Impact of Outsourcing on Organizational Productivity in Private and Public Sector Organizations in Anambra State

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ABSTRACT

The study focused on the impact of outsourcing on organizational productivity in public and private sector organization in Anambra state. Literature related to outsourcing were reviewed and there was no evidence of significant research. On the impact of outsourcing on organization' productivity. Two research questions and one null hypothesis were formulated for the study. The population of the study consisted of manager of all public and private organizations engaged in outsourcing in Anambra state. Stratified random sampling was adopted and a sample size of 310 managers was used for the study. Questionnaire was used as the instrument for data collection. Frequency count and percentages was used to analyze data relating to research questions while Chi-Square (X^2) statistical tool was used to test the hypotheses. The results of the data analyzed showed that outsourcing has positive as well as negative impact on organization in both sectors. It was concluded that for managers of organizations to achieve successful outsourcing of their activities, there is need to increase the positive effects while reducing the negative effects and to adopt outsourcing framework which is strategically sound for proper formulation of outsourcing decisions.'

INTRODUCTION

Business environment in Nigeria at this' period is highly competitive, dynamic and complex. It is also characterized by rapid changes and high demand for fund. One of the ways .in which a business can develop rapidly is through outsourcing hence, its growing importance. Outsourcing is a strategic management option rather than a cost culling operation. It aids companies to achieve their business objectives through operational excellence and a better market position. In order to focus on their core competencies, organizations today outsource one or more or their operations. For them to compete favorably in the global market too, they need to focus their resources on their core operation

Competencies are the skills, knowledge and technologies that an organization possesses on which its success depends. Although an organization will need to reach a threshold level of competence in all 'activities which it undertakes, it is likely that only some of these activities are core competencies. These core competencies underpin the ability of the organization to outperform the competitor and therefore must be deepened and nurtured. The potential for outsourcing has moved from those activities that are normally regarded as peripheral concerns to the organization such as security, cleaning and catering,' to include crucial areas of activity such as design, manufacture, marketing, distribution and information systems with almost the entire value chain open to the use of outside supply (Jennings, 1997)

High productivity is one of the major concerns of managers today in all parts of the world. Many organizations aim at increasing performance at reduced cost. No business organization will survive if it fails to control its equality and cost components since reduced cost increases organizational profitability. Outsourcing is an important tool for expanding a company and for maintaining a competitive position.

Statement of the problem

Some organizations have either collapsed 01: remained static as a result of their belief that their only role is to make profit without thinking of ways of making more of the profit. The .de sire to evolve a systematic and successful approach in improving quality and cost control in organizations should be the concern of all business organizations in Nigeria and the entire world. Viewing most business organizations, one could easily see that many of them do not reckon with outsourcing. They believe in manufacturing and producing by themselves accommodating much stress which reduces profitability than for them to reckon with outsourcing. Many organizations also believe that when firms actively strive to outsource they tend to involve a lot of cost and low profit margin. These problems if not handled will lead to continuous low performance and reduced profitability in organizations. Based on the above stated facts, the study sought to examine the impact of outsourcing on performance of private business organizations in Anambra state in particular and Nigeria in general.

Purpose of the Study

The aim of the stud~ was to ascertain the impact of outsourcing on organizational productivity.

Specifically, the study was intended to:

1. Find out: the' reasons for outsourcing or activities by public and private business organizations in Anambra state.
2. Find out the impact of cut sourcing 0)" activities by public and private I business organizations in Anambra state who engage in it.

Research questions

The following research questions were formulated for the study:

1. What are the reasons for outsourcing of activities in public and private business organization in Anarnbra state?
2. What impact docs outsourcing of' activities have on performance of public and private business organization in Anambra state who engage in it?

Research hypotheses

The null hypothesis (Ho) was formulated for the study:

Ho: outsourcing does not increase organizational productivity

Review of Related Literature

Concepts of outsourcing

There is much debate in management literature defining outsourcing (Gilley and Rasheed, 2000): Some definitions relate to sourcing activities that were previously conducted in-house. Peter (2008) defined outsourcing as contracting with another company or person to do a particular function. Lei and Hitt (1995) defined outsourcing as reliance on external sources for manufacturing components and othcr value adding activities. Overby (2007) stated that outsourcing is contracting of parts and/or day-to-clay execution of an entire business function to an external services provider. Supporting this view, some focus on' international sourcing 0[- components, sub-systems and completed products (Feenstra and Hanson, 1996 and Bettis, Bradlty and Hamel, 1992). Sharp (1997) Was of the same view defining outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies.

Gilley and Rasheed (200O) provided clarification for the definitional confusion. Positioning outsourcing as procuring something that was either originally sourced internally (that is vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (that is make or buy). This definition is clearer because outsourcing means to engage the services of an external provider to manage and deliver services in respect of one or more business activities of non-core nature to an organization. In outsourcing, an organization acquires services from another while maintaining ownership and ultimate responsibility for the processes.

