THE IMPACT OF COST- DRIVEN STRATEGIC OUTSOURCING ON THE ORGANIZATIONAL PERFORMANCE OF MANUFACTURING COMPANIES IN NIGERIA.

Abstract

The pivotal roles of manufacturing sector in economic growth and sustainable development in both developed and developing countries have been documented in the literature. However, the highly competitive environment along with customers' demands for tailored products and services has forced manufacturing companies especially in Nigeria to experience slow growth. This study therefore sought to determine the impact of cost drive outsourcing strategy on organizational performance of manufacturing companies in Nigeria. The questionnaires were administered among the one hundred and twenty (120) management staff members of the sixty selected manufacturing companies in Nigeria through purposive sampling method, and this was done personally by the researcher. Linear regression was used to analyzed and interpret the data use in this research. The study reveals that cost-driven is a major strategy that help an organization in achieving its stated objectives in global competitive environment. The findings further show that cost driven has a significant impact on the organizational performance of manufacturing sector in Nigeria. Subsequently, the study recommends that management of manufacturing companies should adopt strategic and well thought out outsourcing partnerships in order to continuously reduce operating costs for growth.

Keywords: Cost-Driven, Outsourcing, Competitive Environment, Performance, Manufacturing

Introduction

The pivotal roles of manufacturing sector in economic growth and sustainable development in both developed and developing countries have been acknowledged by scholars, professionals and economists, and the sector is the major determinant of the level of industrialization and the real growth of any economy by providing intermediate inputs, finished goods, increasing foreign exchange earnings, positive spillover effects and employment opportunities. However, the highly competitive environment along with customers' demands for tailored products and services has forced manufacturing companies especially in Nigeria to experience slow growth.

This is evidenced by Manufacturing Association of Nigeria (2016) that 30percent of the manufacturing firms are moribund, 60 percent were classified as ailing while only 10 percent were classified as operating at a sustainable level. In another report, National Bureau of Statistics (2017) also revealed that manufacturing sector's contribution to the economy has dropped from N8.97tn as of the end of December 2015 to N8.89tn as of the end of December 2016.

Outsourcing is a management strategy through which a company assigns some non-core functions to more specialized, more effective and more efficient service providers such that the organization can be left to perform and concentrate with the core business activities. Outsourcing activities have existed for centuries. The earliest outsourcing activities were found in the prehistoric Roman Empire (Kakabadse & Kakabadse, 2002) where tax collection was done through outsourcing. In the history of America, it used to outsource the production of wagon covers to Scotland, and the raw materials for production process was imported from India, (Kelly, 2002). Driven by globalization pressures resulting from an urge to deal with both opportunities and threats brought about by global competition, firms from different corners of the world started looking for more affordable resources available in different offshore locations

Strategic outsourcing has been recognized by the researchers and managers as one of the managerial tools that keep a business competitive in this century. Nyangau, Mburu and Ogollah (2014) acknowledge that the world has embraced the phenomenon of outsourcing and companies have adopted this principle to help them expand into other markets. According to Maku and Iravo (2013), outsourcing focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns. A study by International Business Machine (IBM) (2010) also posits that outsourcing is a strategic business decision that is likely to boost a company's performance. Outsourcing is the replacing of in-house provided activities by subcontracting it out to external agents. Agburu, Anza and Iyortsuun (2017) observe that outsourcing avails organizations the opportunity to concentrate her core competencies on definable preeminence business area and provides a unique value for customers.

In spite of the increasing trend in outsourcing arrangements, there are inadequate studies on how outsourcing activities affect organization performance in manufacturing sector in Nigeria. In order to bridge that gap, this research seeks to study the effect of strategic outsourcing on organization performance in manufacturing companies in Nigerian.

Research Objectives

The general objective of the study is to determine the impact of cost driven outsourcing strategy on the performance of manufacturing sector in Nigeria.

Specific objective of the study

i. To determine the impact of cost-driven outsourcing strategy on organizational performance of manufacturing sector in Nigeria..

Research Hypothesis

The following hypotheses was tested and formulated in a null form.

H_{01}: Cost-driven outsourcing has no significant effect on organizational performance of manufacturing sector in Nigeria.

