

**ASSESSING THE EFFECT OF OUTSOURCING ON ORGANIZATIONAL
PERFORMANCE: A CASE STUDY OF METRO MASS TRANSIT LTD**

By

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MASTER OF SCIENCE

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DECLARATION

I hereby declare that this submission is my own work towards the award of MSc Procurement Management and that, to the best of my knowledge, it contains no material previously published by another person, nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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ABSTRACT

Outsourcing is defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. The key reason for outsourcing includes the financial reasons such as cost reduction. The aim of the study was to critically examine the effects of outsourcing on organizational performance in Metro Mass Transit Limited. Three objectives were set to help achieve the aim of the study. The study adopted a quantitative method of enquiry with questionnaires designed to help achieve the aim and objectives of the study. SPSS version 20 was used in analysing the data gathered from the respondents and Cronbach Alpha was used to test for the reliability and validity of the data gathered from the respondents. Findings from the survey revealed that Metro Mass Transit Unit outsource the cleaning of their facilities, security personnel, Information Technology services/functions, facility management and some human resource functions. From the survey, the respondents at Metro Mass Transit Unit identified some of the impact of the outsourced functions on their company's profitability; they have time to focus on their core functions which has allowed them to remain competitive, and innovativeness by coming up with new ways of discharging their core duties. Also, there has been an improvement in the discharge of their duties since they have resources that help them to focus on their main activities. Also, some of the effects that Metro Mass Transit has experienced from outsourcing are; they have markedly high market share, their customers are increasingly getting satisfied with their products, there has been a significant reduction of expenditures in the institution as a result of outsourcing, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales and performance of the business is satisfactory. It is however recommended that that a need analysis must be conducted to ascertain whether outsourcing is necessary before implementing it and a thorough background study should be conducted on the outsourcing vendors to know their capabilities and abilities before contracting them so as to avoid any substandard work .

Keywords: Outsourcing, Organisational Performance, Core functions

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DEDICATION

I dedicate this thesis to the Almighty God and to my family.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

Deciding to outsource some of your companies' activities/functions to a third party can be challenging but rewarding to the organisation (Ving and Globerman, 1999). The functions of businesses have expanded by making it complex as the world becomes more globalised. This has also affected the technology and made competition among companies or organisations producing similar products (Achonjo, 2014). Company must examine their motivations, expectations and justification thoroughly before outsourcing their critical operations so as to reap the benefits (Musau, 2016). Trust is an essential component of outsourcing between the organisation and the outsourcing company/vendor because in the absence of trust it becomes difficult to hand over certain aspects of business activities or operations to another outsourcing vendor (Runquist, 2007). Yao (2004) defines outsourcing as a relationship between an outsourcing vendor and a company that is contractual where the outsourcing vendor takes over some of the duties or functions or activities of that company. Companies decide to outsource in areas like information technology, warehousing, transportation, human resources, freight forwarding and reverse logistics and materials planning due to increased demand and complexities related to these companies (Quinn, 2000). Typically outsourcing is done with an eye towards efficiency and cost-saving for the company. As defined by Machuki and Aosa (2011), the performance of organisation is determined by using a criterion. Also organisational performance gives indication of the effectiveness of an organisation. Several studies on outsourcing (Priem and Butler, 2001; Handfield, 2012) confirms

that outsourcing is a business strategy in which one or more company's business processes contracted out to an outside service provider with the intention of reducing operating cost and focusing on core competencies of the firm. In today's competitive business world, it is important that most organisations identify their core competencies and focus on these for their performance. A common trend in Kenya now is the manufacturing, construction and telecommunication industries who outsource their activities that are not part of their core to external organisations for their effective management (Achonjo, 2014). The general motivations for outsourcing these operations fall into three main categories which is to increase revenue, improve capabilities and reduce cost. Dwindling resources and market conditions have forced organisations to scrutinise their methods of producing goods and services and make changes in their processes in order to maximise economic returns (Akweshola, and Elegbede 2013). In order to survive and be profitable in current globalisation era, organisations have pursued continuous improvement, leaned up production, reengineered business processes and integrated supply chains (Brannemo, 2006).

Outsourcing is a fast-growing aspect of the world economy with a worldwide spending of about US\$ 3.7 TRILLION IN 2001 (Clott, 2004). A survey conducted by Cap Gemini, George Institute of Technology, SAP and DHL, the use of third-party services continues to increase in Latin America, North America, South Africa, Western Europe and Asia-Pacific. A country like China has been discovered as the fastest place to outsource (Matteo, 2003). Defining outsourcing in terms of procurement activities is not right definition because it does not include the right strategies in outsourcing. Outsourcing is not also simply making decisions related to purchasing. Outsourcing is supposed to become strategic in every management decision because in every organisation, there is always a decision that involves

purchasing which if not carefully planned can lead to a rippling effect in the entire organisation. In as much as an organisation that outsource some of their activities may have unrealistic expectation, it is likely that the outsourcing process is responsible.

In an attempt to augment the mass transportation system in the post-independence era in Ghana, the government sought for ways and policies and this led to the growth of many state-owned transport enterprises such as State Transport Cooperation (STC), Omnibus Service Authority (OSA), City Express Service (CES) and the recent one Metro Mass Transit (MMT). Most of these transport companies collapsed (IBIS, 2005), not until recently that the STC rebranded. The failure of some of the state owned transport systems led to the ascendancy of the private transport systems popularly known as “trotro”. These private transporters operate with minimal regulation and frequent increase of transport fares in the pursuit of profit maximisation whilst neglecting efficient service delivery (Wilson, 2006). According to Trans Africa (2010), the dominance of these private transporters and their sub-standard and unregulated behaviour led to poor quality of life of citizen as large number of minibuses employed to meet the demand causing congestion and parking issue where the citizens suffered high levels of vehicular pollution and unsafe voyages. Thus, the government re-introduced the Mass Transit Programme in 2003 to develop and maintain publicly organised stage-bus service. The goal of public mass transportation shifted from the previous administration of public procurement of fleet for leasing to private operators to being interventionism aimed at mitigating transit deficit through state ownership (IBIS, 2005).

Metro Mass Transit has schedule service which in practice is rarely complied with, because of the insufficient number of buses, declining fleet utilisation rates, keen

competition from private operators and the congestion during peak travel periods (Yobo et al., 2015). The consequence of congestions is the wasteful consumption of expensive fuel for little revenue, the high risk of frequent breakdown due to the nature of roads, the insanitary condition some Metro Mass Transit buses which does not benefit the modern transit lines hence customer unfriendly. As part of the efforts to enhance the operational efficiency of Metro Mass Transit, it has adopted a number of strategies like Information Communication Technology (ICT) based Vehicle Tracking Systems, the installation of CCTV cameras among other, of which some have been outsourced to other companies (Yobo et al., 2015).

1.2 PROBLEM STATEMENT

As outsourcing increases in organisations, it becomes necessary to also focus on its organisational performance (Achonjo, 2014). Organisational performance is the driving force that determines the change in the company so as to improve the delivery of service to the final customer along the supply chain. In a study conducted by Kwong (2012), it was concluded that businesses that outsource gain competitive advantage when they outsource activities that are not core to third-parties as a means of expanding their market to their different location and also on the international market. Narasimhan and Narayanan (2009) proffer that the high rate of outsourcing failure is on account of inadequate capabilities of vendor management amongst focal firms. Although, it is generally believed that outsourcing has become an attractive option, the result of outsourcing is still vague and has not been confirmed by research (Jiang and Qureshi, 2006). In effect, a well-organized and executed outsourcing arrangements are known to have substantial impact through lower costs, higher rates of innovation and enhanced customer service (Narasimhan and Talluri, 2009), ultimately leading to improved and sustained profitability (Broedner et al., 2009). For

instance, in 2003, Boeing announced its new age aircraft, the 787 Dreamliner, involving significantly higher percentage of outsourcing than what it had used earlier (Denning, 2013). Extensive research reveals that outsourcing have become the most preferred approach for improving quality and productivity in organizations.

In the context of Ghana, Metro Mass Transit Limited has been under pressure to restructure and improve their competitiveness in the domestic and international marketplace, as organizations face increasingly complex, dynamic, turbulent, and threatening business environments. Management of Metro Mass Transit have developed policies and initiatives in place to encourage and assist the company to achieve higher productivity and superior performance. This quest for efficiency and improved productivity led to a more strategic approach to outsourcing business operations, processes, and management practices. However, there is no existence of empirical studies on the effect of the firms outsourcing practices on the performance of Metro Mass Transit Limited, as to whether the case study firm is achieving a sustainable competitive advantage on an on-going basis, which implies continuously delivering value to the customer (Guimarães, and de Carvalho, 2013).

1.3 RESEARCH QUESTIONS

1. What functions are outsourced by the Metro Mass Transit Limited?
2. What is the effect of these outsourced functions on the company's profit?
3. What are the effects of the outsourced functions on the operational performance in the organisation?

1.4 AIM

The aim of the study is to critically examine the effects of outsourcing on organizational performance in Metro Mass Transit Limited.

1.5 OBJECTIVES

- i. To determine functions that are outsourced in Metro Mass Transit Ltd.
- ii. To assess the effects of these functions on the company's profitability.
- iii. To evaluate the effect of the outsourced functions on the operational performance in the organisation

1.6 SIGNIFICANCE OF STUDY

This research will equip the governing body of Metro Mass Transit, with an insight to reviewing its outsourcing policies in its operations leading to the downsizing of its current staff strength that is serving as a drain on its revenue and profitability. On the other hand, a general review of outsourcing policies would serve as indicators to governments and public institutions as to how best to manage their outsourcing functions in order to generate employment activities in the face of the growing unemployment situation facing most African countries today of which our dear motherland Ghana is part.

1.7 METHODOLOGY

A thorough literature review was conducted. The literature review helped to discover the academic writings supporting the relevance of the topic and the research objectives. The study adopted quantitative method by using questionnaires to gather data from stakeholders in Metro Mass Transit Limited as Malhotra (2007) defined quantitative research as measuring the data and characteristically applying some form of statistical analysis. The selected strategy for this study is a single case study where

Metro Mass Transit Limited as an organisation was used for this research. The target population for this research was the workers at Metro Mass Transit Limited. This is because they would have the requisite knowledge on the functions that they have outsourced the reasons for outsourcing and the benefits they are accruing if any and its effect on Metro Mass Transit's profit. Again, the study used primary source of data, through questionnaires which asked questions which would enable the aim of the objectives of the study to be achieved. The primary data gave genuine and precise first-hand information relevant to this study. The Statistical Programme for Social Scientists (SPSS) version 20 was used to process the data. The analysed data are presented in the form of tables and figures. The questionnaires were coded, then data entered into the SPSS version 20 programme, and were analysed. Data from questionnaires were summarized, coded, tabulated and analysed. Descriptive statistics and mean score ranking were used in the data analysis.

1.8 SCOPE OF THE STUDY

The study is focused on the activities outsourced by Metro Mass Transit Unit in the Accra Metropolis. Accra is the capital of Ghana and has a population of about 4 million people. Majority of public transport services in Accra is provided by the informal sector coupled with the formal bus transport provided by Metro Mass Transit Limited. (IBIS, 2005). The MMT is a quasi-government agency established through a public private partnership between the government and the private institutions. The MMT has four depots in the city of Accra which operates a mix variety of intercity, intra-city and rural services where all journeys start or terminate.

1.9 ORGANIZATION OF STUDY

The study will be organised into five chapters. Chapter one would be used to give a general background to the study while highlighting on the problem statement and also bring out the aim and objectives of this study. Chapter two is a literature review in relation to the aim and objectives. Chapter three is used to discuss the methodology used for the study which includes the population size, sample size, research instrument and sources of data. Chapter four is used to discuss the findings from the analysed responses from the respondents. The chapter five will be used to conclude on the study by giving recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents a literature review on the effects of outsourcing on organizational performance by identifying its benefits. The effects of outsourcing on the productivity of companies. A review was conducted on the effects of outsourcing on a company's profitability. A brief introduction of the Metro Mass Transport Limited is also discussed in this chapter.