Motivations for Outsourcing

Organizations' outsourcing parts of their in-house operations, report significant savings on operational and capital cost (Hendry 1995, Uttley, 1993 and Rimmer, 1991) outsourcing can free up assets and reduce costs in the immediate financial period.

There are many other motivations for outsourcing beyond short-term cost savings. Arnold '(2000), Hendry (1993) and Prahalad and Hamel (1990) were of the opinion that it' tan enable firms to focus on core activities. Greaver (1999). Venkalesan (1992) and Lamming (1993) observed that as suppliers may be significantly more advanced, Outsourcing allows organization to exploit their more advanced technologies. Greaver (1999), and Patterson and Pinch (1993) suggested 'that outsourcing improved flexibility to meet changing business conditions, demands for products, services and technologies by creating smaller and more flexible workforce. Radford (1994) claims that outsourcing helped to undermine the power of trade unions dominating the public sector workforces. Greaver (1999) in Harland, Knight, Lamming and Walker (2005) suggested that outsourcing improved credibility and image by associating with superior providers. Harland et al (2005) suggested that outsourcing allows organizations to remove functional "silos «separate departments and business units and barrier s between them. This provides better customer focus, flexing and changing offerings and processes to meet changing markets. They also suggested that it reduces costs and provides short term balance sheet benefits; increase flexibility to configure resource provision of benefit through economics of scale and scope, ability to access best in class skills and capabilities; freeing of constraints of in-house cultures and attitudes and provision of fresh ideas and objectives creativity. The researcher found 'significant absence of research on the impact of outsourcing on organizational productivity, which is the gap the present study to fill.

METHODOLOGY

Cross-sectional survey research design: was adopted for the study. The population of the study consisted managers of public and private sector business organizations in Anarnbra state. Proportionate stratified random sampling technique was adopted for the study. This enabled. The researcher divides the business organization into strata of financial institutions. Industries and distributive business concern. A sample size of 310 was selected from the population.

The main instrument used for data collect.ion for the study was questionnaire. The questionnaire contained 17 questions arranged such that the respondents were able to express their judgment using a two-response category of agree and disagree. It is made up or section A and B. Section A contained demographic data of the respondent while section B contained data relating to research questions. The instrument was not only content and face validated by a jury of four experts in Business Administration, but also was subjected to test of internal consistency using test-retest reliability co-efficient. The instrument was administered to 310 respondents in the public and private sector organizations in Anambr state. This was achieved through personal contact by the researcher. A total of 300 (95°) completed questionnaire were returned and found useful to the researcher. The data collected were analyzed based on the research questions und hypothesis. Frequency count and percentages were used to analyze the research questions while Chi-Square (X^2) was used to test the hypotheses at 0.05 level of significance. The results were shown in tables.

Results of the study

The findings are presented according to research questions.

Research question 1

What are the reasons for outsourcing or activities in public and private sector organizations in Anambra state?

Items	**Agree**	**%**	**Disagree**	**%**
1.Your organization engage in outsourcing	300	100	-	-
2 To reduce cost	190	63.3	110	36.7
3. To focus on core activities or competences	300	100	-	-
4 To increase flexibility to configure resources	230	76.7	70	23.3
5 To increase ability to meet changing market needs	250	83.3	50	16.7
6 To free constraints; of in-house cultures and attitudes	190	63.3	110	36.7
7 To provide fresh ideas and objective creativity	270	90	30	10
8 To provide benefit through economies of scale and scope	265	88.3	35	11.7
9 To exploit advanced technologies	210	70	90	30

Table 1 shows that 190 (63.3%) respondents were of the opinion that their organizations engage in outsourcing in order to reduce cost. 110 (36.7%) respondents differed with the opinion of cost reduction. All the 300 respondent (100%) agreed that their organizations engage in outsourcing to enable {hem focus on core activities or competencies, 230 (76.7%) respondent's greed that one of the reasons [or engaging in sourcing is to increase: the flexibility to configure resources while 70 respondents (23.3%) disagreed with the view. 250 (83.3%) respondents were of the opinion that one of their reasons for outsourcing is to increase their ability to meet the changing market need while 50 (16.7%) disagreed with the view. 190 (63.3%)) respondents agreed that they engage in outsourcing to enable them free constraints of in-house cultures and attitudes while 110 (36.7%) respondents disagreed. 270 (90%) respondents said that their organizations outsourcing to enable them provide fresh ideas and objective creativity while 30 (10%) responded negatively. Provision of benefit through economies of scale and scope was confirmed as one of the reasons for engaging in outsourcing by 265 (88.3%) respondents while 35 (11.7%) respondents disagreed with that. Exploiting advanced technologies was one of the reasons adduced by 210 (70%) respondents for outsourcing their activities while 90 (30%) had a different view.

