

DETERMINANTS OF OUTSOURCING SATISFACTION: THE CASE OF SLOVENIAN SMEs

TADEJ SMOGAVEC¹
DARJA PELJHAN²

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ABSTRACT: *In contrast to large firms, small and medium-sized firms (SMEs) face different kind of challenges in outsourcing. The existing research on SMEs' outsourcing is sparse and inconclusive. Therefore, the purpose of our paper is to find out whether managers of SMEs are in fact satisfied with outsourcing, and what affects their satisfaction. We conducted an empirical analysis on a sample of 249 Slovenian SMEs. Our study extends the existing knowledge about outsourcing in SMEs, especially in the field of determinants that have an impact on satisfaction with outsourcing. Our first contribution is the improved definition of outsourcing that can be used in all companies regardless of their size. This definition is better suited for the research of SMEs than existing definitions that take into account larger companies. Our second contribution refers to our findings that SMEs mainly perform strategic outsourcing that is based on ad hoc collaboration, which is the opposite of the existing theoretical and empirical findings. This means that companies are exposed to bigger risks and lower satisfaction with outsourcing. We identified and discussed four determinants that affect satisfaction with outsourcing: reasons for outsourcing, credibility criteria (referring to external contractors), risk factors, and outsourcing difficulties (problems). The reasons for outsourcing affect the satisfaction with regard to strategic outsourcing, the credibility criteria have an effect on satisfaction with traditional outsourcing, and outsourcing difficulties affect both.*

Keywords: *outsourcing, satisfaction, risk, SMEs, traditional outsourcing, strategic outsourcing*

JEL Classification: M10, L20, L26

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1 INTRODUCTION

Outsourcing is management tool with many advantages. It has become a strategic imperative as organisations seek to reduce costs and specialise in a number of core areas (Gerbl, McIvor, Loane, & Humphreys, 2015). In the past, outsourcing was a tool for larger companies to achieve goals, whereas smaller companies often provided services that were outsourced. Nowadays, small and medium-sized companies also outsource certain business activities and thus lower costs, increase revenues, and affect owners' and managers' satisfaction by reaching set goals.

1 University of Ljubljana, Faculty of Economics, PhD Student, Ljubljana, Slovenia, e-mail: tadej@smogavec.si

2 University of Ljubljana, Faculty of Economics, Ljubljana, Slovenia, e-mail: darja.peljhan@ef.uni-lj.si

Commons (1931), Coase (1937) and Williamson (1975) explain that firms decide to outsource when the costs of internal activities are higher than purchasing products and services on the market. When external contractors mainly perform the same activities, yet they perform them better, faster, and for a lower price, we speak of traditional outsourcing (Kavčič, Snoj, Tavčar, & Jezovnik, 2009; Mazzawi, 2002; Rebernik & Bradac, 2006). When firms stop focusing only on transferring extra activities and take into account that they could increase their revenue, we speak of strategic outsourcing. The latter is directly connected to performing firm's main activity, therefore, it is essential how we define the collaboration with an external contractor (an occasional or long-term contract). Barthelemy (2001), Laciti and Hirschheim (1994), and Quelin and Duhamel (2003) think that long-term collaboration is one of the keys for successful outsourcing.

When we speak of successfulness in SMEs, we can identify it with the satisfaction expressed by owners or managers. When examining satisfaction with outsourcing in SMEs, we took into account the advantages of outsourcing, which were identified in Greaver's (1999) study. To firms, these advantages represent reasons for outsourcing. As every tool, outsourcing also has its disadvantages that have to be considered. Quinn and Hilmer (1994) state the disadvantages that represent risk factors for firms. When making decisions regarding outsourcing, firms also comply with criteria that help with assessment of an external contractor's credibility. After the introduction of outsourcing, it is necessary to check whether any problems keep occurring due to risk factors.

In contrast to large firms, small and medium-sized firms (SMEs) face different kind of challenges in outsourcing management (Hätönen & Eriksson, 2009). The existing research on SMEs' outsourcing is sparse and inconclusive. Therefore, the purpose of our study is to determine whether managers of SMEs are in fact satisfied with outsourcing, and what affects their satisfaction. To answer these questions, we first have to define the difference between buying and outsourcing. We conducted qualitative research of directors of SMEs and quantitative research in Slovenian SMEs ($n = 249$). We used several statistical methods for data analysis. With the chi-square test we studied the ways of collaboration between buyers and external contractors in the case of traditional outsourcing and strategic outsourcing. We used the independent *t*-test, where we checked the average values of an individual satisfaction element according to the type of collaboration. For analysis of determinants on satisfaction with outsourcing, we used factor analysis and multiple linear regression analysis. We determined what kind of outsourcing is used by SMEs and how they use it, which are the determinants of satisfaction with outsourcing, and how they affect the final outsourcing success.

One of the surprising findings is that in most cases SMEs use a strategic type of outsourcing based on *ad hoc* collaboration, which negatively influences satisfaction with outsourcing and brings additional risks into the business. We discovered the reasons (e.g. quality and access to new knowledge) that affect satisfaction with strategic outsourcing, whereas the criteria for choosing an external contractor (e.g. a firm's reputation on the market, experience) affect the satisfaction with traditional outsourcing. Problems (e.g. loss of control over external contractor) affect the satisfaction with traditional, as well as strategic outsourcing.

Our findings about the determinants of outsourcing satisfaction contribute to the existing entrepreneurship and management literature. Moreover, our findings have implications for the owners and managers of SMEs that are already using outsourcing or intend to do so. Another important contribution of this paper is the introduction of an improved definition of outsourcing suitable for companies of all sizes, which is not the case in present definitions focusing only on large companies.

The remainder of the paper is organized as follows. In the next section, we discuss the existing literature and develop the hypotheses. Section 3 describes the research method. Sections 4 and 5 present the findings and discuss the implications of the results for theory and practice. The final section summarizes the main findings, contributions, limitations, and suggestions for future research.

2 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Definition of outsourcing

Researchers define outsourcing differently. Yang et al. (2007) define outsourcing as an abbreviation for the expression ‘outside resource using.’ Consequently, numerous authors define outsourcing as every activity performed for a company by an external contractor. Stupica (1999) specifies outsourcing as a legal transfer of any activity of the company into an external environment. As the emphasis is on any activity and the external environment, the options for outsourcing are numerous. A broad definition of the discussed area raises a question about the difference between outsourcing and buying (purchasing).

Schaaf (2004; in Kavčič, 2007, 2009) defines outsourcing as a term representing the legal transfer (long-term or permanent) of activity, which used to be performed in-house, but is now outsourced. Šink (1999) has a similar belief about outsourcing that a company lets external specialists provide certain activities that were previously performed in-house. Kubr (2002), Greaver (1999), and Dolgui and Proth (2013) define outsourcing as contractual exclusion of activities that will not be carried out by the company any more. Therefore, the company decides that another company will provide the outsourced activities. Zhu, Hsu, and Lillie (2001) argue that the word ‘outsourcing’ is a transfer of the responsibility for a specific business function from a group of employees to a group of people not employed in a company. Outsourcing is defined in more detail by Bergant (2004), who claims that not every company supplier is necessarily an external contractor, as well. The definition of outsourcing only includes providers of services, which the company has or could have carried out itself.

On the contrary, outsourcing should be considered even when a company purchases products or services from an external contractor, despite not producing or providing them itself in the past (Gilley & Rasheed, 2000). Only in this case can innovations be one of the consequences of outsourcing as argued by Oshri, Kotlarsky, and Gerbasi (2015). To outsource is a business decision that a company will not carry out a certain activity.

Linder (2004) gives a completely different definition of outsourcing. He perceives outsourcing as purchasing services, which the company once carried out itself, or the majority of similar companies usually carry out themselves, from an external provider. For example, if the company uses an external contractor for the purposes of production, most managers will think the company outsources production. When a company never produced a product itself, they will have the same opinion.

To summarize, we think the definitions mentioned above do not thoroughly differentiate between buying and outsourcing. For example, let us focus on the metal products industry. The company Inoks produces inox floor siphons. For each siphon they need grating, but the company does not produce gratings itself. When siphon dimensions are standardized, the company purchases the grating from a store with technical products. In the case of unstandardized siphon dimensions, the company develops a plan to manufacture the grating and forwards it to another company (Grating). In both cases, another company produced the grating for Inoks, and we could say that both cases were an example of outsourcing, according to Yang et al. (2007). According to Kubr (2002), Greaver (1999), and Dolgui and Proth (2013), neither case represents outsourcing, because the company Inoks never manufactured gratings in-house and does not have the capability of doing so. Linder (2004) considers both cases as outsourcing, as it is usual that the company, which manufactures inox products, also manufactures gratings for its products.

We found out that existing definitions of outsourcing are not suitable to define outsourcing in SMEs. The difference between buying products or services and outsourcing is not clear or logical. We came to a conclusion that 'outsourcing' could be defined in a way that slightly differs from the definitions of other authors. We propose the following definition: *"We speak of outsourcing when a company gains products and/or services that are exclusively adapted to that company's business procedures and similar companies might perform them in-house."* Let us examine the example from a previous paragraph. The company Inox manufactures siphons. For its siphons the company needs gratings that it does not manufacture itself but instead buys on the market. If the company Inox orders the production of non-standardized gratings with an external contractor, we speak of outsourcing, because the external contractor adapted its product exclusively for Inox. Yet, if the company Inox buys a standardized grating from a hardware store, we do not speak of outsourcing, but rather of buying.

