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## Does the Outsourcing Affect Labour Costs in Enterprises? Evidence from Firm-level Data

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**Does the Outsourcing Affect Labour Costs in  
Enterprises? Evidence from Firm-level Data**

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## **Does the Outsourcing Affect Labour Costs in Enterprises? Evidence from Firm-level Data**

**JEL Classification:** *J30, L24, L60, L80*

**Keywords:** labour cost; materials outsourcing, services outsourcing; Poland

**Abstract:** This empirical paper examines an impact of materials and services outsourcing on labour costs in two groups: industrial and construction enterprises, and services enterprises in Poland in the period 2005-2013. The analysis of this dependence was based on data of Central Statistical Office included in financial statement F-01/I-01. The preliminary analysis and econometric model showed that Polish industrial and construction, and service enterprises applied both types of outsourcing, but services outsourcing had more important effect on labour costs than materials outsourcing. However, the depreciation cost understood as technological progress had the biggest impact on labour costs, especially in industrial and construction firms.

### **Introduction**

The last few decades were marked by the growing popularity of outsourcing understood as separation of specific processes or functions outside and transferring them to capital-dependent or capital-independent domestic and foreign suppliers. This solution resulted in the reorganization of enterprises and their resources. The area of human resources is one of the areas of direct impact of outsourcing which in the short term experienced job losses and relocating the workplaces to foreign or domestic location, layoffs or possibly moving them to the supplier. Quantitative reduction and qualitative adaptation in the level of employment was followed by decline in the overall level of labour costs, i.e. reduction of the fixed costs and enhancement of variable costs depending on the production volume. However, in the long term effects of outsourcing on employment, wages, and labour productivity were different in economy and company scales, i.e. positive (eg. Linden et al., 2011, p. 223-240;), scant or neutral for the economy, although positive for highly skilled workers (Crino, 2010, pp. 253-256.) or negative for semi-skilled or less specialised work (Baumgarten et al., 2013, pp. 132-152; Egger et al., 2001, pp. 257- 272). These examples of publications are based on data from developed

countries, such as USA, UK, Germany. In regard to the Polish economy, the impact of outsourcing on the area of labour resources, particularly labour costs, seems to be relatively poorly recognised. Most of researchers primarily analyse the impact of final goods on trade and on international outsourcing (measured as exports and imports of intermediate goods) on employment and wages (Egger & Egger, 2002, pp.83-96; Egger & Streher 2003, pp. 61-72), on industrial specialization among Central and Eastern European Countries and directly on wages (Esquito, 2006). The authors focus on Poland, Slovakia, and Hungary, analysing the issue separately for each country due to the specific characteristics of each of them.

Above-mentioned studies are steered towards the international dimension of business activities expressed in the impact of international outsourcing and offshoring on selected characteristics of the labour market. Meanwhile, outsourcing phenomenon has a much broader scope because in practice many Polish firms, especially small and medium-sized, opt for an outsourcing contract with suppliers in the domestic market. In such situation, measuring outsourcing with import and export of intermediate goods is not justified, since it does not reflect the scale of the whole phenomenon, especially domestic outsourcing. Thus, there is a need for a different way of measuring, such as the cost of intermediate consumption i.e. intermediate materials and services used in the process of estimating the level of outsourcing in the particular country.

The purpose of this article is to review the impact of outsourcing on the formation of labour costs in Polish companies, as well as analysing the strength of the relationship between these variables. In the context of the paper I formulated hypothesis that only partial growth of labour costs is connected with increasing level of outsourcing in Polish enterprises.

### **The essence of outsourcing and methodology of its measurement**

The literature lacks clarity in the approach to define and measure outsourcing. The term is either used interchangeably with offshoring or treated as a separate concept. (compare Amity & Wei, 2005, pp. 307-347, Olsen, 2006; Zorska, 2007, p. 36) Therefore, in this article I assume that outsourcing is a separating of specific parts or even all of the processes / functions from the structure of the organization and transferring them to be carried out by external and dependent or independent business entities. Such a broad definition makes outsourcing cover two areas. The first one is the purchase of intermediate goods and services from external domestic and foreign suppliers. The second area is the transfer of workplaces to proximal and distal foreign locations and to domestic suppliers who produce semi-finished goods or perform services, e.g. Information Technology,

accounting, human resources, security services, logistics, sales force, customer service, and other services to the principal. Given the definition of outsourcing above I apply terms used in literature, such as: domestic outsourcing, international outsourcing, offshore outsourcing, offshoring, nearshoring, onshoring, shared services centers/ BPO centers, which all are forms of outsourcing chosen by enterprises seeking ways to improve economic efficiency. Depending on the needs enterprises embrace one or several forms of outsourcing and the results of their activities in the area treat as: materials outsourcing reflected in the cost of intermediate materials, and service outsourcing recorded by the accounting as the cost of outside services.

