

**Effects of Outsourcing on Organizational Performance**  
**The Case of Selected Financial Institutions in Kumasi**

By:

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A Thesis

submitted to the School of Graduate Studies,  
Kwame Nkrumah University of Science and Technology  
in partial fulfillment of the requirements for the degree of

**MASTER OF BUSINESS ADMINISTRATION (HRM OPTION)**

School of Business, KNUST

College of Art and Social Sciences

AUGUST 2012

## DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Human Resource Management option) and that, to the best of my knowledge, it contains no material which has been accepted for the reward of any other degree of the University, except where due acknowledgement has been made in the text‘.

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## **ABSTRACT**

The research examined the effects of outsourcing on the performance of organizations. Substantial uncertainties remain as to how outsourcing practices affect organizational outcomes, whether some practices have stronger effects than others, and whether complementary or synergies among such practices can further enhance organizational performance. The objectives of the study were to find out the types of activities outsourced by the organizations, the reasons for outsourcing and to evaluate the effects of the outsourced activities on the organizations performance. The methodology was based on qualitative and quantitative analysis of the financial data of the selected institutions for a period of four years and the use of other moderating factors to help evaluate the organizations performance. The research employed the use of questionnaires which included the dichotomous and the rating scale which was easier to administer to the respondents and also saved time. The main function or personnel being outsourced that emerged from the study was security and then cleaning activity. These outsourced functions cut across all the institutions selected for the study. It also emerged that, the key factors that influenced the choice to outsource a function/activity by management was to reduce cost and also to allow staff to concentrate on the core activities of the institutions. The activities outsourced were peripheral activities that could easily be peeled off without much disorientation to the whole organizational set up. Security was found to be the most outsourced function and interestingly there is a spring up of many security companies. Government is therefore entreated to formulate policies to enhance the operations of these companies to enable them create job opportunities to our teeming unemployed youth to help develop Ghana.

## **ACKNOWLEDGEMENT**

I wish to thank everyone who has helped me in my educational career. I wish to thank my: wife Victoria Takyi, children, Paa Kwame, PaaKwasi, Owuraku and MaameKonadu for making the necessary adjustments to their schedules and activities at home to ensure I had time to focus on this paper. A big thank you also goes to my brothers, sisters and friends for believing in me. I cannot afford not to mention the invaluable support received from Ms Hannah Vivian Osei, my supervisor who under harsh time constraints allotted time to review and critique this paper and also provided valuable feedback and encouragement through the research process. Mention should also be made of Nana Kwame (Abiola) for spending time and breaking his back in typing this work.

## **DEDICATION TO**

My lovely parents, Opanin Kwame Aning and AdwoaBoaduwaah (Hagar Manu)

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**EFFECTS OF OUTSOURCING ON ORGANIZATIONAL PERFORMANCE**

**THE CASE OF SELECTED FINANCIAL INSTITUTIONS IN KUMASI.**

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Background of the Study**

The workplace today is in a state of metamorphosis with contemporary issues such as customer satisfaction, competitive advantage, revenue and expenditures, organisational culture, technological advancement, global markets, diverse customer demands and need for effective workforce with a global mindset penetrating every aspect of the organisation. Effective workforce is crucial as it is the organisation's primary player in accomplishing goals and delivering service. According to Burke & Cooper (2004), "a firm's human resource management (HRM) practices and the kind of workforce help attain organisational competitiveness." HRM is the organisational function that enhances creativity, innovation, speed, flexibility, and efficiency of the workforce to transform them into organisational assets. Human resource management is now highly recognised as a strategic lever for the organisation in creating value.

For a long time, different companies or organizations in the world are taking advantage of, and spending money and trusting external providers of human resource services in order to offer cost effectiveness and efficiency of internal human resource procedures. This is particularly important for organizations, which are considered as important players in the financial sector in any country because of the economic benefits they provide in their economic environment.

Efficiency in these institutions is a question of how well they allocate inputs such as staff, assets and subsidies to produce the maximum output such as number of loans, financial self-sufficiency and poverty outreach, (Balkenhol, 2007). Balkenhol (2010) also provide a working definition for efficiency as the optimal combination of staff time, staff number and cost of operations to respectively disburse and reach the maximum number of loans and clients, especially the deprived, while delivering a range of valued services.