2.2 THE CONCEPT OF TRANSPORTATION

Transportation is the conveyance of people and goods from one place to another place by means of air, land, sea among others. Transport on roads can be grouped into two categories: transportation of goods and transportation of people (Wikimedia foundation, 2010). Road transport has advantages over other transports; drivers are not restricted in making route choices once a network of roads has been provided, the capital costs of vehicles is relatively small as compared to aeroplanes, the speed of vehicles is also relatively high with a major constraint being the speed limits imposed by government. Metro Mass Transit Company Limited was incorporated by the government of Ghana and other institutions to function as mass transportation service provider in March, 2003 under the Companies Code Act 1963, Act 179. Metro Mass Transit Limited owns a fleet of buses that were bought through donor funds, grants, concessional funding and government funding where there were no terms of payment however, the government subsidizes the operation of the company (Yobo, 2013). The Metro Mass Transit Limited is a bus company whose service is highly patronised by

the citizenry within the lower to middle income bracket nationwide because of its relatively cheaper fares compared to other transport services.

2.2 AN OVERVIEW OF METRO MASS TRANSIT LIMITED

The Metro Mass Transit is a single dominant urban mass transit organisation in Ghana which was incorporated in March 2003. The government of Ghana has 45% equity shares which was acquired through the transfer of the physical assets of the defunct state-owned OSA transport Limited (IBIS, 2005). The remaining 55% equity was shared by the Agricultural Development Bank (ADB) (16.6%), Social Security National Insurance Trust (SSNIT) (11.50%), National Investment Bank (9.33%), Ghana Oil Company Limited (7.5%), State Insurance Company (5.83%) and Prudential Bank (1.67%) with 2.5% equity in treasury held in trust by the National Investment Bank). The MMT operates on 423 routes nationwide with 16 depots across the ten regions of Ghana. Its fleet spans over 1600 buses of which 800 are operational daily and employs about 4, 780 workers throughout the country.

As part of the efforts of the MMT to improve their services and enhance their operation, an Information Communication Technology (ICT) based Tracking Systems aimed at reducing the malpractices in the bus transit company. These devices detect electrical faults on the bus, tracks the bus location, the speed at which the bus travels and the fuel consumption (Yobo et al. 2015). The introduction of these has actually made the MMT record some considerable consumption decrease in fuel to revenue percentage since the introduction of the fuel tracking system in October, 2007. Prior to that the fuel consumption was between 47%-48% of revenue but has now reduced to 37% since October 2007. The transit company has also set up a special monitoring unit under the Traffic Operation Department tasked with checking and apprehending

conductors and drivers who indulge in fraudulent practices to undermine revenue generation. Among other challenges faced by the MMT is the sourcing of spare parts for maintenance either through the importation from manufacturers or local purchase and this poses a great problem due to the variety of vehicles used for public transport (Schreffler et al., 2012). In the worst case scenario, the type of vehicles may be out of production line and spare parts simply unavailable. There is also the challenge of lack of requisite human resource needed for vehicle maintenance more especially technicians manning wayside garages lack the adequate technical skills. The MMT operate at three levels of service and these are intercity service, intra-city service and rural urban service. The intercity covers all regional capitals of the country. As at 2011, 130 districts in Ghana were operated in by the MMT out of 169.

2.3 THE CONCEPT OF OUTSOURCING

Bailey et al. (2008) defines outsourcing as strategically using resources owned by other companies to perform functions or activities that were performed by internal staff. Monczka et al. (2010) defined outsourcing as an organisation that buys goods from an external supplier. According to Hila and Dumitrascu (2014), the decision to outsource is important because it impact cost and also defines the boundaries that a company draws around its operations. Yankilovich (2003) indicated that two-third of companies world-wide outsource at least one business process to an external third party where this practice is common in the U.S, Australia and Canada where 72 percent of outsourcing is done. Actually, there is proof for the fact that outsourcing with clear cut strategy enhances the overall strategy of organisation (Feeny et al., 2005). The key reason for outsourcing include the financial reasons such as cost reduction (Whitten et al., 2010), financial enhancement (Alagehband et al., 2011) and replacing principle expenses with periodic payments. Outsourcing was used when

large companies wanted to downsize and reduce cost (Abraham and Taylor, 2006). Akewushola and Elegbede (2013) defines outsourcing as the process of replacing in-house activities by subcontracting it out to external bodies. Also, the development and management of innovations in outsourced activities becomes the responsibility of the agent which is external to the firm. Outsourcing enables an organisation to focus on her core competencies which provides a unique value for their customers (Bechara et al., 1995). The goal of outsourcing is to lower costs, improve efficiencies, improve flexibility and achieve a competitive advantage. As organisations are facing turbulent times due to the changes in economic conditions, globalisation and rapid advanced technological advances (Stewart, 2007), they are seeking outsourcing as one of the most publicized strategies in recent times. Hern and Burke (2006) defines outsourcing as the transfer of services or functions previously performed within organisations to an outsider.

Core competencies are the institutional learning capabilities that allow the company to uniquely supply products and services that ultimately add absolute pre-eminence to its customers (Hilmer and Quinn, 1994). They are the innovative combinations of skills, knowledge, proprietary technologies and information that provide the product or service that customers value and are willing to buy (Greaver, 1999). When the decision to outsource is based on an in-depth understanding of the organisation's core competencies which is intended to build or enhance the organisation's competitive advantages then outsourcing becomes strategic (Bettis et al., 1992). Steensman et al. (2000) suggest that the outcomes from technology partnerships for outsourcing firms depend on the interaction between technology attributes and the interdependence between source and sourcing firms. Outsourcing has implications for the day-to-day management and performance as well as the strategic implications (Ellram et al.,

2007). Therefore, companies must outsource intelligently. According to Brannemo (2006), outsourcing affects a company's cost structures, long-term competitive situation which is crucial for management to understand and have a clear conceptual framework of their outsourcing decision. Some of the advantages of outsourcing are :

- Greater flexibility
- Lower investment risk
- Improved cash flow
- Lower potential labour costs.

The concept of outsourcing has been analysed by different scholars and different theories. The Transaction Cost Theory is generally accepted as a useful framework for analysing logistics outsourcing (Aubert, Rivard and Patry, 1996). Outsourcing can be defined as the use by one company of another business to do particular tasks because it can do them more cheaply or effectively. Outsourcing was traditionally used mainly for downsizing and cost reduction at large corporations (Abraham and Taylor, 2006). In smaller companies, outsourcing was viewed primarily as a means to optimize capacity under conditions of limited resources. However, today's scholars advocate that outsourcing should be used as a strategic tool to deliver a forceful impact on corporate growth and financial stability (Holcomb and Hitt, 2007). This is the concept of strategic outsourcing – outsourcing for the longer term and the bigger picture. According to Quinn (1999), strategic outsourcing is the process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel. This, when properly done, allows a business to plan the optimal utilization of its resources and capabilities to achieve the best advantage. It also improves the achievability of an organization's strategic goals. This kind of outsourcing strategy can be utilized by any organization regardless of its size and has

the effect of not only reducing the cost of operation but also providing an opportunity for optimal allocation of resources to the very necessary functions (Welch and Nayak, 1992). The basic idea behind strategic outsourcing is to create gains by allowing outside providers and specialists to take over the operation and management of a given function. Such gains may come in different forms such as improving the bottom line of a company by reducing various operating expenses and increasing the flexibility for innovation without having to invest too much in training and capital infrastructure (Mella and Pellicelli, 2012). Other benefits may come in form of convenience, where the strategy allows the business owners and managers to concentrate on their core business (Allen and Chandrashenka, 2000). As a simple rule, so long as the benefits are considered sufficient by the client, then the process of strategic outsourcing can be considered a success. In the context of this study, strategic outsourcing will be considered in terms of the driving force behind the strategy. This study will focus on cost-driven outsourcing, innovation-driven outsourcing and focus-driven outsourcing. For organizations seeking to simply lower their cost of doing business and improve efficiency. The most traditionally acknowledged driving force for outsourcing is cost reduction (Blumberg, 1998). Some organizations may outsource only for cost reduction and efficiency especially those that are involved in offshore outsourcing to destinations of lower cost offered by the service provider and the level of risk borne by the provider are the most important factors in the equation. Another major driver of strategic outsourcing is innovativeness. As the business environment changes rapidly and customers increasingly modify their demands, organizations have to find a way to stay afloat in the market by providing innovative products to the market in proper time and ahead of competition (Calantone and Stanko, 2007). Such organizations may therefore utilize

strategic outsourcing with a goal of developing new products faster as they seek increased flexibility for innovation (Gesing et al., 2014). The other major driver for outsourcing is the need to focus on core competencies. According to Buchanan (2014), the ability to free up organizational resources and capabilities so as to focus on the organization's core business is one of the greatest determinants of whether outsourcing can be considered as strategic or not. Firms therefore utilize strategic outsourcing in a bid to reduce the administrative burden of managing support activities so as to focus their efforts on top business priorities (Cheng et al., 2014).

2.4 OUTSOURCING IN ORGANISATIONS

Rundquist (2007) defines outsourcing as the procurement of products or services that are external to the organisation. Outsourcing was not common until 1989 where the expansion of special services led to an increase in outsourcing as a strategy for improving organisational performance during the second industrial revolution in the late 19th century. Outsourcing is gradually shifting to activities that are intangible or knowledge intensive activities such as, product development, information technology or research and development (Quinn, 2000) and it forms an integral part of an organisational strategy of improving organisational performance (Behara et al., 1995). Efficiency and cost-saving for an organisation drives the need for outsourcing (Houthoofd, 2006). Outsourcing could be as simple as hiring freelancer to edit a company's newsletter or hiring an entire outsourcing company to handle all accounting and payroll function. Also it could be an outsourcing when an organisation hires an independent contractor to provide a type of service (Handfield and Nichols, 1999).

Organisations may outsource part or the entire of their functions or activities however, it is almost impossible to practically outsource every business organisation. As stated earlier when organisations outsource part of their activities it focuses on holding on to the core activities which allows other organisations to handle the non-core activities in which the outsourcing organisation has competitive advantage in their handling (Achonjo, 2014). In outsourcing, you either outsource activities to other companies or hire resources from other companies to execute the companies' activities or function (Gorg and Hanley, 2009). Some government organisations prefer registered contractors prior to bidding while other select potential contractors based on experience. When bids are invited from potential registered contractors, they are evaluated to make decisions either on a cost or best value basis. In the 21st Century, most senior management prefer to assign outside firms or labourers with critical tasks because outsourcing to them is more cost-effective. The flexibility with which managers normally outsource is that labourers can be hired and fired more easily without going through the hassle of hiring and firing employees (Aning, 2012). Organisations that have outsourced or plan to outsource some of their functions have the option of choosing from among outsource vendors. It seems services that are outsourced normally are IT aspects such as e-Procurement, e-hosting, followed by transactional activities such as requisition to payment (Arefeen, 2011). Often, organisations may want to test the waters and attain a level of comfort with the service delivery provided for by the outsource vendor before gaining the confidence to delve deeper into areas that are considered to be more strategic.

Outsourcing can occur outside the vicinity of the outsourcing organisation or inside the organisation. It could be domestic or international where the latter is normally called offshoring if the country of the company outsourcing is on another continent. In

response to the economic change Sharpe (1997) believes outsourcing arises to reduce the costs the firm faces. On the other hand, Abraham and Taylor (1996) believe that organisations adopt outsourcing especially in manufacturing firms for transformations so as to give stability to the production cycles. If an organisation wants to be successful in outsourcing, then there is the need to have defined objectives and a clear assessment of how those can be satisfied by the outsourcer. (Allen and Chandrashekar, 2000). Prahalad (2004) asserts that companies must outsource processes and functions or activities that they are conversant with. He further iterates that firms should not outsource the problems in the company that they are unable to solve internally. Moreover, they must not outsource the functions or activities which constitute the major force of the company, an example is, they should not transfer the entire sales division to an outsourcing company (Prahad, 2004). The decision to outsource must be based on weighing the advantages and disadvantages. Below is a list of suggested functions or activities that concerning outsourcing (Bragg, 2006);

- a) Credit collection: The risk involve is that the outsourced vendor to collect the debts may be too aggressive in the debt collection which can make the organisation lose their customer.
- b) Salaries and contribution: If the firm has several operational units that spread out over several geographic areas in which the outsources is present, then the latter can assure the necessity services with greater uniformity and timeliness
- c) Computer services: The main advantages of outsourcing this type of service is the freedom of acquiring computers and other investments related to that which will have to be made by the outsourced vendor.

