OUTSOURCING IN ORGANISATIONS: PROSPECTS AND CHALLENGES

THERESA OBUOBISA-DARKO, LECTURER
METHODIST UNIVERSITY COLLEGE GHANA

ABSTRACT

Outsourcing is a concept that has evolved in great measure in the field of business during the last decade and a half. It is considered as the act of transferring or delegating to an external service provider the operation and management of aspects of a business.

Outsourcing can be of benefit to a company provided it enters the right relationship with the right vendor, evaluated and managed appropriately.

This article presents the findings from a research carried out to identify the impact of outsourcing on Ghanaian industries citing Ghacem as a study area. The study covered the two branches of Ghacem namely Tema and Takoradi, as well as some of its vendor companies.
Both primary and secondary data was used for the study.

Findings from the study showed that many of the non-core functions of an organisation such as transport, and utility services and plant security can be outsourced. Improvements such as high productivity, efficiency and cost reduction and control may be achieved through outsourcing. However, it is possible that there will be the problem of lack of loyalty from the employees of the outsourced companies.

INTRODUCTION

Outsourcing is a concept that has evolved greatly in the field of business in the last decade and a half. It is believed that outsourcing impacts positively on the strategic development of an organisation as well as the prospects for greater efficiency and better economic results, culminating in improved profits.

Overtime, organisations have discovered that much effort and resources are expended in trying to execute the myriad of activities that go to promote the attainment of organisational goals.

The decision to outsource is often made in the aims of lowering cost of a firm or making better use of time and energy, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labour, capital, information technology and other resources. In other words, it is the deliberate and systematic off-loading of functions, activities, and specific performances, which in the estimation of an organisation may not be central to its vision, objective and strategic mandate to another company.

Globally, outsourcing is in the forefront of business executives' minds in recent times as they look to utilize it as a business strategy that will enable their organisations create and sustain business value in the ever increasing global marketplace.

Locally, as businesses struggle to reduce costs and grow revenue, outsourcing initiatives are under way in many large, medium, and small companies. It is assumed that this intervention will primarily reduce costs, focus on core business, improve services, enhance skills and increase overall competitive advantage. It is in the light of this assumption that this study sought to examine the impact of outsourcing on Ghacem. Issues investigated include reasons for

outsourcing, benefits and challenges of outsourcing, functions that have been outsourced as well as the operational experience of vendor companies.

Ghacem was selected for this study because of its multi-national character, the pivotal position it occupies in the West African operations of its principals, Heidelberg Cement International, its global orientation and reach as well as its local market leader status in the building material manufacturing sector of Ghana's economy.

SIGNIFICANCE OF THE STUDY

There is no doubt that the concept of outsourcing is becoming a significant strategy being adopted by several organisations.

The findings from this research may be useful to investors, financial analysts, labour consultants, boards of directors, and others in carrying out their activities. Also, the findings would be useful to business and industry leaders, government agencies, churches, schools, and non-governmental organisation (NGO's) when considering the option of outsourcing. Besides, it would add to the literature in this field of research, and will guide subsequent researchers and students who intend to study the subject.

LITERATURE REVIEW

Meaning of Outsourcing

Erber and Sayed-Ahmed (2005), explain outsourcing as subcontracting a process, such as product design or manufacturing, to an external company.It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider.

Outsourcing can be explained as contracting or subcontracting an aspect of the job, usually non-core, to a third party company for a significant period of time. The function can be performed on-site or off-site.

Outsourcing and offshoring are usually used interchangeably in public discourse despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. According to Erber and Sayed-Ahmed (2005), offshoring is the transfer of an organisational function to another country, regardless of whether the work is outsourced or stays within the same corporation or company.

A related term is multisourcing which is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a governance model that communicates strategy, clearly defines responsibility, and has end-to-end integration.