2.2 Outsourcing types in SMEs

Outsourcing is a widely accepted business tool for achieving business objectives (Rebernik & Bradac, 2006). Commons (1931), Coase (1973), and Williamson (1975) explain that companies decide to outsource when the costs of internal activities are higher than the costs of purchasing products and services on the market. Nevertheless, the costs are hard to determine, as it is necessary to include manufacturing costs, the handling of an external contractor, as well as to take into account information asymmetry, limited rationality, and opportunistic behaviour (Hewitt-Dundas, 2001).

Reducing costs is one of the basic and most common reasons for outsourcing. When external contractors mainly perform the same activities, yet they do it better, faster, and for a lower price, we speak of traditional (operational) outsourcing (Rebernik & Bradac, 2006). In their research, Kavčič and others (2009) also think Slovenian companies are, according to outsourcing, in their first phase of development, therefore, in the phase of reducing costs. They mainly hand over simple activities to outsourcing, where risks, failure consequences, and the possible end of collaboration are essentially smaller as transferring services that are tightly linked to the company's main activities. For example: the company Bakery bakes bread and wants to reduce its costs. Among other employees, there is a person employed that is responsible for accounting. The company decides it will not manage its own accounting anymore, but will instead hand over the service to an accounting firm (an external contractor). The company wanted to reduce its costs by hiring an external contractor, yet it had no connection with baking bread – its main activity. Traditional outsourcing focuses on outsourcing non-core activities with the purpose to lower the costs due to the external contractor's economy of scale (Mazzawi, 2002).

However, when companies not only think about transferring side activities to an external contractor, but also to increase their sales with the help of outsourcing, we speak of strategic outsourcing. For example: the company Bakery wants to improve their products and expand the capacity of baking bread due to additional orders. It decides not to modernize the line for preparing dough, in order to buy the dough from a company called Dough (an external contractor) instead. Dough (not the company) is a very important bread ingredient, but the "Bakery" believes it can bake more bread and also the most quality bread on the market in collaboration with the external contractor. The company wanted to increase their sales in an area that is directly connected with baking bread (the main activity). In this case, the company focuses on the service that it does best, like baking bread in the example before, yet it simultaneously orders services and products from an external contractor that can make them better and can significantly benefit the final product and service. Šink (2002) argues we can benefit most from outsourcing advantages if we do not consider it as a short-term saving measure, but as a strategic potential to develop and maintain sustainable competitive advantages.

Kavčič (2007) believes that businesses usually hand over services to external contractors from the area of cleaning, security, information technology, and warm meal preparation. Even though most cases represent traditional outsourcing, we have to be careful, as these activities can have strategic importance for certain companies. Let us look at the case of cleaning. A service business that is an online retailer hires an external contractor to clean their work space. In this case, the cleaning service does not directly affect the quality of services provided by the online retailer; therefore, we speak of traditional outsourcing. But if the laboratory from a biochemical institute finds an external contractor to clean the laboratory, the cleaning service is of key importance in order to achieve the final research results of quality and strategically affects the organizational performance. In this case we speak of strategic outsourcing. The consequences of badly managed strategic outsourcing are far worse than that of traditional outsourcing.

In both cases of outsourcing, traditional and strategic, we speak of the partnership between two companies. A partnership can only be successful if expectations between partners are consistent, realistic, and clearly defined. Kavčič et al. (2009) say that formally, the most sustainable source of power is ownership or another, similar type of ownership connection. A less sustainable source is a contract between two or more participants, and the least sustainable are the interests of alliance participants. These are three ways of collaboration that, in theory, have differently sustainable sources of power and consequently, an impact on the successfulness or satisfaction with the partnership. Although some authors (Barthelemy, 2001; Lacity & Hirschheim, 1994; Quélin & Duhamel, 2003) think that long-term collaboration is one of the keys for successful outsourcing, not all authors agree. Brown (1997) argues that in order to successfully cooperate, it is necessary to form short-term contracts with an external contractor so he/she is constantly under pressure thinking the collaboration could end any time. He/she works better under that pressure than he/she would if a long-term contract had been signed. In both cases, the basis of collaboration is a contract that clearly defines the expectations of both partners - which are the foundation of a successful business relationship. According to this, we state the following hypothesis:

H1: The most common way of collaboration between two companies, in strategic and traditional outsourcing, is in the form of a contract.

2.3 Satisfaction with outsourcing in SMEs

We speak of satisfaction with outsourcing when outsourcing is successful, so first, let us define the concept 'successful.' According to the Oxford Dictionary (Oxford, 2016), 'successfulness' means the accomplishment of an aim or purpose, which usually differs between small businesses and large businesses. In most cases, the primary goal of large companies is to make profit for company owners. Certainly this goal is also common in SMEs, however, the owners and managers of these companies often pursue other goals that are not directly linked to profit (Cooper & Artz, 1995). Owners, who are in many cases also the managers of their companies, often identify themselves with their businesses in social life. Therefore, their criteria of success can be different. Among those criteria are: company size, which can reflect the businessman's success in society; high quality services, which position him ahead of competition; the range and quality of fixed assets, which can fundamentally exceed a company's needs; free time that a businessman can give to his friends and family; social connections, which enable him a different social status, and so on. These criteria are not always linked to good accounting statements, so a certain company's successfulness or business activities within the company cannot be judged based on financial performance.

Because successfulness is defined as the accomplishment of an aim or purpose (Oxford, 2016), and achieving that aim or purpose triggers the feeling of satisfaction, we can compare the successfulness of SMEs to the level of contentment of owners and managers of those enterprises (Cooper & Artz, 1995). With this assumption we equate the level of satisfaction with outsourcing with the successfulness of outsourcing in SMEs.

Technically speaking, the relationship between a firm that outsources activities and a provider of these activities is similar to the relationship between a buyer and a seller. In certain literature the terms used are 'outsourcing buyer' (a firm that seeks a provider to perform activities it wants to eliminate), and 'outsourcing seller' (a firm that offers to perform eliminated activities). Kothari and Lackner (2006) state the elements that have value from a buyer's point of view: product or service (quality, technical characteristics), accessibility (reliable delivery, available information), experience (solving complaints), and costs (price, other expenses). Based on this information, we can define the elements that have to be taken into account when we speak of satisfaction with outsourcing: price, the quality of products and services, solving problems or complaints, the flow of information between companies, expertise, and knowledge of the external contractor.

Satisfaction with certain elements (price, quality of products and services, solving problems or complaints, the flow of information between companies, expertise, and knowledge of the external contractor) is affected by many dimensions (determinants), and is almost impossible to include entirely in one study. Therefore, we only focused on certain determinants (explained in the following paragraphs) while studying the satisfaction with outsourcing.

The first dimension includes the type of collaboration between firms when it comes to outsourcing. The two most common types of collaboration are *ad hoc* collaboration and contractual collaboration. We explained more about collaboration in the introduction and Section 2.2, where we outlined the opinions of authors (Barthelemy, 2001; Lacity & Hirschheim, 1994; Quélin & Duhamel, 2003) stating that a key to successful outsourcing lies in long-term contractual collaboration. Based on this assumption, we can set the following hypothesis:

H2: The type of collaboration between two companies affects the satisfaction with outsourcing.

The second dimension incorporates the benefits of outsourcing, which Greaver (1999) identified in his research. These benefits represent the reasons for outsourcing. Many authors discuss why it is better to outsource certain business activities. For the purpose of our study, we use Greaver's (1999) classification, listing the following reasons for outsourcing (Bradač, 2009):

- *Organizational reasons*: their effects can be the improvement of efficiency (a company focuses on activities it does best), improvement of flexibility, and responsiveness to changed terms and conditions and product demand, and organizational transformation. Lu and Goh (2014) add that many companies have resorted to outsourcing their supply chain management functions partly or entirely. *Developmental reasons*: their effects can be the improvement of a company's performance, access to new knowledge and technology, improved management and control, gaining innovative ideas, and improving the company's credibility. Kahouei et al. (2016) claimed that training courses and seminars are an effective way of transferring knowledge and skills from outsourcing providers to staff working in an organisation.

- *Financial reasons*: their effects can be the decrease of needed investments into a company's assets, using resources for other purposes, and obtaining financial means when transferring assets to an external contractor.
- *Revenue reasons*: their effects can be accessing the market and business opportunities through an external contractor's connections, and increasing the sales and production capacities.
- *Cost reasons*: their effects can be reducing the costs due to an external contractor's effectiveness, and the change of fixed costs into variable costs. Kahouei et al. (2016) also agree with this reason.
- *Staff reasons*: their effects can be to enable the employees' career development and to increase the commitment of employees that work in supporting areas of the company's business.

We assume that reasons that encourage the outsourcing decision influence the satisfaction with outsourcing. Based on this, we form the following hypothesis:

H3: The reasons for outsourcing affect the satisfaction with outsourcing.