Research Question II

What impact does outsourcing of activities have on productivity of public and private sector organizations in Anarnbra State?

Table II: responses on impacts of outsourcing of activities on organizational productivity.

S/N	Items	Agreed	%	Disagreed	%
1.	Decreased product quality	190	63.3	110	36.7
2.	Gaining competitive advantage	210	70	90	30
3.	Increased Productivity	250	83	50	16.7
4.	Poor Customer Service	170	56.7	130	43.3
5.	Loss of number of jobs,	270	90	30	10

Table II above shows that 190 (63.3%) respondents agreed that outsourcing of II activities in organization result to decreased product quality. 110 (36.7%) respondents disagreed with the view. 210 (70(10) respondents were of the view that outsourcing has a positive effect of making the organization concerned gain competitive advantage over an organization that do not outsource their activities while 90 (30%) disagreed. 250 (83%) respondents said that outsourcing leads to increase in productivity while 50 (16.7%) respondents had a contrary opinion, in poor customers' service, 170 (56.7%) respondents said that it occurs as a result or outsourcing while 130 (43.3%) respondents differed with the view. 270 (90%) respondents agreed that outsourcing lead to loss of number of jobs by employees while 30 (10%) respondents said it does not lead to unemployment.

For hypotheses, all the 300 respondent (100%) agreed that their organizations engage in outsourcing of their activities. The null hypothesis is thus rejected while the alternative hypothesis is accepted. This shows that organizations in public and private sectors in Anambra State outsource their activities.

Table III: Test of Hypothesis

Item No. 13				**Agree**	**Disagree**
Increased productivity				250	50
Categories	Fo	Fe	IPF	X2-cal.	X^{-2} Critical remark
Agree	250	150	1	133.43.84	rejected

Table III above shows the Chi-Square (X^2) analysis. The result showed that X^2 calculated value, is 133.4 while X^2 critical value is 3.84 at 0.05 level of significance. As the X^2 computed value exceeded the critical value, the null hypothesis is thus rejected. This indicates that outsourcing was found to significantly increase organizational productivity.

DISCUSSION OF FINDINGS

The findings of the study indicate that organizations in both public and private sectors outsource their activities) to reduce operational and capital cost. This buttresses the findings of Hendry (l995 and Uttley (1993). The findings of the study also revealed that organizations in both public and private sectors engage in outsourcing to enable them focus on their core activities or competencies. This is supported by the views of Arnold (2000). The findings also indicated that many private sector organizations and new public sector organizations engage in outsourcing in order to increase the flexibility to configure resources to meet changing market needs. This confirms the opinion of Harland et al (2005). The findings of the study showed that many organizations outsource to free themselves of constraints of in-house cultures and attitudes and also to benefit through economies of scale and scope. This was highlighted by Patterson and Pinch (1995). The findings of the study also indicated that many organizations especially those in the private sector, outsource to enable them exploit the more advanced technologies of their suppliers. This is in line with the views DC Greaver (1999) and Lamming (1993) who stated that as suppliers may be significantly more advanced, outsourcing to them allows organizations to exploit their more advanced technologies.

The findings or the study indicated that outsourcing has a negative impact of decreasing product quality of many organizations and also making many of them have poorer customer service, this was confirmed by Bill (1998) who stated that although outsourcing increased organizational productivity, it can also be a source of decreased quality, increase in time-to- market, poorer customer service, hidden cost, loss of control and negative long term effects on business.

The findings of the study clearly revealed that outsourcing has positive impact on the ability of organizations to gain competitive advantage and increased productivity as was stated by majority of the respondents. This is the line with the views of Stacey (2008) who suggested that outsourcing increases productivity if properly applied.

On the negative. impact of losing a number of jobs (unemployment), the findings of the study showed that almost all the organizations in both sectors confirmed that outsourcing could lead to unemployment. These buttresses the worries of David (1998): and Kerr and Radford (1994) who stated that the number of jobs lost to the private sector as a result of outsourcing is a source of concern.

The test of hypothesis clearly showed thus in spite of the negative impact of outsourcing, it increases organizational productivity.

CONCLUSION

This research has clearl1 revealed that reasons why organizations engage in outsourcing include opting out from existing sluggish internal processes to focus on core activities, existing cultures and taboos, in favor of newer, fresher, more agile approaches to reduce cost through scale economies and improved offerings and performance through scope economies The implication is that outsourcing may be papering over the cracks of inefficiencies arid lack of effectiveness in-house, rather than fixing the internal problems. The research also indicated that outsourcing in as much as it has been found to have positive also bas negative impacts on organizations. To achieve. successful outsourcing, managers need intelligence and managerial guidance. They need to think all outsourcing strategically, understanding the situation in which they operate and taking a considered approach to the future. Managers should take proper decision on what and how to outsource. They should adopt an outsourcing frame work, which will assist them in the formulation of an effective outsourcing decisions.

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