

OUTSOURCING STRATEGY AND PERFORMANCE OF SELECTED MANUFACTURING COMPANY IN ILORIN METROPOLIS

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Abstract

Outsourcing strategy plays a significant role in improving the organizational performance. To ensure continuous productivity and organizational performance, management should ensure to formulate and adopt effective outsourcing strategy that will help increase their organizational performance. This study assesses the effect of outsourcing strategy on organizational performance in selected manufacturing company in Ilorin metropolis. The study has the following specific objectives to: determine the effect of increased-focus outsourcing on organizational growth, to establish the effect of reduced-cost outsourcing on organizational growth and to establish the effect of innovation-driven outsourcing on organizational growth. The population of the study consist staff of the selected company with a total of 106 and census sampling technique was used due to the few number. The study was carried out with 106 structured questionnaires that were administered and distributed to the staff of the selected company in Ilorin metropolis. Descriptive analysis and statistical inferential methods were used to analyze the collected data. Findings of the study show that increased-focus outsourcing and reduced-cost outsourcing were tested at 5% level of significance ($0.00 < 0.05$) and shown that all have significant effect on organization performance. The study therefore recommended that organisation management, in order to enhance organisational performance, the organisation should ensure the instituted performance feedback measures assist in the enhancement of skills of outsourced employees, increase job knowledge and contribute towards minimization of error rates.

Keywords: Organisation, Outsourcing, Performance, Ilorin.

Introduction

Outsourcing is the strategic use of outside resources to perform activities that are usually handled by internal staff and resources. Most organisation believe that in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue in-creased (Bartlett, 2004; Drezner, 2004; Feulner, 2004). As organisation seek to enhance their competitive positions in an increasingly global market place, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core

businesses (Baily & Farrell, 2004; Cassale, 1996; Donahoe & Pecht, 2003; Irwin, 2004; Li & Barnes, 2008). The trend is for outsourcing relationships to function more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained as in-house, such as corporate strategy, information management, business investment, and internal quality initiatives (Engardio, 2006). Several authors agree that if outsourcing is implemented with prior planning, it can result in lowering cost, increased capacity and productivity, and sometimes can lead to downsizing (Elmuti, 2004; Casale, 1996; Sinderman, 1995).

Utter back and Abernathy (1975) assert that Outsourcing is the process by which an organization contracts with another individual or company to get some of its work done. Most organisations go for some kind or other of outsourcing. Generally it is non-core aspects of the business that are outsourced. The firms that offer the services thus required are called service providers or third-party providers. Businesses may thus tie up with service providers for either individual processes or whole projects or operations. Outsourcing could come into two various categories which could be business process outsourcing or knowledge process outsourcing. (Mclvor, 2008).

With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang, Kim, Nam, & Min, 2007; Mclvor, 2008). The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organisation must focus on their core competences and capabilities. Traditionally, outsourcing is an abbreviation for "outside resource using". Outside means to create value from without, not within, the company (Yang, et al. 2007). Outsourcing allows organisation to focus on their own core competences by relocating limited resources to strengthen their core product or service (Lee and Kim, 2010) and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Raiborn, Cecily, Janet & Marc. 2009; Elmuti, 2004). Outsourcing can also involve the transfer of both people and physical assets to the supplier (Mclvor, 2005).

However, the concept of outsourcing has not received a lot of attention as considered to be important element that account for the growth and remarkable performance of organisations in Nigeria. Also the effects of outsourcing strategy of employees on organisation performance are not completely clear. Previous outsourcing studies show contradictory results;

while some claim a positive relationship between outsourcing and performance outcomes, others report no significant or even negative effects. (Rothaermel, 2001). This study therefore intends to highlight the effects of outsourcing strategy on organisational performance.

Literature Review

The concept of outsourcing is a complex issue, consisting of numerous activities and sub-activities, carrying many managerial dilemmas. In today's world of ever-increasing competition, organisations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and organisations have adopted its principles to help them expand into other markets. (Gottschalk and Solli-Saether, (2005).

Outsourcing, in its most succinct form, is the delegation to another party of the authority for the provision of services under a business contract that incorporates service-level agreements related to cost, quality, and the timeliness of deliverables (Domberger, 1998). Outsourcing is the process of deliberating non-core activities or operations from internal production within a business to an external entity that specializes in that particular operation. In general, outsourcing can be referred to as make or buy decisions on intermediate goods, to the hiring of temporary labour and to the use of external services. (Kennedy, Holt, Ward, and Rehg, 2002).

