

Effect of Outsourcing Services on Organizational Performance in Ghana

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Executive Summary

This study is about outsourcing, as the independent variable and its effects on outsourced services and organizational performance in Ghana, as the dependent variables. This chapter presents the background to the study, statement of the problem, general objective of the study, specific objectives, research questions (hypotheses), scope of the study, and significance of the study. The study findings will help to inform the diverse organizations on different ways of how outsourcing can be made significant to organizational performance. The study findings will also help legislators such as members of parliament and management by availing them with information that they may use to make verdicts that are more informed, as far as outsourcing is concerned. Finally, the findings will be of great use to the academia, particularly those who may wish to convey out further study on outsourcing and performance. It may build on the current body of literature and knowledge. The study focused on the effect of outsourcing on organizational performance with particular focus on Societal Generale (SG) Bank Limited. Therefore, the study sought to establish the interplay between the drive for outsourcing and the effect of such outsourcing on the business performance. The content scope also involved outsourcing, as the independent flexible and outsourced services and organizational performance as the dependent variable. Geographically, the study is carried out in Kaneshie where the Branch Office of Societal Generale (SG) Bank Limited is located.

Keywords: Outsourcing, Sourcing, Organizational Performance

I. INTRODUCTIONS

Outsourcing is defined as the procurement of products or services from sources that are external to the organization (Accenturet, 2012). Very simply outsourcing can be defined as phenomena in which a company delegates part of its in-house operations to a third party with the third party gaining full control over that operation/process (Aghazadeh, Seyed, 2013). The clients inform their provider what they want, how they want the work performed and the control of the process is with the third party instead of the parent company. From the above, outsourcing in this study will essentially refer to a process in which an organization delegates in-house operations/processes/services to a third party. Organizational performance in this study will refer to cost efficiency, productivity and profitability. According to Deloitte (2012), judgments of efficiency are based on some idea of 'wastage'.

In this study, cost efficiency will refer to Societal Generale (SG) Bank Limited, total revenue or sales compared to the total costs and overhead costs incurred to provide outsource services to its clients. Productivity is the amount of output produced with a given amount of inputs (Barthélemy, 2012). In this study, therefore, productivity will refer to the extent to which an amount of output in Societal Generale (SG) Bank Limited is produced with a certain amount of input and the extent to which value is created Ghana in Societal Generale (SG) Bank Limited in comparison to the time required to create that value. Profitability refers to the efficiency of a company or industry at generating earnings (Houseman, 2012). It is the amount of output per unit of input (labor, equipment and capital) or the ability of a firm to generate net income on a consistent basis or a measure that indicates how well a firm is performing in terms of its ability to generate profit (Barthélemy, 2012).

Thus, the last two definitions will be used in this study and will be expressed in terms of: "how much banking industry makes with what they have got" and "how much it makes from what they take in" on a consistent basis. The growing interest in outsourcing over the years from western and eastern countries to the African countries and especially in Ghana - the context of this study - is due to the benefits associated with it. According to Ahn, Slelatt and Ruiz-Huidebro (2013), given the diverse nature of business processes a firm has to manage today, it is nearly impossible for the firm to manage all of its processes by solely depending on its own expertise. Even if it is visible, the firm may lose its focus and efficiency. Bathélemy and Adsit (2012) also emphasize that outsourcing some or all of non-core business processes can enable a firm focus on its core activities or activities in which the firm is more competent, rather services that fall outside its expertise. He adds that it will not only improve function effectiveness and flexibility by accessing a support network with highly qualified and specialized workforce but also help firms control their costs and business risk. However, despite that firms can benefit from outsourcing, some Ghanaian firms never realize the full benefit of outsourcing and encounter many problems such as failure in maintaining effective and efficient service delivery. For example, Societal Generale (SG) Bank Limited has this problem.