OUTSOURCING WITHIN A SUPPLY CHAIN MANAGEMENT

The increasing competition among companies at both international and local market makes managers more determined on focusing on gaining a competitive advantage in order to stay in business (Hila and Dumitrascu, 2014). Achieving customers' fulfilment and gaining their trust is becoming more challenging, however, this can only become possible through product and services improvement. In order to gain competitive advantage Raja and Kherun (2006) acknowledges outsourcing as a medium. Organisational performance can be improved by outsourcing activities from the global chain of the carried out activities (Hila and Dumitrascu, 2014). Outsourcing enables companies and organisations to be more adaptable and flexible to new environment conditions by focusing on its core activity thus entrusting aspects of their tasks to other companies. Supply chain management is the management of a network of businesses and organisation to provide products and services based on customer requirements with regard to value, cost and time. According to Sweeney and O'Riordan (2007), companies nowadays focus on their core activities, on their strengths so that many supply chain activities are outsourced to different organisations that are more specialised in the required activities. Companies normally keep their core activities internal while they outsource activities that they consider as more marginal (Monczka et al., 2010). According to Johnson and Fearson (2006), companies hire contractors for specific types of work or to reduce their workload, and have formed longed-term relationships with companies whose capabilities complement or supplement their own. There are many whys and wherefores that might influence a company to outsource such as

- If the supplier has better capability
- Freeing resources for other purposes
- Reduction and control operating costs
- Reducing risk

2.5 GLOBAL SOURCING STRATEGIES

Global outsourcing is when a multinational company with several operational units in different countries uses the concepts of outsourcing and offshoring to take on specific meaning regarding both the way outsourcing occurs and the choice of country of origin (Kotabe et al., 2009). Multinational firms adopt various forms of outsourcing that can be grouped into two; Intra-firm sourcing and real outsourcing.

- a) Intra-firm sourcing: This is when the outsourcing unit belongs to the international company which is also inside the parent company or subsidiaries.
- b) Real Outsourcing: When some of the group's units outsource by turning to an independent company outside the group by means of contracts or other forms of alliance.

The choice among the various types of global outsourcing is a complex one for multinational companies. This is because factors like production costs, trends in exchange rates, efficiency of transport, safety, economic transparency and communications infrastructures in the various companies need to be taken into consideration. The decision to outsource depends on the possibility of leading to a long-term sustainable competitive advantage with respect to carrying out activities internally.

2.5 THEORIES THAT SUPPORT OUTSOURCING

2.5.1 Core Competency Theory

Prahalad and Hamel (1990) defines the core competencies theory as the collective learning in the organisations especially on how to coordinate diverse production skills and integrate multiple streams technologies. This concept has been predominantly used in developing and testing the various outsourcing frameworks arguing that the core activities shall remain within the organisation. According to Gilley and Rasheed (2000), core competency is one of the most powerful frameworks to explain why companies turn to outsourcing. In this approach, it is suggested the organisations must invest in those activities which constitutes as their core competencies and outsource the rest since the former activities are those that enhances organisations growth and direction (Peteraf, 1993). Approaching the outsourcing in a strategic way based on resources and capabilities means a deep understanding of the core competencies, on which organisations attempt to build their future competitive advantage (Bettis et al., 1992). Continuing the in-house production of an activity that a company does not excel may lead to loss of competitive edge (Musau, 2016).

2.5.2 Resource-Based View Theory

This theory argues that a firm has the ability to achieve and sustain competitive advantage only if it has the resources that are valuable, rare, imperfectly imitable and non-substitutable (Wernerfelt, 1984). However, not all resources are strategically relevant within the organisation. The goal of an organisation is to ensure that it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. Therefore, if a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. However, if the firm has no internal resources to perform such activities, it would be

beneficial for the company to outsource them (Mung' Ala, 2014). Firms are forced to rely on a number of outside suppliers for parts, software, knowhow and sales in order to obtain competitive advantage thereby gaining access to valuable resources and external capabilities (Langlois, 1990).

2.5.3 Resource Dependency Theory

The Resource Dependence Theory is the study of how the external resources of an organisation affect the behaviour of the organisation Mung' Ala, 2014. In this theory the procurement of external resources is an important tenet of both the strategic and tactical management of any management. Resource dependency theory has implications regarding the optimal divisional structure of organisations, recruitment of board members and employees, production strategies, contract structure (Deckers and Li, 2000).

2.6 CORE COMPETENCIES AND OUTSOURCING

Core competencies are not products or those things we do relatively well; they are those activities, usually intellectually based service activities or systems, which the company performs better than its competitors. They are skills and systems that a company does at best in world levels and through which a company creates uniquely high value for customers (Prahalad and Hamel, 2010). Once a company develops some really best-in-world competency, it will never outsource it. Many firms will go to the extent of building a defensive wall around the essential competencies that customers expect them to have. For instance, Honda does not outsource the manufacture of its engines because it has developed it to a best-in-world level. Apart from the core competencies, most companies can reap great benefits by outsourcing activities where they are less than best-in-world (Rothaermel et al, 2009). Firms are

continuing opting for an outsourcing strategy. This has become fashionable, because of its possible influence on organizational performance and its advantages, as it enables the firm to focus on its core competencies. Outsourcing is a viable business strategy because turning non-core functions over to external suppliers enables companies to leverage their resources, concentrate on issues critical to survival and spread risks. One of the most important reasons why companies outsource their logistics functions is the need to decrease the number of vehicles warehouses and excess inventories and to reduce labour costs and shrinkage. By outsourcing to specialist organizations service not generated by core competences, companies can see an improvement in their organizational performance (Prahalad and Hamel, 2010). Continuing the in-house production of an activity that a company does not excel in may lead to the loss of competitive edge. Many firms who engage in some serious investigation of their value chain realize that about 90 percent of their in-house activities are services that are neither being performed at best-in-world levels nor contributing significantly to competitive edge (Prahalad and Hamel, 2010). Such activities are not very risky to carefully outsource. These should be the first targets for analysis (Nordin, 2008). Increasing the outsourcing of non-strategic services can improve both the quality and the service, while outsourcing the services of low strategic value enables the company to reduce costs and improve its competitive position. Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions (Holcomb and Hitt, 2007). Considering outsourcing from a strategic viewpoint entails the consideration of a set of key factors such as the use of strategic alliances (Prahalad and Hamel, 2010), the concentration of resources on the core competencies, the analysis of activities that are part of the value chain, and the

relations with suppliers and customers within the value chain itself (Buchanan, 2014). This strategic view means evaluating and producing stable competitive advantages that can be sustainable in the long run. The most important reason for evaluating outsourcing from a strictly strategic point of view is the need for the firm to redefine the boundaries of its business portfolio. This leads to a careful concentration of resources on only the core competencies, therefore allowing more time for management to deal with strategic activities (Blumberg, 1998) but also, and above all, on the core businesses (Kotabe and Murray, 2008). Concentrating resources on those market or sectorial businesses the firm knows best and can develop more efficiently in-house allows the outsourcer to search for the factors of efficiency in the production activities of the outsourced businesses (Mella and Pellicelli, 2012). Mella and Pellicelli further noted that in order to make rational decisions regarding outsourcing from a strategic point of view, firms must above all identify the sources of their competitive advantages. This helps them to concentrate resources on those core competencies that create value for the customer in a distinct and inimitable manner while outsourcing those processes and activities for which the firm has neither any particular strategic need nor particular competencies. Many who perform this activity will find out that the non-core processes will often include many processes which in the past were traditionally considered an integral part of any strategy (Lawson et al., 2014). Firms that use Porter's generic strategies concept to assess the advantages and risks of outsourcing production have found that outsourcing can allow the firm to combine and obtain advantages from all three areas of generic strategies: cost leadership, product differentiation and focus. When selecting the functions, processes and activities to outsource, the management undertakes a detailed analysis of the firm's value chain which involves distinguishing the core from non-core

competencies and essential from the non-essential activities, defining the value chain of the core competencies; and separating the core activities from the noncore ones (Cheng et al., 2014). As far back as 1990, Chandler (1990) stated that the “cooperation among firms represents one of the most fruitful and viable development paths for modern-day capitalism. Chandler further acknowledges that cooperative relations among firms can modify the governing mechanisms of the firm and the markets by redefining their operational boundaries. According to Mella and Pellicelli (2012), core-competency-with-outsourcing strategies enable companies to focus and flatten their organizational structures by concentrating their limited resources on a few knowledge based core competencies where they can develop best-in-world capabilities. Such strategies also enable companies to leverage their internal innovation capabilities by synergizing their human resources with technology while getting rid of the rigidities of fixed overheads, bureaucracies, and physical plant. This is because such strategies enable companies to conscientiously tap the nimbler resources of both their customer chain downstream and their technology and supply chain upstream. Additionally, they can also expand their knowledge and investment capabilities through exploiting the facilities and program investments of outside sources (Mella and Pellicelli 2012). The essence of creating a focus is to develop a few unique activities that customers perceive to be critical to best-in-world levels. Beginning with a careful analysis of a company’s value chain activities, executives can develop a few groups of critical activities that they must perform in best-in-world levels if they are to compete effectively. Such activities are their core competencies (Cheng et al, 2014). Core competencies define the very essence of how the company delivers its value proposition and they are the reason that its customers and employees prefer its products or operations to those of competitors. The most effective core

competency strategies focus on a few activities or skill sets that are critical to customers. Thus companies can create and sustain these best in-world capabilities which provide a flexible platform for future innovations. The general rule of thumb is that at least one of these competencies must have a direct relationship with understanding the customer and satisfying their needs and desires (Styles & Goddard, 2014). Rothaermel et al. (2006) noted that within the context of the microcomputer industry, integration in some value chain activities seemed quite easy while being an uphill task in other parts. In some cases, managers may identify some value chain activities which the firm should in-source, but full integration may prove difficult. In such cases, they advise for quasi integration in which case these critical value chain activities can be controlled through strategic outsourcing. Rothaermel et al. (2006) further advice managers to strike the right balance between internalizing value chain activities and strategic external sourcing. Though this exercise may seem difficult, sustaining this balance over time can be even more challenging due to the dynamic nature of today's competitive landscape. Styles and Goddard (2014) found that carving out a genuinely unique position in an industry and in the consumer's mind is critical for success. However, it is common to see similar business models being adapted by all the major players in an industry, especially in perfectly competitive industry structures. This is a deadly mistake that disfavours both the customers and the stakeholders. In today's information era, it has become very clear that it is no longer safe to be safe. As markets keep evolving due to constant shifts in customer priorities and turbulence in business environments, companies need to undergo business model innovation to avoid the maturity stage trap in their life cycles. It is during these comfort zones that many firms have lost their leadership positions to more agile and flexible rivals, never to recover (White and Bruton, 2011). As

Prahalad and Hamel (2010) put it, the most important thing for today's manager is to continuously restate the assumptions underlying the strategies they pursue and keep challenging them. The best thing about strategic management is that usually there is no single right answer, and what works today may not function tomorrow. Therefore, companies must continuously evaluate their core competencies.

2.7 FORMS OF OUTSOURCING

Within the past few decades, there has been a boom of outsourcing in which the firms transfer their non-core business activities to third-party service providers. Activities or functions that have been outsourced include information technology management, support services, manufacturing, logistics and customer support with the motivation been the need to maintain a competitive edge by reducing costs and focusing on core competencies (Zhao et al., 2014).

2.7.1. Outsourcing of Information Technology Functions

Information Technology (IT) outsourcing is the significant contribution by external vendors concerning the physical and /or human resources associated with the entire or specific components of the IT infrastructure in the user organisation (Lawrence and Venkatraman (1992). IT modes that are outsourced commonly are data processing, systems integration, system design/planning, telecommunication or network and application development (Kerns and Willcocks, 2002).

2.7.2 Outsourcing of Human Resource Functions

The International Association of outsourcing Professionals (2010) defines outsourcing as placing responsibility for the various elements of the human resource function with a third-party provider. This form of outsourcing involves placing the responsibility for various elements of the human resource function with a third-party provider (IAOP,

2010). According to Hills and Jones (2012), outsourcing enables the human resource professionals of organisation to focus on the core and other human resource strategic issues. This is because if a company concentrates on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such business enterprise will increase.

2.7.3 Outsourcing of Facilities Management

According to Hsia (2011), facility management involves a number of outsourced activities like cleaning, catering, security, transportation and building maintenance. Movable facility management comprises of outsourcing of activities to manage or maintain an institutions movable facilities such as vehicle fleet while immovable facility management comprise of outsourcing of activities to manage or maintain an institution's immovable facilities like reconstruction of office building, cleaning service and office remodelling among other (Nakanjako, 2015).