The third determinant affecting satisfaction with outsourcing in SMEs corresponds to risk factors. As every tool, outsourcing has drawbacks that represent a risk for failure or less satisfaction for a company that decides to outsource. Outsourcing drawbacks Quinn and Hilmer (1994) state that handing over certain business activities or processes to an external contractor can have the following consequences (Šink, 1999):

- *Loss of core capabilities*: In the past, many companies decided to outsource activities or production of certain product parts that seemed unimportant at the time, while they simultaneously taught external contractors how to produce certain products and carry out activities on a high quality level. After several years of collaboration, when they discovered that suppliers cannot supply the demanded quantity anymore, or they do not want to do so, they came to a disappointing conclusion that they have lost the core competences (skills and knowledge) to produce the parts themselves once again. Moreover, they could not have prevented external contractors from collaborating with their rivals or from acting independently on the market. Frishammer (2015) also stated, that even if the transfer of non-core knowledge benefits a competitor, the competitive standing of the firm could be decreased.
- *Decreased possibility of cross-functional collaboration*: Connecting the experience and knowledge of individual experts from a company's different business-functional areas offers many new solutions. A common thought in companies is that there will be less similar collaboration and corresponding results due to outsourcing. For this reason, companies should demand that in R&D projects employees cooperate with outsourcing providers, especially in the case of collaboration that can offer numerous new innovations.
- *Loss of control over external contractor*: Problems in outsourcing can occur when the external contractor's priority areas do not match the buyer's. Most successful outsourcing cases show that it is very important or rather essential that both enterprises engage in a

close relationship and mutually exchange reports all the time on an operating level as well as on the highest managerial level, and that they trust each other. In the case of conflict between a company-buyer and an external contractor, the buyer can put pressure on external contractor's managers and key personnel. Nevertheless, serious delays can still occur if a buyer does not have the effective market power over an external contractor. Therefore, some buyers resort to extreme solutions and claim ownership over the key equipment parts needed for producing parts they buy. When priority areas of a buyer and an external contractor differ greatly, the buyer can simply take away his equipment and stop the whole production of the external contractor.

- *Hiding information:* It is important to mention the problems that occur due to hiding of information, which can be an important outsourcing drawback. Some external contractors can hide information essential for normal business. Therefore, the external contractor can have problems with the work force, material supply, and similar items, yet it does not tell the buyer. After the problems occur, it is too late for the buyer to find another external contractor. A similar problem can occur in companies where external contractors have information that would be hard for a company to obtain from other external contractors. For example, companies have this information if they conduct marketing research, develop computer applications, and law experts have it as well; this is basically all information that a buyer or any supplier would reproduce in the same manner. These external contractors can impose a price, which, in fact, mirrors the monopoly; however, the price is still lower than the price of information collected by the company itself. Frishammer (2015) also stated that, an external party with knowledge of internal business ratios could use this information to gain power in negotiations with the focal firm.

Risk factors, which are represented as a drawback of outsourcing, influence the satisfaction with it. Based on this, we form the following hypothesis:

H4: Risk factors affect the satisfaction with outsourcing.

The fourth satisfaction determinant refers to credibility criteria. Among the criteria for choosing an external contractor, we include prior collaboration with the company, good financial records of the company, a company's reputation on the market and experiences, price, and trust. Based on these criteria, companies evaluate the credibility of external contractors. The right choice of an outsourcing provider has a positive impact on the productivity and performance of the client company (Chang, Yen, Ng, & Chang, 2012). Therefore, such criteria are also frequently used in other buying decisions. Based on these, we form the following hypothesis:

H5: Credibility criteria affect the satisfaction with outsourcing.

The fifth determinant reflects outsourcing difficulties (problems). We can already expect having difficulties in cases of outsourcing drawbacks, which represent risk factors for companies. Problems can occur in traditional, as well as strategic outsourcing, when core competences are lost, possibility of cross-functional collaboration is decreased, control

over an external contractor is lost, or the contractor hides information. These elements were already described in more detail in the section about risk factors. Even though these elements are the same, the difference between risk factors and difficulties is that companies are more or less aware of risk factors before they start the process of outsourcing, whereas difficulties occur when a certain activity has already been performed by an external contractor.

H6: Outsourcing difficulties affect the satisfaction with outsourcing.

3 RESEARCH METHODS

We tested hypotheses using an empirical study based on a structured survey questionnaire (see Appendix 1). The population included micro, small, medium-sized, and large enterprises registered in the Republic of Slovenia (see Table 1). In our survey, we only included companies where we had access to information regarding company owners or managers. The survey was conducted on a sample of 509 companies. The sample was structured and based on the percentage of micro, small, medium-sized, and large companies in Slovenia (see Table 1).

Table 1: Structure of companies in population and in the sample by size

Company classification	Micro	Small	Medium sized	Large
Number of employees	0-9	10-49	50-249	250+
Number of companies	177,235	6,897	1,971	330
% of companies	95.1%	3.7%	1.1%	0.2%
No. of companies in the sample	244	3	2	3
% of companies in the sample	96.8%	1.2%	0.8%	1.2%

Source: Statistical office of the Republic of Slovenia, 2015.

In the sample, 252 Slovenian companies out of 509 answered the questionnaire (almost a 50% response rate). The value of Cronbach's alfa is 0.899, which indicates great questionnaire reliability. Data collecting took place between December 11 and December 26, 2015. The average time to answer the questionnaire was seven minutes. The percentage of respondents was 61% female participants and 39% of male participants. Most of the participants (96.8%) work in micro businesses (0 to 9 employees). 1.2% of the participants work in small companies (10 to 49 employees), the same percentage goes for large companies (more than 250 employees), and only 0.8% of participants work in medium-sized companies (50 to 249 employees). The majority of participants work in micro, small or medium-sized businesses, which was the focus of our study. Hereafter micro and small businesses are considered as the same category of small businesses, and the answers from large companies were excluded from further analyses, as they are not the focus of this study.

In the study, we were also interested in the region of the companies' headquarters, because the country's regions vary in stages of development, have different impacts on the economy, and consequently on inter-organizational collaboration. Most of the respondents are from Central Slovenia (36.1%), which is also the most developed region, followed by Drava region (11.9%), the Sava region (11.9%), and Upper Carniola (6.7%). Six percent of participants are from the Mura region, 4.8% are from Carinthia, and the same percentage from Southeast Slovenia. These areas are followed by North Primorska (3.6%), South Primorska (2.8%), Lower Sava (2.4%), and Inner Carniola (2%). The least amount of participants come from the central Sava region (0.4%), while 1.6% have headquarters abroad, and 0.8% did not want to answer that question.

We asked companies to select the industry of their core business. Most participants come from the information and communication industry (8%), trade (7%), and construction industry (6%). The fewest companies come from public administration (0.4%), and gas, electricity, and water supply (0.8%). The results show that 11% of the participants were not able to classify the company in any of the offered industries, 9% selected administrative and support service activities, and 23% classified their company among other services.

For a statistical analysis of the obtained primary data, we used the software package SPSS 22.0 (SPSS Inc., Chicago, Illinois, USA). When testing the hypotheses we considered the values statistically significant, when the p value was lower than 0.05. Numerical data are described with adequate median values and measures of variability, and written data with frequencies and presented with figures. We used bivariate (model with two variables) and multivariate (model with more than two variables) statistical methods. We used factor analysis to test whether all the items measure the same underlying dimension (satisfaction, reasons, risk factors, credibility criteria, difficulties). We tested the first hypothesis (H1) with the chi-square test, where we studied the ways of collaboration between buyers and external contractors in the case of traditional outsourcing and strategic outsourcing. To test the second hypothesis (H2), we used the independent t -test (two independent samples), where we checked the average values of an individual satisfaction element according to the type of collaboration (*ad hoc* collaboration, contractual collaboration). To test all other hypotheses (H3 – H6), we used multiple linear regression analysis. As follows, we present our findings.

4 RESULTS

The study showed that 64% of the respondents already outsourced at least one activity. Among those, 44% decided on traditional outsourcing, 12% decided on strategic outsourcing, and 44% of the respondents already experienced traditional, as well as strategic outsourcing. To test the hypothesis H1 (The most common way of collaboration between two companies, in strategic and traditional outsourcing, is in the form of a contract.) we used a chi-square test and received the following data. In the case of traditional (operational) outsourcing, business is usually conducted in the form of a contract (see Figure 1). Seventy-six percent of respondents, who already outsourced at

least one of the company's activities in order to reduce costs, made a deal in the form of a contract, 23% in the form of *ad hoc* collaboration, and 1% in the form of ownership collaboration. Thirty-four percent of respondents that strategically collaborated with external contractors for the purpose of increasing revenues made a contract deal, 60% conducted *ad hoc* collaboration, and 5.7% conducted ownership collaboration. The differences between a group of companies that outsourced traditionally and those who outsourced strategically are statistically significant ($\chi^2 = 34.9$, $P = 0.00$).

With our study we wanted to discover how SMEs are satisfied with outsourcing, and which determinants affect the level of satisfaction the most. To find out the level of general satisfaction, we asked respondents the following: "On a scale from 1 to 7 evaluate general satisfaction with outsourcing, where 1 represents very dissatisfied and 7 represents very satisfied." We found out that 38.6% of the respondents were satisfied (value 6) with outsourcing, and 34.6% were very satisfied (value 7) (see Figure 2). Moreover, 5.3% of the respondents (values 1-3) were not satisfied with outsourcing in general, while 6.1% of respondents were neither satisfied nor unsatisfied with outsourcing (value 4). The average value of general satisfaction on a scale from 1–7 was 5.9.

