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EFFECT OF OUTSOURCING STRATEGIES ON THE OPERATIONAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN GHANA.

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Abstract:
The study examined the effect of outsourcing on the operational performance of small and medium enterprises (SMEs). Using questionnaires, a descriptive research design was employed with a sample size of 68 SMEs in Sunyani Municipality. The data analysis was based on a mean score and standard deviation using SPSS. The nature of outsourcing recorded in the study was the SMEs outsourcing some of their activities (mean score = 4.47, SD = 0.47), the practice affecting all areas of their operations (mean score = 4.24, SD = 0.47), and specifically internal operations (mean score = 4.17, SD = 0.55). The reasons SMEs in Sunyani practice outsourcing are to free up the company's resources to focus on its core competencies (mean score = 4.41, SD = 0.37), improve its competitive position (mean score = 4.26, SD = 0.41), avoid labour issues (mean score = 4.11, SD = 0.43), reduce cost (mean score = 3.82, SD = 0.52), reduce the risk associated with in-house production (mean score = 3.80, SD = 0.54), and increase efficiency (mean score = 3.75, SD = 0.60). The effects of outsourcing on operations and service delivery are reduced through superior provider performance, and the provider's lower cost structure (mean score = 4.21, SD = 0.43) and existing skills are commercially exploited (mean score = 4.18, SD = 0.47). Therefore, SMEs in Sunyani are encouraged to continue with their outsourcing practices. However, further study is recommended on the factors and challenges affecting outsourcing among Ghanaian companies.

Keywords: Outsourcing Strategies, Operational Performance, Small and Medium Enterprise

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INTRODUCTION

The workplace today is in a state of metamorphosis, with every aspect of the organization penetrated by contemporary issues such as customer satisfaction and their diverse demands, competitive advantage, revenue and expenditures, organizational culture, technological advancement, global markets, and the need for an effective workforce with a worldwide mindset. An effective workforce is crucial to these issues, as it is the organization's primary player in accomplishing its goals and service delivery.

In order for organizations to achieve their set goals in the presence of technological advancement, the sophistication of business processes, knowledge explosion, and the need for constant growth, they look for strategies to enhance performance (Dominguez, 2006). Therefore, the capabilities of its workers (staff), its technological know-how, business processes, and so on, are reflected upon, and this answers the question of whether its goals can be achieved with what it

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already has in place or whether more ways to complement its capacity should be sought (Sev, 2009; Isaksson & Lantz, 2015). Furthermore, in struggling to meet the demands of customers and shareholders, an organization may look for ways that it has a comparative advantage. Therefore, it focuses on core competencies and seeks to reduce operational costs, which presents outsourcing as the right strategy (Akewushola & Elegbede, 2013).

Although outsourcing is part of an organization's process, what is sourced from outside suppliers has no bearing on the nature of its relationship with them (Kiongera, Wanyonyi, Musiega & Masinde, 2014). Many managers consider outsourcing as the only way to keep a business competitive in the 21st century. The highly turbulent business environment and almost insatiable customer demands for tailored services and products have forced companies to evaluate, improve and re-engineer their operations over time. As Insinga and Werle (2000) noted, these re-engineered processes are a significant contribution to the efforts by organizations to wholly satisfy customer needs and wants.

In a networked global economy, outsourcing is regarded as an important strategic tool that allows firms to concentrate their core competencies on building flexible inter-organizational capabilities (Kakabadse & Kakabadse, 2005; Lacity et al., 2008). However, the outsourcing concept has not received remarkable attention and support, which can be considered to be favorable for improving organizational growth and performance in Ghana. Besides the lack of attention, the effects of outsourcing on organizational performance are not well documented. This lack is supported by the fact that previous outsourcing studies give contradicting outcomes. While some record positive relationships between outsourcing and performance results, others report no significant relationship and sometimes even negative results. This would indicate that it depends on the firm's motive for outsourcing.

Western firms such as in North America, Europe, and Asia have had poor performance in outsourcing, which is caused by a lack of effective and efficient planning. Moreover, studies carried out by Deloitte (2014) found that most large firms that had outsourced failed to achieve the expected cost saving. Even when outsourcing improved quality and lowered costs, it led to losing in-house talent and jobs.

Based on the available data, the researchers carried out a study on the effects of outsourcing strategies on the operational performance of small and medium enterprises (SMEs) to add more to the existing knowledge. Thus, this study assessed the nature of outsourcing practices by SMEs in Sunyani Municipality, determined their reasons for outsourcing, and examined the effects on these entities' operations and service delivery.

METHODS

Research design. The design employed is the descriptive research design. According to Saunders et al. (2012), this design is meant to demonstrate a preference for commencement with theory and its utility in research.

Population. The target population for this research comprises SME groups in Sunyani Municipality in Ghana.