Functions which may be outsourced

According to McCue (2006), if an organisation has a number of non-core processes which are taking plenty of time, effort and resources to perform in-house, it would be wise to outsource these non-core functions.
According to Harkins and Brown (1997) different human resource departments outsource different services of varying scope and complexity, depending on their individual needs and strategies. It was revealed from a survey they conducted that the human resources functions and services outsourced most frequently are: training delivery; pre-employment testing, benefits administration, organisational development; recruitment and staffing. Others include health,

safety and security; human resources information systems; training evaluation; and human resources administration.

Harland et al, (2005) opine that how much to outsource depends on several things. They believe outsourcing as a complete activity may remove all internal competence, skills and learning relating to performing that activity, thereby making subsequent in-sourcing problematic.

Mann (2006) identified business segments typically outsourced as information technology, human resources, facilities, real estate management and accounting. He also added that many companies outsource customer support and call centre functions like telemarketing, customer service, market research, manufacturing, designing, web development, content writing, and engineering.

Types of outsourcing

Outsourcing can be undertaken to varying degrees, ranging from total outsourcing to selective outsourcing. Total outsourcing may involve dismantling entire departments or divisions and transferring the employees, facilities, equipment, and complete responsibility for a product or function to an outside vendor. In contrast, selective outsourcing may target a single, time-consuming task within a department, such as preparing the payroll or manufacturing a minor component that can be handled more efficiently by an outside specialist.

Advantages of outsourcing

Companies that decide to outsource do so for a number of reasons, all of which are based on realizing gains in business profitability and efficiency. According to King (1994), principal

merits of outsourcing include cost savings, reduction in number of staff, elimination of distraction, financial flexibility, access to new technology and expertise, accountability in delivery and elimination of duplication.

In addition to these Drezner (2004) identified the reasons for outsourcing as cost reconstruction, improvement in quality, commodification and risk management.

Clapper and Wendell (1998) also provided the reasons for outsourcing some functions in organisations as to take advantage of area expertise and to meet their goals on short term projects.

Kremic et al (2006) have however grouped all the reasons for outsourcing into three main categories which are: cost, strategy, and politics. According to them, the first two often drive outsourcing by private industry while political agendas often drive outsourcing by public organisations.

Challenges in outsourcing

According to Harland et al, (2005) the most significant risks in outsourcing include decisions on which activities should remain within the organisation and which should be outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions and processes.

Mistakes in identifying core and non-core activities can lead organisations to

outsource their competitive advantages. However, what is core one day may not be so

the next. Moreover, once organisational competence is lost, it is difficult to rebuild.

There is a difficult decision regarding how "close to core" outsourcing should be. Some

Organisations choose to retain some capability and capacity in-house and outsource

part of the activity.

Failure to manage outsourcing relationships properly, perhaps through service level agreements, may reduce customer service, levels of control and contact with customers. The assessment of costs of "make or outsource" should include the additional cost burden of managing the outsource relationships.

Ganesh (2007) explained some of the criticisms of outsourcing as damage to the labour market; failure to realise business value; language barrier; layoffs; quality of service; high staff turnover; communication of key information to the outsourced company; and rampant worker insecurity.

In addition to the above, Harkins and Brown (1997) indicated that the potential risks of outsourcing include: unrealized savings with a potential for increased costs, employee morale problems, over dependence on a supplier, and dissatisfied customers. They also noted that outsourcing may fail because of inadequate requirements definition, poor contract, or because of lack of guidance in planning or managing an outsourcing initiative.

METHODOLOGY

The survey research design method was adopted in conducting this study. This methodology ensures anonymity and nonthreatening to respondents and as such respondents are willing to express their views. Again it is an efficient way to deal with groups.

Primary data was obtained from a sample of 150 workers out of the total workforce of 610 for both Ghacem and the vendor companies.