The Banking Industry (Licensing) Regulations 2005 outline the importance of quality of service. Operators' licenses oblige Banking companies to improve the quality of services to the satisfaction of consumers. In order to achieve this, Societal Generale (SG) Bank Limited has outsourced some of their services such as selling of shares, provision of loan services, etc

II. OUTSOURCING

Abrahamsson and Andresson (2013), defined outsourcing as “the significant contribution by external vendors in the physical and/or human resources associated with the entire specific components of the IT infrastructure in the user organization”. On the other hand, outsourcing has been defined as “products supplied to the multinational firm by independent suppliers from around the world” and “the extent of components and finished products supplied to the firm by independent suppliers” (Bragg, 2013). Additionally, outsourcing has been defined as “their alliance on external sources for manufacturing components and other value-adding activities” (Browning, 2013). In general, outsourcing has been defined variously in studies of the subject that includes virtually any good or service that an organization procures from organizations/companies. However, outsourcing cannot be defined only in terms of procurement activities, since this does not capture the true strategic nature of the issue. It's not simply making a decision of purchasing. Every existing company makes one decision or another in their operations. For this reason, outsourcing becomes very strategic in management decision and has the potential to cause ripple effects throughout the entire organization. The most common type of outsourcing which organizations employ is the substitution based (where the production of goods and services is discontinued and provided for by outside suppliers. On the other hand, outsourcing could be abstention-based, in which case the outsourced goods or services are obtained internally but as a result of lack of capital or expertise, a decision is made to procure it externally. The decision to reject or outsource an activity is one which needs to be taken considering its impact on the overall performance of the organization. This also has to be viewed in terms of the particular activity. Previous definitions of outsourcing have not made the substitution/abstention distinction and, therefore, have not allowed researchers to approach the subject of outsourcing from common starting point, Billington and Ellram, (2013). According to Domberger, (2014), outsourcing is a contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently providing internally. The fundamental difference between outsourcing and any other purchasing agreement is that the customer contracts-out a part of their existing activity. There are many reasons why a company may choose to outsource and rarely will it be for one single reason. While they are normally specific to the particular situation, some commonly-sited reasons are to: reduce cost; improve quality, service and delivery; improve organizational focus; increase flexibility; and facilitate change.

A. Overview of Outsourcing

In modern times, most senior managers sometimes prefer to entrust outside firms or labourers with critical tasks. The fact is, senior management often finds outside firms to be more cost-effective. Managers often claim they can hire a guy cheaply but they also know the job will be done on time and in a predictable fashion. And if it isn't, they can get somebody else without going through the hassles of hiring and firing employees. It is vision, function, and economics that drive the need for outsourcing (Elmuti, (2013). A recent study indicates that outsourcing operations is the trend of the future and that organization already outsourcing activities are pleased with the results. A year-long international study by Arthur Andersen and The Economist Intelligence Unit finds that 93 percent of corporations interviewed plan to outsource in the next three years. Of those that already outsource, 91 percent are satisfied with the results (Gooley, 2012).

The study, “New Directions in Finance: Strategic Outsourcing,” in U.S.A is based on interviews with 55 global organizations plus a survey of 404 senior executives throughout North America and Europe. The study documents that there is a clear trend to the use of outsourcing as a competitive tool, rather than just a simple means of cost control. Especially relevant is the outsourcing of key business processes and financial functions” (Gooley, 2012). The document includes outsourcing case studies with Alcatel Italia, British Petroleum Co., Houghton Mifflin, Mead, Microsoft, Ostel Communications, Plastics MFG, Sybase, Ta-legen Holdings, Tektronix, and Zeneca Group. Of the executives surveyed, 85 percent outsourced all or part of at least one business function. The most widely outsourced activity is legal work (62percent), followed by shipping (43 percent), computer information systems (38 percent), and production and manufacturing (35 percent). Twenty-six percent of the executives interviewed currently outsource at least one financial function; 47 percent expect to outsource at least one financial function in the next three years (Gooley, 2012). The use of outsourcing has seen phenomenal growth in the past few years. For example, 28 percent of all information technology (IT) activities in the UK were being outsourced in 1996 compared with only 15 percent

in 2002 (Greaver, 2013). Whilst the market size in the UK is not clear, the market in the US was estimated in 1996 by the Institute of Outsourcing at \$100bn. A survey of outsourcing market by PA Consulting Group (2014) concludes: 'A progressively larger part of most businesses have been outsourced over the last five years'. Projections suggest that this trend will continue, with growth set to rise a further 46 percent by the year 2010, (Brown, 2013). The same survey also found out that while few companies had regrets over outsourcing ventures, most had not met their expectations. Mediocre outcomes were frequent and real failure too common.