In other words, when an organization pursues efficiency, it will afford management to concentrate on activities that yield more results at minimum cost to the units and to clients. Hence, attention will be given to the designing of correct product lines, effective market strategy, good targeting efficiency and the gradual removal of bottlenecks in supply. Gonzalez Vega, (2003) cited in Martinez-Gonzalez (2008) suggest that because there are potentially few technically trained staff in the field of microfinance, available funds may be misapplied. The lack of incentive packages could also influence the behaviour of staff and managers while, lapses in decision making and policy implementation, incorrect regulation and inappropriate intervention by donors, incorrect product designs and methodologies all create enormous wastes. The improvement of the microfinance sector will not suffice when wastes persist, Martinez-Gonzalez, (2008).

The business of these organizations is highly dependent upon the work force. An organization can have all the capital and resources in the world but without a workforce to have the ideas organized, produce and market a product, nothing would ever reach consumers (Turner and Turner 1995). In the long term, the application of specific human

resources outsourcing strategies has been found to be related with the performance of the organization. Moreover, where appropriate outsourcing strategies have been applied, the organizational performance has been found to be increased. Outsourcing practices affect organizational outcomes, whether some practices have stronger effect than others, and whether complementary or synergies among such practices can further enhance organizational performance.

### **1.1 Statement of the Problem**

Business is highly dependent upon the work force. An organization can have all the capital and resources in the world but without a workforce to have the ideas organized, produce and market a product, nothing would ever reach consumers (Turner and Turner 1995). Substantial uncertainty remains, as to how outsourcing practices affect organizational outcomes, whether some practices have stronger effect than others, and whether complementary or synergies among such practices can further enhance organizational performance. Baid and Meshoulam, (1988); Jackson and Schuler, (1995); Lado and Wilson, 1994; Milgrom and Roberts, (1995); Wright and McMahan (1992). Similarly, many HR functions these days struggle to get beyond the role of administration and employee champion, and are seen as more reactive than as strategically proactive partners for the top management and that HR organizations also have the difficulty in providing how their activities and processes add value to the company (Smit, 2006).

However, extensive research reveals outsourcing have become the preferred approach for improving quality and productivity in organizations. Outsourcing practices, which have been adopted by leading financial institutions and have impacted on the growing financial sector in Ghana, has not been well documented. This study therefore seeks to bridge the gap by assessing the effects of outsourcing on the performance of organizations.

## **1.2 Research Objectives**

The research objectives are divided into two: General and Specific.

### **1.2.1 General Objective;**

The general objective of the study was to critically examine the effect of outsourcing on organizational performance in the selected case studies: First Allied Savings and Loans Limited, Multi Credit Savings and Loans Limited, Pacific Savings and Loans Limited and Sinapi Aba Trust Limited.

### **1.2.2 Specific Objectives;**

The specific objectives of the study were;

1. To find out the types of activities outsourced by the selected institutions
2. To ascertain the reasons for outsourcing in these institutions.
3. To determine the competitive advantage or benefits derived from outsourcing by the institutions
4. To estimate the cost of outsourcing incurred by these institutions.



5. To evaluate the effect of outsourcing activities on the performance of these institutions.

### **1.3 Research Questions**

Answers will be sought to the following research questions as part of the study:

1. What are the types of activities outsourced by the selected institutions?
2. What are the reasons for outsourcing each of the institutions selected?
3. What competitive advantage or benefits is derived from outsourcing by the selected institutions?
4. How much does it cost these institutions to outsource?
5. What are the effects of outsourcing on the performance of the institutions?

### **1.4 Significance of the Study**

The study on the effects of outsourcing on performance is important because it will help companies engaged in the practice to assess the impact of outsourcing on their operations. As unemployment rate rises in Ghana, it will provide government with more insight to reviewing policies of companies outsourcing their operations since it impacts on job creation which helps in the development of Ghana. The research will further educate businesses about outsourcing ensuring that if the goal of an organization is to engage in this mode of operation all options are well analyzed. The study will also help organizations to estimate the relative cost of outsourcing to their companies.

It will again help management to use the appropriate ways to select vendors that are competent and qualified. The study also intends to provide the academic community with information that students studying in the related field could access for reference purposes.

### **1.5 Research Methodology**

This research was based on qualitative and quantitative analysis. The research will analyze the financial data of the organizations to determine their profitability and the cost element of the outsourced functions relative to total cost.

The research employed primary and secondary methods in the collection of data from four organizations namely, the First Allied Savings and Loans Ltd., Multi Credit Saving and Loans Ltd., Pacific Savings and Loans Ltd. and Sinapi Aba Trust Ltd. all headquartered in Kumasi but have branches across the regions in Ghana.