The respondents were selected using multiple sampling techniques. In the first place, stratified random sampling was used to ensure that each of the different subgroups is adequately represented in the sample to enable the researcher collect data from the various subgroups which are supervisors and sectional heads that represented the senior staff. Also considered were Managers, Directors, the Human Resource Director of Ghacem, representing management and owners and operators of vendor companies and junior staff of outsourced companies. The next was to use convenience sampling technique. This was because getting people who are willing to respond to questionnaire is not very easy especially with the junior workers and for the senior workers lack of time is usually the problem.

Primary data was collected through the administration of questionnaire. Interviews were also conducted for a few of the respondents. Secondary data was obtained from Ghacem's technical operating manuals, third party contract agreements, performance target schedules and plant operating plans and un-classified estimates/budgets. Additional data was obtained from textbooks, the internet and other written documents.

RESULTS AND DISCUSSION

Outsourced functions

Respondents identified the following outsourced functions in Ghacem:

1. Transport Services
2. Canteen Services
3. Plant Security
4. Utility services

6. Paper bag packaging
7. Lighting system
8. Pest control
9. Material Loading

    5. Secretarial duties   10. Equipment maintenance

Impact of outsourcing

Analyzing the impact of outsourcing across the various staff categories shows outcomes which give credence to the popular view, supported by the notion that outsourcing often provokes contrasting reactions from a range of organisational stakeholders including business leaders, unions, employees, politicians and governments. Many business leaders regard outsourcing as a powerful vehicle to achieve performance improvement. On the other hand, employees and unions regard outsourcing as another weapon in the armoury of powerful businesses to further erode the terms and conditions of an already existing embattled employee.

TABLE 1: **Responses on Whether Outsourcing has Brought Improvement in   Ghacem**

	RESPONSES			
RESPONDENTS	**YES**	**NO**	**TOTAL**	**PERCENTAGE (%)**
JUNIOR STAFF	21	69	90	67
SENIOR STAFF	36	4	40	30
TOP MANAGEMENT	4	-	4	3
TOTAL	61	73	134	100
PERCENTAGE (%)	46	54	100	-

Source: Field data 2009

In Table 1, 54% of the respondents indicated that no improvement had occurred as a result of outsourcing in Ghacem whereas 46% of respondents agreed that there have been improvements as a result of outsourcing. It can be observed from Table 1 that most of the respondents who hold the opinion that outsourcing has not resulted in improvement of the processes of Ghacem are junior staff. On the other hand the senior staff and the top management were of the view that outsourcing had brought improvements to Ghacem.Perhaps the reason for differences in the views is that junior staff members do not have access to relevant information to influence their understanding of the intricacies of outsourcing outcomes. It is again reasonable to speculate that junior staff members by virtue of their relatively lower level of appreciation of the issues of cost benefit analysis are unable to quantify the benefits of outsourcing. Again, it may not be far-fetched to assume that junior members of staff tend to look inwardly at the direct benefits that accrue to them when evaluating the outcomes of initiatives related to change management.

The afore-mentioned findings confirm the findings of King (1994), who observed that understanding the success of outsourcing requires a strong understanding by employees of the organisation's capabilities and future direction.

Reasons for outsourcing

Some of the reasons provided by those who believe outsourcing had brought improvements are as follows:

- Cleaning jobs outsourced has helped in an enhanced plant outlook, cost reduction and has translated into efficiency in general work output.

- Outsourcing has brought about systematic and properly coordinated execution of tasks.

- It is easier to budget for and quantify financial obligations.

- Outsourced transport services have increased punctuality.

- Ghacem achieved the highest production and sales in its history after the completion of various outsourcing endeavours in 2007, hence it was worth outsourcing. Indeed, efficiency especially in energy use was remarkable in year 2007. Profitability index reached new heights and the general outlook of the company became promising. Data in Table 2 below attest to the fact that Ghacem became very profitable after outsourcing.