Clearly the outsourcer may have had unrealistic expectations, but it is more likely that the outsourcing process itself is responsible. It is on this premise that the research was conducted which aimed at exploring two specific areas: pre-outsourcing cost analysis and post-outsourcing supplier management. The first topic was chosen primarily because the existing literature is rather prescriptive and only offers transaction cost theory (Walker and Weber, 2013; Alexander and Young, 2014) as an analytical tool, which most commentators believe is ineffective. The second topic was selected due to the lack of research on the subject, and the evidence suggested that most outsourcing deals have fallen short of expectations and deteriorated over time. It should be noted however, that these two selected areas will not guarantee outsourcing success on their own as the subject is extremely complex with many interrelated factors, but a good understanding of them is crucial for any outsourcing decisions, (Handfield et al., 2012)

In the current environment of right-sizing, with a renewed focus on core business activities, companies can no longer assume that all organizational services must be provided and managed internally. Competitive advantage may be gained when products or services are produced more effectively and efficiently by outside suppliers. The advantages in outsourcing can be operational, strategic, or both. Operational advantages usually provide for short-term trouble avoidance, while strategic advantages offer long-term contributions in maximizing opportunities. It is estimated that every Fortune 500 company will consider outsourcing during this decade and that 20 percent of them will enter into a contract by the end of the decade. A variety of firms already exhibit this trend. General Electric Corporation has entered into a five-year, \$500 million contract with Electronics Data Systems (EDS) to handle the corporation's desktop computer procurement, service, and maintenance activities (Gray et al., 2014).

C. Theoretical framework

To solve different kind of problems such as cost, quality, and speed of service firms are developing different strategies. Downsizings, exclusion of some functions and processes, franchising and leasing arrangement are some examples of these decisions. Outsourcing is also included in these strategies. Organizations usually outsource their support activities (Gupta and Gupta, 2014). Outsourcing improves different dimensions of organizational performance and is attractive to upper management (Lilly, Harrison and Kelly, 2013). Outsourcing helps organizations to increase focus on their core competencies (Dess, Rasheed, McLaughlin, & Priem, 2012). If an external party can perform the work more competently and economically than can the organization itself, then the external party ought to perform it but if the organization's employees can perform the work better, then the work should remain in-house (Bahli & Rivard, 2015). Outsourcing firms who know that how to handle the process can improve their firm's performance and attain a higher level of satisfaction (Lacey & Blumberg, 2014). The outsourcing of support activities allows the organizations to increase management attention and resource allotment to those tasks in which the firm has edge. This attention can improve performance and allows the organizations to be more efficient and innovative moreover, outsourcing helps to increase the "quality of work life". Jobs become more meaningful for the staff when firms ensure focus on their core competencies (Rothery and Robertson, 2013).

Studies show that there is a direct relationship between productivity and outsourcing. According to (Gilley and Rasheed, 2012) firms outsource activities for smoothing production and gaining from specialization. (Fill and Visser, 2013) discover a positive connection among the rate of "outsourcing" and "productivity growth. Well-organized organizations assign their resources to those activities in which they have comparative advantage and other activities are usually outsourced (Browning, 2013). Outsourcing allows the firms to evaluate the productivity of their internal service functions (Siegel & Griliches, 2012). Now a day's economies offer countless opportunities for organizations to maximize profits through outsourcing (Quinn, 2013). Firms are focusing on outsourcing strategies to reduce and control costs (Cáñez, Platts and Probert, 2013). Outsourcing minimizes the requirement of capital assets that results in lower fixed cost and lower "break-even point" (Gilley & Rasheed, 2013). In summary, the organizations outsource their activities (functions) with the idea that organization's performance will enhance (Lilly, et al., 2014). We will study the relationship between outsourcing and organizational performance by using four organizational performance dimensions: Productivity, Profitability, Continuous improvement & Quality of work life.

