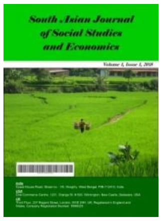

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The Impact of Cost- driven Strategic Outsourcing on the Organizational Performance of Manufacturing Companies in Nigeria

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

The pivotal roles of the 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, seeks to determine the impact of cost drive outsourcing strategy on the 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 a purposive sampling method, and this was done personally by the researcher. Linear regression was used to analyzed and interpret the data used in this research. The study reveals that cost-driven is a major strategy that helps an organization in achieving its stated objectives in the global competitive environment. The findings further show that cost-driven has a significant impact on the organizational performance of the manufacturing sector in Nigeria. Based on the findings, the study therefore, recommends that the management of manufacturing companies should adopt strategic and well thought out outsourcing partnerships in order to continuously reduce operating costs for growth.

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Keywords: Cost-driven; outsourcing; competitive environment; performance; manufacturing.

1. 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 the Manufacturing Association of Nigeria [1] 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, the National Bureau of Statistics [2] also revealed that the 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.

Strategic outsourcing has been recognized by the researchers and managers as one of the managerial tools that keep a business wax strong in this globally competitive environment. Nyangau, Mburu, and Ogollah [3] 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 [4], outsourcing focuses on the attainment of the organizational goals, whether to enhance an organization’s competitive position in the global markets or to improve shareholder returns. A study by International Business Machine (IBM) also posits that outsourcing is one of the managerial strategies that are likely to boost a company’s performance. In another study, Agburu, Anza, and Iyortsuun [5] observe that outsourcing gives business organizations an ample opportunity to focus on their core competencies in order to provide a unique value for their customers.

In spite of the plethora of studies on outsourcing arrangements, there is a dearth of study on how outsourcing strategies to influence organizational performance in the manufacturing sector in Nigeria. In order to bridge that gap, this research, therefore, intends to examine the effect of strategic outsourcing on organization performance in manufacturing companies in Nigerian.

1.1 Research Objective

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

1.2 Research Hypothesis

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

H01: cost-driven outsourcing has no significant effect on the organizational performance of the manufacturing sector in Nigeria.

1.3 Justification of the Study

This study justifies the needs for detail to enable the management of the Nigerian manufacturing sector to know the importance of outsourcing strategy and how it influences the performance of the company. The findings of the study would also serve as an eye-opener to the management, shareholders, employees, and stakeholders on how outsourcing strategy could help business organizations to wax stronger in today's cut-throat business environment.

2. LITERATURE REVIEW

2.1 Concept of Strategic Outsourcing

The concept of strategic outsourcing is not new, especially in developed countries. According to Karam, Fariba, and Arash [6], strategic outsourcing has been traced back to the 1960s and 1970 and is well established in the history that outsourcing is a catalyst to business expansion and development in the modern business enterprise. Strategic outsourcing has led many enterprises to review the core functions and concentrate on their core competencies, i.e. what the organization believes they do best [7]. Lacey and Blumberg [8] define outsourcing as an assurance on external sources for manufacturing features and other value-adding activities. Many have a target on international sourcing of features, sub-systems and completed products [9]. Outsourcing involves performing a function or process such as manufacturing operation and other value-additions functions with reliance on external sources, a third-party or supplier, so as to attain stated objectives [10]. Strategic outsourcing, according to Chanzu [11], includes make-or-buy decision which produces the company's product internally or subcontracts to third-party service providers. In another study, Sako [12] sees outsourcing as an act of a firm contracting with another firm to provide services that ought to have 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. Maku and Iravo [4] also observe that the major characteristic of outsourcing is that in-house activities are transferred to an external party.

2.2 Concept of Organizational Performance

According to Pitt and Tucker [13], organizational performance is defined as a crucial symbol of the organization which reveals how well activities within a process or the outputs of a process achieve a specific objective. It is also defined as a process of evaluating progress towards achieving pre-determined objectives [14]. Rosenzweig [15] also describes the organizational performance as the actual results of an organization being measured against its standard outputs. In another study, Pierre, Timothy, George, and Gerry [16] define organizational performance as the ability of an organization to fulfill its mission statement through effective management, strong corporate governance and a persistent devoting to achieving results.

An organization's 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.

2.3 Theoretical Framework

This study anchor on core competency theory because the theory is germane to this study. Core competency theory explains how to coordinate an array of production skills and integrate diverse technologies for organizations in order to have an edge over others, especially in today’s globally competitive environment. This theory advocates that the activities of an organization should either be performed in house or by third parties.

However, Chandra and Kumar [17] argue that non-core activities that have a significant influence on competitive advantage should be retained in the house. According to Akinbola, Ogunnaike, and Ojo [18], core competency can be categorized into technical skills, process reliability, customers and suppliers relationships, product development, organizational culture, good market coverage, etc. Simchi-Levi, Keminisky, and Simchi-Levi [19] also note that core competencies are special strengths that organizations possess in the industry which enable them to remain competitive.