### **1.6 Scope of the Study**

The study is focused on the effect of human resource outsourcing on the performance of organization. It is limited to some selected organizations in the Kumasi metropolis. Some of the indicators and moderating factors used to assess the institutions performance include financial statements, commitments, teamwork, reward recognition and goal setting.

### **1.7 Limitations of the Study**

The first limitation of the study is the issue of time. The period within which to cover the four organizations with its spread constituted a constraint. Also, the associated cost of printing and administering questionnaires to the branches of the organizations put a strain on the researcher. There was again the difficulty in getting back the questionnaires.

Finally, the findings of the research cannot be generalized since the study concentrated on organizations in the financial sector which are engaged in the provision of services. In this circumstance, it becomes difficult to quantify output as against organizations which are into the production of goods where output can easily be quantified in numerical terms.

### **1.8 Organization of the Study**

The study was organized in five chapters as follows:

Chapter one: brought about the general introduction of the study. This includes background of the study, statement of the problem, objectives or the relevance of the study, research questions, significance of the study, limitations, delimitations of the study, and overview of the study.

Chapter two: focused on the literature review which was devoted to the review of related and existing literature and the related current study.

Chapter three: focused on the methodology used for the study. That is mode of data collection and analysis procedure. It comprises the population size, sample size, sampling techniques, research instruments, sources and types of data.

Chapter four: discussed the results of the study. It covered the findings and discussions of the findings from data analysis. It also dealt with the interpretation of the findings by use of descriptive analysis.

Chapter five: contains summary of the study, conclusion and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The literature that is reviewed in this chapter will cover; definition of key terms, overview of the outsourcing as an HRM practice, overview of outsourcing, outsourcing and re-engineering, process to determine if outsourcing is the right strategy, the outsourcing decision, reduce, redesign and restructure, advantages and disadvantages of outsourcing as well as the conceptual framework.

#### **2.1 Definition of Key Concepts**

##### **2.1.1 Outsourcing**

###### ***Definitions of Outsourcing***

In the literature of management, there is a lot of misunderstanding in how outsourcing is defined. Loh and Venkatraman (1992:9), defined outsourcing as “the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organization”. On the other hand, outsourcing has been defined as “products supplied to the multinational firm by independent suppliers from around the world” and “the extent of components and finished products supplied to the firm by independent suppliers” (Kotabe, 1992: 103). Additionally, outsourcing has been defined as “the reliance on external sources for manufacturing components and other value-adding activities” (Lei and Hitt, 1995:836). In general, outsourcing has been defined

variously in studies of the subject that includes virtually any good or service that an organization procures from organizations/companies.

However, outsourcing cannot be defined only in terms of procurement activities, since this does not capture the true strategic nature of the issue. It is not simply making a decision of purchasing. Every existing company makes one decision or another in their operations. For this reason, outsourcing becomes very strategic in management decision and has the potential to cause ripple effects throughout the entire organization. The most common type of outsourcing which organizations employ is the substitution based (where the production of goods and services is discontinued and provided for by outside suppliers).

On the other hand, outsourcing could be abstention-based, in which case the outsourced goods or services are obtained internally but as a result of lack of capital or expertise, a decision is made to procure it externally.

The decision to reject or outsource an activity is one which needs to be taken considering its impact on the overall performance of the organization. This also has to be viewed in terms of the particular activity. Previous definitions of outsourcing have not made the substitution/abstention distinction and, therefore, have not allowed researchers to approach the subject of outsourcing from a common starting point, Lei and Hitt (1995).

According to Brown (1997), outsourcing is a contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently providing internally. The fundamental difference between outsourcing and any other purchasing agreement is that the customer contracts-out a part of their existing activity. There are many reasons why a company may choose to outsource and rarely will it be for one single reason. While they are normally specific to the particular situation, some commonly-sited reasons are to:

- i. reduce cost;
- ii. improve quality, service and delivery;
- iii. improve organizational focus;
- iv. increase flexibility; and
- v. facilitate change.

## **2.2 Overview of Outsourcing**

In modern times, most senior managers sometimes prefer to entrust outside firms or labourers with critical tasks. The fact is, senior management often finds outside firms to be more cost-effective. Managers often claim they can hire a guy cheaply but they also know the job will be done on time and in a predictable fashion. And if it isn't, they can get somebody else without going through the hassles of hiring and firing employees. It is vision, function, and economics that drive the need for outsourcing (Harkins, 1996). A recent study indicates that outsourcing operations is the trend of the future and that organization already outsourcing activities are pleased with the results. A year-long international study by Arthur Andersen and The Economist Intelligence Unit finds that 93

percent of corporations interviewed plan to outsource in the next three years. Of those that already outsource, 91 percent are satisfied with the results (Struebing, 1996).