D. The Concept of Outsourcing

The concept of outsourcing has been analyzed by different scholars and different theories. The Transaction Cost Theory is generally accepted as a useful framework for analyzing logistics outsourcing (Cachon and Harker, 2012). Outsourcing can be defined as the use by one company of another business to do particular tasks because it can do them more cheaply or effectively. Outsourcing was traditionally used mainly for downsizing and cost reduction at large corporations (Buxbaum, 2014). In smaller companies, outsourcing was viewed primarily as a means to optimize capacity under conditions of limited resources. However, today's scholars advocate that outsourcing should be used as a strategic tool to deliver a forceful impact on corporate growth and financial stability (Holcomb & Hitt, 2013). This is the concept of strategic outsourcing – outsourcing for the longer term and the bigger picture. According to Quinn (2013), strategic outsourcing is the process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel. This, when properly done, allows a business to plan the optimal utilization of its resources and capabilities to achieve the best advantage. It also improves the achievability of an organization's strategic goals. This kind of outsourcing strategy can be utilized by any organization regardless of its size and has the effect of not only reducing the cost of operation but also providing an opportunity for optimal allocation of resources to the very necessary functions (Brück, 2012). The basic idea behind strategic outsourcing is to create gains by allowing outside providers and specialists to take over the operation and management of a given function. Such gains may come in different forms such as improving the bottom line of a company by reducing various operating expenses and increasing the flexibility for innovation without having to invest too much in training and capital infrastructure (Churchill and Lacobucci, 2014). Other benefits may come in form of convenience, where the strategy allows the business owners and managers to concentrate on their core business (Blaxil and Hout, 2014). As a simple rule, so long as the benefits are considered sufficient by the client, then the process of strategic outsourcing can be considered a success. In the context of this study, strategic outsourcing will be considered in terms of the driving force behind the strategy. This study will focus on cost-driven outsourcing, innovation-driven outsourcing and focus-driven outsourcing.

For organizations seeking to simply lower their cost of doing business, the efficiency The most traditionally acknowledged driving force for outsourcing is cost reduction (Deavers, 2011). Some organizations may outsource only for cost reduction and efficiency especially those that are involved in offshore outsourcing to destinations of lower cost (Aksoy & Öztürk, offered by the service provider and the level of risk borne by the provider are the most important factors in the equation. Another major driver of strategic outsourcing is innovativeness. As the business environment changes rapidly and customers increasingly modify their demands, organizations have to find a way to stay afloat in the market by providing innovative products to the market in proper time and ahead of competition (Cooke and McBride, 2013). Such organizations may therefore utilize strategic outsourcing with a goal of developing new products faster as they seek increased flexibility for innovation (Gesing, Antons, Piening, Rese & Salge, 2014). The other major driver for outsourcing is the need to focus on core competencies. According to Heywood (2014), the ability to free up organizational resources and capabilities so as to focus on the organization's core business is one of the greatest determinants of whether outsourcing can be considered as strategic or not. Firms therefore utilize strategic outsourcing in a bid to reduce the administrative burden of managing support activities so as to focus their efforts on top business priorities (Insinga et al, 2014).

F. The Concept of Organizational Performance

The concept of organizational performance emanates from the concepts of efficiency and effectiveness. A business organization must produce the right products and services and it must produce them using the fewest possible inputs if it is to have a strong organizational performance (Kliem, 2015). Organizational performance can be measured by analyzing a company's performance as compared to its corporate goals and objectives based on three primary outcomes - financial performance, market performance and shareholder value performance. Businesses simply endeavor to perform well in a number of areas of organization. Most importantly, they strive to do well financially in terms of achieving superior profitability and realizing good returns on investment. In order to acquire as much market share as possible, it is imperative that companies produce a product that is in demand and offer it at a price that allows them to compete in the market. Finally, they need to perform well in terms of creating value for their shareholders by ensuring a sustainable level of growth and shareholder return (Heywood, 2014). Research work on organizational performance should include multiple performance measures. Such measures could be traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as customer satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms (Kliem, 2015).