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Justification of the study

This study is justify the needs for detail to enable the management of Nigerian manufacturing sector to understand how the outsourcing strategy would influence the performance of the company, and further shed more light on how they can optimize on it to gain and retain competitive advantage in today's turbulent business environment. The study would also contribute to the existing literature in the field of strategic management for the manufacturing industry in Nigeria. It should also act as a stimulus for further research to refine and extend the present study especially in Nigeria

Literature Review

Concept of Strategic Outsourcing

The concept of strategic outsourcing is not new especially in developed countries. According to Karam, Fariba, and Arash (2014), strategic outsourcing originated way back in the 1960s and 1970 and is deeply rooted in the history of the growth of modern business enterprise. Strategic outsourcing has led many enterprises to review the core activities and concentrate on their core competences, i.e. what the organization believe they do best (Lysons, 2014). Lacey and Blumberg (2005) defined outsourcing as "reliance on external sources for manufacturing components and other value adding activities". Some focus on international sourcing of components, sub-systems and completed products (Kamuri, 2010). Outsourcing involves performing a function or process such as manufacturing operation and other value-additions activities with reliance on external sources, a third-party or supplier, so as to attain business level benefits (Lei & Hitt, 1995). Strategic outsourcing includes “make-or-buy” (Chanzu, 2002) decision which produces the company's product internally or subcontract to other service providers. Some researchers focus on international sourcing of components, sub-systems and completed products (Feenstra & Hanson, 1996). According to Sako (2006), outsourcing can be defined as the act of one company contracting with another company to provide services that might otherwise be performed by in-house employees. It was further described as a contract service agreement in which an organization hires out all or part of its operations to an external company. The major characteristics of outsourcing are; the activities initially performed in-house are transferred to an external party, the assets, knowledge and in some cases, people; there will be an external relationship between the parties involved over a long period of time, that in transferring the activity to the external party the buyer is exposed to a cost and a risk profile, both of which are new to the companies involved (Maku & Iravo, 2013).

Concept of Organizational Performance

According to Pitt and Tucker (2008), organizational performance is defined as “a vital sign of the organization, showing how well activities within a process or the outputs of a process achieve a specific goal”. It is also defined as “a process of assessing progress towards achieving pre-determined goals, including information on the efficiency by which resources are transformed into goods and services, the quality of these outputs and outcomes, and the effectiveness of organizational objectives” (Amartunga & Baldry, 2003). Rosenzweig (2007) also describe organizational performance as the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Pierre, Timothy, George, and Gerry (2009), however define organizational performance as the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable.

An organizations performance can be measured through organizational financial results however; there are other measures that can be used. These measures include customer satisfaction/dissatisfaction, customer retention/behaviour, product and service quality, waste, flexibility, organizational capabilities and yield/ productivity. These measures however have to be in tandem with the organization's mission and goals.

Theoretical Framework

This study anchors on Core competency theory because the theory is relevant to this study. Core competency theory explains how to coordinate diverse production skills and integrate multiple streams of technologies for organizations in order to have competitive advantage in global competitive environment. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. Non-core activities should be considered for outsourcing to the best suited service providers who are experts in that field.

However some few non-core activities which have a big impact on competitive advantage should be retained in house (Chandra & Kumar, 2000). According to Akinbola, Ogunnaike and Ojo (2013), core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best human resource management (HRM), good market coverage etc. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies refer to the collective knowledge of the production system concerned in particular knowledge of procedures and how to best integrate and optimize them (Simchi-Levi, Keminisky&Simchi-Levi, 2004).

2.1 Cost-Driven Outsourcing and Organizational Performance

The past few decades have witnessed a boom of outsourcing in which firms transfer their non-core business activities to third-party service providers. Functions that have seen substantial outsourcing include information technology management, support services, manufacturing, logistics, and customer support. The biggest motivation for such outsourcing has been to maintain a competitive edge by reducing costs and focusing on core competencies (Zhao, Xue & Zhang, 2014).

Today, outsourcing has become a strategic lever in the global economy and it is widely expected that this trend will continue in the near future. Kenyon and Meixell (2011) found out that outsourcing works better for international markets where labor and cost of doing business is lower. However, as Insinga and Werle (2000) point out, outsourcing at the operational level can easily lead to the development of dependencies that create unforeseen strategic vulnerabilities.