Although the precise measurement of this phenomenon and its selected forms is difficult due to the incompatibility of the financial reporting to its character, the analysis of mandatory financial statements submitted by the enterprises identified economic categories that describe both the total outsourcing phenomenon in Polish enterprises as well as its international aspect. It should be noted that the international aspect of outsourcing, measured by import of intermediate goods, is included in the category of costs of materials and outside services from the financial reporting point of view, which indicates the implementation of outsourcing.

It is also worth referring to the classic Cobb-Douglas production function and its modifications, which show that the production depends on the capital, labour, technical and organisational progress, and random factor inputs. Assuming that outsourcing is a management tool now widely used in enterprises, I consider it one of the factors of organisational progress affecting production. Thus, companies can enhance the production by increased employment and investment in fixed capital (including technologies) in order to improve labour productivity and the reorganization of functions associated with the outsourcing of parts of them, or mixed forms, and therefore affect the internal labour market. Theoretically speaking, with growth in production in the long term the company may increase outsourcing simultaneously maintaining or slightly increasing the number of employees, who often have higher qualifications. Such solution may contribute to the growth of labour costs. If we divide outsourcing into the outsourcing of materials and services, they might have different impact on labour costs.

The analysis of this dependence requires a look into the category of labour costs, which is a component of operating costs of the company. Given the availability of empirical data and the definition of the cost of labor present in the public statistics of the Central Statistical Office of Poland and Eurostat labour costs include: employee compensation, with

wages and salaries in cash and in kind, employers' social security contributions is and employment taxes regarded as labour costs minus any subsidies received, and vocational training costs. (Koszty ... 2012, pp. 13-14).

The cost of labour is relatively heavily determined by the size and type of employment, but other factors may also have the impact on its level. They are: the increase in demand for more or less skilled workers, the supply of specific resources on the market, the presence of employer or employee market, the current level of labour costs in a particular region or type of business, the level of charges resulting from the employment of the employee. The aspects of the labour costs is complex and requires specific data to conduct studies. This paper takes into account general labour cost without separating them from one another.

### **Methodology of the research**

To verify this type of economic phenomena, including outsourcing, three types of approaches are applied: the static approach based on resources (employment, the asset value), the dynamic (cumulative) approach based on cost or business flows, and the mixed approach. The physical effect of the use of outsourcing by the company is the purchase of intermediate goods in order to carry out the manufacturing processes. In order to define variables in the econometric model I assumed the approach suggested by Kalinowski (2002, pp. 167-185), who studies the production functions based on the categories having the nature of streams. This approach allows to keep proportionality while comparing data. According to it, three basic factors can be identified: labour (L), capital (K), outsourcing (OUT). Costs of labour were used to measure the amount of labour (L), and depreciation costs from tangible and intangible fixed assets were used to measure capital (K). Costs of materials and raw materials (excluding energy costs) and cost of outside services decide about the value of outsourcing (OUT). These categories of costs in terms of half-year and annual data in current prices are available in the financial statements F-01 / I-01. In order to make a comparison of the course of variables over time, current prices data have been submitted to the estimation of deflators: price index of sold production in the group of industrial and construction enterprises, and an indicator of consumer goods in the group of service companies given by the Central Statistical Office (2014).

In accordance with the applicable rules of reporting I assumed that the international aspect of outsourcing measured mostly by the import of intermediate goods and services is included in the total value of outsourcing measured by categories of intermediate consumption. The value of sold goods and materials at purchase price and energy costs are not included in

costs of consumption of intermediate production. The first category is connected with the main profile of the trading companies and is related to purchase goods for resale, while the second category, the energy, is ordered from external suppliers from the beginning. I am aware that some of the costs of materials and supplies/ raw materials and ordered services are also not associated with outsourcing. Nevertheless, due to the incompatibility of reporting to measuring this particular phenomenon, I accept these cost categories as derivatives of outsourcing in the form of business operations streams associated with it.

