

OUTSOURCING AND CONTROLLING IN LOGISTICS OF AIRPORTS

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The following article describes outsourcing and controlling in logistics of airports. The article contains five chapters. In the first chapter we set the targets of diploma thesis, methods and solution analysis. In the second chapter we concern on the meaning of outsourcing, especially on evolution, types, advantages and disadvantages, also risks and new trends in outsourcing. The third chapter describes the concept of controlling, thus the evolution, fundamentals, tasks, advantages and disadvantages as well as visions and the future of controlling. In the fourth and fifth chapter we deal with outsourcing and controlling in the logistics of airport operations. Summary of this article is translated in the end.

K e y w o r d s: Outsourcing, controlling, logistics of airport, strategic controlling, operational controlling;

1 INTRODUCTION

There are two reasons why I have chosen controlling as my diploma thesis theme. As being keen on finance auditing, I have picked this theme to gain and deepen my knowledge. The fact that we are encountering with controlling on daily basis and as it was spread to all modern and booming companies was the second motive.

Controlling is understood as a new quality or immediate evolution within company policy. But the opinion is not always compliant. Somewhere it is perceived as a control, elsewhere as a management tool. The aim is to gain necessary information for management in such form that they can plan and lead corporate operations according the business objective.

To retain competitiveness, companies should apply more simple hierarchical structure of management. Outsourcing is one option as it allows operation without capacity limits.

Modern outsourcing was founded in India in 80's of the 20th century, where mostly American companies used cheap labor. Nowadays, outsourcing is not only used by those Indian accounting companies but also it has spread all over Europe and world.

2 OUTSOURCING

The meaning of outsourcing originated in american economy and this new word comes from three other words – „outside“, „resource“ a „using“.

To optimalize corporate processes, companies should use outside resources. Activities out of business scope should be removed. Lot of multinational corporations use outsourcing as trouble shooting solution. It has become top management strategic tool.

2.1 Outsourcing evolution

Outsourcing was developed in three main phases – in 50's, 80's and 90's of the 20th century.

In 50's big enterprises detached mostly functions as defence and security, press, logistic and carpenter activities. Decisions were transferred from production to service enterprises.

In the 50's not just functions, but all processes were transferred. The main reason was an increasing pressure on cost reduction due to increasing competition, possibility of global supply, new information and communication technologies and therefore even faster response time. The contribution to this was fixed cost reduction, increase of competitiveness by means of greater focusing on the main tasks.

Period in 90's of the 20th century was affected by:

- focus on core business,
- increasing combination of strategic and cost considerations,
- professional output supply,
- technological options

In the beginning of the 21st century outsourcing is on rising trend. At first it was understood as a cost reducing possibility. But now it improves service quality.

2.2 Types of outsourcing

There are some interesting options of using outsourcing methods. From simple subsidiary activities to complicated options, where two enterprises almost overlap.

Full outsourcing

So called **full outsourcing** belongs to basic models, where all activities are done by exclusive supporter. This approach has the best possibility to create direct partnership. That is how the tight bond between contracting parties develops, when both parties are fully interested in efficient system functioning what is required for future success.

Selective outsourcing

The next model is **selective outsourcing**. For different areas different partners are required as they are specializing on those unique sectors. This model leads into achieving the highest level in all selected areas, but on the other side brings significant management and administrative duties.

Partnership

This other model is basically a modification of the two previous models. Requirements to assure

various sectors exceed possibilities of individual suppliers, but the enterprise is not willing to run more complex management of several subjects. The result is creation of partnership, where the most powerful subject acts as a leader.

2.3 New trends in outsourcing

Companies that adequately utilize outsourcing will be competitive not only on the European Union market, but also on global market that describes immense outsourcing potential.

2.3.1 Business process outsourcing a business transformation outsourcing

Business process outsourcing is one of the newest outsourcing trends, which is used mostly within big multinational corporations. It consists of detaching of the processes for trade and marketing (invoicing, service, customer service...) and their provisioning from external supplier. This type of own expenses reduction is very useful, simplifies administration and focuses on main tasks. Companies that offer this type of outsourcing usually provide this service to many customers, which exploits their administrative sources. As this service type is IT challenging, applies mostly in countries with cheap and skillful workforce. This new trend appeared due to international globalisation and communication and IT improvement.