According to Beaumont, (2006) outsourcing can be said to be one sub-type of distributed work. It is the delegation of task or job from internal production to external entity, such as a sub-contractor. Smith (2006) defined outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies.

Finlay and King, (1999) are of the opinion that outsourcing is the transfer of a function previously performed internally to an external provider. Yang *et al* (2007) and McIvor, (2008) asserted that outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers. Lee and Kim, (2010) have argued that outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and strategically use outside vendors to perform service activities that traditionally have been internal functions. Outsourcing can also involve the transfer of both people and physical assets to the supplier (McIvor, 2008).

Thomas, Duening and Rick (2005) have suggested that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firms overall competitive position. It also improves operating efficiency and reduces service costs. As organisation seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses.

There have been several key advantages of outsourcing identified in literature. These include cost savings (Bettis,, Bradley, and Hamel, 1992); reduced capital investment within the firm (Gilley and Rasheed, 2000); improved responsiveness to changes in the business environment (Dess , Rasheed, McLaughlin, Priem , 1995); it increases focus on core competencies (Kotabe and Murray, 1996); increased competition among suppliers ensuring higher quality goods and services in the future (Kotabe and Murray, 1996); and a reduced risk of changing technology (Quinn, 2000).

Effective use of outsourcing will, therefore, allow a organisation to focus on a limited set of strategically important tasks and will in turn lead to continuous enhancement of its core competencies (Dess , Rasheed, McLaughlin , Priem , 1995), Kotable 1996, and Quinn 2000). Outsourcing can obviously help a organisation to achieve considerable benefits, but employing outsourcing without proper consideration of long-term performance may also jeopardize competitiveness. Outsourcing is often used by organisation to pursue quality, costs, flexibility, and dependability objectives.

Types of Outsourcing

There are three basic types of outsourcing as described by Mark, Power, Kelvin & Desouzza (2006). The outsourcing forms include the following:

1. **Business Process Outsourcing:** According to Thomas *etal* (2005) business process outsourcing (BPO) is defined simply as the movement of business processes from inside the organization to an external service provider. With the global telecommunications infrastructure now well established and consistently reliable, BPO initiatives often include shifting work to international providers when organizational needs for outsourcing cannot be met locally.
2. **Knowledge Process Outsourcing (KPO)** has to do outsourcing of core business activities which often are competitively important. Therefore

KPO includes processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision-making.

3. **Information Technology Outsourcing (ITO)** has to do with Information technology being perceived as a service or support function. Majorly it aims at reducing IT costs though outsourcing organizations retain strategic control. Multiple suppliers sourcing are not as concerned with partnerships as the aim is to foster innovation and create competition between suppliers, although suppliers will form alliances among themselves for bidding purposes.

Relationship Between Outsourcing and Organizational Performance

Outsourcing can improve organizational performance when applied as an organizational strategy (Abdul-Halim, Che-Ha, 2009. Outsourcing one's business processes can improve one's competitive edge. The reason behind this is that outsourcing reduces business costs. Organizations may choose to outsource with certain business aims in mind. The aim might be the need to improve on financial performance. Most time, such organizations are aware that outsourcing firms may offer them an opportunity to work cheaply through efficient technology and economies of scale. By minimizing costs, organizations can achieve their economic related goals and this enhances their organizational performance. Consequently, the extra amount that would have been passed to the consumers in the form of higher prices for the goods and services now becomes irrelevant as consumers pay less for their commodities. This allows businesses to compete favorably based on price thus giving them a competitive edge.

However, through outsourcing, organizations can minimize their risks with regard to huge infrastructural expenditures and the overall result of this issue is that more investors will be attracted to such organizations.

Theoretical Review

I. Resource-based View

Grounded in evolutionary economics and the work of Penrose (1959), the resource-based view has gained considerable attention during the last decade (Barney, 2001). In the resource-based view, the organization is seen as a bundle of tangible and intangible resources and tacit know-how that must be identified, selected, developed, deployed to generate superior

success (Penrose, 1959; Wernerfelt, 1984). According to the resource-based view, managerial outsourcing competence may not generate a sustainable advantage because it can be replicated.

II. Concept of Core Competences

The concept of core competences has been developed on the basis of the resource-based theory. Prahalad et al., (1990), define the core competences as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies.

III. Transaction Cost Economics Theory

Perunovic, Christoffersen, and Williams, (2006), indicated that the transaction cost economics has been the most applied theory of outsourcing. The author explained that the transaction cost economics is perceived to provide the best decision making tools to help organizations to decide whether to outsource or not, and to prepare themselves well for the task of the outsourcing arrangements.