For the analysis of this issue the following unpublished data will be used: industrial and construction entities (PKD 2007 - Sections B, C, D, E, F), and services (section G, H, I, J, K, L, G, H, I, J, K, L, M, N, S) from the years 2005-2013 of the categories mentioned above at current prices, or the number of employees working in semiannual section, provided by the Central Statistical Office (GUS). Due to the nature of the activity the following service sections were left out: the field of education (Section P), health care and social assistance (Section Q), and culture, entertainment and recreation (section R). The category of the number of employees was subject to labour cost category, which includes both wages resulting from the employment relationship (ok) as well as nonemployment contracts.

Covering semiannual periods to analyse the impact of outsourcing on labour costs allows increasing the number of periods N from 9 to 18 and conducting the empirical verification using a non-linear econometric model transformed to a linear model based on sufficiently large data set. Modeling is preceded by a preliminary analysis of the dynamics of the basic variables in the annual intersection connected with the outsourcing of materials and services, labour costs, the number of employees, and production. An attempt will be made to determine the strength of the impact of outsourcing on labour costs in groups of enterprises mentioned above using an econometric model. To estimate the significance of the function of model parameters the classical least squares method of linear regression will be used.

### **Review of the literature**

The current literature describing theoretical considerations and empirical research results focuses mostly on the aspect of the impact of offshoring or international outsourcing on employment, labour productivity or wages in one particular economy or selected few. It should be noted that the level of labour costs affects business efficiency, and is one of the key factors for offshoring, nearshoring, or onshoring.

When outsourcing includes both purchase of intermediate goods and services from external suppliers and the transfer of workplaces, moving to a

foreign location is economically justified in case of lower total costs of implementation (i.e. labour costs, transportation costs, costs of providing the next batch of goods, complaints and repairs, etc.) of outsourced processes. As for national supplier locations, the lower cost of the service or the higher quality of the services provided at a given price by an outside company matter. For example, Egger & Stehrer (2003, pp. 61-72) and Egger & Kreickemeier (2008, pp.116-132) outlined that international outsourcing causes inequalities in the area of employment and / or wages. Application of outsourcing gave birth to social fears of losing jobs and worsening the situation of workers in the labour market as a result of transferring the production processes, and later services, from highly developed countries to developing countries. Despite the decrease in the relative wages in developed countries, relative wages increased in service firms from developing countries (cf. Arndt 1997, pp.71-79; Kohler, 2001, pp. 31-53).

Hence, looking through the prism of enterprises, outsourcing in the short term is equated with a reduction in the level of employment and a reduction in payroll costs in enterprises. However, the long-term impact of outsourcing on wages, as the main component of labour costs, can be varied. Feenstra and Hanson conducted several studies on this issue. Their research showed that in 1972-1979 and 1979-1990 outsourcing was positively correlated with changes in the relative employment of non-production workers, while weakly negatively correlated with changes in relative, average, and annual wages of non-production workers (Feenstra & Hanson 1996, pp. 240-247).

One of the main issues being discussed by researchers in another study was the impact of outsourcing on wages of skilled and unskilled workers. While examining the impact of import of intermediate materials (i.e. international outsourcing) on the wages of workers in the United States in the years from 1979 to 1990, Feenstra and Hanson (1996, pp. 240-247) recognised that this solution positively affected the wages of skilled American workers. When analysing the impact of US outsourcing (driven by Foreign Direct Investment) to Mexico, they found that wages of high-skilled workers increased in relation to low-skilled workers both in the USA and Mexico. (Feenstra & Hanson 1997, pp. 371-393)

In subsequent studies, these authors indicated that outsourcing and expenditures on new technologies such as investments in computers have an impact on wages. Their calculations showed that outsourcing is responsible in 15%, and modern technologies in approx. 35% for an increase in the relative wages of non-productive workers. (Feenstra & Hanson 1999, pp. 907-940) Hijzen also came to similar conclusions (2007, pp .188-205). He noticed a significant impact of international outsourcing on wage



inequalities, but also stresses that technological change is the main factor that affects these inequalities.