2.8 FACTORS INFLUENCING THE SUCCESS IN OUTSOURCING

In order to enjoy the benefits of outsourcing, there is the need to pay heed to the following critical areas (The Outsourcing Institute Membership, 1998):

- Understanding company goals
- Have a strategic plan
- Select the right, high quality supplier
- A properly structured, effective contract and contract monitoring
- Good relationship with the supplier

An important part of managing outsourcing is the consideration of any potential exit strategies. There has been instance where many outsources services have been taken back in-house (Baily et al., 2008). The top levels of a company must have strategic objectives for it is important those companies and the suppliers have a clear and shared understanding not only of the specification but also of the goals and objectives, and that this understanding is translated into a workable strategic plan (Hila and Dumitraşcu, 2014).

2.9 BENEFITS OF OUTSOURCING

2.9.1 Expansion of Businesses

Outsourcing gives companies the opportunity of expanding (Woolson and Speckhals, 2001). Because a company concentrates on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such business enterprise will increase (Achonjo, 2014).

2.9.2 Customer Satisfaction

Companies that outsource make faster deliveries to their respective consumers. This makes it possible to meet the needs of the consumer. Most clients consider the prompt delivery as a positive business attribute and this may keep them coming back to that respective business (Achonjo, 2014).

2.9.3 Reducing Costs and Risks Simultaneously

When strategic outsourcing is approached in a proper manner, it can lead to a vital combination of reducing both costs and risks (Musau, 2016). This is because the outside suppliers undertake investments and development risks that the outsourcer avoids.

2.9.4 Outsourcing for cost effective intellectual value

Most business minded people have identified that outsourcing for the short term objective which cut down cost does not yield nearly as much as outsourcing for the longer term objectives such as building a knowledge based system or strategic benefits (Musau, 2016). These advantages of a longer term focus include greater intellectual depth and access, opportunity scanning, innovation, reliability, quality, value-added solutions or worldwide outreach (Chen and Guo, 2014). Companies seek outside specialist in litigation, tax, advertising, medical, logistics etc. Primarily for such benefits rather than lower costs (Contractor et al., 2011). They seek the intellectual value that these specialists can offer seeing that they are good at what they do.

2.9.5 Outsourcing for better efficiency

There is increased in efficiency because of the activities that are being performed by specialised companies and the reduction in permanent staff and the responsibilities that comes with having a permanent staff. This becomes an added advantage to the organisation (Musau, 2016).

2.9.6 Competitive advantage

There is also the added value of competitive advantage that may be gained when products or services are produced more effectively and efficiently by outside suppliers. An example is Chrysler outsourcing 100% of the manufacturing of half of its mini compact and subcompact cars. Similarly, Beoing has begun to rely more heavily on outsourcing partners to manufacture its aircraft (Aning, 2012).

2.9.7 Innovation-Driven Outsourcing

According to Buchanan (2014), innovation is defined as something that changes a market. When companies develop something better for their customers, they are said to be innovative. More recently, businesses are choosing to innovate intensively around the processes. According to Lichenthaler (2011), open innovation requires firms to systematically perform “knowledge exploration, retention and exploitation both inside and outside an organisation’s boundaries throughout the innovation process.

2.9.8 The Ability to Assemble Expertise for Innovation

Another reason for which organisations adopt outsourcing is that most companies find it difficult to quickly assemble high diverse expertise for special inter-unit projects especially when these resources are several layers down in different geographies (Rothaermel et al., 2006). Usually, organisation heads are reluctant in allowing their own staff to run such projects at the expense of other pressing needs that is needed to run the day to day business of the company. However, using professional firms may lead to better results in these projects since these firms are generally organised for this specific purpose worldwide (Gesing et al., 2014). Lysons and Gillingham argues that outsourcing allows an organisation to concentrate on an area of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise.

2.9.9 Minimize Business Costs

The main reason, according to Little and Benson (2002) that businesses outsource is to minimize business costs. Research proves that organisations can make up to 60% savings on their businesses when they outsource. This is because these outsourcing

vendors have adequate personnel and resources that are needed to operate so as to supply at a lower price. Cost reduction is achieved when companies outsource due to the use of external resources rather than internal resources to provide for the firm. They often provide a reduction in operational costs through standardization and improvement, staff right-sizing, and realization of economies of scale (Carrington, 1994).

2.10 RISKS INVOLVED IN OUTSOURCING

When the companies that outsource and the outsourcing vendor fail to recognise and appreciate the complexity of any outsourcing activities/functions and the resources needed, it tends to fail. Like re-structuring a company and any other management decisions in business making, there are risks associated with outsourcing the procurement managers or top management need to consider carefully (Procurement News, 2003). Wrong outsourcing choices can cause companies to lose their market and clients (Bettis et al., 1997).

2.10.1 Negative Impact on Employees

Outsourcing creates negative impact on employees, whose morale may drop when this function starts to threaten loss of a colleague's job thereby, creating a belief that they may be next. These affect the productivity, loyalty and trust of all the employees which is much needed for a healthy firm (Schildhouse, 2005).

2.10.2 Unrealistic Expectations of the Outsourcing Providers

Due to the unrealistic expectations of outsourcing as a result of overpromising at the negotiation stage, there is a challenge of managing continuity in the delivery of services (Perkins, 2003). Also organisations that are redundant in paying for the services of these outsourcing companies face the risk of discontinuity in the service

delivery (Lyson and Farrington, 2006). The cost savings associated with repeated outsourcing may not be as great as they seem especially with respect to foreign suppliers (Anning, 2012).

2.10.3 Loss of control of activities

The demerits of outsourcing being loss of control of activity done through outsourcing the transfer of sensitive information, the possibility of exorbitant price increase by the suppliers at a future date, along with fluctuations in quality (Musau, 2016). Tariffs are another danger associated with outsourcing as there would be increases in the difficulty of bringing back into the firm activities that may now add value because of market shifts (Dess et al., 1995).

2.10.4 Lack of Planning

Organisations might spend money where they think it makes sense but without a plan for how much is been spent, the results might be the risk of overspending increasing considerably. Planning deficiencies are often characterised by spare of the moment decisions rather than evaluated, discussed and purposefully executed and measured events (McWilliams, 2010).

2.11 OUTSOURCING AND ORGANIZATIONAL PERFORMANCE

The concept of organisational performance stems from the concepts of efficiency and effectiveness (Musau, 2016). Investorwords (2011) defines performance as the result of activities of an organisation or investment over a given period. According to Chong (2008), there are four main approaches to measure the performance of organisations. These are goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent of an organisation obtaining resources. The stakeholder approach and value approach evaluates

performance of an organisation based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors (Mung'la, 2014). Among these, the goal approach is mostly used due to its simplicity, understandability and internally focused because with this approach, information is easily accessible by the owner's managers for evaluation process. According to Richard et al. (2008), the goal approach directs the owner-managers focus to the financial (Objective) and non-financial measure (subjective). Financial measures include profits, revenues, return on sales and return on equity, sales growth, returns on investment and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, employee satisfaction, customer satisfaction, brand awareness and owner's satisfaction (Mung'la, 2014)

There determinants of performance in public institutions and have been grouped into efficiency and effectiveness. Efficiency in outsourcing is the platform that allows small companies to compete with big ones because firms can engage in conducting their business functions (Griffin, 2012) while effectiveness generally refers to the capability of producing a desired result. Organisational performance can be measured by analysing a company's performance as compared to its corporate goals and objectives (Musau, 2016). According to Cheng (2016), research work on organisational performance should include multiple performance measures such as sales growth, market share, profitability, customer satisfaction and non-financial goals of the owners. Achonjo (2014) defines organisational performance as the actual output or results of an organisation as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009), in measuring the organisational performance of business these three areas should be of key priority a) financial

performance b) product market performance and c) shareholder return. Outsourcing success can be measured in terms of the impact that the outsourcing has on organisation performance and customer satisfaction (Kamanga and Ismail, 2016). The major factors that influence outsourcing are resources and capability where capability is derived from all the firm resources which are organised to achieve the objectives of the business functions (Stalk et al., 1992). When an organisation takes the service and maintenance of equipment as an in-house activity, the firm has to maintain stock of all the relevant spare part, train the maintenance personnel and upgrade their knowledge on changing technologies periodically (Muthy and Eccleston, 2002). All these activities lead to higher operating costs hence the need for outsourcing contract is to reduce the cost and idle time of equipment by using efficient and effective maintenance strategies offered by the service provide which also improve equipment availability and increases their lifespan (Tseng et al., 2009). Kotabe (1998) identifies the three types of performance measures as necessary components in outsourcing performance measurement system such as financial measure, strategic measures and quality measures. Additional dimensions of market performance, such as cycle time, cost savings, customer satisfaction and productivity to measure the effectiveness of outsourcing strategy.

A number of researchers (Warring, 1996; Jacobson, 1988; Muchuki and Aosa, 2011) argued that measuring organisational performance presents a challenge. Organisational performance cannot be measured with a single dimension. However, the common measures used to measure organisational performance include; mixed accounting/financial market measures, financial market measures. A study by Sang (2010) identified that rapid expansion of companies programmes and decentralisation of their functions are as a result of outsourcing some of their functions to a third party

which leads to maintain good supplier relationship, effective and efficient internal operation, flexible production processes. Organisations that have used outsourcing for some number of years have experienced the positives that it brings to organisations and the importance of having a well-managed plan of action for hiring a contractor or consultant for a business task (Ten and Wolf, 2001).

Organisational performance is the ultimate dependent variable of interests for researchers concerned with just about any area of management. Organisational performance is the most important criterion in evaluating organisations their actions and environments (Achonjo, 2014).

Firms prefer to buy as opposed to make as long as the cost of outsourcing is lower than in-house production. Hence, outsourcing can be used to economise on production cost in particular labor cost (Abraham and Taylor, 1996) by substituting in-house production with the buying of components. Outsourcing is all about keeping costs down in response to competition which allow firms to stay competitive (Kane et al., 2009). Also competitions created among firms ensure that lower cost is passed on to consumers in the form of lower prices. In terms of productivity, the main reasoning is that the productivity of firms is determined by their potential to minimize production costs via allocating inputs to their most efficient use (Paul and Yasar, 2009). Therefore, firms assess the productivity of their in-house production and compare it to outside suppliers. As stated by Amiti and Wei (2006), another channel by which outsourcing may increase productivity is about allowing a firm to shelve its relatively inefficient parts of the production process and expand its output in stages so as to have competitive advantage. The decision to reject or outsource an operation or an

activity needs to be taken considering its impact on the overall performance of the organisation.

2.11.1 Employee Competence and Organisational Performance

Outsourcing decisions gets an overwhelming response with demand for reduced cost of services (Greer et al., 1999). Downsizing and tougher competition mean the human resource functions is under increasing pressure to demonstrate value and competence both in terms of efficiency and effectiveness (Roberts, 2001). Outsourcing involves 'the purchase of goods or services that was previously provided internally' (Lacity and Hirschheim, 2003). Thus, management by outsourcing can achieve considerable flexibility as payment is made only for work undertaken and completed, the tasks undertaken are contract-related and not craft-related, and worker numbers can be adjusted to the requirements of the plant. In the long-term, McCune (2003) argued that outsourcing may not be the best strategy for every function. As Prahalad and Hamel (1990) argued, 'outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are necessary to sustain product leadership'.

2.11.2 Outsourcing for Cost Reduction and Organisational Performance

Research shows that Resourced Based View perspective suggest that firms base their decision on whether outsourcing reduce costs or builds strategic advantages (Sharpe, 2007). An example is when Unilever announced outsourcing its data network operations to cut overheads and increase efficiency in the short run while enhancing product development and marketing in the long run (Keller, 1992). Also Kodak outsourced certain components in digital camera manufacturing for cost reduction and long-term gain in the market. Outsourcing can also generate needed cash when firms

sell assets or transfer employees to vendors (Juma'h and Wood, 2003). Cost advantages may come from reducing or eliminating new investments or investment renewals (Gilley and Rasheed, 2000; Kakabadse and Kakabadse, 2005). This occurs, for instance, when vendors offer services using technologies that are more efficient than the client's or skills that are unjustifiably costly for client develop in house (Abraham and Taylor, 2006). 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 Allen and Chandrasheka (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 Allen and Chandrasheka (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." 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 at a lower cost.