2.4 Cost-Driven Outsourcing and Organizational Performance

Yeboah [20] acknowledge that outsourcing has been a source of success for the organizations for the past few decades in which firms transfer their non-core functions to third-party service providers. They argue that outsourcing has been to maintain a competitive advantage by reducing costs and focusing on core functions. In another study, Kenyon and Meixell [21] also affirm that outsourcing is a survival strategy for international markets where labour and cost of doing business are lower. However, in the opinion of Insinga and Werle [22], outsourcing can easily lead to the development of dependencies which may create unforeseen strategic vulnerabilities.

3. 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, the study of Kamanga and Ismail [23], made use of 42 respondents from Production, Transport and Agriculture, and Engineering departments. The analysis was performed with the aid of correlation and regression. The study revealed that cost, quality, and technology adaption are the major determinants of organization performance.

Jirawuttinunt [24] also examines the relationships among human resource outsourcing, human resource information system and organizational performance via HR cost efficiency, effective HR development, and HR flexibility. The author made use of a structured questionnaire to collect data from 165 multinational firms. The analysis was carried out with the aid of OLS regression. the study affirms that HRM outsourcing has a significant influence on organizational performance via HR cost efficiency, effective HR development, and HR flexibility. In the same vein, Vivian and Christopher [25] also confirm that Information Technology Outsourcing (ITO) practices are strong predictors of banks' performance in Kenyan. In the work of Akinbola, Ogunnaike and Ojo [18], the study assesses the impact of enterprise outsourcing strategies on the marketing performance of the fast-food industry in Lagos State, Nigeria. The results also reaffirm that outsourcing contributed to the increase in marketing performance. Equally, Dapper [26] evaluates the impact of personnel outsourcing on corporate performance. The study employs survey research design and a total number of fifty-one (51) questionnaires were administered to employees in the personnel department of the company. The study establishes that there is a significant effect of personnel outsourcing on corporate performance. Another study carried out by Kenyon and Meixell [27] reveal that outsourcing is very germane for international markets where labour and cost of doing business are lower. Nordin [28] also asserts in his study that outsourcing some functions can lead to operational efficiency by reducing the cost of operations.

However, Insinga and Werle [22] are of the opinion that outsourcing can lead dependencies which may create unforeseen strategic vulnerabilities. In the same vein, Yeboah [29] also examines the relationship between outsourcing and organizational performance in the services sector. The result reveals that outsourcing has no significant effect on organizational performance.

4. METHODOLOGY

Research Design: The study adopted a quantitative research design. The quantitative research design was employed because is an efficient way of gathering data to help address a research question 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.

4.1 Data Collection Instruments

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

4.2 Data Analysis

Data analysis is the process of data to make meaningful information (Saunders, Lewis & Thornhill, 2009) defined data as a mechanism for reducing and organizing data to produce findings that require interpretation by the 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 were analyzed with the aid of mean. 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 Table 1.

From Table 2, 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.

5. RESULTS AND DISCUSSION

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 a significant effect on organizational performance. Furthermore, respondents believe that outsourcing strategy creates better intellectual value in the long run, outsourcing strategy reduces both overheads and fixed costs in the organization, outsourcing strategy creates better long term performance, the cost of outsourcing always lower than the cost of acquiring more resources to do work internally and outsourcing strategy reduce 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 previous studies that cost-driven outsourcing is a major determinant of organizational performance [12,5,7,21,24,22, 11,16].

Table 3 indicated that cost-driven outsourcing (β = 0.26; t = 0.233 P<.05) has a 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 outsourcing has a strong impact on organizational performance. The study conforms to Kamanga and Ismail [23] and Jirawuttinunt [24] that cost-driven outsourcing is a strong predictor of organizational performance.

Table 1. Summary of results of the measurement instruments validation

Scale	No of Items	Meaning Bartlett	KMO	The 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

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

Statement	Mean	Rank
Outsourcing strategy always reduce both overheads and fixed costs in the organization	4.04	Accepted
The outsourcing strategy always avert operational risks	3.98	Accepted
The cost of outsourcing always lower than the cost of acquiring more resources to do work internally.	4.01	Accepted
Outsourcing strategy improves efficiency.	3.88	Accepted
Outsourcing strategy creates better short term performance	3.87	Accepted
Outsourcing strategy creates better long term performance	4.03	Accepted
Outsourcing strategy creates better intellectual value in the long run	4.05	Accepted
Grand mean	3.97	

Source: Field report, 2019

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

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

6. CONCLUSION AND RECOMMENDATION

Core competency theory explains how to coordinate diverse production skills and integrate multiple streams of technologies for organizations in order to have a competitive advantage in the global competitive environment. This study justifies the needs for detail to enable the management of the Nigerian manufacturing sector to know that importance of outsourcing strategy and how it influences the performance of the company. This study examines the impact of cost-driven strategic outsourcing on organizational performance. The study reveals that cost-driven is a major predictor of organization performance, especially in today's globally competitive environment. Based on the findings, the study recommends that the management of manufacturing companies should remain core functions within the organization and should outsource all or part of non-core activities.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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