Amiti and Wei (2005, pp. 308-347; 2009, pp. 203-220) also did not find evidence that service outsourcing from the US and UK dramatically reduced job growth. Nevertheless, based on the British Household Panel Survey, Geishecker and Görg (2008) showed widening of the wage gap between skilled and unskilled workers in the UK that outsourcing was responsible for. The most highly skilled workers received higher wages with outsourcing growth.

The examples above are related to developed economies which made decisions about international outsourcing or offshoring workplaces to developing countries and countries in Central and Eastern Europe. Egger and Egger were also interested in the impact of international outsourcing on wages in Eastern European countries, among others, took (2002, pp. 83-96) They investigated how international outsourcing (measured as intermediate trade) affected real wages in fourteen NACE two-digit industries of seven Central and Eastern European Countries (CEEC) such as Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovenia, and Slovakia over the period 1993-1998. Using wage regressions they showed that intermediate goods export negatively affected wages in CEEC manufacturing, while the intermediate goods import had significantly positive impact. The authors explained that the difference in wage was caused by two opposite reasons. On the one hand, outsourcing to developing countries of CEE potentially raises the demand and consequently the growth of wages. On the other hand, the proportions of the work force may change because of the changes in labour demand. Highly skilled workers may be offered jobs that are inadequate to their qualifications and therefore receive lower wages. Furthermore, EU-CEEC trade in final goods did not contribute to significant wage growth in real terms in 1996 in all countries, and in particular on Slovak and Polish wages.

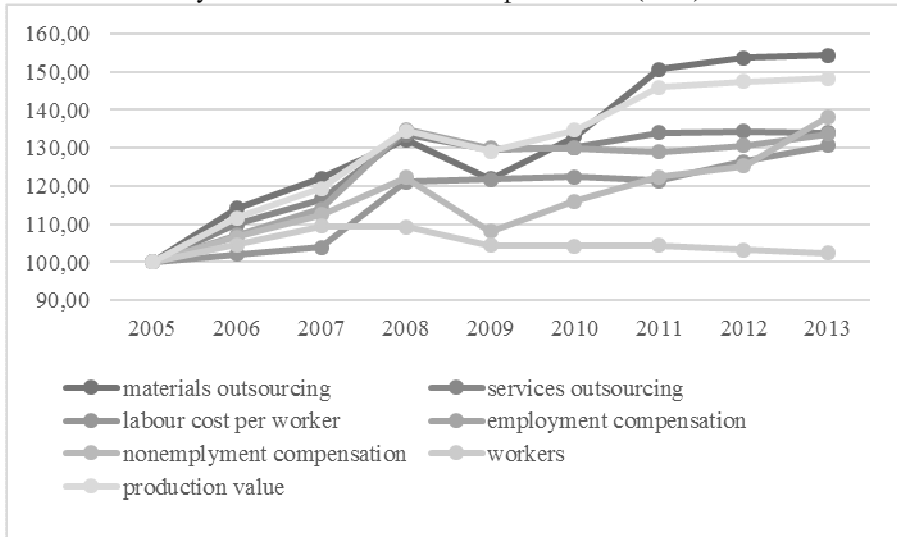
Another study of Egger i Streher (2003) investigated the wages effect of outsourcing (measured as import and export of intermediate goods) in Poland, Czech Republic, and Hungary. The result of their research was that outsourcing caused a growth in the ratio of the wage bill of the manual and non-manual workers with more benefits for the second group. In addition, the second group of workers was more engaged in exports of intermediate goods than imports.

Considerations proposed by Egger and Streher were developed by Esposito (2006). He analysed the impact of final goods trade and outsourcing on the patterns of specialisation in manufacturing separately in Poland, Czech Republic, and Hungary in the period 1996–2004. Despite of production value, export and import of final and intermediate goods, he

also took into account the annual average growth of the relative wage bill and its components: the relative employment and the relative wage. Econometric analysis of the impact of trade and outsourcing on relative wage bill of non-manual and manual workers in Poland partially confirmed that outsourcing measured as intermediate goods trade brought benefits for manual workers specialised in the production of labour intensive intermediate goods. In Czech Republic the shift of specialisation was similar, but productivity of manual labour was higher than in Poland. In contrast to Poland and Czech Republic, Hungary focused on the completion of imported intermediate goods using nonproduction workers more intensively. And that meant more benefits to this particular group of workers.