Figure 1: Comparison of types of collaboration (contractual, *ad hoc* or ownership collaboration) and types of outsourcing (traditional, strategic)

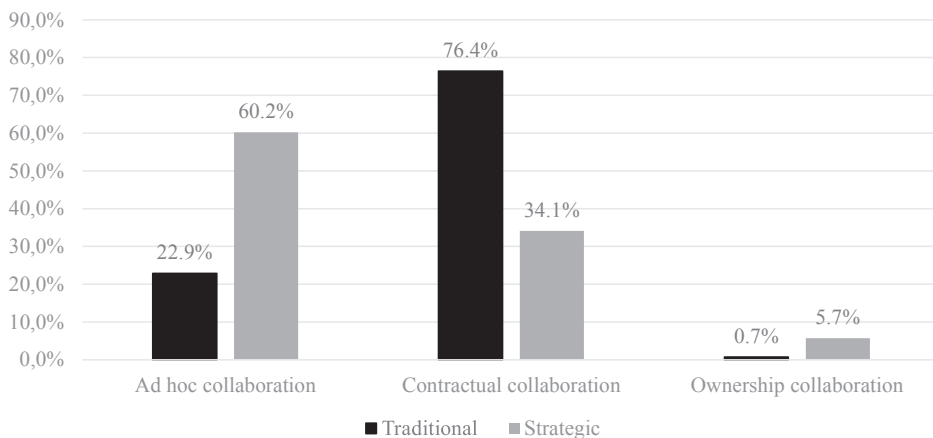
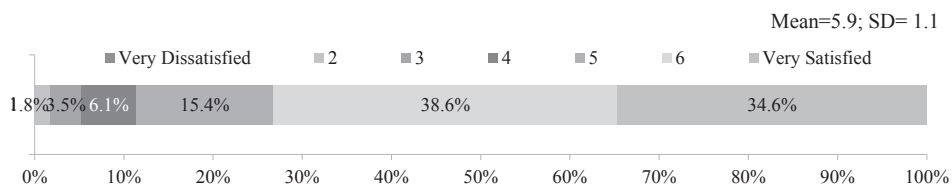


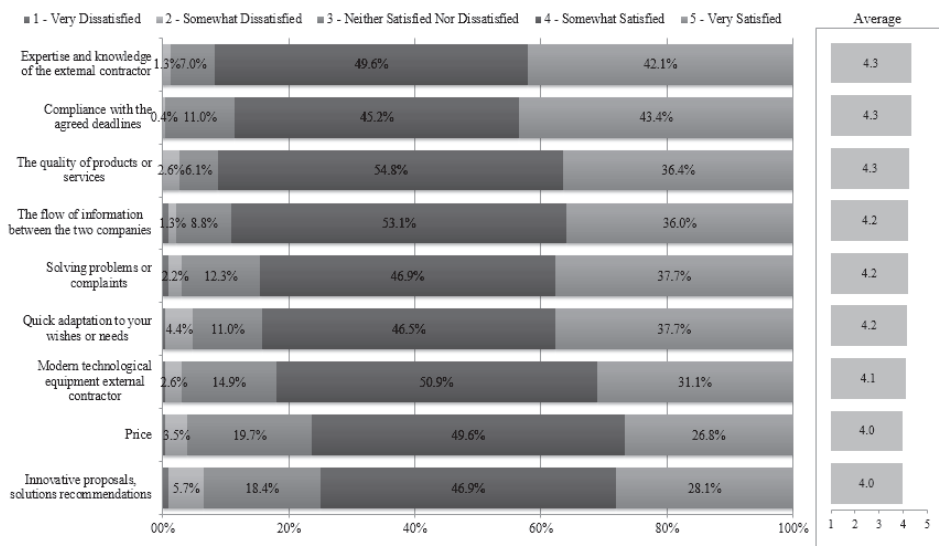
Figure 2: General satisfaction with outsourcing*



*Data for very dissatisfied (value 1) is not shown as the value was equal to 0.

We were also interested in the outsourcing satisfaction by individual elements: price; quality of products and services; solving problems or complaints; the flow of information between the two companies; expertise and knowledge of the external contractor; modern technological equipment of the external contractor; innovative proposals, solutions, and recommendations; and quick adaptation of wishes and needs of the company that outsources. Respondents evaluated their satisfaction with a particular element on a scale from 1 to 5, where 1 meant they were very dissatisfied with the criterion, and 5 meant they were very satisfied with it. The results are presented in Figure 3.

Figure 3: Satisfaction with outsourcing by individual elements*



*Data regarding the value '1' is not shown due to extremely low value.

Further analyses were carried out with pre-structured data, which means we analysed associations and not companies. The sample consisted of 252 companies that answered the questionnaire. Three large companies were excluded from further analyses. 91 companies had no experience with outsourcing. The rest of 158 companies answered as follows: 70 experienced only traditional outsourcing, 18 experienced only strategic outsourcing, and 70 experienced both. This means we received 228 answers – associations, which are analysed further on. For example: Company A only answered the questions in relation to traditional outsourcing, Company B answered the questions in relation to strategic outsourcing, and Company C answered the questions that applied to traditional, as well as strategic outsourcing. In our case, three companies answered, and we got four answers – associations (traditional 2x - A, C; strategic 2x - B, C).

Hypothesis H2 (the type of collaboration between companies affects the satisfaction with outsourcing) was tested with a *t*-test, where we compared the average value of individual elements of satisfaction based on the type of collaboration between companies. With

further data analysis we wanted to examine if certain type of collaboration (*ad hoc* or contractual collaboration) affects satisfaction with outsourcing (see Tables 2 and 3). Table 2 shows there are differences between types of collaboration. With every element the average satisfaction is higher in the case of contractual collaboration. To find out if differences are statistically significant, we used a *t*-test for two independent samples (see Table 3). We found statistically significant differences in the case of three satisfaction elements: solving problems and complaints, expertise and knowledge of the external contractor, and modern technological equipment of the external contractor.

Table 2: Comparison of average values of satisfaction elements according to types of collaboration

	Type of collaboration	N	Mean	Std. Deviation
Price	<i>Ad hoc</i> collaboration	85	3.91	.796
	Contractual collaboration	137	4.03	.804
The quality of products or services	<i>Ad hoc</i> collaboration	85	4.19	.779
	Contractual collaboration	137	4.29	.620
Compliance with the agreed deadlines	<i>Ad hoc</i> collaboration	85	4.21	.709
	Contractual collaboration	137	4.39	.656
Solving problems or complaints	<i>Ad hoc</i> collaboration	85	4.04	.932
	Contractual collaboration	137	4.28	.694
The flow of information between the two companies	<i>Ad hoc</i> collaboration	85	4.13	.856
	Contractual collaboration	137	4.28	.627
Expertise and knowledge of the external contractor	<i>Ad hoc</i> collaboration	85	4.20	.720
	Contractual collaboration	137	4.40	.612
Modern technological equipment external contractor	<i>Ad hoc</i> collaboration	85	3.96	.865
	Contractual collaboration	137	4.18	.706
Innovative proposals, solutions, recommendations	<i>Ad hoc</i> collaboration	85	3.91	.908
	Contractual collaboration	137	3.99	.857
Quick adaptation to your wishes or needs	<i>Ad hoc</i> collaboration	85	4.05	.925
	Contractual collaboration	137	4.24	.733

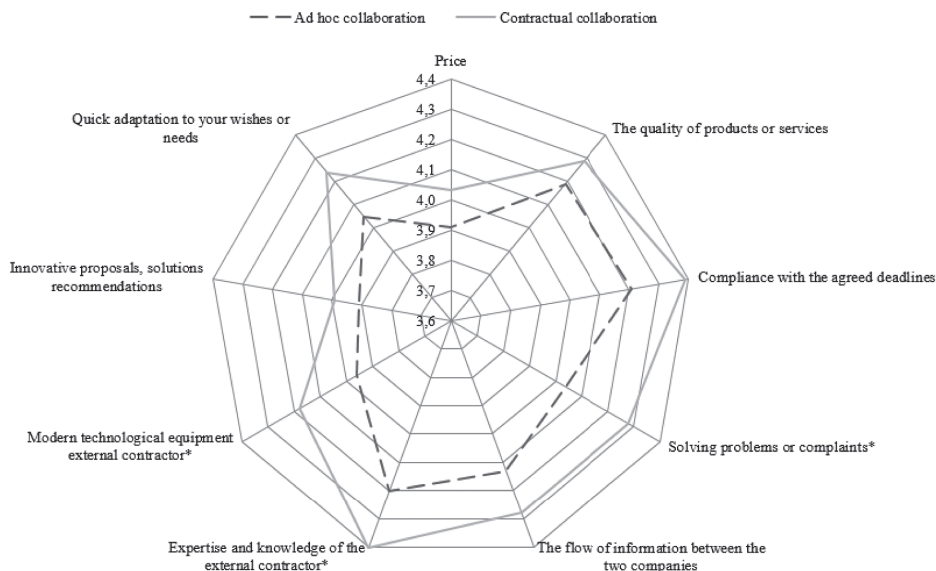
Note: 1 = very dissatisfied, 5 = very satisfied

Table 3: *T-statistics of satisfaction elements according to type of collaboration*