2.11.3 Outsourcing for Innovativeness and Organisational Performance

According to Buchanan (2014), innovation is defined as something that changes a market. Companies are said to be innovative when they develop something better for their customers. This can be done by improving or developing not only the products but also their materials and means of production. More recently, businesses are choosing to innovate intensively around the processes. Proponents of this strategy argue that, competitors will find it harder to copy your product if they must also copy the processes and systems that are used to make that product. Outsourcing for innovativeness or New Product Development refers to the outsourcing of development activities for developing new products, where all the innovative part of the new product development is purchased externally according to a contract from organisational units separate from the outsourcing firm (Rundquist, 2006). Outsourcing is one of the many ways to attain the goals of new product development. Organisation use outsourcing of new product development to lower costs, cut peaks in new product development, or to get access to resources which did not previously exist within the firm. The ability of providers to assemble diverse expertise quickly will more likely have an effect on another critical strategic factor — the timing and amplitude of innovation (Whitten et al., 2010). Strategic outsourcing if properly employed may also decrease investments and risks by equal amounts, and enhance the value of the innovations in a great way (Holcomb and Hitt, 2007). The key to successful leveraging and alliance synergy is to have one's own technical people electronically linked as directly as possible to the worldwide knowledge sources, publications, databases, and research centers where such work is performed. Fortunately, researchers tend to exchange knowledge freely at this level (Quinn, 1999). But equally important, a supplier can instantly provide a critical infrastructure

for introduction or diffusion of innovations to new markets. Lichtenthaler (2011) found out that it is increasingly becoming a critical part of strategic management to outsource innovation and new product development. However, there is still a grey area, with a lot of heated debate on whether outsourcing innovation may expose the firm to business risk. Such risk includes spillage of business secrets and formulas, as well as the potential of the supplier becoming a competitor. Cox (2014) outlines some common outsourcing mistakes, one of which is the failure to understand pre- and post-contractual power and leverage, and its relationship to moral hazard and lock-in. Other mistakes are a lack of a robust exit strategy, lack of constant monitoring and idiosyncratic approaches by managers. The history of outsourcing in the information technology industry is a good example of how companies can make deadly mistakes when outsourcing. In the 1980s, IBM decided to outsource two strategically critical assets in the PC supply chain - the PC operating system to Microsoft and microprocessor to Intel. The control of these two supply chain resources allowed Microsoft and Intel to make double-digit returns. On the other hand, IBM was unable to make any significant returns from the design and manufacture of PCs leading to the sale of the business unit to a Chinese company (Cox, 2014). What is perhaps most intriguing about this case is that at the time of the decision, IBM was a world-leader in software development and was developing its own operating system, OS2. At that time, IBM owned about 40 percent of Intel's stock, which it then sold, allowing Intel to be the single source provider of the microprocessors for its PCs (Lichtenthaler, 2011). As Cox (2014) puts it, two better examples of a failure to understand the need to insource because of the strategic importance of particular supply chain resources could not be found. IBM also committed the same mistake with two other in-house supply chain resources. When some of its German staff originally developed the idea

for enterprise resource planning (ERP) systems, IBM's top management viewed this as non-strategic, thus neglecting it. This eventually led to the creation of SAP ERP by its former staff. Today SAP is the most widely sold ERP in the world. When the company sold off all its internal router business to Cisco Systems, it made Cisco a strong player, retaining only the after-sales service support for Cisco equipment (White and Bruton, 2011). In as much as outsourcing for innovation is an increasing trend and a welcome one, when a company goes wrong in understanding which assets are critical and of strategic importance it is likely to suffer serious financial consequences. In 1992 and 1993, prior to the Enron and WorldCom fiascos, IBM recorded two of the highest annual corporate losses in the USA (White and Bruton, 2011). The story above regarding the woes of IBM's outsourcing trap illustrates just how risky outsourcing for innovation can be if not properly planned for. This is a classic example of a terrible combination of reckless innovation drive and poor understanding of a company's core business. When the management of a company fails to evaluate the value chain activities and determine which ones are critical to the success of the company, outsourcing can be a deadly choice. Therefore, Cox (2014) advocates for a careful approach to outsourcing of innovation.

2.11.4 Outsourcing for Flexibility and Competitive Advantage

Recent empirical work examining the impact of outsourcing and organizational flexibility on performance finds that organizational flexibility or, as Cheng (2011) puts it, organizational modularity, leads to superior industry-level profitability and efficiency in the manufacturing sector. According to Cheng et al. (2014), the outsourcing aspect of the organizational flexibility strategy exists at the operational level of a focal firm's supply network. The contemporary relationship that firms enjoy with their business environment is conditioned by the technological advancements

and the rapidly changing economic environment. Therefore, successful businesses must deal with these constant alterations in their environments by making some qualitative variations in their style of management, their culture, their strategy and their organizational structure. Therefore, structure follows strategy (Kotter and Heskett, 1992). Including outsourcing in the corporate strategy facilitates the transition towards flexible organizational models leading to the virtual corporation. Though quite popular today, this transitional process towards a virtual organization does not break free of some uncertainties affecting its conceptualization and empirical analysis. In their study of the manufacturing sector in Nigeria, Akewushola and Elegbede (2012) found that “From a strategic standpoint, outsourcing allows the firm to concentrate its efforts on consolidating and expanding its core competences. In a study conducted by Waugh and Luke (2011) on South African manufacturers, the findings with regard to the expected benefits and listed reasons for their outsourcing showed that 77 per cent of the respondents outsourced logistics to a large or moderate extent due to the need to focus on core competencies. Those that outsourced due to geographical coverage followed closely at 76 percent with those who outsourced due to customer service pressure closely at 73 per cent. Other reasons for outsourcing which carried below average weight were cost cutting pressures, lack of internal capacity and labor relations pressures. From this study we can infer that one of the main drivers for outsourcing strategy today is the need to focus on core competencies. In a highly globalized and competitive market, organizations must strive to be innovative and agile enough to meet the ever evolving customer demands. Therefore, competitive advantage founded on organizational capabilities and strategies may result in better quality, efficiency and flexibility (Maku and Iravo, 2013). Today’s global corporation is under pressure to continuously pursue mass customization and

flexibility while reaping from economies of scale. This simultaneous and constant search for a system's flexibility, responsiveness and reliability on the one hand, and low costs on the other, has led to the reconfiguration of the design and production activities and has therefore birthed the changes in the overall supply chain management discipline (Smith, 2010). The strategic concept of outsourcing works by analyzing a company's ability to compete, its competitive advantages, and its competitive position when compared to its competitors. According to Welch and Nayak (1992), the Twentieth century Corporation had been approaching outsourcing in a near-sighted manner with regard to past decisions. Then outsourcing was viewed as a tactical instrument par excellence, an instrument for cost reduction. Welch and Nayak (1992) further encourage managers to take a strategic viewpoint so as to achieve better results. Contractor et al. (2010) observe that, "with growing complexity of products and services, even the largest companies no longer have all the diverse components of knowledge within their own organization, or personnel, to be competitive in research, production, and marketing. Therefore, the obviously increasing need for companies to let go of non-core activities so as to free organizational resources and capabilities and concentrate on the core activities of the organization.

2.11.5 Outsourcing for Better Efficiency

In their study of the manufacturing sector in Nigeria, Akewushola and Elegbede (2012) found that outsourcing has operational advantages such as increased efficiency as a result of activities being carried out by specialized firms, and reduction in permanent staff, which then became variable costs related to the level of activity. They also noted the demerits of outsourcing being the loss of control of activity done through outsourcing, the transfer of sensitive information, the possibility of exorbitant

price increase by the suppliers at a future date, along with fluctuations in quality. Some firms have employed outsourcing as a short-term solution to avoiding the rigidities caused by labor laws. Although outsourcing labor management to able providers may result in a consistent pool of more professional and motivated workers, these firms limit themselves by viewing outsourcing merely as a simple tactic of freeing themselves of permanent staff and the legislative pressures associated with them (Mulama, 2012). The volume of literary work in this area has demonstrated that in most cases the strategic suppliers will beat the in-house team on cost. This is because the supplier will mostly offer substantially improved terms and conditions if the buyer is willing to enter into long-term rather than short-term relationships, especially if these are single sourced (Contractor et al, 2011). Nordin (2008) 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. Therefore, if done well, the strategic outsourcing relationship can result in increased operational efficiency.

2.12 IMPLEMENTING OUTSOURCING – THE OUTSOURCING LIFE CYCLE

In outsourcing, it can be accomplished by using a process-driven approach by providing a systematic look at the “how-to” details of developing and outsourcing plan. For the management to be thorough in the outsourcing relationship, the steps in the process need to be followed. Because the components of outsourcing process do not change over time or between projects, there is the need to follow it. However, the only process that changes is the effectiveness and efficiency of the process.

The first stage is the strategic assessment after which the project solutions would have to be identified as suitable for outsourcing. This involves prioritizing the company's needs by conducting a thorough needs analysis. The third is soliciting for bids from potential outsourcing organisations. This is a crucial stage and requires a structured framework to guide the company. After an outsourcing vendor is chosen, a contract is drawn which is signed by both parties. The outsourcing process is cyclical and it needs to be followed in orderly manner.

2.13 HOW TO SELECT AN OUTSOURCING VENDOR?

In outsourcing, it can be accomplished by using a process-driven approach by providing a systematic look at the “how-to” details of developing and outsourcing plan. For the management to be thorough in the outsourcing relationship, the steps in the process need to be followed. Because the components of outsourcing process do not change over time or between projects, there is the need to follow it. However, the only process that changes is the effectiveness and efficiency of the process. The gathering of information on the potential outsourcer begins by contacting organisations or firms that have dealt with the outsources and can serve as referencing for the outsourcing candidates (Michela and Carlotta, 2011). Also the technical possibilities of producing the product/service and the management's capacities are the most important criteria for choosing the outsourcers. Another important factor is that size of the outsourcer whether it is a large firm or small firm. This is very important because an outsourcee would have to know this especially depending on the volume of the activities to outsource. The geographical distance between outsourcee and supplier can be important in some cases and become a determining factor when emergency actions required (Bragg, 2006). Also the age of the outsourcing vendor is

of much importance. This is because with age comes experience and the new firms also are flexible, offer better services and frequently innovate but are also vulnerable.

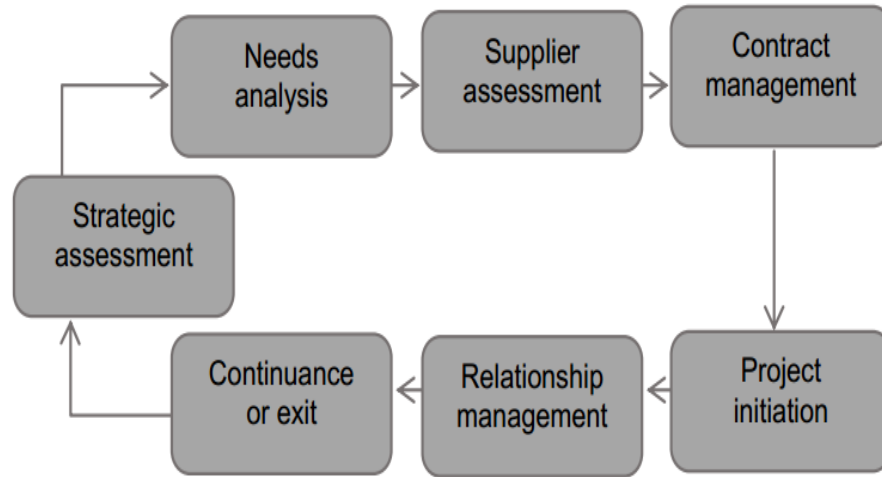


Figure 2.1 Outsourcing life-cycles

Source: (Hila and Dumitrascu, 2014).

Outsourcing can be implemented using a process-driven approach when outsourcing provides a systematic look at the ‘how-to’ details of developing an outsourcing plan. In order to ensure that organisations are been thorough in the management of outsourcing relationship, the steps in the process must be followed. The outsourcing life cycle is made up of the following stages which are presented in the above figure:

- Strategic assessment
- Needs Analysis
- Vendor Assessment
- Negotiation and Contract Management
- Project initiation and transition
- Relationship management
- Continuance modification or exit strategies

2.14 SUMMARY

This chapter discussed the evolution of the Metro Mass Transit Unit, the concept of outsourcing, the theories that support outsourcing, the forms of outsourcing, the risks involves in outsourcing, and the effects of outsourcing on organisational performance among other. Expansion of business, customer satisfaction, cost reduction; competitive advantages were some of the benefits of outsourcing that were also discussed in this chapter. The next chapter would be used to discuss the research methods that would be used to undertake this research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The previous chapter reviewed literature in relation to the aim and objectives and set the pace for the development of a survey from which respondents were sought. This chapter encompasses the research design adopted for this study in Metro Mass Transit Unit. Major themes including philosophical considerations, research approach, research design, research strategy, data collection techniques and the data analysis.