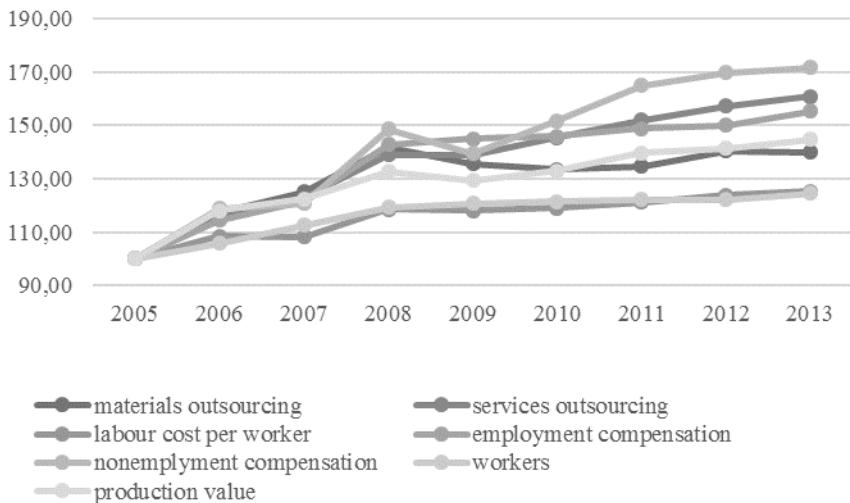
Above-mentioned studies show that the aspect of the impact of outsourcing on labour costs in highly developed countries is not a new phenomenon in the English literature. However, in regard to the entities operating in Polish economy it is a very poorly explored phenomenon. It should be noted, however, that one of the first studies of 250 large companies operating in the Polish economy conducted in 2005 by the Conference Board has shown that they are relatively willing to implement outsourcing of functions related to e.g. Information Technology, supply chain, and personnel management. (Grześ 2007, pp. 99-100). Outsourcing in Polish industrial and construction industries and service entities intensified lately. These changes were also followed by changes in the internal labor markets, as shown in Figures 1 and 2.

**Figure 1.** Growth rate of outsourcing and compensations in Polish industry and construction firms in years 2005-2013 in constant prices 2005 (in %).



Source: Own accounts based on unpublished data of Central Statistical Office.

**Figure 2.** Growth rate of outsourcing and compensations in Polish service firms in years 2005-2013 in constant prices 2005 (in %)



Source: Own accounts based on unpublished data of Central Statistical Office.

Shown in Figs. 1 and 2 data demonstrates that the analysed period can be divided into two sub-periods: the first period being 2005-2008 and the second 2009-2013. Basically, the first period is characterised by an increase

in all the categories included in the analysis. It was only the second period that significantly differentiated the surveyed entities. Analysis of the curves of two basic forms of outsourcing, i.e. materials outsourcing and services outsourcing depends on the specific business entities' activities. In the analysed period, outsourcing in industrial and construction enterprises increased to 55p.p., while service outsourcing increased to 35p.p. .

What is more, the real growth of outsourcing services has sustained at similar level from 2008, while an observation of business practice indicates that entities are (very) interested in this type of outsourcing. This means that market competition on the market of outsourced services has led to lower their prices. Regardless of the recent financial crisis, they were less affected comparing to materials outsourcing, but after 2009 industrial and construction enterprises have again focused on outsourcing materials, slightly reducing employment, and varying forms of employment and labour costs. From 2009 nonemployment compensation has grown from 108% to 138.2%, while employment compensation has remained at the level of 130-133.6%. It confirms that entities have used nonemployment contracts (written order, contract work) more often or have hired employees through temporary work agency.

The curves in Fig.2 show that service entities have also used outsourcing to improve sales. They were relatively more often used in service outsourcing than in materials outsourcing. It means that they signed contracts with subcontractors to carry out services for their principal. Whereas it can be noticed that this group of entities was less sensitive to the effects of financial crisis than the first described group. Outsourcing of services and materials has grown progressively during this period (i.e. at the level of 0.5-4.0pp.), much less affected by crisis.