The study, “New Directions in Finance: Strategic Outsourcing,” in U.S.A is based on interviews with 50 global organizations plus a survey of 303 senior executives throughout North America and Europe. The study documents that there is a clear trend to the use of outsourcing as a competitive tool, rather than just a simple means of cost control. Especially relevant is the outsourcing of key business processes and financial functions” (Struebing, 1996). The document includes outsourcing case studies with Alcatel Italia, British Petroleum Co., Houghton Mifflin, Mead, Microsoft, Ostel Communications, Plastics MFG, Sybase, Ta-legen Holdings, Tektronix, and Zeneca Group. Of the executives surveyed, 85 percent outsourced all or part of at least one business function. The most widely outsourced activity is legal work (59 percent), followed by shipping (41 percent), computer information systems (36 percent), and production and manufacturing (31 percent). Twenty-six percent of the executives interviewed currently outsource at least one financial function; 42 percent expect to outsource at least one financial function in the next three years (Struebing, 1996).

The use of outsourcing has seen phenomenal growth in the past few years. For example, 25 percent of all information technology (IT) activities in the UK were being outsourced in 1996 compared with only 15 percent in 1993 (Kavanagh, 1997). Whilst the market size in the UK is not clear, the market in the US was estimated in 1996 by the Institute of Outsourcing at \$100bn. A survey of outsourcing market by PA Consulting Group (1996) concludes: ‘A progressively larger part of most businesses have been outsourced over the



last five years'. Projections suggest that this trend will continue, with growth set to rise a further 46 percent by the year 2010, (Brown, 1997). The same survey also found out that while few companies had regrets over outsourcing ventures, most had not met their expectations. Mediocre outcomes were frequent and real failure too common.

Clearly the outsourcer may have had unrealistic expectations, but it is more likely that the outsourcing process itself is responsible. It is on this premise that the research was conducted which aimed at exploring two specific areas: pre-outsourcing cost analysis and post-outsourcing supplier management. The first topic was chosen primarily because the existing literature is rather prescriptive and only offers transaction cost theory (Walker and Weber, 1984; Alexander and Young, 1996) as an analytical tool, which most commentators believe is ineffective. The second topic was selected due to the lack of research on the subject, and the evidence suggested that most outsourcing deals have fallen short of expectations and deteriorated over time. It should be noted however, that these two selected areas will not guarantee outsourcing success on their own as the subject is extremely complex with many interrelated factors, but a good understanding of them is crucial for any outsourcing decisions, (Lasity et al., 1994; Greenberg and Canzoneri, 1997).

In the current environment of right-sizing, with a renewed focus on core business activities, companies can no longer assume that all organizational services must be provided and managed internally. Competitive advantage may be gained when products or services are produced more effectively and efficiently by outside suppliers. The

advantages in outsourcing can be operational, strategic, or both. Operational advantages usually provide for short-term trouble avoidance, while strategic advantages offer long-term contributions in maximizing opportunities.

It is estimated that every Fortune 500 company will consider outsourcing during this decade and that 20 percent of them will enter into a contract by the end of the decade. A variety of firms already exhibit this trend. General Electric Corporation has entered into a five-year, \$500 million contract with Electronics Data Systems (EDS) to handle the corporation's desktop computer procurement, service, and maintenance activities (Behara et al., 1995).

Organizations are increasingly turning to outsourcing in an attempt to enhance their competitiveness. Chrysler, for example, outsources 100% of the manufacture of half of its mini compact and subcompact cars. Furthermore, Chrysler and Ford currently produce less than one-half of the value of all their vehicles in-house. Similarly, Boeing has begun to rely more heavily on outsourcing partners to manufacture its aircraft. For example, the manufacture of a large portion of the Boeing 767, Boeing's third largest commercial aircraft, is outsourced to a consortium of Japanese manufacturers including Fuji, Kawasaki, and Mitsubishi (Hill & Jones, 1995). As a result, only 10% of the value of the 767 is produced in-house.

Despite the dramatic rise in outsourcing in recent years, few empirical investigations of the subject have been conducted. Previous work on outsourcing has been primarily

theoretical in nature and has relied mostly on anecdotal evidence to support assertions. Furthermore, the conclusions of these works are inconsistent. Many intuitively appealing arguments have been offered both for and against outsourcing as a means of achieving sustainable competitive advantage. For example, Quinn (1992) proposes that, by allowing outside specialist organizations to concentrate on certain tasks, firms may increase their performance by focusing more narrowly on the things they do best. However, Bettis, Bradley, and Hamel (1992) argue that outsourcing may reduce organizational innovation, may shift knowledge to supplier organizations, and may reduce control over a firm's activities. In this way, outsourcing may destroy long-run competitive advantage.