This approach is consistent with the proposal of Kaplan and Norton (2014) in the Balanced Score Card that the performance of a firm should be measured in four perspectives – financial, customer, learning and growth and internal business processes. The balanced score card directs that managers should use both financial and non-financial measures to evaluate the organization of the firm. In the context of this study, organizational performance will be measured by four components – profitability, sales growth; market share and customer satisfaction.

G. Reducing Costs and Risks Simultaneously

Strategic outsourcing when approached in a proper manner can lead to a vital combination of reducing both costs and risks. This is because the outside suppliers undertake investments and development risks that the outsourcer avoids. Therefore by sharing these risks among multiple clients, the supplier lowers costs for all its clients due to the pooling effect and economies of scale. Additionally, risk management in itself is now becoming one of the critical new tools and benefits of outsourcing (Lambert, Emmelhainz and Gardner, 2014). In some cases, a company may find that the extent of relationship required to absorb a strategic suppliers' strong technical capabilities may lead to increased coordination costs or may increase the possibility of unintended technology leakage (Kotabe, 2014). Such companies may therefore avoid these costs by outsourcing technical capabilities from strong strategic partners. For instance, strategic suppliers with strong technical capabilities will often be developing new sticky knowledge that firms will find difficult to access and costly to transfer across inter-organizational boundaries, even when they seek to develop relationship-specific absorptive capabilities (Lamber et al., 2014).

Furthermore, when a strategic partner's intrinsic organizational capabilities are considered their core competencies, it will become increasingly difficult and costly for the client firms to absorb the strategic supplier's technical knowledge because of the supplier's fear of opportunism and loss of bargaining power. Strong suppliers understand their strengths and they protect these diligently. This creates a win-win situation for both the supplier and the outsourcing firm (Lei, Hitt, 2014). Therefore the choice of the service provider plays a critical role in achieving reduced costs and risks. This is in agreement with the findings of Wassenhove, et al, (2014) in their case study of Vodafone Ghana Ltd where they found that outsourcing security and transport function to G4S and Metro not only enhanced the positive image to the firm but also provided efficiency and reduced coordination cost.

H. Outsourcing for Cost-Effective Intellectual Value

Today's business executives now understand that outsourcing for the short term objective of cutting cost does not yield nearly as much as outsourcing for the longer term objectives such as building a knowledge based system or strategic benefits. These advantages of a longer term focus include greater intellectual depth and access, opportunity scanning, innovation, reliability, quality, value-added solutions, or worldwide outreach (Menon and Ackerman, 2014). Companies seek outside specialists in litigation, tax, advertising, logistics, etc primarily for such benefits rather than for lower costs (Humphreys et al, 2015). They seek the intellectual value that these specialists can offer seeing that they are good at what they do. Why do senior managers sometimes prefer to entrust outside firms with critical tasks? The fact is, senior management often finds outside firms to be more cost-effective. While middle managers often claim, they can hire a person to do it cheaper, upper management looks at things differently. They know they will typically pay at least less per hour to outsource, but they also know the job will be done on time and in a predictable fashion. If it is not, they can get somebody else without going through the hassles of hiring and firing employees. The vision, function, and economics drive the need for outsourcing (McIvor, 2013).

III. METHODOLOGY

A. Research Design

Research design is the strategy and structure conceived in a bid to acquire solutions to research problems; it is also defined as a blueprint for collection, measurement and data analysis Blumberg, Cooper, & Schindler, (2013). The research design that was employed in this study is the descriptive research design which according to Saunders, Lewis and Thornhill (2014) is a design meant to demonstrate a preference for commencement with and utility of theory in research. Descriptive design requires researchers to gather, present and interpret information for purposes of clarification. Descriptive research involves collecting data in order to test hypotheses or answer questions regarding the participants of the study. Descriptive study is undertaken to ascertain, explain and describe characteristics of variables associated with a subject population. It seeks to answer questions such as who, what, when, where and how of any provided topic in its wake Blumberg et al, (2014). This design was chosen because it was more effective in investigating the impact of strategic outsourcing on organizational performance. The dependent variable was organizational performance as measured by sales growth, profitability and market share while the independent variable was strategic outsourcing.