Table 2: **Profitability Index of Ghacem**

Year	Production m/tons	Sales GH¢	Energy factor	Contribution ratio	Profitability index
2004	800,000	1,420,000	45%	50	3.7
2005	850,000	1,472,000	45.5	50	3.7
2006	881,000	1,523,000	47.2	52	3.9
2007	1,003,000	1,794,000	41.8	63	4.95

Source: Ghacem, Supplementary Data Chart (*ghacem/01*)

The respondents identified a number of positive effects on the finances of the company. Some of the effects mentioned were:

- The ease to administer financial arrangements and payment methods

- Reduced inventory cost due to outsourcing of canteen and clinic,

- Reduced medical cost due to dependants of staff, accessing medical care through outsourced medical providers such as Medex, National Health Insurance Scheme (NHIS) and Blue Cross.

- Improved liquidity (cash) due to reduction in loans demand for personnel and disbursements from the company administration.

- Reduction in fixed cost of operation and the ease in administering cash payments to outsourced contractors.

According to statistics available from the Finance Department, since 2006 Ghacem saves on an annual basis, between USD 400,000 and USD 600,000 through various outsourcing programmes and agreements. Efficiency levels have progressively grown thereby guaranteeing continued cost savings and sustainability of strategic business objectives.

According to respondents other benefits of outsourcing in Ghacem include:

- Improved productivity

- Prevalence of systematic resolution of labour and welfare related issues.

- Increased efficiency as non-core businesses are handled by professionals who have a lot of experience in their respective businesses.

All the above point to the fact that companies that decide to outsource do so for a number of reasons, all of which are based on realizing gains in business profitability and efficiency. The findings confirm King's (1994), findings that the principal merits of outsourcing include cost savings, financial flexibility, knowledge acquisition and boosting of morale.

Challenges of Outsourcing Identified by Both Ghacem and Vendor Companies' Employees

The respondents identified a number of challenges. Some of which are discussed below.

1. There is lack of loyalty and dedication on the part of the vendor companies. This may

be because they do not see themselves as part of Ghacem.

2. Cooperation and support was non –existent between the vendor companies and

employees of Ghacem.

3. The workers were not organized in any union of their choice and hindered their ability

to express themselves freely and send across their concerns and grievances.

4. Employee turnover is high as there is slack in employee retention because staff at

some sections had their jobs outsourced.

Despite the various challenges of outsourcing in Ghacem, majority of the senior staff and all top

management respondents believe that so far outsourcing in Ghacem has been a success.

Overcoming Outsourcing Challenges

To overcome challenges in outsourcing, the respondents suggested that any company intending

to embark on outsourcing, should pay attention to the objectives of the company, and put much

emphasis on the issue of cost reduction and attainment of right expertise for the job.

They also stated that there should be critical evaluation of the scope of work and analysis of the

long-term economic benefits to the organisation.

Again, it was unanimously agreed that it was important to check the background and track record

of vendor companies who are taken on board to ensure that they have proven credibility.

Another suggestion was that focus should be placed on non-core functions, which could be handled efficiently by other companies rather than the undue focus and attention on general cost reductions for all areas.

Respondents indicated that when given an opportunity to start outsourcing all over again, they would put emphasis on communication, incorporate mechanisms to improve monitoring of vendor company's services, and concentrate more on competence and abilities of prospective outsourced companies.

Relationship between Ghacem and Vendor Companies

Vendor companies outlined some difficulties in their relationship with Ghacem as follows:

1. Medical facilities are not accessible to the staff of the vendor companies.

2. There is no quick processing of submitted invoices for services, hence a delay in payment of such services rendered.

3. Canteen services are not accessible to staff of vendor companies.

4. Ghacem staff does not see staff of the vendor companies as team players.

Operational Experience of Vendor Companies

Fifty-five percent (55%) of vendors see no hostility towards them from Ghacem staff. However, 45% stated that they have been experiencing antagonism and hostility from some staff of Ghacem. They gave the following reasons to support their assertion:

1. Some staff members of Ghacem do not want to recognize the outsourced personnel as partners.

2. In case of accidents or breaches of rules, the outsourced staff becomes the immediate suspects.

3. Lack of co-operation in sharing information and resources.

4. There is unfairness in the sharing or usage of certain facilities like washroom.

The vendor companies' staff identified the following as avoidable pitfalls in the negotiation and implementation of contracts.