3.2 PHILOSOPHICAL CONSIDERATION

The philosophical considerations of a research study are very vital for both the shaping of the design of the research and for clarifying the various research approaches taken. Researchers are able to provide an acceptable explanation to the process of research and defend the results (Kincheloe and Berry, 2004). Research credibility can be reinforced when the methodology selected corresponds to the questions set for the research (Sikes, 2004). Wilson and Stutchbury (2009) indicates that the philosophy underpinning the justification of a research methodology should be made visible as this can strengthen the thoroughness of research. The philosophical matters of ontology, epistemology, axiology and methodology assumptions needs to be addressed explicitly since they shape the choice of research instruments (Christou et al., 2008).

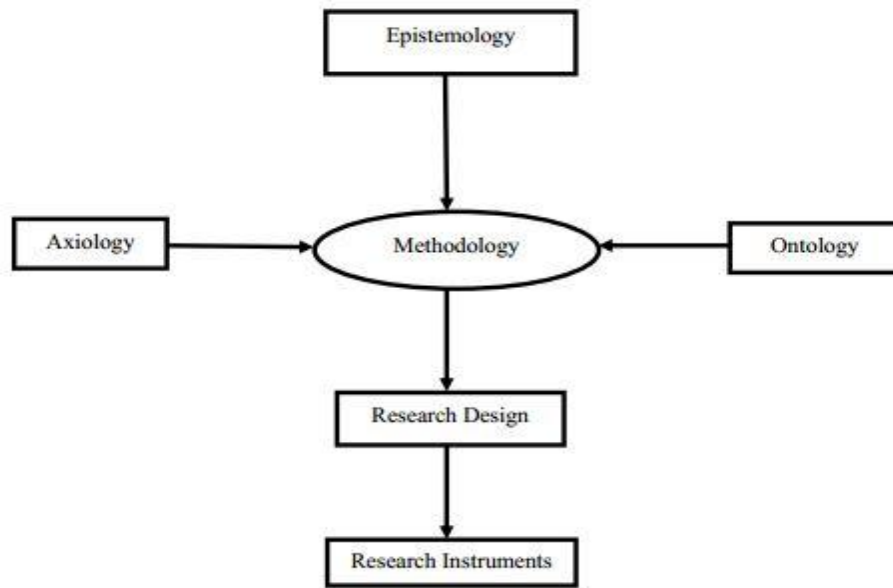


Fig 3.1: Foundations of Research

Antwi –Afari (2015)

3.2.1 EPISTEMOLOGICAL CONSIDERATIONS

Epistemology is the basis on which something is believed to be right resulting from the philosophical study of knowledge (Oliver, 2010). The choice of a research study taking into consideration the purpose and goals is dependent on the epistemological stance of the researcher (Snape and Spencer, 2003). Campana (2010) asserts that epistemology informs the methodologies about the nature of knowing or about what counts as fact and where knowledge is to be sought. Epistemological position can be positivist or interpretivist. The positivist position advocates for the application of natural science method as the study of social reality and beyond. Interpretivist is contrary to the positivist and hence critical to the application of scientific model to social study. The researcher is immersed in the research situation and the value and

beliefs of the researcher becomes the driving force in the interpretations of findings (Fitzgerald and Howcroft, 1998).

3.2.2 ONTOLOGICAL CONSIDERATION

Grix (2004) defines ontology as the study of requirements and assumptions that are made about the nature of social reality, claim concerning the existence of something, its resemblance, what units make it up and the interaction between those units. Sikes (2004) added that researchers can only observe knowledge, measure and quantify it if their assumptions are that the knowledge is real, impartial and exists in the world to be gathered. The researcher is mostly viewed from the “realist” or “idealist” perspective when considering ontology (Creswell, 2009).

3.2.3 AXIOLOGY

Axiological positioning is concerned with values. Creswell (2009) established two values concerned with the axiological consideration namely “value—freedom” and “value-laden”. Saunders et al. (2009) defines axiology as the value of knowledge and perspective of the researcher on the role of value in the research. In value-laden research, the researcher is motivated by their own skill, interests, values and beliefs resulting in the innate biases of what to study and how to study. The value-free research is where what to study is not determined by human interests and beliefs.

3.2.4 PHILOSOPHICAL POSITION

This study leans towards the positivist paradigm of the epistemological approach this is because through the accumulation of verified facts, scientific knowledge is established (Bryman, 1992). At the ontological level, this research adopted a realist position. This is because the factors for to outsource and the strategies in outsourcing

are largely in literature. Axiologically, this research is value free since the choice for what to study and how to study is examined by objective criteria.

3.3 RESEARCH APPROACH

Research design is the arrangement of conditions for collecting and analyzing data which will be relevant to the researcher in the most economical manner. Yin (2009) defines research design as the context within which data is collected, processed, analyzed and used for a study. The various approaches to research design are Deductive and Inductive research. The Deductive approach deals with what is already known as existing theories or ideas about a subject by identifying the theory and testing through observation to confirm the theory (Creswell, 2003). Inductive approach used mainly in theory building begins with the study of specific instances of societal issues, through the identification and development of patterns from the analysis of data gathered (Creswell, 2003). The study adopted a deductive design because this research intends to determine and report the way things are done which in this case is the effects of outsourcing on the organizational performance of Metro Mass Transit Limited in Ghana. Polit et al (2001) define research design as the general arrangement for conducting the study to enable you answer research questions.

3.4 RESEARCH STRATEGY

Newman and Benz (1998) indicated that there are methods namely qualitative, quantitative and mixed methods. Creswell (1994) defined quantitative methods as a method that considers the words of past actions and records to their mathematical significance and measures the outcomes of these observations. Denzin and Lincoln (2000) defined qualitative research to involve an interpretative, naturalistic approach

to its subject matter, efforts and put sense in making or to interpret phenomena in terms of the meaning brought by people. Malhotra (2007) defined quantitative research as measuring the data and characteristically applying some form of statistical analysis. Ghauri and Gronhaug (2002) defined qualitative methods as seeking information with the purpose of interpreting, examine and understanding the phenomena by means of an inside perspective. The research approach for this study is quantitative.

3.5 RESEARCH DESIGN

Bryman (2008) defines research strategy as the general orientation to the conduct of the research. Research strategy provides the direction of the research as well as the process by which the research is conducted. Research strategy is an overall design of how to respond to the research questions that have been set (Saunders et al., 2007). According to Yin (2003), the selection of strategy for a research should satisfy three conditions which are the type of research question, the extent of control that the researcher exercises over actual behavioral events, and the degree of attention on existing or past events. Case study, experiment, survey, action research, grounded theory, ethnography, and archival research are examples of the research strategies (Fellows and Liu, 2008; Saunders et al., 2009). Cohen et al. (2005) defined survey as the gathering of data with an aim of describing the nature of existing conditions or establishing standards for which existing conditions can be compared.

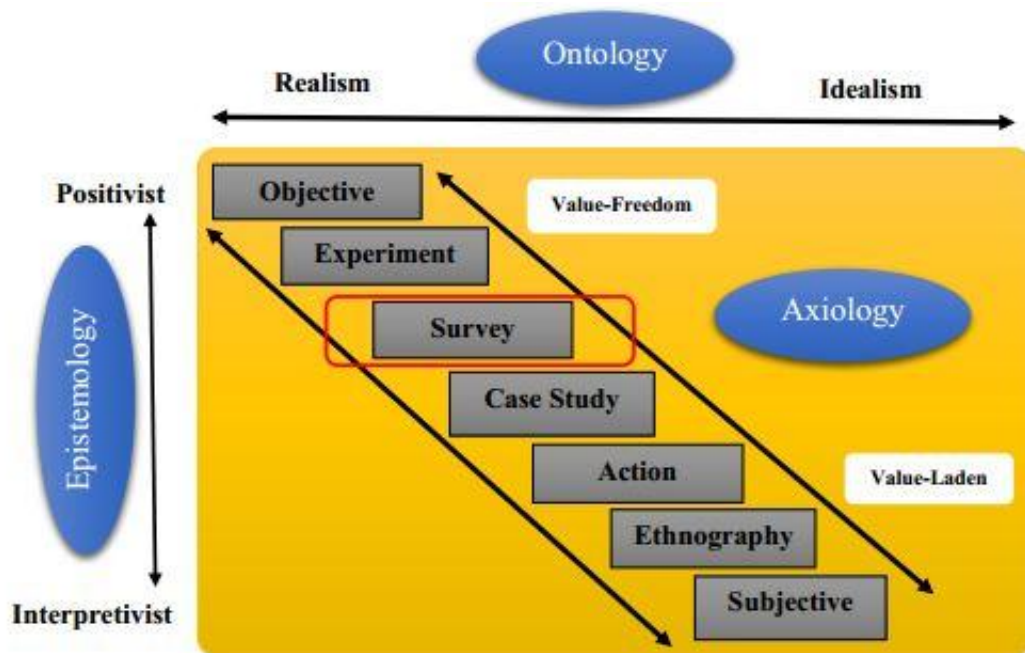


Figure 3.2 Research Philosophical Considerations

Pathirage et al (2005)

3.5.1 Experiment Research Strategy

The purpose of an experiment is to study causal links whether a change in one independent variable produces a change in another dependent variable (Hakim, 2000). Experiments normally are used in exploratory and explanatory research to answer “how” and “why”. Descombe (2007) defines experiment as an empirically undertaking investigation to observe the properties of a relationship between specific factors within controlled conditions.

3.5.2 Surveys

Surveys gather data that seek to describe the nature of existing conditions or establishing the standards for which existing conditions can be compared (Cohen et al., 2005). Surveys are population as they allow the collection of a large amount of

data from a sizeable population in a highly economical way. Survey allows you to collect quantitative data which can be analysed quantitatively using descriptive and inferential statistics. Surveys establish the relationship between variables and production of models that depicts these relationships.

3.5.3 Case Studies

Case studies emphasize on a particular phenomenon with the ultimate goal of providing an in-depth account of events, experiences or processes occurring in that particular instance (Denscombe, 2007). Robson (2002) defines case study as a strategy for conducting research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Case studies could be a single case study, multiple case study, holistic case study or embedded case. A single case study refers to the collection of detailed information about a particular participant or small group of people. Single case provides you with the unique opportunity of observing and analyzing a phenomenon that few have considered before. The rationale for multiple cases is to identify if the findings for the first case occur in other cases as a consequence and the need to generalize from these findings. Yin's second dimension of case study is holistic versus embedded. Holistic case study is where your research is concerned with only the organisation as a whole. Also in holistic case study where you look at the organisation as a whole, you may want to look at some sub-units of the organisations, and then your case will inevitably involve more than one unit of analysis. This would then be called embedded case study. The selected strategy for this study is a single case study where the Metro Mass Transit Limited as an organisation would be used for this research.

3.6 RESEARCH INSTRUMENT

Research instrument refers to tools used for the collection of data during a study. Questionnaire is the convenient tool often used for data collection for its ability to provide cheap and effective data collection in a manner that is structured and manageable (Wilkinson and Birmingham, 2003). Questionnaires could be closed or open-ended questionnaires. The questionnaires were structured into section A and section B. Section A would be used to ask questions on the respondent's background. Section B was used to ask questions related to the functions that the Metro Mass Transit Limited outsource, the effects of the outsource functions on its profitability and the effect of outsourcing on the overall performance of the Metro Mass Transit Unit.

3.6.1 Structure of Questionnaires

A questionnaire was designed and distributed to the respondents. The questionnaire was sectioned into two parts; section A and section B. Section A was background data of the respondents. Questions asked were position held in MMT, the department they work, the number of years spent in MMT. Section B was used to ask questions related to the functions that MMT outsource their reasons for outsourcing and its effects on the company's profitability.