		Levene's Test for Equality of Variances		<i>t</i> -test for Equality of Means		
		F	Sig.	T	df	Sig. (2-tailed)
Price	Equal variances assumed	.002	.961	-1.115	220	.266
	Equal variances not assumed			-1.118	179.507	.265
The quality of products or services	Equal variances assumed	.650	.421	-1.096	220	.274
	Equal variances not assumed			-1.040	148.837	.300
Compliance with the agreed deadlines	Equal variances assumed	.065	.800	-1.875	220	.062
	Equal variances not assumed			-1.841	167.732	.067
Solving problems or complaints	Equal variances assumed	1.269	.261	-2.211	220	.028
	Equal variances not assumed			-2.067	141.417	.041
The flow of information between the two companies	Equal variances assumed	1.090	.298	-1.482	220	.140
	Equal variances not assumed			-1.380	139.644	.170
Expertise and knowledge of the external contractor	Equal variances assumed	.090	.764	-2.226	220	.027
	Equal variances not assumed			-2.143	156.635	.034
Modern technological equipment external contractor	Equal variances assumed	.336	.563	-1.978	220	.049
	Equal variances not assumed			-1.887	151.738	.061
Innovative proposals, solutions, recommendations	Equal variances assumed	.034	.854	-.657	220	.512
	Equal variances not assumed			-.648	170.434	.518
Quick adaptation to your wishes or needs	Equal variances assumed	2.794	.096	-1.730	220	.085
	Equal variances not assumed			-1.639	148.333	.103

Figure 4 shows that average satisfaction is higher when collaboration is contractual. In both cases of collaboration there are differences among particular satisfaction elements. When the collaboration is contractual, the satisfaction is the highest with expertise and knowledge of the external contractor and compliance with the agreed deadlines, and lowest in the case of prices. In *ad hoc* collaboration, satisfaction is the highest in the case of agreed deadlines, quality of products or services, and expertise and knowledge of the external contractor.

Figure 4: Radar chart of average satisfaction with individual satisfaction elements according to the type of collaboration



*There are statistically significant differences in average values.

As follows, we present the analysis of average general satisfaction with outsourcing considering different types of collaboration (see Table 4).

Table 4: Average general satisfaction according to types of collaboration

	Type of collaboration	N	Mean	Std. Deviation
General satisfaction	Ad hoc collaboration	85	5.56	1.375
	Contractual collaboration	137	6.12	.924

Note: 1 = very dissatisfied, 7 = very satisfied

Even with the general satisfaction there are statistically significant differences between the two types of collaboration (see Table 5). Satisfaction is higher when the collaboration is contractual ($t = -3.271$, $p = 0.001$).

Table 5: T-statistics of average satisfaction according to collaboration types

		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
General satisfaction	Equal variances assumed	18.331	.000	-3.576	220	.000
	Equal variances not assumed			-3.271	131.282	.001

The third hypothesis (i.e. reasons for outsourcing affect the satisfaction with outsourcing) was examined with multiple regression analysis. The results show that in the case of traditional outsourcing, the model is not statistically significant [$F(6.63) = 1.739$; $p = .126$] and can only explain a 6% variance of satisfaction with outsourcing. None of the reasons for outsourcing has a statistically significant effect on satisfaction with traditional outsourcing (Table 6).

Table 6: *Regression coefficients for predicting satisfaction with outsourcing caused by reasons for outsourcing – traditional*

	B	SE	b	t	p
(Constant)	3.571	.768		4.648	.000
Cost reduction	-.055	.211	-.051	-.262	.795
Market expansion	-.002	.219	-.001	-.007	.994
Decrease of needed investments into company's assets	.071	.176	.068	.405	.687
Improved quality, gaining new knowledge	.331	.242	.246	1.366	.177
Career development and increased commitment of employees	.122	.210	.103	.583	.562
Organizational reasons	.105	.159	.094	.661	.511

In the case of strategic outsourcing, the regression model is statistically significant [$F(6.81) = 3.893$; $p = .002$] and with it we can explain 16% variance of satisfaction with outsourcing. Table 7 shows that developmental reasons (e.g. improved quality and gaining new knowledge) have a statistically significant effect on satisfaction with strategic outsourcing.

Table 7: *Regression coefficient for predicting satisfaction with outsourcing caused by reasons for outsourcing – strategic*

	B	SE	b	t	p
(Constant)	3.602	.766		4.702	.000
Cost reduction	-.055	.173	-.047	-.321	.749
Market expansion	-.235	.191	-.147	-1.228	.223
Decrease of needed investments into company's assets	.042	.157	.035	.267	.790
Improved quality, gaining new knowledge	.688	.181	.495	3.798	.000
Career development and increased commitment of employees	.082	.184	.060	.446	.657
Organizational reasons	.030	.163	.022	.186	.853

The fourth hypothesis (i.e. risk factors affect the satisfaction with outsourcing) was tested with multiple regression analysis. The results show that in case of traditional outsourcing, the model is not statistically significant [$F(4.65) = .644$; $p = .633$], and can only explain 2% variance of satisfaction with outsourcing. None of the risk factor has a statistically significant effect on satisfaction with traditional outsourcing (Table 8).

Table 8: *Regression coefficient for predicting satisfaction with outsourcing caused by risk factors – traditional*

	B	SE	b	t	p
(Constant)	5.419	.593		9.138	.000
Loss of core capabilities	-.194	.208	-.176	-.933	.354
Decreased possibility of cross-functional collaboration	.210	.248	.191	.848	.400
Loss of control over external contractor	-.252	.435	-.213	-.579	.564
Hiding information	.359	.401	.301	.894	.375

The regression model is also statistically non-significant in the case of strategic outsourcing [$F(4.83) = .529$; $p = .715$], and only explains 3% variance of satisfaction with outsourcing. It is evident from Table 9 that none of the risk factors has a statistically significant effect on satisfaction with strategic outsourcing.

Table 9: *Regression coefficient for predicting satisfaction with outsourcing caused by risk factors – strategic*

	B	SE	b	t	p
(Constant)	6.012	.634		9.476	.000
Loss of core capabilities	.049	.215	.037	.227	.821
Decreased possibility of cross-funtional collaboration	.239	.241	.185	.995	.322
Loss of control over external contractor	-.184	.393	-.130	-.468	.641
Hiding information	-.168	.335	-.121	-.501	.618

The fifth hypothesis (i.e. credibility criteria affect the satisfaction with outsourcing) was tested with multiple regression analysis. The results show that in case of traditional outsourcing, the model is statistically significant [$F(5.134) = 5.501$; $p = .000$] and can explain 14% variance of satisfaction with outsourcing. It is evident from Table 10 that two criteria have statistically significant impact on satisfaction with traditional outsourcing; these criteria are 'A company's reputation on the market and experiences' and 'Trust.' The statistical significance of the criterion 'Trust' is just low enough that we were able to confirm its effect on satisfaction with outsourcing.

Table 10: *Regression coefficient for predicting satisfaction with outsourcing caused by credibility criteria – traditional*

	B	SE	b	t	p
(Constant)	2.793	.738		3.783	.000
Prior collaboration with the company	-.058	.106	-.046	-.551	.582
Good financial records of the company	.179	.126	.127	1.420	.158
Company's reputation on the market and experiences	.287	.129	.216	2.219	.028
Price	.004	.138	.002	.026	.980
Trust	.338	.173	.191	1.954	.053

The results of regression analysis show that in the case of strategic outsourcing, the model is statistically significant [$F(5.82) = 2.499$; $p = .037$] and can explain 8% variance of satisfaction with outsourcing. However, none of the individual criterion has a statistical significant impact on satisfaction with strategic outsourcing (Table 11).

Table 11: *Regression coefficient for predicting satisfaction with outsourcing caused by credibility criteria – strategic*

	B	SE	b	t	p
(Constant)	2.333	1.123		2.078	.041
Prior collaboration with the company	.298	.229	.172	1.301	.197
Good financial records of the company	.227	.206	.145	1.098	.275
Company's reputation on the market and experiences	-.133	.237	-.075	-.559	.578
Price	.044	.228	.024	.194	.846
Trust	.376	.303	.170	1.241	.218

The sixth hypothesis (i.e. outsourcing difficulties have an effect on satisfaction with outsourcing) was tested with multiple regression analysis. The results show that in the case of traditional outsourcing, the model is statistically significant [$F(4.135) = 13.896$; $p = .633$] and can explain 27% variance of satisfaction with outsourcing. It is evident from Table 12 that outsourcing difficulties have a statistically significant effect on satisfaction with traditional outsourcing.

Table 12: *Regression coefficient for predicting satisfaction with outsourcing caused by outsourcing difficulties - traditional*

	B	SE	b	T	p
(Constant)	7.096	.222		31.995	.000
Loss of core capabilities	.021	.061	.027	.349	.727
Decreased possibility of cross-funtional collaboration	-.013	.084	-.014	-.155	.877
Loss of control over external contractor	-.431	.132	-.382	-3.275	.001
Hiding information	-.240	.150	-.188	-1.597	.113

The regression model for strategic outsourcing is also statistically significant [$F(4.83) = 4.310$; $p = .003$] and can explain 13% variance of satisfaction with outsourcing. In the case of strategic and traditional outsourcing, only one difficulty has a statistically significant impact on satisfaction with outsourcing, and that difficulty is loss of control over external contractor (Table 13).