B. Population

Population refers to a well-defined set of individuals (or objects) having some common observable characteristics that are being investigated Mugenda & Mugenda, (2013). Target population refers to all members of a real set of people, events or objects to which the study generalizes hypothetical results of the research. For this study, the target population was all the employees of Societal Generale (SG) Bank Limited. According to the human resources department, the company had an average of 50 employees at the time of the study.

C. Sampling Design

Sample refers to the subset of a population, which represents the characteristics of the population. A researcher should be able to make generalizable inferences regarding the population parameters from the sample statistics Saunders, Lewis & Thornhill, (2014).

D. Sampling Technique

Sampling technique is a scientific or rather statistical method of selecting the sampling units that would offer the requisite estimates with their related margins of uncertainty; this would emerge from the probe of only part (sample) and not the whole population Saunders et al, (2014). This study utilized the simple random sampling technique where every element in the sampling frame had an equal chance of being picked.

E. Sample Size

Sample size refers to the actual number of respondents that would be representative of the population under study Blumberg et al, (2013). The size must be large and should bear some proportional relationship to the size of population from which it is drawn. The criteria used to determine the sample size are the level of precision, the level of confidence, the degree of variability in the attributes under study. Therefore a total number of 50 employees were given questionnaires.

F. Data Collection Methods

Greener (2012) defines primary data sources as those which come into existence in the period under research, for example questionnaires completed for the study. According to Greener (2012), secondary data sources are interpretations of events of that period based on primary sources. This is a practical study which used virginally primary data from the organization under study. Questionnaires were used and were administered either by physically. According to Collis and Hussey (2013), a questionnaire is an instrument of collecting data in which a selected group of participants are asked to complete a written set of questions to find out what they do, think or feel. The questionnaire was thought the most suitable research instrument since it enabled the collection of impartial information from a large and varied sample. It is also chosen since it permitted the researcher to collect both qualitative and quantitative data at the same time. The respondents were the elements of the sample, being 50 employees drawn from all levels of the company under study.

G. Data Collection Instruments

A letter of authorization from University College of Management Studies is provided as a request for permission to conduct the study. A covering letter accompanied the questionnaires explaining the purpose of the study and the questionnaires was distributed directly to the respondents in their respective areas for filling and will be collected after a week following its dispatch and filling. The data will be edited and decisions made on whether to use it or not and how.

H. Data Analysis Methods

In the view of Emery and Couper (2013), raw data obtained from a study is useless unless it is transformed into information for the purpose of decision making. The data analysis involves reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, data collected from primary and secondary sources were edited to detect and correct, possible errors and omissions. The analysis was done also to ensure consistency across responses received from respondents. Data collected via questionnaire administration, interviews and interactions with other officials, as well as statistical records on procurements practices and its effect on corporate performance pointers were collated and analyzed using the appropriate statistical techniques such as distribution tables, percentages, bars and pie charts. The Microsoft Excel was used. Information such as specific comments and issues raised by respondents were also analyzed and summarized into tables.

IV. CONCLUSION

It is also established from the research that security is the most outsourced function. This cut across all the organization studied. These functions to the organization are marginal deeds and could easily be outsourced given credibility or approving earlier research positions that firms by tailing strong fringe outsourcing tactics can attain higher levels of performance relative to firms that do not outsourced their peripheral activities.

Even though profits from the organization events and Return on Investments increased year on year, this position cannot solely be qualified to outsourcing. Other factors like commitment, teamwork, reward recognition, management goal setting and employee involvements serving as motivation all play critical role in the overall performance of the organizations. However, institutions that integrate the above moderating factors with outsourcing may achieve performance enhancement.

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