Sampling and sampling technique. There are approximately 215 registered SMEs in Sunyani Municipality (Anokyewaa, 2016). This study used Yamane's (1967) formula to select sixty-eight (68) SMEs in the municipality. A convenient sampling method was used in choosing SMEs to answer the questionnaires. This sampling method made it easy to choose respondents based on their availability. Yamane's (1967) formula is:

$$n = \frac{N}{1+Ne^2} \ldots\ldots\ldots\ldots\ldots (1)$$

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where N represents the total SMEs in Sunyani; e represents the sample's margin of error; and n represents the sample size

$$n = \frac{215}{1+215(0.1)^2} = 68$$

Data collection. The study made use of primary sources of information. The researcher used questionnaires to obtain the necessary information for the research. The questionnaire was used because it is simple to administer and relatively easy to analyze. It was prepared and distributed to the selected respondents to be filled out.

Analysis of data. After administering the questionnaires and the various responses were gathered, the data were cleaned, edited for consistency, and coded to reduce the answer to a series of code numbers to facilitate tabulation. The data analysis was based on simple percentages converted into tables using the SPSS software and Excel.

RESULT AND DISCUSSION

Nature of outsourcing practices carried out by SMEs in Sunyani. As shown in Table 1, the nature of SME outsourcing that recorded the highest mean score was outsourcing some of its activities, with a mean score of 4.47 (SD = 0.47). The outsourcing that recorded the second highest mean score was the practice affecting all areas of the SME's operations (mean score = 4.24, SD = 0.47). The remaining example of outsourcing carried out by SMEs was: the practice affecting internal operations (mean score = 4.17, SD = 0.55), the staff support outsourcing practice (mean score = 4.01, SD = 0.60), and outsourcing limited to specific departments (mean score = 3.22, SD = 0.72).

Outsourcing practice has seen phenomenal growth in the past few years, with firms increasingly turning to it to enhance their competitiveness. 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. Moreover, SMEs employ outsourcing in many different ways, depending on the company's size using strategy. According to Lister (2015), while some uses of outsourcing may cause job loss, other types of outsourcing seek to establish business presences in foreign markets and strengthen companies in the long term. This study agrees with Alsbridge’s (2015) research, which reports that outsourcing in companies are not limited to specific departments. The study further states that outsourcing practice affects all areas of the organization's operations.

Table 1. Nature of outsourcing practices

Nature of outsourcing	Mean Score	SD
The SME outsources some of its activities	4.47	0.47
The practice affects all areas of the SME’s operations	4.24	0.47
The practice affects internal operations	4.17	0.55
Staff support such outsourcing practice	4.01	0.60
Outsourcing is limited to specific departments	3.22	0.72

* Likert-scale: SA =Strongly Disagree, D =Disagree, NS =Not Sure, A =Agree, and SA =Strongly Agree. SD = Standard Deviation

The reasons SMEs in Sunyani practice outsourcing. The second objective of the study looked at the reasons responsible for SME outsourcing. The mean score recorded for reasons for outsourcing ranges from 3.71 (lowest score) to 4.41 (highest score). The highest mean score recorded was to free up the company’s resources to focus on its core competencies, and the lowest

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mean score recorded was to take advantage of specialist resources, capacity and expertise (Table 2). The remaining reasons were to improve the company's competitive position (mean score = 4.26, SD = 0.41), avoid labour issues (mean score = 4.11, SD = 0.43), to reduce cost (mean score = 3.82, SD = 0.52), to reduce risk associated with in-house production (mean score = 3.80, SD = 0.54), and to increase efficiency (mean score = 3.75, SD = 0.60).

With increasing globalization and the scope of companies becoming larger and more expansive, the concept of outsourcing has gained much more meaning than before (Armstrong, 2006). A number of reasons account for why an SME may choose to outsource some of its operations. Firms usually outsource to: reduce cost, increase flexibility, facilitate change, improve quality, and improve organizational focus (Hafeezrm, 2013). Allen and Chandrashekar (2000) believe that one of the major advantages to organizations that outsource their recruitment process is that it helps to save as much as 40% of their recruitment costs. With the experience, expertise and economies of scale of the third party, organizations are able to improve the quality of the recruits and the speed of the whole process. Outsourcing also enables the human resource professionals of organizations to focus on the core and other HR and strategic issues, and it gives a structured approach to the whole recruitment process and places the ultimate power of decision-making for recruiting with the organization itself (Allen & Chandrashekar, 2000).

According to Armstrong (2006), there are three main reasons to outsource. The first is the greater economies of scale that can be gained by a third party that is able to pool the activity of a large number of firms; it is thus frequently cheaper for a firm to outsource specialist activities than it is to carry them out itself. Second, is the ability of a specialist outsourcing firm to keep abreast of the latest developments in its field. Lastly, it enables small firms to do things for which they could not justify hiring full-time employees (Arnold, 2000).

