M = 2.91, SE = 0.10). Such a result is particularly unexpected, since the companies in the sample were from the industrial sector, where huge investments are often necessary to carry out production.

As the number of non-financial effects is high, we wanted to reduce them by factor analysis, which aims to reduce the number of variables. Links between variables are everywhere positive and, in most cases statistically significant. The entire construct of the Cronbach alpha value is equal to 0.808, which represents a sufficient internal consistency of the construct and the factor analysis can be done. Results of the factor analysis are in the table 1. As a result we got four factors.
### Table no. 2 - Results of factor analysis

<table>
<thead>
<tr>
<th>Non-financial effects</th>
<th>Communalities</th>
<th>Rotated factors</th>
<th>Names of the factors</th>
<th>Tests of reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Factor 1</td>
<td>Factor 2</td>
<td>Factor 3</td>
<td>Factor 4</td>
</tr>
<tr>
<td>Number of process innovation</td>
<td>.636</td>
<td>.208</td>
<td>.735</td>
<td>-.192</td>
</tr>
<tr>
<td>The number of new products and services</td>
<td>.420</td>
<td>.176</td>
<td>.618</td>
<td>.058</td>
</tr>
<tr>
<td>Expenditure on R&amp;D</td>
<td>.487</td>
<td>.165</td>
<td>.670</td>
<td>.107</td>
</tr>
<tr>
<td>Access to people with experience</td>
<td>.586</td>
<td>.714</td>
<td>-.052</td>
<td>.015</td>
</tr>
<tr>
<td>Quality of services</td>
<td>.598</td>
<td>.667</td>
<td>.373</td>
<td>-.113</td>
</tr>
<tr>
<td>Quality of own performance of activities</td>
<td>.622</td>
<td>.584</td>
<td>.318</td>
<td>-.240</td>
</tr>
<tr>
<td>Free up resources for other business purposes</td>
<td>.632</td>
<td>.599</td>
<td>-.266</td>
<td>-.116</td>
</tr>
<tr>
<td>Flexibility of the company</td>
<td>.554</td>
<td>.563</td>
<td>.309</td>
<td>.367</td>
</tr>
<tr>
<td>Focus on core business activities</td>
<td>.624</td>
<td>.738</td>
<td>.150</td>
<td>.234</td>
</tr>
<tr>
<td>Complement existing resources in the company</td>
<td>.584</td>
<td>.681</td>
<td>.196</td>
<td>.250</td>
</tr>
<tr>
<td>To acquire skills and competencies of other companies</td>
<td>.548</td>
<td>.727</td>
<td>.001</td>
<td>-.128</td>
</tr>
<tr>
<td>Cost of service obtained in the market compared with costs of own implementation</td>
<td>.795</td>
<td>.140</td>
<td>-.006</td>
<td>.878</td>
</tr>
</tbody>
</table>

Kaiser-Meyer-Olkin’s test of adequacy of the sample: 0.829
Bartlett’s test of sphericity: χ²(78) = 495.622, p = 0.000
Cumulative variance: 60.288 %
Table 3 summarizes the results of correlation analysis between the reasons for outsourcing and selected financial and non-financial indicators of company performance. Shady results show statistically significant correlations.

<table>
<thead>
<tr>
<th>Table no. 3 - Correlation analysis of reasons for outsourcing and selected financial and non-financial indicators of company performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality and flexibility</strong></td>
</tr>
<tr>
<td><strong>Cost reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Revenue reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Control and risk reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Developmental reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Organizational reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Personnel reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Focus reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Investment reasons</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td><strong>Occasional need of particular activity</strong></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

**The correlation is statistically significant at the level of 0.01.**
*The correlation is statistically significant at 0.05.
The following comments are made only for statistically significant associations between the reasons and effects of outsourcing. Outsourcing to reduce costs is statistically significantly positively associated with cost reduction effect \( (r = 0.198, p = 0.016) \) and achieving greater quality and flexibility of a company \( (r = 0.202, p = 0.014) \). Outsourcing to increase revenue is significantly positively associated with increased innovation \( (r = 0.186, p = 0.024) \) and reducing costs \( (r = 0.236, p = 0.004) \). Outsourcing to improve control and to lower risks is positively related to increased innovation \( (r = 0.222, p = 0.007) \) and negatively associated with increasing productivity \( (r = -0.220, p = 0.008) \). Also the reason access to new knowledge and technologies, new ideas and improved and new products is negatively associated with increasing productivity \( (r = -0.201, p = 0.016) \). The reason need for transforming businesses, improve flexibility and minor problems with the management is positively associated with increased innovation \( (r = 0.264, p = 0.001) \) and lower business costs \( (r = 0.180, p = 0.029) \). Outsourcing to solve problems with personnel is positively associated with achieving greater quality and flexibility \( (r = 0.243, p = 0.003) \), but negatively associated with efficiency \( (r = -0.234, p = 0.008) \). The focus reason is positively associated with increased quality and flexibility \( (r = 0.243, p = 0.003) \) and with lower cost \( (r = 0.181, p = 0.028) \). Outsourcing because of high initial investment is positively related to the achievement of cost savings \( (r = 0.167, p = 0.044) \). Outsourcing activities due to the lack of scale is positively related to the achievement of quality and flexibility of companies \( (r = 0.226, p = 0.006) \).

It should be noted that all associations are relatively weak, which means that these direct links are also influenced by other factors. However, we can conclude that it is reasonable to determine the relationship between reasons and effects of outsourcing, but it might be prudent to use more structural reasons, to get deeper insight into the field.

6. CONCLUSIONS

Companies outsource for different reasons. In our study we examined nine groups of reasons why companies outsource their activities. They were: increasing revenues, reduce costs, business development, organizational reasons, personnel reasons, the need for greater focus on core activities, the need to improve control and reduce risk, only occasional need for particular activities and too high initial investment for the implementation of certain activities. Companies the most frequently outsource to focus on core business or activities. This reason is followed by outsourcing because of occasional need for particular activities, which means that they use outsourcing to supplement their own resources. However, interesting is that high investments was not very important reason to outsource, especially because the survey was done among small and medium sized companies. It can mean two things. First, they have good access to financial resources, and secondly, the implementation of individual activities does not require significant investments.

We stated that the reasons for outsourcing should be related to certain financial and non-financial effects. The empirical research has also proved it to be the correct assumption. We were able to demonstrate statistically significant links between particular reasons for outsourcing and its effects. We found that the companies outsource mainly for following reasons: revenue, developmental and organizational reasons, and the need for greater focus on core activities. From this we can conclude that Slovenian SMEs have already exceeded the initial phase of outsourcing where companies mainly outsource for costs reasons, and outsource routine and supportive activities. However, these basic reasons still remain but are
no longer the most important reasons as we found in our study. Characteristics of outsourcing depend on the conditions in which companies operate, and which relate primarily to the business environment, competitiveness and innovation of other companies and national economic conditions.

References