1. Medical and insurance policies should be considered.

2. The concerns of the vendor company should not be ignored.

3. Relationship between Ghacem and the vendor companies should be as formal and official as possible and systems should supersede personal links.

In general, the respondents from the vendor companies were of the view that their relationship with Ghacem staff was basically comfortable and cordial.

SUMMARY OF MAIN FINDINGS

The results of the study indicated that some functions in Ghacem have been outsourced. Notable among these functions are transport services, canteen services, plant security, utility services and secretarial duties. Other functions are paper bag packaging, lighting system, pest control, material loading and equipment maintenance. It is worth noting that these functions do not form

part of the core operations of Ghacem and so outsourcing them gave the company the time to concentrate on its core business of producing cement.

Assessment of the impact of outsourcing yielded different results from senior staff and the junior staff. Whereas the senior staff were of the view that outsourcing has led to cost saving, cost control, improved efficiency and resulted in increased profitability of the company, the junior staff held a contrary view. The result is not surprising because the junior staff may have limited understanding of the benefits accruing from outsourcing. Also, most of the functions outsourced were those performed by the junior staff and so some of them were laid off and naturally they would not be happy with outsourcing.

CONCLUSION

Comparing the results against the objectives of outsourcing, it can be stated that outsourcing in Ghacem achieved its intended purpose of reducing cost, improved efficiency, increased output and sales and increased profitability of the company.

In order to achieve the objectives of outsourcing, certain challenges need to be overcome. Some of these challenges are identification of the non-core activities that need to be outsourced; identification of vendor companies with the required expertise; and drafting of good contract or agreement to cover the transaction.

A further comparative study could be carried out using a 100% owned government organisation and a non-government organisation to identify the differences in the impact of outsourcing on these organisations.

RECOMMENDATIONS

In the light of the above findings the following are recommended to make outsourcing beneficial and possible to companies who will like to adopt it.

1. The relationship between the company outsourcing and the vendor companies should be as formal as possible and systems should supersede personal links.

2. There should be proper agreements to cover the transaction.

3. All employees should be educated on the benefits of outsourcing to accept it.

4. Non-core functions of organisation should be outsourced so that the organisation can concentrate on its core responsibilities.

REFERENCES

Clapper J. R. and Wendell B., *Perfect Outsourcing*, 1st Edition, US Government Publication. Wikipedia Encyclopaedia, 1998.

Erber G. and Sayed-Ahmed A., *Offshore Outsourcing - A Global Shift in the Present IT Industry*, International Journal of Organisational Interaction, Volume 40, Number 2, 2005.

Ganesh, S., *Outsourcing as Symptomatic: Class Visibility and Ethnic Scapegoating,* 11th Edition, Washington D.C., USA, IT Sector publication, 2007.

Harland, C., Knight, L., Lamming, R., and Walker, H., *Outsourcing*: *Assessing the Risk and Benefits for Organisations, Sectors and Nations* in International Journal of Operations & Production Management, Vol. 25 No. 9, pp. 831-850, 2005.

Harkins, P. and Brown, S., *Farm Out-and Reap a Rich Harvest* in Management Development Review, Volume 10, Number 1/2/3. Pp27-29 MCB University Press. 1997.

King, W. R., *Strategic Outsourcing Decisions and Information Systems Management*, 2nd Edition, London, Kogan Page Limited, 1994.

Kremic, T. Oya I. T. and Walter, O. R., *Outsourcing Decision Support, Supply Chain Management,* An International Journal Volume 11 No. 6 pp. 467-482, 2006.

Mann, C., *Accelerating the Globalization of America: The Role for Information Technology*, 1st Edition, Washington D.C., Institute for International Economics Press, 2006.

McCue, A., Indian Outsourcers to Launch European Invasion, www.silicon.com., 2006.