Table 13: *Regression coefficient for predicting satisfaction with outsourcing caused by outsourcing difficulties - strategic*

	B	SE	b	t	p
(Constant)	6.572	.356		18.462	.000
Loss of core capabilities	.171	.122	.165	1.407	.163
Decreased possibility of cross-funtional collaboration	-.225	.146	-.209	-1.540	.127
Loss of control over external contractor	-.432	.217	-.369	-1.993	.050
Hiding information	.128	.207	.108	.618	.538

DISCUSSION

Zhu et al. (2001) argue that a successful outsourcing process begins with a good contract. According to Bob Chafin, Director of Contractual Collaboration and Finances for General Motors' Information System and Services Division in Detroit, a good contract is signed when you are certain of what you want to achieve through a contract. That gives additional significance to formalization when conducting business with business partners. According to the literature (Brown, 1997; Quélin & Duhamel, 2003; Zhu et al., 2001), we can assume that most outsourcing happens through contractual collaboration, yet it surprised us that contractual collaboration is common for traditional outsourcing, but not for strategic

outsourcing, where there are only 34% of contractual collaborations. Sixty percent of small and medium sized companies decide for strategic outsourcing in form of *ad hoc* collaboration. That indicates a great risk for those companies. With this finding, the first hypothesis, which presumed that the most common type of collaboration between two companies, in traditional and strategic outsourcing, is contractual, is partially supported. Hypothesis H1 is confirmed in the case of traditional outsourcing; however, it is not confirmed in the case of strategic outsourcing.

Findings in relation to hypothesis H1 seem surprising at first. However, if we take into account that research includes mainly micro firms that have up to nine employees, we can explain them logically. Offers of such firms identifies with the personal skills of their employees. For example, an auto mechanic offers car maintenance; an accountant offers accounting services; a builder offers concrete products, etc. In most cases, thinking of businessmen that are also owners and managers is directed towards providing products and services and not towards the development of their firms. Therefore, in the case of traditional outsourcing, collaboration with external contractors is often and mainly in the form of contracts. This aspect is different in strategic outsourcing. Seldom are firms prepared or capable of strategic collaboration in relation to their main activity in order to provide higher income. Most often they collaborate strategically when the market forces them. For example, manufacturers of concrete products do not usually provide installation of their products, even though it would represent a great example of strategic outsourcing where complementary knowledge and capabilities provide better and less expensive service on the market. Manufacturers of concrete products will provide a contractor only if the buyer requests such service. Therefore, these firms do not plan strategic outsourcing in advance and for a longer period of time. Consequently, they do not carry out these services in the form of a contract, but rather in the form of occasional orders.

As follows, we discuss the results considering the satisfaction with outsourcing. The study's results indicate that general satisfaction with outsourcing is relatively high among surveyed companies, which is confirmed by their average evaluation of satisfaction, which was 5.9 on a scale from 1 – 7. Later on, we tested their satisfaction according to individual elements (price; quality of products and services; solving problems or complaints; the flow of information between the two companies; expertise and knowledge of the external contractor; modern technological equipment of the external contractor; innovative proposals, solutions, and recommendations; and quick adaptation of wishes and needs of the company that outsources) and found out that average satisfaction with an individual element is between 4.0 and 4.3 (on a scale from 1 to 5), which is also considered high. Price and innovative proposals, solutions, and recommendations have the lowest score regarding satisfaction. According to numerous outsourcing definitions, price is one of the main and most common reasons to begin outsourcing. Brandes et al. (1997) cite price efficiency as one of the three reasons for outsourcing, because external contractors can supply components cost-efficiently due to increased productivity. According to that, we expected that satisfaction with price would be rated higher. Low satisfaction with price is also surprising because the price is usually set by a contract before outsourcing even begins, and it is difficult to talk about dissatisfaction with an element, which was already

discussed between customers. However, we can explain the dissatisfaction with price in our study with a finding that in strategic outsourcing more than 60% of partnerships based on *ad hoc* collaboration, where the price is usually not set beforehand, causes dissatisfaction.

When comparing satisfaction according to the type of collaboration (H2), we found out that satisfaction is higher in contractual collaboration regarding all elements, which is understandable and expected. With three satisfaction elements (solving problems and complaints, expertise, and knowledge of the external contractor, modern technological equipment of the external contractor) the differences between contractual and *ad hoc* collaboration are statistically significant. The results confirm the findings from previous studies (Brown, 1997; Quélin & Duhamel, 2003; Zhu et al., 2001), emphasizing the importance of realistic and well-planned outsourcing outcomes that are the basis of well-prepared contracts between two companies.

Therefore, we confirm the second hypothesis, which states that type of collaboration between two companies affects satisfaction with outsourcing. We also want to emphasize that everyone who already outsources, or is planning to outsource, has to arrange the collaboration with business partners using contracts. This increases the probability of being satisfied with outsourcing. As is evident from the literature (Bradač, 2009; Šink, 1999), strategic outsourcing can bring bigger and long-term positive effects, while the study simultaneously showed that more than 60% of the respondents use strategic outsourcing in form of *ad hoc* collaboration. These companies are at risk of being dissatisfied with solving problems and complaints, expertise, and knowledge of the external contractor, and the modern technological equipment of the external contractor.

As regards determinants of outsourcing satisfaction, we would like to emphasise that according to Greaver (1999), firms decide for outsourcing due to organizational reasons, developmental reasons (improved level of quality, gaining new knowledge), financial reasons (decrease of needed investments into company's assets), revenue reasons (market expansion), expense reasons (cost reduction), and staff reasons (development of employees and increased employee commitment to work). The research results indicate that reasons for outsourcing do not have an impact on satisfaction with outsourcing when it comes to traditional outsourcing. However, in case of strategic outsourcing, developmental reasons (improved level of quality, gaining knowledge) have a statistically significant impact. This means that if developmental reasons are more important to firms that decide for strategic outsourcing, the bigger chance there is they will be satisfied with outsourcing.

Developmental reasons are linked to strategic development of a firm. Šink (2002) argues we can benefit most from outsourcing advantages if we consider it as a strategic potential for development. Therefore, it is expected that the importance of developmental reasons affects satisfaction with outsourcing. We would expect a similar effect from reasons such as market expansion, improved quality, and organizational reasons, but our research did not confirm our expectations. Another surprising conclusion is that expense reasons (reduction of business costs) do not affect satisfaction with traditional outsourcing, even though its main goal is lowering the costs. We can explain it in relation to firm size. Large

companies pass on activities to outsourcing in a large extent in order to reduce costs. However, SMEs never performed certain activities due to their size, yet they need them to stay in business, so they outsource them to an external contractor. Because SMEs have no choice but to outsource certain activities, regardless of the price, it is expected that expense reasons are not as important and consequently, do not have a significant effect on satisfaction with outsourcing.

We can partially confirm hypothesis H3. Developmental reasons affect satisfaction with strategic outsourcing. Other reasons do not have a statistically significant effect on satisfaction with outsourcing. When firms decide whether to outsource certain activities, they more or less take into account the risk factors that Quinn and Hilmer (1994) described in literature as disadvantages of outsourcing (loss of core capabilities, decreased possibility of cross-functional collaboration, loss of control over external contractor, or hiding information). Regardless to what extent the firms were aware of risk factors, it did not affect satisfaction with outsourcing. It is the same for traditional, as well as the strategic type of outsourcing.

These findings can also prove that small and medium-sized firms do not systematically decide to outsource based on analyses in which we would include risk factors. In most cases, decisions are made impulsively, and in relation to individual information and are not based on strategic planning. Therefore, risk factors have no significant impact on satisfaction with outsourcing. Thus, we cannot confirm hypothesis H4.

When choosing an external contractor, a firm often considers the following criteria: prior collaboration with the company, good financial records of the company, a company's reputation on the market and experiences, price, and trust. Chang et al. (2012) stated that the right decision for an outsourcing provider has a positive impact on productivity and performance of a client company. With our research, we discovered that certain credibility criteria affect satisfaction with traditional outsourcing, whereas they do not have an effect when it comes to strategic outsourcing.

A firm's reputation on the market and experience, and trust in the firm are the two criteria that affect satisfaction with traditional outsourcing when deciding upon an external contractor. These criteria again indicate a finding from Section 4 that SMEs decide for an external contractor based on inertia, as trust and experiences with that external contractor affect satisfaction. Price benefit has no impact on satisfaction, although we would expect it affects traditional outsourcing, as its main focus is cost reduction.

We can partly confirm the hypothesis H5 due to a finding that criteria such as company's reputation on the market and trust affect satisfaction with traditional outsourcing, whereas credibility criteria do not have an impact on satisfaction with strategic outsourcing.

Difficulties with outsourcing (loss of core capabilities, decreased possibility of cross-functional collaboration, loss of control over external contractor, hiding information) occur as consequences of risk factors that were defined in literature by Quinn and Hilmer (1994).

As we expected, we found that difficulties with outsourcing have an important impact on satisfaction with outsourcing. This applies to traditional and strategic outsourcing. Once again, we would like to mention the findings from Section 4, where we came to a conclusion that risk factors do not have an effect on satisfaction with outsourcing, yet the difficulties, which are direct consequences of noncompliance with risk factors, have a significant effect on satisfaction. Again, these findings indicate that there is no strategic approach to outsourcing in small and medium-sized firms, which would allow us to study the risk factors and build in a suitable mechanism that would negate the risks.

Loss of control over external contractor (for example: external contractor does not abide by agreements regarding the price, deadlines, collaboration, protection of business secrets, and does not conduct business as expected) is the problem that has the most impact on satisfaction with traditional and strategic outsourcing. This is an important finding for everyone who outsources or has the intention to do so. The loss of control over an external contractor can be regulated by applying appropriate measures e.g. for that purpose, some firms withhold ownership of key parts of the equipment. In our study, we can confirm the hypothesis H5 arguing that difficulties affect satisfaction with outsourcing.