Table 2. Respondent's responses on reasons for outsourcing

Reason for outsourcing	Mean score	SD
To free up the company's resources so as to focus on its core competencies	4.41	0.37
To improve the company's competitive position	4.26	0.41
To avoid labour issues	4.11	0.43
To reduce cost	3.82	0.52
To reduce the risk associated with in-house production	3.80	0.54
To increase efficiency	3.75	0.60
To reduce the time taken to develop new products	3.74	0.61
To take advantage of specialist resources, capacity and expertise	3.71	0.68

* Likert-scale: SA =Strongly Disagree, D =Disagree, NS =Not Sure, A =Agree, and SA =Strongly Agree. WA = Weighted Average

Examining the effects of outsourcing on operations and service delivery of SMEs. The last objective of the study is to assess the effects of outsourcing on SMEs' operations and service delivery. The mean score ranges from 3.74 (lowest mean score) to 4.28 (highest mean score). The highest mean score was recorded for improving credibility and image by associating with superior providers. The lowest mean score was recorded for SMEs gaining market access and business opportunities through the provider's network (Table 3). The remaining effects of outsourcing on operations and service delivery were reducing costs through superior provider performance and the provider's lower cost structure (mean score = 4.21, SD = 0.43), commercially exploiting the existing skills (mean score = 4.18, SD = 0.47), and reducing investments in assets and freeing up these resources for other purposes (mean score = 4.15, SD = 0.51).

The effects of outsourcing on operations and service delivery that the study revealed were improved credibility and image by associating with superior providers, reduction of costs through

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superior provider performance and the provider's lower cost structure, commercial exploitation of the existing skills, reduction of investments in assets and freeing up these resources for other purposes.

Corbett (2004) reported that outsourcing could increase productivity and competitiveness from ten to a hundred-fold. Thus, improving organizational competitiveness through outsourcing is a strategic management decision cognizant of the firm's resources. Gander et al. (2007) added that "outsourcing can positively impact the competitiveness of firms when the dynamisms in consumer preferences and the changing legal, economic and socio-political business environment are incorporated in the outsourcing decisions". According to Billi et al. (2004), the major means of outsourcing helps in gaining a competitive edge by promoting capital inflows and availing infrastructure, which the firm would otherwise not have access to. Thus, the firm can operate on a larger scale through outsourced vendors, which gives the business the benefit of economies of scale, and by extension, helps to reduce unit labour and production costs.

Table 3. Responses on the effects of outsourcing on operations and service delivery

Effects of outsourcing	Mean score	SD
Outsourcing improves credibility and image by associating with superior providers	4.28	0.42
Outsourcing reduces costs through superior provider performance and the provider's lower cost structure	4.21	0.43
Outsourcing commercially exploits the existing skills	4.18	0.47
Outsourcing reduces investments in assets and frees up these resources for other purposes	4.15	0.51
Outsourcing accelerates expansion by tapping into the provider's developed capacity, processes, and systems	4.04	0.54
Outsourcing turns fixed costs into variable costs	3.91	0.60
Outsourcing generates cash by transferring assets to the provider	3.80	0.61
SMEs gain market access and business opportunities through the provider's network	3.74	0.65

* Likert-scale: SA =Strongly Disagree, D =Disagree, NS =Not Sure, A =Agree, and SA =Strongly Agree. SD = Standard Deviation

CONCLUSION

Outsourcing describes the situation where one company's business activities are given to another organization to execute, usually because of the latter's expertise in that particular business. It is the procurement of products or services from external sources to the organization. Thus, in this study, outsourcing is essentially referred to as a process in which an organization delegates in-house operations/processes/services to a third party.

With increasing globalization and the scope of companies becoming larger and more expansive, the concept of outsourcing has gained much more meaning than before. In summary, outsourcing, as defined earlier, has several advantages, such as improving quality, service and delivery, facilitating change, improving organizational focus, cost reduction and increasing flexibility.

It can be concluded from the study that outsourcing practices for some of the activities of SMEs in Sunyani affect all areas of their operations. Moreover, outsourcing is not limited to specific departments, and the staff supports the outsourcing strategies carried out. The main reasons SMEs in Sunyani carry out outsourcing are to: free up the company's resources to focus on its core competencies, improve the company's competitive position, reduce cost, reduce the risk associated with in-house production, and avoid labour issues. The other reasons are to increase

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efficiency, reduce the time to develop new products and take advantage of specialist resources, capacity and expertise.

The substantial effects SMEs have achieved are commercially exploiting the existing skills, turning fixed costs into variable costs, reducing costs through superior provider performance and the provider's lower cost structure, reducing investments in assets and freeing up these resources for other purposes, and improving credibility and image by associating with superior providers. The remaining effects are generating cash by transferring assets to the provider, gaining market access and business opportunities through the provider's network, and accelerating expansion by tapping into the provider's developed capacity, processes, and systems.

In Sunyani, SMEs are encouraged to continue with their outsourcing practices since it tends to reduce risk and ensure proper utilization of resources, among other benefits. Companies that do not practice outsourcing are encouraged to do so to enjoy the benefits it presents. Further study is recommended on the factors and challenges affecting outsourcing among Ghanaian companies.

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