Service entities excel at relatively large increase in the number of employees and in nonemployment compensation. Number of employees in enterprises increased in the studied period by 24.5 pp.. Meanwhile the number of workers in the first group increased to 109.38% in 2008 and then dropped to 102.37%. Nonemployment labour experienced the highest growth to 171.5% from 138.19% in industrial and construction entities. It confirms that service entities willingly benefited from nonemployment forms of workers' hiring.

### **Emirical verification of influence of outsourcing on labour costs in Polish enterprises in the period 2005-2013**

Conclusions from the preliminary analysis of the theory and the relationship between the variables: production value (Q), labour costs per worker (Lcw), materials (OUTm) and services outsourcing (OUTs), depreciation (D), workers (W) for two groups of Polish enterprises were a

base to verify an impact of outsourcing on labour cost per worker. Scatter plot of these variables, their application to the Cobb–Douglas production function, and assumption about constant elasticity with decreasing marginal productivity gave a legitimacy to estimation of function as follows:

$$Y = \alpha_0 X_1^\alpha * X_2^\beta * \dots * X_n^\gamma * \varepsilon \quad (1)$$

where: Y is dependent variable,  $X_1, X_2, X_n$  - independent variables,  $\varepsilon$  - error term  $\alpha_0, \alpha, \beta, \gamma$  are estimated parameters.

This nonlinear function was transformed into a linear function as follows:

$$\ln Y = \alpha_0 + \alpha_1 \ln X_1 + \beta \ln X_2 + \dots + \gamma \ln X_n + \varepsilon, \quad (2)$$

I assumed that the above-mentioned independent variables can affect labour cost of industrial and construction (I model), and services (II model) firms as follows:

$$L_{cw} = F(\text{OUT}_m, \text{OUT}_s, Q, D, W) \quad (3)$$

Following the stages of building an econometric model based on time series (Gruszczynski et al. 2006, Kufel 2011) and using software GRETLM I estimated structural parameters of function transformed into the linear regression models (I and II) using method of least squares (OLS).

Then I conducted a statistical verification of each of the econometric models using tests that assessed the significance of structural parameters, the fitting of the models to empirical data, normality of the error term, multicollinearity of the independent variables, heteroskedasticity and autocorrelation of the error term, the linearity of the analytical form of the model. Tests, as Kufel (2011, p. 119) says, confirm that estimated econometric model is high quality and we can use one to interpret correctly the results.

In order to verify models I assumed significance level  $\alpha = 0,05$ . Taking this into account, I conducted selection of independent variables, eliminating the variables with the highest  $p$ -value that had the greatest probability of error. Also calculated linear correlation between all variables indicated very high level (above 90%) of dependence between labour cost for 1 worker ( $L_{cw}$ ) and production (Q), but multicollinearity of other independent variables with variable Q showed that this variable is multicollinear with them. Additionally, the estimated parameter of this variable proved to be statistically insignificant and was excluded from an equation. Hence, the model of two groups of firms is as follows:

$$\ln Lcw = \alpha_0 + \alpha_1 \ln OUTs + \beta \ln D \quad (4)$$

As a result, I selected the independent variable and recalled two econometric models which are presented in Table 1 and Tab. 2.

**Table 1**

Estimation model of nonlinear transformed into linear regression of function using OLS for equation (4) for industrial and construction firms in 2005-2013, N=18 half-year periods and  $\alpha=0,05$ ; dependent variable (Lcw) = labour cost per 1 worker

Item	Coefficients	Standard error.	t-Studenta	p-value
const	-14.4867	0.9807	-14.77	<0.00001***
Services outsourcing OUTs	0.3972	0.0451	8.808	<0.00001***
Cost of depreciation (D)	0.6269	0.0718	8.724	<0.00001***

R-squared R2	0.96116	Multiple of R	0.995
The sum of squared residuals	0.005129	Standard error	0.01849
F(2, 15)	185.6155	Value p for test F	<0.000001
LM-nonlinearity test	3.014	Value p for test LM t	0.2216
Value p for normality of the error term Chi-squared	0.40918	Value p dla testu Breusch-Pagan	0.8785
VIF	1.523	Durbin-Watson Stat.	2,8906
Value p for test of autocorrelation of order	0.9815	Value p for test of stability parameters CUSUM	1.88
			0.0047 (instability of parameter VI-XII.2013)