CONCLUSION

In the paper, our goal was to find out whether managers of small and medium-sized companies are in fact satisfied with outsourcing, and what affects their satisfaction. Business in small and medium-sized companies differs from business in large companies to the extent where outsourcing cannot be copied. Therefore, we improved the existing definitions and formed a more accurate difference between outsourcing and buying.

We speak of outsourcing when a company gains products and/or services that are exclusively adapted for that company's business procedures and similar companies perform them in-house. Based on this definition we found out that 64% of small and medium-sized businesses from our survey outsourced at least one of their activities from their company, and that in most cases outsourcing was traditional, and focused on cost reduction. An unexpected finding is that strategic outsourcing is mostly carried out through *ad hoc* collaboration, which means that companies are exposed to bigger risks and lower satisfaction with outsourcing. We identified five determinants that affect satisfaction with outsourcing: type of collaboration, reasons for outsourcing, credibility criteria (referring to external contractors), risk factors, and outsourcing difficulties (problems). We came to the conclusion that the following determinants have an impact on traditional outsourcing: criteria for choosing an external contractor (a firm's reputation on the market, experience, and trust), type of collaboration (contractual collaboration has a positive impact on satisfaction), and difficulties (loss of control over an external contractor). In relation to strategic outsourcing, the effective determinants are: reasons for outsourcing (improved quality level, gaining knowledge), type of collaboration (contractual collaboration has positive impact on satisfaction), and difficulties loss of control over external contractor).

Our study extends the existing knowledge about outsourcing in small and medium-sized businesses, especially in the field of satisfaction with outsourcing, and determinants that affect satisfaction with outsourcing. Our first contribution is the improved definition of outsourcing that can be used in all companies regardless of their size. This definition is better-suited for the research of SMEs than the existing definition that takes larger companies into account. Our second contribution refers to our finding that SMEs mainly perform strategic outsourcing that is based on *ad hoc* collaboration, which is the opposite of the existing theoretical and empirical findings. Companies that conduct business based on *ad hoc* collaboration are less satisfied with outsourcing. Difficulties that occur due to ignorance of known outsourcing drawbacks have a negative impact on satisfaction, which sends a clear message to all, who teach, advise, use, or plan to use this manager tool.

Our findings should be interpreted within the limitations of the study. First, the usual limitations of cross-section research design apply – our data were collected at a single point in time and they provide therefore a snapshot of the population characteristics at this given point in time. Second, we explained that satisfaction with outsourcing can be compared to the successfulness that a company achieved with the help of outsourcing. We also wrote that the concept of successfulness can be broader in small and medium-sized businesses than in larger companies, because the owner, who is usually also the manager, identifies himself with his company. From this originates one of the limitations of studying satisfaction, as the owners or managers are not completely ready to speak sincerely about problems and dissatisfaction with certain business decisions, because they would consequently admit their own mistakes. Human nature makes it difficult to talk about our own mistakes, let alone admit them.

The findings from this paper enable further research in the field of outsourcing in small and medium-sized businesses. Especially interesting would be studies of groups of companies that are more or less aware of outsourcing pros and cons and whether they are satisfied with outsourcing. Also, we think that further research is required to examine more fully companies that ended collaboration with external contractors, and what were the consequences of termination.

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Appendix 1: Questionnaire

Greetings!

In front of you is a survey questionnaire. Its purpose is to check user habits and expectations concerning transferring certain activities to external contractors. The survey is anonymous. We kindly ask the person responsible for business activities in your company to take some time and answer the following questions. We are thankful for your cooperation. The survey is solely exploratory and will take up to 15 minutes of your time.

Thank you for your cooperation!

1. Your employment status:
(choose one answer only)
 - a. employed (by employer)
 - b. company owner – employer
 - c. craftsman
 - d. private entrepreneur
 - e. self-employee experts (attorney, doctor, architect)
 - f. liberal profession (artist, freelance journalist, freelance actor)
 - g. contract work, contract for a copyrighted work
 - h. unemployed
 - i. pensioner
 - j. primary school pupil
 - k. high school student
 - l. student
 - m. apprentice
 - n. farmer – works, helps on a farm
 - o. housekeeper, maid, caregiver in a home
 - p. helping household member (workshop, bar)
 - q. unable to work (invalid)
 - r. other
 - s. rather not say

2. Your workplace position:
(choose one answer only)
 - a. manager of company, organization, institution
 - b. manager of labour unit, work, sector, department
 - c. employee which directly manages or supervises work of other employees (master, foreman)

- d. employee which does not have subordinates (executive employee)
 - e. rather not say
3. The main activity of the company where you are employed:
(choose one answer only)
- a. production or farming
 - b. services
 - c. employed in public administration, institute, non-governmental organization
 - d. rather not say
4. What is the size of a company in which you work?
- a. micro (up to 10 employees)
 - b. small (up to 50 employees)
 - c. medium (up to 250 employees)
 - d. large (more than 250 employees)

As follows we are interested in your experience with external contractors performing certain activities of your business process.

Two examples are shown for better understanding:

Example 1: The company »Bakery« bakes bread and wants to **reduce its costs**. The company decided it will not handle **accounting** itself anymore, instead they will hand over the service to an accounting service (external contractor). The company wanted to **reduce its costs** by hiring an external contractor, yet it had **NO direct association with baking bread (the main activity)**.

Example 2: The company »Bakery» wants **to improve their products** and **expand the capacity** of baking bread due to additional orders. Instead of modernizing the line for preparing dough, it decides to rather buy the dough from a company called »Dough» (external contractor). Dough is a very important bread ingredient, but the bakery believes it can bake more bread and also the most quality bread on the market in collaboration with the external contractor. The company wanted to **increase their sales** in an area that is **directly associated with baking bread (the main activity)**.

5. Have you ever outsourced one of your company's activities to another company (external contractor)?
- a. yes
 - b. no → continue with question 29

6. Have you ever outsourced an activity to an external contractor that:
(question 5 = yes)

	yes	no
has NO direct connection to the main activity – <u>cost reduction</u> (cleaning, accounting, nourishment, security, logistics,...)?	1	2
is directly connected to the main activity – <u>revenue increase</u> (collaboration with external experts, ordering a non-standardized specialized product, feed stock or service)?	1	2

The following questions apply to outsourcing activities which have NO direct connection to the main activity – cost reduction.
(question 5 = a and question 6a = 1)

7. Write down the activity that your company outsourced. If you outsourced more than one activity, write down the one that is most important to you and has NO association with the company's main activity.
(question 5 = a and question 6a = 1)

_____ Answer 7 _____

8. Assess the importance of reasons for outsourcing activities. Assess in regard to your answer for question 7.
(question 5 = a and question 6a = 1)

	Not important	Slightly important	Neither	Important	Extremely important
a. Cost reduction	1	2	3	4	5
b. Expansion of the market	1	2	3	4	5
c. Decrease in the investment of necessary equipment or personnel	1	2	3	4	5
d. Improving quality levels, gaining new skills	1	2	3	4	5
e. The development of employees and increased employee commitment to work	1	2	3	4	5
f. Organizational reasons (focus on the activities in which you are the best, the need for additional staff, equipment, services, capacities ...)	1	2	3	4	5

9. Assess the importance of criteria for choosing an external contractor. Assess in regard to your answer for question 7.
(question 5 = a and question 6a = 1)

	Not important	Slightly important	Moderately important	Important	Very important
a. Pre partnership with the company	1	2	3	4	5
b. Good financial situation of the company	1	2	3	4	5
c. Reputation of the enterprise on the market, experience	1	2	3	4	5
d. Affordability	1	2	3	4	5
e. Trust	1	2	3	4	5

10. Where is the external contractor's company, which you collaborate with, located?
Answer in regard to your answer for question 7.
(question 5 = a and question 6a = 1)

- a. Slovenia
- b. Europe
- c. Other part of the world

11. What is the main type of collaboration conducted with external contractors? Answer in regard to your answer for question 7.
(question 5 = a and question 6a = 1)

- a. Ad-hoc collaboration
- b. Contractual collaboration
- c. Ownership collaboration (franchise, license, agency)
- d. Other: _____

12. How long has the collaboration with the external contractor lasted? Answer in regard to your answer for question 7.
(question 5 = a and question 6a = 1)

- a. up to 1 year
- b. 1 to 3 years
- c. 3 to 5 years
- d. 5 years or more

The following questions are linked to satisfaction and difficulties with outsourcing activities.

(question 5 = a and question 6a = 1)

13. On a scale from 1 to 5 assess your satisfaction with outsourcing, where 1 represents very dissatisfied and 5 represents very satisfied. Asses in regard to your answer for question 7.

(question 5 = a and question 6a = 1)

	Very dissatisfied	Dissatisfied	Neither	Satisfied	Very satisfied
a. Price	1	2	3	4	5
b. Quality of products and services	1	2	3	4	5
c. Compliance with the agreed deadlines	1	2	3	4	5
d. Solving problems or complaints	1	2	3	4	5
e. Flow of information between the two companies	1	2	3	4	5
f. Expertise and knowledge of the external contractor	1	2	3	4	5
g. Modern technological equipment of the external contractor	1	2	3	4	5
h. Innovative proposals, solutions and recommendations	1	2	3	4	5
i. Quick adaptation of wishes and needs of the company that outsources	1	2	3	4	5

14. On a scale from 1 to 5 assess which risk factors were taken into account before deciding to outsource the activity. 1 represents you have not even considered the risk and 5 represents you have thoroughly considered it. Assess in regard to your answer for question 7.