Business transformation outsourcing can be defined as a goal how a company executes outsourcing to fast and sustainable changes in corporate production. Typical advantages of this trend are e.g. significant improvement in corporate production, shortening time to market access, better competitiveness and better risk tolerance. Managers claim that this type of outsourcing is the main, but not only factor that affects the results.

3 CONTROLLING

In economy theory and praxis, controlling has emerged in USA. It is divided from a word „to control“, which describes management and monitoring of socio-economic processes. Generally it can be described as a system that improves whole corporate management by recording and objective evaluation of economic knowledge within the company.

3.1 Development of controlling

From the onset until now, controlling has gone through many changes and modifications, to meet corporate needs and demands, in the ever changing environment.

The whole evolution can be described in following items:

1. Controlling has emerged in economy theory and praxis back in 1892 in USA, when GENERAL ELECTRIC COMPANY has introduced a new position – controller.

2. Controlling has expanded before World War II as a result of World economic crisis. In 1931, the first controlling institute was established in USA.

3. With increasing amount of american company branches in Europe, controlling has naturalized mostly in Germany, France and later also in Austria. Until 60's of the 20th century, German companies were implementing this concept a bit carefully, but then in 70's big companies were setting up many controlling positions or even controlling departments.

It has become a trend when in 1973 as many as 90% of german enterprises had a controlling position within their organization. Not only big but also smaller and middle enterprises have now set up a self-existing controller positions within company structure.

4. In Slovakia and the neighbouring countries, controlling has been implemented since 1991 mostly because of the following reasons:

- to assure planned goals,
- requirement of investors and owners,
- changes and market competition race,
- necessity of large and flexible information system with access to quality and relevant information for management.

The basic and logical owners' or foreign investors' requirement was the ability to gain some amount of money. One of the main controlling goals comes from this – to assure defined cash-flow for present and future investors and to eliminate possible risks.

3.2 Dimensions of controlling

Every company within market economy is focused on the future. Using of controlling brings advantages to every business unit, in form of a tool that outlines the way of future company goals accomplishing. Even controlling has adapted to enterprise planning. Controlling is divided into strategic and operational controlling from time aspect.

Strategic controlling

It is focused on strategic company decisions. The goal is to reach them by opportunities and threats monitoring. It basically links internal company situation with external environment and analyzes their main trends. Typical signs are:

- global view of the company,
- complex company activities' evaluation,
- external orientation (on the market),
- long-term preference.

Operational controlling

Operational controlling is focused on short-term period, not more than one year. The effect of strategic controlling in form of opportunities and threats is being

transformed into costs and revenues form to get results of specific activities. Per those two basic constants, creation of values and expenditure of controlling resources, revenue control is provided. Operational controlling is based on cost and capacity recording and its tools. It means managing the company by means of numbers.

These signs are typical for operational controlling:

- partial corporate view,
- evaluation of individual company activities,
- internal orientation,
- short-term preference.

The basic segmentation of **operational controlling**:

a) Financial controlling:

- joint capital controlling – stock and assets controlling,
- liquidity controlling.

b) In-house controlling:

- cost controlling,
- capacity controlling.

c) Investment controlling

Operational and strategic controlling can not be divided, because there is ever present interaction between them.

3.3 The future of controlling

Controlling is a rapidly developing system of improving company management, non-profit organizations and even public administration. It will probably never settle as it is always changing like the environment does. Comparison of developed controlling systems with those in early evolution stages shows big differences in corporate planning and management. Controlling is more developed in companies than in public administration and non-profit organizations.

In all areas of controlling applications it is common that controlling is not focused just on corporate financial goals. This was typical for previous controlling development steps.

Outgoing approach brings controlling to all company scopes, mostly to organizations that have significant non-profit goals.

We can assume environmental influences that support corporate controlling will be growing: increasing dynamics, stronger competition and concentration due to wider internationalisation, fluctuation of unsuitable managers, etc.

4 OUTSOURCING IN AIRPORT OPERATIONS LOGISTICS

Providing of airport services is followed by legislation and Government regulations No.641/2005 Coll. This regulation is dealing with the conditions that

the outsourcing partners abide by when performing dispatch of passengers and luggage as well as performing airplanes maintenance.