Notes: significance levels: \* $\alpha < 0,1$ , \*\* $\alpha < 0,05$  and \*\*\*  $\alpha < 0,01$

Source: Own accounts based on unpublished data of Central Statistical Office

**Table 2**

Estimation model of nonlinear transformed into linear regression of function using OLS for equation (4) for service firms in 2005-2013, N=18 half-year periods and  $\alpha=0,05$ ; dependent variable (Lcw) = labour cost per 1 worker

Item	Coefficients	Standard error.	t-Studenta	p-value
const	-6.3328	0.4508	-14.05	<0.00001***
Services outsourcing OUTs	0.3673	0.0267	13.74	<0.00001***
Cost of depreciation (D)	0.17202	0.04329	3.973	<0.00001***

R-squared R2	0.979895	Multiple of R	0.9772
The sum of squared residuals	0.00873	Standard error	0.011174
F(2, 15)	365.5492	Value p for test F	<0.000001
LM-nonlinearity test	1.44575	Value p for test LM t	0.485354
Value p for normality of the error term Chi-squared	0.06501	Value p dla testu Breusch-Pagan	0.44973
VIF	2.526	Durbin-Watson Stat.	2.06
Value p for test of autocorrelation of order	0.82829	Value p for test of stability parameters CUSUM	0.6631

Notes: significance levels: \* $\alpha<0,1$ , \*\* $\alpha<0,05$  and \*\*\*  $\alpha<0,01$

Source: Own accounts based on unpublished data of Central Statistical Office

From the data in Tab. 1 and 2 it can be inferred that the adjustment of two models to empirical data is very high (above 90%). Conducted multicollinearity of independent variable revealed that this problem does not exist because value of VIF (Variance Inflation Factor) is below 10 (Gruszczyński et al. 2009, s. 58; Kufel 2011, s. 65). It means that correlation between independent variables does not interfere with the quality of the constructed econometric model. Also tests of significance of parameters (test t-Student, F-Snedecora) and other tests verifying the quality of the estimated model have confirmed that this model can be used to evaluate obtained estimates.

Our estimated models of labour cost for 1 worker are affected by services outsourcing and technological progress measured as cost of depreciation. The variable of materials outsourcing has been recognised as irrelevant despite its high rate of growth especially in group of industrial and construction firms. This aspect requests further analysis of factors which influenced the value of this variable. Obtained results suggest that we can conclude with the probability of 95 % that 1% increase in services outsourcing contributed to increasing the labour cost per worker at the

similar level of 0.367-0.397 in two groups, *ceteris paribus*. Depreciation cost that is derived from the investment in fixed capital had more differential impact on labour cost per worker. 1% increase in depreciation cost resulted from a 0.626% increase labour cost per person in industrial and construction firms while 1% increase in depreciation cost of service firms has caused only a 0.172% increase in labour costs.

### **Conclusion**

The theory and empirical research of outsourcing and labour costs present different approaches to analysing this aspect. This dependence is discussed very often in the context of international outsourcing or offshoring jobs from developed to developing countries.

This paper looks at this relationship from a different perspective because it divides outsourcing into materials and services outsourcing. In order to measure these phenomena a cumulative approach was applied because it is based on adequate operating costs in half-year periods. This empirical study proved that both groups of Polish enterprises used outsourcing in their activity. Share of these types of outsourcing depends on specifics of the company. Preliminary analysis showed that industrial and construction firms used more often materials outsourcing but they still embraced services outsourcing. On the other hand service firms increased services outsourcing. It was also noticed that labour costs grew in both groups of firms. The growth of these costs was caused by nonemployment compensation in higher degree, especially in service firms.

Econometric analysis showed that labour costs were affected by services outsourcing and depreciation cost. The influence of the second variable had bigger impact on labour cost than services outsourcing, which suggests that Polish firms invested more frequently in fixed capital. This solution contributes to limitation of employment, but not necessarily to reduction of labour costs. This issue is very complex and requires further research taking into account specifics of labour costs.



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