The fact that outsourcing can be strategic is in no doubt. However, the most important thing is a foremost recognition of the strategic value that outsourcing can generate to any organization if handled correctly. As Insinga and Werle (2000) note, the real risk is in losing the strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's operations. "At this level," they point out, "the dominant success metric of outsourcing becomes lower cost, period." (p. 58). They further argue that in order to avoid losing sight of the strategic intent, firms must institutionalize a robust decision making process to govern the outsourcing relationship in such a way that hard-wires the operations to the strategic.

Mella and Pellicelli (2012) emphasized on the strategic concept of outsourcing and the growing demand for offshore outsourcing and contract manufacturing in lower cost countries such as India and China, fueled by these countries' comparative advantage. Their work clearly advocates for a strategic approach to outsourcing in foreign countries

Empirical Review

Prior studies reveal that outsourcing offers numerous advantages and the potential benefits include cost savings, efficiency gains, improved flexibility, access to world-class expertise and focus on core competencies. However, outsourcing also poses numerous risks that must be managed in order for outsourcing to be successful. For example, Kamanga and Ismail (2016) study the effects of outsourcing on organization performance in manufacturing sector in Kenyan firms. The population of the study consist of 42 management staff from three major departments namely: Production, transport and agriculture, Engineering. The data was quantitatively analyzed based on research objectives. Both correlation and regression analysis were used to analyse the data. The results reviewed that cost, quality, technology adaption have significant effect on organization performance.

Jirawuttinunt (2015) also verify the relationships among human resource outsourcing of four activities such as recruitment activities, training administration, payroll management, and human resource information system and organizational performance through HR cost efficiency, effective HR development and HR flexibility. The model is tested by using data collected from mail survey questionnaires of 165 multinational firms and using a questionnaire as the instrument. The results of OLS regression analysis show that HRM outsourcing has a significant impact on organizational performance both direct and indirect via HR cost efficiency, effective HR development and HR flexibility. Vivian and Christopher (2015) also examine the effect of Information Technology Outsourcing (ITO) practices on the performance of banking sector in Kenyan. Balance Scorecard was used to measure performance as it considers both financial and non-financial aspects. The study took the form of a descriptive survey design with a target population of 14 commercial banks operating in Kenya. Primary data was collected from structured questionnaires and secondary data was collected from the banks past financial records. Results revealed that connectivity and Help desk support were the most outsourced IT functions in the commercial banks. The study also revealed the two main drivers for ITO were strategic focus and cost reduction. The study further revealed that ITO has a positive and significant effect on financial performance, learning and growth, customer satisfaction and internal processes.

Akinbola, Ogunnaike and Ojo (2013) also examine the effect of enterprise outsourcing strategies on marketing performance of fast food industry in Lagos State, Nigeria. Copies of questionnaire were distributed purposively to ten fast food outlets in Lagos, Nigeria. Two hypotheses were developed and were subjected to descriptive and regression analysis. Results reveal that outsourcing contributed to increase in marketing performance. Dapper (2013) carries out to study personnel outsourcing and corporate performance. In carrying out this study, the researcher used AGIP Oil Company in Port Harcourt as a case study. A total number of fifty one (51) questionnaires were administered to employees in the personnel department of the company. The Yaro Yemen's formula was adopted during the determination of the sample size. Hypotheses were also formulated and t tested using the chi-square statistical/mathematical technique. The researcher uncovered that there is a significant effect of personnel outsourcing on corporate performance. Kenyon and Meixell (2011) find out that outsourcing works better for international markets where labour and cost of doing business is lower. Nordin (2008) also asserts that outsourcing of some value chain activities can generate operational efficiency by reducing capital investment and commitment as well as ensuring maximum utilization of the existing resources in a way that generates maximum value from the least possible inputs

However, as Insinga and Werle (2000) point out, outsourcing at the operational level can easily lead to the development of dependencies that create unforeseen strategic vulnerabilities. In the same vein, Yeboah (2013) examines the relationship between outsourcing and organizational performance in the services sector. The result reveals that outsourcing has no significant effect on organizational performance.

Methodology

Research Design: The study adopted a quantitative research design. Quantitative research design was employed because is an efficient way of gathering data to help address a research questions and one can collect unbiased data and develop sensible decision based on analyzed results (Van de van, 2007).

Sampling Method and Sample Size: Purposive random sampling technique was used to select two management staff each from the sixty (60) selected manufacturing companies in Nigeria totaling one hundred and twenty (120) respondents as a sample size for the study.

Data Collection Instruments: A structured questionnaire was used to collect the relevant information from the study's participants.