(question 5 = a and question 6a = 1)

	Did not even consider	Have not studied it	Neither	Studied it	Thoroughly considered it
a. The activity may not be executed within the company once again (employees do not have the knowledge, or the equipment is not suitable any more)	1	2	3	4	5
b. There will be more no close collaboration, because the external contractor is not always present	1	2	3	4	5
c. The external contractor will not comply with the agreement (price, deadlines, supply, collaboration, hiding business secrets) or will not completely committed to work	1	2	3	4	5
d. External contractor can hide or adjust information important for business success	1	2	3	4	5

15. Have you noticed any of the following difficulties after outsourcing? On a scale from 1 to 5 assess the statements, where 1 represents completely untrue and 5 represents completely true. Assess in regard to your answer for question 7.

(question 5 = a and question 6a = 1)

	Completely untrue	Mostly untrue	Neither	Mostly true	Completely true
a. The activity may not be carried out within the company once again (employees do not have the knowledge, or the equipment is not suitable any more)	1	2	3	4	5
b. Collaboration with the external contractor is harder than performing the activity alone (more instructions and adjustments are necessary)	1	2	3	4	5
c. The external contractor will not comply with the agreement (price, deadlines, supply, collaboration, hiding business secrets) or will not be completely committed to work	1	2	3	4	5
d. External contractor can hide or adjust information important for business success (for example: external contractor's equipment is out of order. He does not tell you and risks that the business will not be done)	1	2	3	4	5

The following questions apply to outsourcing activities that are directly connected to the company's main activity – revenue increase.

(question 5 = a and question 6b = 1)

16. Write down an activity your company outsourced. If you outsourced more than one activity, write down the one that is most important to you and is closely associated to the company's main activity.

(question 5 = a in question 6b = 1)

_____ Answer 16 _____

17. Assess the importance of reasons for outsourcing activities. Assess in regard to your answer for question 16.

(question 5 = a in question 6b = 1)

	Not important	Slightly important	Neither	Important	Extremely important
a. Cost reduction	1	2	3	4	5
b. Expansion of the market	1	2	3	4	5
c. Decrease in the investment of necessary equipment or personnel	1	2	3	4	5
d. Improving quality levels, gaining new skills	1	2	3	4	5
e. The development of employees and increased employee commitment to work	1	2	3	4	5
f. Organizational reasons (focus on the activities in which you are the best, the need for additional staff, equipment, services, capacities ...)	1	2	3	4	5

18. Assess the importance of criteria for choosing an external contractor. Assess in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

	Not important	Slightly important	Moderately important	Important	Very important
a. Pre partnership with the company	1	2	3	4	5
b. Good financial situation of the company	1	2	3	4	5
c. Reputation of the enterprise on the market, experience	1	2	3	4	5
d. Affordability	1	2	3	4	5
e. Trust	1	2	3	4	5

19. Where is the external contractor's company, which you collaborate with, located? Answer in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

- a. Slovenia
- b. Europe
- c. Other part of the world

20. What is the main type of collaboration conducted with external contractors? Answer in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

- a. Ad-hoc collaboration
- b. Contractual collaboration
- c. Ownership collaboration (franchise, license, agency)
- d. Other: _____

21. How long has the collaboration with the external contractor lasted? Answer in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

- a. up to 1 year
- b. 1 to 3 years
- c. 3 to 5 years
- d. 5 years or more

The following questions are linked to satisfaction and difficulties with outsourcing activities.

(question 5 = a and question 6b = 1)

22. On a scale from 1 to 5 assess your satisfaction with outsourcing, where 1 represents very dissatisfied and 5 represents very satisfied. Asses in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

	Very dissatisfied	Dissatisfied	Neither	Satisfied	Very satisfied
a. Price	1	2	3	4	5
b. Quality of products and services	1	2	3	4	5
c. Compliance with the agreed deadlines	1	2	3	4	5
d. Solving problems or complaints	1	2	3	4	5
e. Flow of information between the two companies	1	2	3	4	5
f. Expertise and knowledge of the external contractor	1	2	3	4	5
g. Modern technological equipment of the external contractor	1	2	3	4	5
h. Innovative proposals, solutions and recommendations	1	2	3	4	5
i. Quick adaptation of wishes and needs of the company that outsources	1	2	3	4	5

23. On a scale from 1 to 5 assess which risk factors were taken into account before deciding to outsource the activity. 1 represents you have not even considered the risk and 5 represents you have thoroughly considered it. Assess in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

	Did not even consider	Have not studied it	Neither	Studied it	Thoroughly considered it
a. The activity may not be executed within the company once again (employees do not have the knowledge, or the equipment is not suitable any more)	1	2	3	4	5
b. There will be more no close collaboration, because the external contractor is not always present	1	2	3	4	5
c. The external contractor will not comply with the agreement (price, deadlines, supply, collaboration, hiding business secrets) or will not completely committed to work	1	2	3	4	5
d. External contractor can hide or adjust information important for business success	1	2	3	4	5

24. Have you noticed any of the following difficulties after outsourcing? On a scale from 1 to 5 assess the statements, where 1 represents completely untrue and 5 represents completely true. Assess in regard to your answer for question 16.

(question 5 = a and question 6b = 1)

	Completely untrue	Mostly untrue	Neither	Mostly true	Completely true
a. The activity may not be carried out within the company once again (employees do not have the knowledge, or the equipment is not suitable any more)	1	2	3	4	5
b. Collaboration with the external contractor is harder than performing the activity alone (more instructions and adjustments are necessary)	1	2	3	4	5
c. The external contractor will not comply with the agreement (price, deadlines, supply, collaboration, hiding business secrets) or will not be completely committed to work	1	2	3	4	5
d. External contractor can hide or adjust information important for business success (for example: external contractor's equipment is out of order. He does not tell you and risks that the business will not be done)	1	2	3	4	5

25. completely dissatisfied and 7 represents completely satisfied.
(question 5 = a)

	Completely dissatisfied	Completely satisfied
Outsourcing activities that have NO direct association with the company's main activity	1	2	3	4	5	6	7
Outsourcing activities that are directly associated with the company's main activity.	1	2	3	4	5	6	7

The following questions are associated with your general experience with outsourcing and are not related to previously chosen activities.

26. Have you ever terminated a contract (temporary or permanent) or collaboration with external contractor due to negative experience?
(question 5=a)

- a. Yes
- b. No à continue with question 29

27. How bad were the consequences for your company due to end of collaboration with external contractors?
(question 5 = a and question 26 = a)

- a. The company's existence was in danger
- b. The existence of a business unit/part of the company was in danger
- c. Customer/buyer loss
- d. Less demand and less orders from sub-buyers
- e. More work was needed in-house business realization (overtime, exceptional transport, additional costs)
- f. Other: _____

28. What happened after terminating outsourcing?
(question 5 = a and question 26 = a)

- a. Transferring activities back to the company
- b. Transferring activities to another external contractor
- c. Outsourcing continues under changed conditions
- d. Abandoning the activity
- e. Other: _____

29. What is the main strategic guideline of your company?

- a. Cost efficiency (focus is on lowering the costs in regard to competitors and consequently lowering the disposal price)
- b. Differentiation (focus is on what is perceived originally different from competitors in a sense of superior product/service quality, customer relations, brand name image, design, technology etc.)
- c. Other: _____

We are approaching the end of the survey. The following questions are short and are needed for further statistical processing.

30. What is your company position?

(choose one answer only)

- a. Manager position in company, organization, institution
- b. Manager position in labour unit, work, sector, department
- c. Employee which directly manages or supervises work of other employees
- d. Employee which does not have subordinates
- e. Other: _____
- f. Rather not say

31. How would you best describe the business your company does?

(choose one answer only)

- a. Work at home
- b. Work in bar/shop
- c. Clerical work
- d. Fieldwork
- e. None of the above

32. In which region is your company located?

(choose one answer only)

- a. Central Slovenia region
- b. Central Sava region
- c. Drava region
- d. Carinthia region
- e. Savinja region
- f. Upper Carniola region
- g. Northern Coastal region
- h. Southern Coastal region

- i. Inner Carniola region
- j. Southeast region
- k. Lower Sava region
- l. Mura region
- m. Foreign country
- n. Rather not say

33. What is your company's activity/industry? *Click on the question mark for help.*

- a. Farming and hunting, forestry, fishing
- b. Mining industry
- c. Processing activity
- d. Energy, gas, steam supply
- e. Water supply, waste and sewage management; rehabilitation of the environment
- f. Construction
- g. Commerce; maintenance and repair of motor vehicles
- h. Catering
- i. Traffic and stocking
- j. Information and communication activity
- k. Financial and insurance market
- l. Real property business
- m. Professional, scientific and technical activities
- n. Other diverse business activities
- o. Public service and defence activity, statutory social security business
- p. Education
- q. Health and social security
- r. Cultural, entertainment and recreation activities
- s. Other service activities
- t. Household activities with employed staff; production for personal use
- u. Extra-territoriality organization activities
- v. Do not know