3.7 POPULATION DEFINITION

Saunders et al (2007) defines population as a group of individuals, persons, objects or items from which samples are taken for measurement. Population is defined as a group of individuals to which results, discussion of the results and their implication of the study are to be generalized (Sampson, 2012). The target population for this research

are the managers at Metro Mass Transit Limited. This is because they would have the requisite knowledge on the functions that they have outsourced the reasons for outsourcing and the benefits they are deriving, if any and its effect on MMT profit.

3.8 SAMPLING TECHNIQUES AND SAMPLE SIZE

Sampling provides the means by which data is collected from a sub-group rather than the entire population (Saunders et al., 2009). The purpose of sampling is to obtain a manageable size of the population for the study (Kothari, 2004). Sampling techniques are divided into probability sampling and non-probability sampling. Probability sampling is considered as the best because it mitigates the possibility of unrepresentative sample. A non-probability sampling technique has the likelihood of each case being selected as unknown (Saunders et al., 2009). Probability sampling are simple random, stratified random sampling, systematic sampling and cluster sample (Fellows and Lui, 2008; Saunders et al., 2009). Non-Probability sampling techniques are quota, snowball, purposive, and convenience sampling. Hence, the sampling for this research was purposive sampling specifically. Purposive sampling is the technique that carefully selects the sample to reflect the purpose of the investigation. The researcher used purposive sampling to select a sample of the management at the Metro Mass Transit Unit. A sample size of 40 was used in this research, but only 30 people responded.

3.9 DATA ANALYSIS

The research will adopt two forms of data analysis which are descriptive and inferential statistics (Naoum, 2013). Graphs, tables, means, modes and charts are used for descriptive statistics. Data processing involves editing the questionnaires, coding and entering them into the computer for analysis. The Statistical Programme for

Social Scientists (SPSS) version 20 was used to process the data. The analysed data are presented in the form of tables and figures. The questionnaires were coded, then data entered into the SPSS programme, and were analysed. Data from questionnaires will be summarized, coded, tabulated and analysed. Editing will be done to improve the quality of data coding. Descriptive statistics and mean score ranking will be used in the data analysis.

3.9.1 Test of Validity and Reliability

The quality of the data collected was further tested by checking for the reliability and validity of the data. The Cronbach's Alpha is used in checking the internal consistency of a test scale which is expressed as values between 0 and 1. According to several reports the acceptable range for the alpha values should be between 0.70 and 0.95 (Tavakol and Dennick, 2011)

3.10 ETHICAL CONSIDERATIONS

In order to abide by the ethics of research, the study took ethical issues into consideration. In order to assure respondents of anonymity, names were not required on the questionnaires. It was also done in order not to match responses to the actual persons. Respondents were however assured of their confidentiality, privacy and consent.

3.11 SUMMARY

This chapter described the methodology that will be used for this research by highlighting on the type of research strategy, the population, the sample size, the research instrument and subsequently the research ethics used in gathering data.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter is dedicated to the analysis of the data obtained from the field. The first section describes the information obtained on the respondents that gives credibility to the study. This chapter also demonstrates the results from every section of the survey instrument. These results from the analysis were discussed thoroughly by the researcher.

4.2 DEMOGRAPHIC BACKGROUND OF RESPONDENTS

The reliability of any research is partly dependent on the source of data and the rigorousness of the analysis employed. In order to provide reliability and have confidence from the findings, questions were posed in the questionnaire that aimed at gathering information on the respondents. From Table 4.1 46.7% of the respondents are in the public service. 20% of the respondents are in the civil service while 33.3% are in the private sector category. The highest number of respondents (33.3%) had a degree in BSc as their highest level of education. The least number of respondents (6.75) had HND as their highest level of education

Table 4.1 Background Information on Respondents

Background Information	Frequency	Percentage
Sector category		
Public Service	14	46.7%
Civil Service	6	20%
Private	10	33.3%
Highest level of education		
HND	2	6.7%
BSc	10	33.3%
MSc	5	16.7%
PhD	6	20.0%
MBA	7	23.3%
Years of experience		
Less than 4 years	2	6.7%
4-8 years	7	23.3%
8-12 years	14	46.7%
12-16 years	7	23.3%

Source: Field Survey, 2018

4.4 REASONS FOR OUTSOURCING

Bailey et al. (2008), defined outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. The key reason for outsourcing include financial reasons such as cost reduction (Whitten et al., 2010), financial enhancement (Alangehband et al., 2011) and replacing principle expenses with periodic payments. Therefore, it was necessary to identify the reasons why Metro

Mass Transit outsource some of their activities or functions. The factors which had the highest mean (3.70) was *to free up the company's resources so as to focus on its core competencies*. *To increase efficiency* was ranked as second with a mean of 3.53. *To take advantage of the specialist's resources, capacity and expertise* was ranked as third with a mean of 3.17 and to reduce risk associated with in-house production was ranked as fourth with a mean of 3.17. Both the third and fourth ranked reasons had equal means, therefore, their respective standard deviation was used in ranking them where the third ranked reason had a standard deviation of 1.416 and the fourth ranked reason had a standard deviation of 0.874.

Table 4.2 Ranking of Reasons for outsourcing

	Mean	Std. Deviation	Ranking
To free up the company's resources so as to focus on its core competencies	3.70	1.368	1
To increase efficiency	3.53	1.106	2
To take advantage of the specialists' resources, capacity & expertise	3.17	1.416	3
To reduce risk associated with in-house production	3.17	.874	4
To avoid labor issues	3.13	1.167	5
To improve the company's competitive position	3.03	1.273	6
To reduce time taken to develop new products	3.03	1.033	7
To Reduce cost	3.03	1.402	8

Source: Field Survey, 2018

4.3 ACTIVITIES THAT ARE OUTSOURCED

Respondents were asked if Metro Mass Transit Unit outsource any of their functions or activities by responding either “yes” or “no”. The responses have been tabulated as depicted Table 4.2, 100% of the respondents agreed that the Metro Mass Transit Unit outsource some of their activities or functions.

Table 4.3 Outsourced Activities

	Frequency	Percentage
Yes	30	100%
No	0	0%

Source: Field Survey, 2018

4.3.1 Outsourced Activities

According to Chen and Li (2002), mean score ranking technique is used to test the significance of factors. Mean score method was used to prioritize the institutional or bureaucratic barriers in decentralization. Factors with the lowest standard deviation are given the highest rank in situations where two or more factors have the same mean score (Mao et al., 2015). On a scale of 1-5, respondents were asked to tick the various types of activities that the Metro Mass Transit Unit outsources to other outsourcing vendors. From Table 4.3, *cleaning of our facilities* are *outsourced* (mean=4.33) was ranked first. *Most of our security personnel are outsourced* was ranked second with a mean of 4.07. *Most of the IT services/functions are outsourced by or institutions were* ranked third with a mean of 3.7. *The institution heavily relies on outsourcing facility management services* was ranked as fourth with a mean of 2.67, with *Some human resource functions are outsourced at our institutions* ranking fifth with a mean of 2.6. This means that in the Metro Mass Transit Unit, they depend heavily on outsourced cleaning companies to clean their premises on a daily basis but do not depend heavily on the outsourced vendors for human resource functions. According to Hsia (2011), facility management involves a number of outsources activities like cleaning, catering, security, transportation and building maintenance.

Table 4.4 Ranking of Activities outsourced by Metro Mass Transit Unit

	Mean	Std. Deviation	Ranking
The cleaning of our facilities are outsourced	4.33	0.994	1
Most of our security personnel are outsourced	4.07	1.143	2
Most of the IT services/ functions are outsourced by our institution.	3.17	1.206	3
The institution heavily relies on outsourcing facility management services	2.67	1.155	4
Some human resource functions are outsourced at our institutions.	2.6	1.133	5

Source: Field Survey, 2018

4.5 THE EFFECT OF OUTSOURCING ON THE COMPANY'S PROFITABILITY

The quality of the data collected was further tested by checking for the reliability and validity of the data. The Cronbach's Alpha is used in checking the internal consistency of a test scale which is expressed as values between 0 and 1. According to several reports the acceptable range for the alpha values should be between 0.70 and 0.95 (Tavakol and Dennick, 2011). The results of the validity and reliability test of the

data received had an alpha value of 0.901 which falls within the acceptable range. According to Narasimhan and Talluri (2009) a well-organized and executed outsourcing arrangements are known to have substantial impact through lower costs, higher rates of innovation and enhanced customer service ultimately leading to improved and sustained profitability. Innovativeness is a major contributor to improved performance first with an RII of 0.813. Sometimes innovation can be difficult due to lack of funds or in-house capacity was ranked second with an RII of 0.747. We need to deliver newer products and services to maintain our competitiveness was ranked third with an RII of 0.740. The company needs to concentrate on its core functions to remain competitive was ranked fourth with an RII of 0.720. Our focus on our core competencies has been a major contributor to improved performance was ranked fifth with an RII of 0.713.

Table 4.5 Ranking of Effect of Outsourcing on the Company's Profitability

STRENGTH	WEIGHTING					Total	ΣW	RII	
	1	2	3	4	5				
16. Innovativeness is a major contributor to improved performance	1	1	2	17	9	30	122	0.813	1
11. Sometimes innovation can be difficult due to lack of funds or in-house capacity	3	1	2	19	5	30	112	0.747	2
9. We need to deliver newer products and services to maintain our competitiveness	4	1	6	8	11	30	111	0.740	3
17. The company needs to concentrate on its core functions to remain competitive	1	1	10	15	3	30	108	0.720	4
22. Our focus on our core competencies has been a major contributor to improved performance	1	6	5	11	7	30	107	0.713	5
20. Outsourcing has enabled our company to concentrate its efforts on building and expanding its best-in-world competencies	3	5	2	13	7	30	106	0.707	6

13. Outsourcing has helped us to create and deliver value than our competitors	1	2	11	14	2	30	104	0.693	7
23. Our focus on core competencies has created competitive advantage	4	3	5	11	7	30	104	0.693	8
19. The best way to concentrate on core functions is to outsource the non-core functions	1	4	14	3	8	30	103	0.687	9
18. My company uses outsourcing as a strategic tool to free up the company's resources so as to focus on its core competencies	3	7	4	8	8	30	101	0.673	10
12. We outsource some innovation to other companies that can do it better and faster	5	3	1	19	2	30	100	0.667	11
4. Since we started outsourcing, we have seen a great improvement in efficiency	1	9	6	8	6	30	99	0.660	12

24. Our profitability is higher than our competitors	3	8	6	5	8	30	97	0.647	13
10. The company is keen on new product development	5	1	11	10	3	30	95	0.633	14
21. Outsourcing has created flexibility in our organizational structure and strategy that has given us a competitive edge in the market	2	8	9	5	6	30	95	0.633	15
1. Outsourcing has reduced costs such as overheads and other fixed costs in my company	8	3	2	11	6	30	94	0.627	16
7. Outsourcing has created better long term performance	4	8	3	6	8	29	93	0.620	17
8. We develop new products every so often	2	7	10	9	2	30	92	0.613	18
14. Outsourcing is one way the company has innovated and remained competitive	1	10	7	10	2	30	92	0.613	19
15. Outsourcing has increased our company's flexibility for innovation	2	10	4	13	1	30	91	0.607	20

3. Outsourcing has reduced the risk of doing business	2	9	8	9	2	30	90	0.600	21
2. The cost of outsourcing is lower than the cost of acquiring more resources to do work internally	7	4	7	8	4	30	88	0.587	22
5. Outsourcing has created better short term performance	4	9	1	8	6	28	87	0.580	23
6. Outsourcing has created better intellectual value for our company in the long run	11	4	7	3	5	30	77	0.513	24

Source: **Field Survey, 2018**

Table 4.6 Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
.901	32

Source: **Field Survey, 2018**

4.6 EFFECTS OF OUTSOURCING ON THE OVERALL PERFORMANCE OF THE ORGANISATION

The results of the validity and reliability test of the data received had an alpha value of 0.881 which falls within the acceptable range. Organisations that have used outsourcing for some number of years have experienced the positives that it brings to organisations and the importance of having a well-managed plan of action for hiring a contractor or consultant for a business task (Kerns and Willcocks, 2000). A study by Sang (2010) identified that rapid expansion of companies programmes and decentralisation of their functions are as a result of outsourcing some of their functions to a third party which leads to maintaining good supplier relationship, effective and efficient internal operation and flexible production processes. There has been a significant reduction of expenditures in the institution as a result of outsourcing was ranked first with an RII of 0.713. The level of employee productivity has improved as a result of outsourcing was ranked second with an RII of 0.680. Generally, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales was ranked third with an RII of 0.679. The performance of the business is satisfactory was ranked fourth with an RII of 0.667. The company has experienced a high sales growth over the last five years was ranked fifth with an RII of 0.620.