Data analysis

Data analysis is the process of data to make meaningful information (Saunders, Lewis & Thornhill, 2009) defined data as mechanism for reducing and organizing data to produce findings that require interpretation by researcher. According to Hyndman (2008) data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure. Data collected was analyzed by the use of statistical package for social sciences (SPSS) version 20.0 computer software. Thus any mean score up to 3 and above was interpreted as acceptable by respondents while 2.99 and below is adjudged rejected by the respondents. Regression Analysis was used to test the hypotheses.

Regression Model

$Y1 = \alpha + \beta 1x1 + \mu$

where the variables are defined as:

$Y1$ - Organizational Performance

$X1$ - Cost driven outsourcing

α = Regression output (constant)

μ - Error term.

Validity and Reliability of Research Instruments: The instruments used in this study were submitted to a panel of experts for validation. The panel carried out a content analysis of each of the questionnaires and eliminated items found to be irrelevant to the research problem. After necessary modifications, the panel of experts recommended the use of the instruments for the study. The scales were subjected to further item analysis as to determine their psychometric soundness as indicated in Table1 below:

Table 1: Summary of Results of the Measurement Instruments Validation

Scale	No of Items	Meaning Bartlett	KMO	Eigenvalue of the principal Component	% of the Variance	α of Cronbach
Cost-driven Outsourcing Questionnaire	7	p = .000 (significant)	0.734	3.107	76.19%	0.77

Source: Field Report, 2019

From Table 2 above, factor loads of all the indicators are higher than 0.5 which shows that the questions highly explain the variance of their variables so we can say that the measurement model has high factor validity.

Results and Discussion

Table 2: Distribution of respondents by effect of cost-driven outsourcing on organizational performance

Statement	Mean	Rank
Outsourcing has reduced costs (overheads and fixed costs) in the organization	4.04	Accepted
Outsourcing has reduced the risk of doing business	3.98	Accepted
The cost of outsourcing has been lower than the cost of acquiring more	4.01	Accepted

resources to do work internally		
Since we started outsourcing, we have seen a great improvement in efficiency	3.88	Accepted
Outsourcing has created better short term performance	3.87	Accepted
Outsourcing has created better long term performance	4.03	Accepted
Outsourcing has created better intellectual value in the long run	4.05	Accepted
Grand mean	**3.97**	

Source: Field report, 2019

In Table 2, the grand mean of 3.97 which is above the criterion mean of 3 shows that respondents agreed that cost-driven outsourcing has significant effect on organizational performance. Furthermore, respondents believe that outsourcing has created better intellectual value in the long run, Outsourcing has reduced costs (overheads and fixed costs) in the organization, outsourcing has created better long term performance, the cost of outsourcing has been lower than the cost of acquiring more resources to do work internally and outsourcing has reduced the risk of doing business with mean values of 4.05, 4.04, 4.03, 4.01 and 3.98 respectively. The result is similar to the study of Musau, (2016) that cost –driven outsourcing is a major determinant of organizational performance.

Table 3: Impact of Cost-Driven Outsourcing on Organizational Performance

Model	R	R^2	Adjusted R^2		Std error of the estimate	
1	0.688	0.473	0.445		0.352	
Explanatory variable		B	Std error	t – value	p- value	Remarks
Constant		17.693	0.464	15.105	0.000	
Cost-driven outsourcing		0.260	0.125	0.233	0.017	S

Source: Field report, 2019

From the Table 3 above it indicated that cost-driven outsourcing (β = 0.26; t = 0.233 P<.05) has positive and significant impact on organizational performance. Result also indicated that cost-driven outsourcing has 37.2% decisive influence on organizational performance. This means that cost-driven out sourcing has strong impact on organizational performance. The study conforms to Kamanga and Ismail (2016) and Jirawuttinunt, (2015) that cost–driven outsourcing is a strong predictor of organizational performance

Therefore, the null hypothesis which states that cost-driven outsourcing has no impact organizational performance is rejected, while the alternative was accepted.

Conclusion and Recommendation

This study examines the impact of cost driven strategic outsourcing on organizational performance. The study revealed that cost driven strategic outsourcing is a major strategies that help an organization to achieve its objectives in global competitive environment.. Subsequently, the study recommends that management of manufacturing companies should adopt cost driven strategic outsourcing in order to continuously reduce operating costs for growth.

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