On airports that have yearly transported at least one million passengers or 50 000 tons of freight in the previous year, every ground-based service provider established in European Union have access to the ground-based service providers market. Providing of selected service categories on those airports is restricted to at least two ground-based service providers. When outsourcing provider (airport operator) makes restrictions, they need to be chosen according §7. That clause says that when the number of ground-based service providers is restricted and this amount is not reached, the airport operator must announce a public tender. It is declared at least once a year until the number of providers is reached. The essentials of the tender are set by airport operator in agreement with the Air Carrier Commission. Announcement of public tender is published in European Union Official Journal. The tender must be finished within 60 days from its announcement and also airport operator must sign the contract with the tender winner for maximum seven years.

On airports with transport more than one million passengers or 25 000 tons of freight, ground-based operation service for carrier-agents needs must be enabled by airport operator.

The airport operator must also enable the access to outsourcing service providers to those premises that are complicated or the influence on environment does not allow their sharing or division, for example baggage sorting, defrosting and fuel systems distribution.

To **ground-based operation outsourcing service** belong:

1. Ground-based security and control that include:

- inspection of loading goods,
- checking operations, goods storage, and loading units management,
- other different control services before, during and after flight as well as all administrative services, that airport operator requires.

2. Passengers dispatch, where help on arrival or departure or at passengers transport together with personal and luggage check-in is arranged.

3. Luggage dispatch, is every handling, sorting, loading to all transporting vehicles that move it to airplane where it is sorted and vice versa, transport to place where handed over to passengers

4. Freight and mail parcel dispatch:

- **freight:** manipulation with the exported or imported freight, process with freight related documents and custom procedures,
- **mail parcel:** manual work with mail parcels, related documents and compliance with safety procedures.

5. Runway service:

- airplanes arrival and departure accompanying,
- securing of supplying devices,
- equipment suitable for loading and unloading of airplane and for the transport of passengers and crew between airplane and the terminal,
- ensuring the appropriate units for engine start,
- moving of airplane when landing and taking-off, ensuring and maintenance of suitable devices,
- delivery and unloading of food and drinks from the airplane.

6. Maintenance of airplane

Operating of airplane is provided by outsourcing companies that perform outside and inside cleaning, toilets, heating and cooling on board, airplane defrosting, new onboard equipment instalation.

7. Airplane re-filling

Filling and discharge of fuel, storage and control of the quality and quantity of supplies and completion of oil and other liquids.

8. Preparing the airplane for flight:

- automatic service carried out before flight,
- services required by the airplane operator,
- care of spare parts and suitable equipment,
- requiring adequate parking or hangar space and their reservation.

9. Flight crew training and the provision includes pre-flight at the departure airport, flight assistance, possibly a new clearance, if necessary, after the flight operations, security services and equipment for the crew

10. Transport on the runway

- transport of crew, passengers, their baggage, cargo transport, postal parcels between the terminals of the same airport, in addition to the same transport between the aircraft and any point in the same airport,
- special transport, which requires the operator of the airplane.

11. Supplying the airplane

The supply of aircraft include liaison with suppliers, storing food and beverages, cleaning and storage facilities which is necessary for their transport, food supply, preparation and delivery of equipment and serving equipment.

5 CONTROLLING IN AIRPORT OPERATIONS LOGISTICS

Role of controlling in the operation of airports depends on understanding its role in management. It is important to point out that the controllers are not a substitute for executives (planners, strategists, staff in the

preparation of budget analysts, accountants, etc.). Controlling has the task of preparing right environment for decision making for airport managers.

On small regional airports, controlling is liable to the quality management. Its role is to oversee the fulfillment of the objectives and effectiveness of individual divisions and offices, may assume risk and suggest appropriate action and measures to improve the senior management, simplify and safe operation of the airport as a whole.

On international airports designated for international air traffic as opposed to small regional airports has, or should have at the organizational structure of each semi-section its own controlling unit. If the airport is not sectional but the divisional organizational structure, then each division has, or should have its own controlling unit.

6 CONCLUSION

In conclusion I would like to say that my intention was to identify and propose potential uses and application of outsourcing and controlling in the logistics of airport operations. It was a great experience, because these two terms have an irreplaceable role in future development.

Outsourcing as a process enables higher efficiency at airports and companies that benefit from it, offering not only the possibility of reducing their costs, but primarily allows for them to be more focused on their core business and be good at what generates their added value.

We believe that controlling provides summary information on the status of airports and companies and helps management in decision-making. The quality of information that can provide executives is of course tied to the quality and availability of data and that is why this work is dependent on the IT and SW of the airport or business firms.

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