Empirical Review

According to Belcourt (2006) Outsourcing is not a new phenomenon in the world managerial practice but still rapidly develops establishing the beginning of a new stage of international division of labor. Although there is no common agreement on the term, outsourcing generally refers to the procuring of material inputs or services by a firm from “sources outside the firm”. According to McIvor (2008) organizations have always seeking for ways to achieve a competitive edge over their potential competitors, however, with contemporary highly competitive environment in which today's businesses operate acts as a strong stimulus for organizations to outsource. The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities.

Methodology

Descriptive research design was used and the target population of this study includes all staff of the selected companies in the study area in Ilorin metropolis with a total of 106 and a census sample size technique was used due to few numbers of the respondents in the study area.

Questionnaire was used to collect data and the instrument used is a five point Likert scale closed ended structured questionnaire in which option 1=

Strongly Disagree, 2= Disagree, 3= Undecided, 4= Agree and 5= Strongly Agree. The data obtained from the questionnaire was analysed using logistic regression analysis with the aid of Statistical Package for Social Sciences (SPSS).

Test of Hypotheses

H₀₁ : Outsourced employees do not contribute to organisational performance

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	p – value
Contribution of outsourced employees	0.09747	190.243	2	0.000

Source: The Study's Survey, 2018

The table above shows the significance of contribution of outsourced employees to organisational performance and the result through the chi-square is 190.243 with p-value of 0.000. Since the p-value of the chi-square is less than 0.01, we reject the null hypothesis; Outsourced employees do not contribute to organisational performance and conclude that Outsourced employees contribute to organisational performance in Organisation .

H₀₂: Performance feedback of outsourced employees do not contribute to organisational performance

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	p – value

Performance feedback of outsourced employees	0.08026	18.147	2	0.000
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Source: The Study's Survey, 2018

The table above shows that chi-square value of the performance feedback of outsourced employees and organisational performance at Organisation . The chi-square value is 18.147 with p-value of 0.000 and this implies that we reject the null hypothesis that performance feedback of outsourced employees do no contribute to organisational performance in Organisation . The study therefore accept alternative hypothesis that performance feedback of outsourced employees contribute to organisational performance in Organisation .

Discussion of Findings

The result presented in hypothesis one shows that the outsourced employees contribute to organisational performance by reducing operational costs, rendering quality services to customers, increasing operational efficiency ,assisting organisation to concentrate on core functions and use of skilled employees in discharging services The research has shown that outsourcing as a strategy adopted by organisation has resulted in production cost reduction, competitive selling price and ultimately increased sales turnover. This findings further support resource-based thinking which stipulate that firms-specific resource endowments are determinants of competitive leverage (Wernerfelt, 1984). The contribution of outsourced employees to organisational performance is evaluated through maximum likelihood ratio test which is 190.234 with p-value 0.000 and is statistically significant at 1 percent significant level.

This hypothesis states that the performance feedback of outsourced employees do not contribute to organisational performance..After testing the null hypothesis, it was discovered that performance feedback of outsourced employees contribute to organisational performance. Regular feedback on outsourced employees performance have positive effect on organisational performance. Constant communication on the organisational goals and mission contribute immensely to organisational performance and minimising error rates as well as enhancing the skills of outsourced employees. The performance feedback of outsourced employees to organisational performance is evaluated through maximum likelihood ratio

test which is 18.147 with p-value 0.000 and is statistically significant at 1 percent significant level.

Conclusion and Recommendations

From the outcome of this study, based on the data collected from the field, the various literatures reviewed and hypotheses tested, the following conclusions were made:

From the study, it was established from the study that outsourced employees contribute to organisational performance. Organisation that outsource have higher chance of focusing on core functions, rendering quality services to customers, increasing organisational efficiency and reduce the organisation commitment to full time human resource expenses which lead to accomplishment of organisational performance. It was revealed that the commitment of outsourced employees towards organisational performance is due to the institution of performance feedback measure. This means that outsourced employees will work as expected if their performances are reported to them on periodic basis to make corrective actions. On the basis of the findings, the study recommends that:

1. It is recommended that Organisation management should be concerned about the care. development of outsourced employees, they should encourage them to attend workshops, seminars on how the organisational performance can be better enhanced. In-house and out-house training should be incorporated and constantly reviewed.
2. In order to enhance organisational performance, the organisation should ensure the instituted performance feedback measures assist in the enhancement of skills of outsourced employees, increase job knowledge and contribute towards minimization of error rates.
3. Organisation should promote sound interpersonal relationship between outsourced employees and supervisors to enhance efficient delivery of services and improve customers' satisfaction.

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