Table 4.7 Ranking of Effects of outsourcing on the overall performance of the organization

STRENGTH	WEIGHTING					Total	ΣW	RII	Ranking
	1	2	3	4	5				
7. There has been a significant reduction of expenditures in the institution as a result of outsourcing.	3	4	4	11	8	30	107	0.713	1
8. The level of employee productivity has improved as a result of outsourcing.	3	5	6	9	7	30	102	0.680	2
6. Generally, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales	4	5	5	7	9	30	102	0.679	3
5. The performance of the business is satisfactory	4	5	5	9	7	30	100	0.667	4
3. We have a markedly high market share	1	4	18	5	2	30	93	0.620	5
1. The company has experienced a high sales growth over the last five years	4	9	8	2	7	30	89	0.593	6
2. Our customers are increasingly satisfied with our products	7	6	8	5	4	30	83	0.553	7
4. Our profitability is higher than our competitors	7	15	1	2	5	30	73	0.487	8

Source: Field Survey, 2018

Table 4.8 Reliability Statistics

Cronbach's Alpha	N of Items
.881	8

Source: Field Survey, 2018

4.7 CHALLENGES DIRECTLY ATTRIBUTED TO OUTSOURCING

Just like any business activities there are some challenges that would be faced and hence need to be identified and solved. The respondents were asked to identify some of the challenges that they are facing as a result of outsourcing some of their activities. Kotabe (1998) argued that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent variables. The demerits of outsourcing being loss of control of activity done through outsourcing, the transfer of sensitive information, the possibility of exorbitant price increase by the suppliers at a future date, along with fluctuations in quality (Musau, 2016). Lack of planning was ranked first with a mean of 3.61, Complacency on the part of the outsourced companies was ranked second with a mean of 3.52. Loss of control of activities was ranked as third with a mean of 3.48. Negative impact on employees was ranked as fourth with a mean of 3.04 and an unrealistic expectation of the outsourcing providers was ranked as fifth with a mean of 3.00. Organisations that are redundant in paying for the services of these outsourcing companies face the risk of discontinuity in the service delivery (Lyson and Farrington, 2006).

Table 4.9 Ranking of Challenges attributed from outsourcing

	Mean	Std. Deviation	Ranking
Lack of Planning	3.61	1.469	1
Complacency on the part of outsourced companies	3.52	1.082	2
Loss of control of activities	3.48	1.163	3
Negative Impact on Employees	3.04	1.296	4
Unrealistic Expectations of the Outsourcing Providers	3.00	1.206	5

Source: Field Survey, 2018

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the summary and major findings of the study, the conclusions drawn from the study and the recommendations made. The findings that were made from this study were summarized under each respective objective.

5.2 SUMMARY OF FINDINGS

5.2.1 Objective One: To identify those functions that are outsourced in Metro Mass Transit Ltd.

From the survey, it was realised that the Metro Mass Transit Unit outsource the following functions/activities; Cleaning of their facilities, security personnel, Information Technology services/functions, facility management services and some human resource functions.

5.2.2 Objective two: To assess the impact of these outsourced functions on the company's profitability.

To achieve this objective and the aim of the study eventually, the responses of the various respondent were subjected various research tools of analysis. After the analysis, it was noted all the listed effects identified in literature was actually affecting company's profitability. However, these variables were ranked in order of severity. According to targeted respondent, innovativeness is a major contributor to improve performance followed by, innovation as difficult at times due to lack of funds or in-house capacity and the need to deliver newer products and services to maintain

competitiveness were the first three main effects of outsourced function on company's profitability.

5.2.3 Objective three: To evaluate the effect of the outsourced functions on the operational performance in the organization

With the third objective also, significant literature pertaining to it was reviewed to identify the various effect of outsourced functions on the operational performance in the organization. Eight variables were identified in all and subjected to analysis. These variables were ranked in order of severity using the relative importance index tool. After the analysis, it was realized that, there has been a significant reduction of expenditure in the institution as a result of outsourcing, the level of employee productivity has improved as a result of outsourcing and generally, the growth of the firms has been steady and very satisfactory in terms return on investment and sales. These were the first three effects of outsourcing functions on the operational performance of an organization. Base on the finding, it could be noted that, outsourcing of function contributes positively more to the operational performance of an organization hence improving productivity.

5.3 CONCLUSION

In conclusion, outsourcing is a strategic activity that requires adequate planning and monitoring. Though outsourcing relieves the organisation or company and allows them to focus on their core activities, however, these outsourced vendors need to be checked on a regular basis to ensure that they are also discharging their duties effectively. Also in selecting the outsourcing vendors, the technical possibilities of producing the product/service and the management's capacities must be taken into considerations and the geographical distance between outsourcee and supplier can be

important in some cases and should become a determining factor in selecting these outsourcing vendors especially when emergency actions are required.

5.4 RECOMMENDATIONS

In order to reduce the negative perception of stakeholders on function outsourcing, it is recommended that, there should be adequate public education on the benefits of outsourcing to organizations in general. Adequate information on outsourcing should be made available for easy access by all stakeholders. Frequent workshops and training should be organized by organizations to broaden their scope of knowledge on functions to be outsourced.

5.5 RECOMMENDATION FOR FURTHER STUDIES

For future research, I would like to encourage scholars to research more on the various outsourcing vendors and assess their effectiveness.

5.6 RESEARCH LIMITATIONS

The major limitation encountered in this study was data collection from the target respondents. That is, out of 40 questionnaires distributed, only 30 of them were retrieved. Again, the managers at Metro mass Transit Limited were my main target respondents and getting them to answer questionnaires was a difficult task. This is as a result of their busy schedule and this resulted in the difficulty of retrieving data from the respondents. But the few who made time to answer the questionnaires were of great help to the study.

APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND BUILT ENVIRONMENT

DEPARTMENT OF BUILDING TECHNOLOGY

SURVEY QUESTIONNAIRE

**“SURVEY OF ASSESSING THE EFFECTS OF OUTSOURCING ON
ORGANIZATIONAL PERFORMANCE: A CASE STUDY OF METRO MASS
TRANSIT LTD**

Dear Sir/ Madam

I am an M.Sc. student at Kwame Nkrumah University of Science and Technology, Department of Building Technology currently undertaking a **“Study into assessing the effects of outsourcing on organizational performance - a case study of metro mass transit ltd”**.

The research is ongoing under the supervision of Dr De-Graft Owusu-Manu and requires a questionnaire survey to be undertaken to collect data from professionals in the road transport industry. Your experience and knowledge in the area of the research is very important and much appreciated. Information on outsourcing processes, its effects on organizational productivity, profitability, satisfaction and quality, cost reduction as well as the effect on the overall organizational performance will be obtained from the research. The information you shall provide shall be **STRICTLY**

CONFIDENTIAL and for academic purposes only and findings from this research will be made available to you on request.

I know you have a very busy schedule and this will take some time off you, I will plead that you help me with your knowledge as it means so much to the achievement of this research. I appreciate your effort and time very much in advance; kindly return the completed questionnaires to this email, rawoloh @ gmail.com.

Yours Sincerely,

Raphael Awoloh,

M.Sc. Student, KNUST

Dr. De-Graft Owusu-Manu, Project Supervisor, Department of Building Technology
(KNUST)

SECTION A: DEMOGRAPHIC BACKGROUND OF RESPONDENTS

Please, kindly respond to the questions by ticking (√) the appropriate box for each item.

- 1. Sector category: Public Service Civil Service Private

- 2. Highest level of education: HND BSc MSc PhD other
.....

- 3. Years of experience: Less than 4 years 4-8 years 8-12 years 12-16 years

 Above 16 years

- 4. Do your Institution outsource Yes No

- 5. **If yes**, which type of functions: Please indicate in the table below the appropriate outsourced functions in MMT

SECTION C: ACTIVITIES THAT ARE OUTSOURCED

Using a scale of 1 -5 Please tick (√) in the space provided the answer from the alternatives, **1- Strongly Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree**

Outsourced Activities	1= Strongly Disagree	2= Disagree	3= Uncertain	4= Agree	5= Strongly Agree
Most of the IT services/ functions are outsourced by our institution.					
Some human resource functions are outsourced at our institutions.					
The institution heavily relies on outsourcing facility management services					
Most of our security personnel are outsourced					
The cleaning of our facilities are outsourced					

6. SECTION C: REASONS FOR OUTSOURCING

Using a scale of 1 -5 Please tick (√) in the space provided the answer from the alternatives, **1- Strongly Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree**

S/N	Why does your company outsource	1= Strongly Disagree	2= Disagree	3= Uncertain	4= Agree	5= Strongly Agree
1	To Reduce cost					
2	To reduce risk associated with in-house production					
3	To increase efficiency					
4	To reduce time taken to develop new products					
5	To take advantage of the specialists' resources, capacity & expertise					
6	To free up the company's resources so as to focus on its core competencies					
7	To improve the company's competitive position					
8	To avoid labor issues					

7. SECTION D: THE EFFECTS OF OUTSOURCING ON THE COMPANY'S PROFITABILITY

Kindly, indicate using a scale of 1 -5 the appropriate answer from the alternatives, **1- Strongly**

Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree. Please tick (√) in the space provided.

Factors	1= Strongly Disagree	2= Disagree	3= Uncertain	4= Agree	5= Strongly Agree
1. Outsourcing has reduced costs such as overheads and other fixed costs in my company					
2. The cost of outsourcing is lower than the cost of acquiring more resources to do work internally					
3. Outsourcing has reduced the risk of doing business					
4. Since we started outsourcing, we have seen a great improvement in efficiency					
5. Outsourcing has					

created better short term performance					
6. Outsourcing has created better intellectual value for our company in the long run					
7. Outsourcing has created better long term performance					
8. We develop new products every so often					
9. We need to deliver newer products and services to maintain our competitiveness					
10. The company is keen on new product development					
11. Sometimes innovation can be difficult due to lack of funds or in-house capacity					
12. We outsource some innovation to other companies that can do it better and faster					
13. Outsourcing has helped us to create and deliver value than our competitors					

14. Outsourcing is one way the company has innovated and remained competitive					
15. Outsourcing has increased our company's flexibility for innovation					
16. Innovativeness is a major contributor to improved performance					
17. The company needs to concentrate on its core functions to remain competitive					
18. My company uses outsourcing as a strategic tool to free up the company's resources so as to focus on its core competencies					
19. The best way to concentrate on core functions is to outsource the non-core functions					
20. Outsourcing has enabled our company to concentrate its efforts on building and expanding its					

best-in-world competencies					
21. Outsourcing has created flexibility in our organizational structure and strategy that has given us a competitive edge in the market					
22. Our focus on our core competencies has been a major contributor to improved performance					
23. Our focus on core competencies has created competitive advantage					
24. Our profitability is higher than our competitors					

8. SECTION E: EFFECTS OF OUTSOURCING ON THE OVERALL PERFORMANCE OF THE ORGANISATION

Kindly, indicate using a scale of 1 -5 the appropriate answer from the alternatives, **1-Strongly**

Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree. Please tick (√) in the space provided.

How has your company been performing?	1= Strongly Disagree	2= Disagree	3= Uncertain	4= Agree	5= Strongly Agree
1. The company has experienced a high sales growth over the last five years					
2. Our customers are increasingly satisfied with our products					
3. We have a markedly high market share					
4. Our profitability is higher than our competitors					
5. The performance of the business is satisfactory					
6. Generally, the growth of the firm has been steady and very					

satisfactory in terms of return on investment and sales					
7. There has been a significant reduction of expenditures in the institution as a result of outsourcing.					
8. The level of employee productivity has improved as a result of outsourcing.					

9. SECTION E: WHAT CHALLENGES DO YOU CURRENTLY FACE THAT CAN BE DIRECTLY ATTRIBUTED TO OUTSOURCING?

Kindly, indicate using a scale of 1 -5 the appropriate answer from the alternatives, **1- Strongly**

Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree. Please tick (√) in the space provided.

Challenges	1= Strongly Disagree	2= Disagree	3= Uncertain	4= Agree	5= Strongly Agree
1. Negative Impact on Employees					
2. Unrealistic Expectations of the Outsourcing Providers					
3. Loss of control of activities					
4. Lack of Planning					
5. Complacency on the part of outsourced companies					

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