A recent evaluation of local UK governmental councils estimated that improvements to back office activities accounted for 28% of their total efficiency gains which aimed at reducing their annual spending budget by more than £4.3 billion (Audit Commission 2008).

While another study presented in the Harvard Business Review showed similar results; 37 participating companies averaged a 25% of total savings when strategic cost reductions were introduced (Rogers & Saenz, 2007). Both studies show the final impact of improving a back office department. However, outsourcing was one of the components of changes introduced and may account for a big part of the financial savings achieved, so it remains unknown what the final impact of change

can be if  
outsourcing is excluded. It is hard to find current work that highlights improvement of a back office department without resorting to outsourcing to some degree of involvement.

### **2.2.1. Outsourcing and Re-engineering**

Re-engineering means “new beginnings.” It is the search for a new way of organizing the various elements of work. Re-engineering is “the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed.” Such change is possible only through innovation that “encompasses the envisioning of new work strategies, the actual process design activity, and the implementation of the change in all its complex technological, human, and organizational dimensions.” The decision to outsource should address the critical role of information and processes in organizations, including the role that systems play. If an entire function is to be outsourced, sufficient provision should be made in the outsourcing contract to deal with current and future requirements of the organization. Special attention should be given to the potential need for innovative solutions to be provided by the outsourcer, and to the timing of these actions. In this era of the virtual organization, outsourcing traditional corporate tasks has become popular. And doing so can be cost-effective, provided that the right tasks are contracted out, (Behara et al., 1995).

Consultants say that firms should consider outsourcing when it is believed that certain support functions can be completed faster, cheaper, or better by an outside organization.

Tasks that are not core competencies of the organization— human resources, payroll and benefits, information systems, even food service in the cafeteria – are ripe for being contracted out. On the other hand, any skill or knowledge that allows you to serve your customer base better, that deals directly with the product or service you’re trying to put out of the door, is one that must remain in-house. Support functions serve your employees better, so you can give those tasks over to a group that treats the employees like customers (Carey, 1995).

Today, the outsourcing of selected organizational activities is an integral part of corporate strategy. Historically, third party participation in a company’s business has generally focused on the manufacture of parts and components and the provision of auxiliary services such as legal and travel services. A more recent phenomenon, however, involves third party participation in the management of the information systems (I/S) function. Since information is a principal resource in most businesses today, the consequences of external control of a firm’s information systems must be considered carefully. The formulation and management of the service contracts with information services suppliers are critical issues (Behara et al., 1995).

### **2.2.2 Process to determine if Outsourcing is the right strategy**

While outsourcing can often help control costs, simplify operations, and keep a company focused on its core competencies, it won’t work unless it is properly implemented. Here are some guidelines (Kelley, 1995):

#### **2.2.2.1 Determine what business you're in.**

Quickly jot down the company's core competencies and primary sources of revenue. Obviously, these functions and processes are areas that you don't want to outsource. Whatever is not on this list, however, may be outsourced.

#### **2.2.2.2 Look for outsourcing opportunities.**

Similarly, find the functions or processes within the company that don't make the company unique or offer a clear competitive advantage over other businesses. Such non-strategic areas can often be outsourced.

#### **2.2.2.3 Evaluate costs.**

Try to determine just how much is being spent on a function and whether or not it can be done more cheaply by an outside company. Set objectives. Realistically decide what an outside partner can do for the company. Whether it is to cut costs, improve focus, or free up resources, make certain the goals are attainable.

#### **2.2.2.4 Be cautious.**

Don't select an outside partner without careful examination. After all, that business will be your company's representative to both employees and customers.

#### **2.2.2.5 Monitor.**

If you decide to outsource, setup regular performance reviews or similar criteria to measure the provider's performance. Outsourcing isn't an excuse to overlook an aspect of your business.

#### **2.2.2.6 Be flexible.**

Even after deciding to outsource, look at ways it can be improved. Don't be afraid to make changes in the way a process is being handled.

#### **2.2.2.7 Don't jump on the bandwagon.**

Just because outsourcing is a growing trend doesn't mean it should be automatically embraced. If a change isn't needed, don't make one just for the sake of it.

It also can be dangerous to focus too narrowly on a single, isolated process when making an outsourcing decision. Such choices should be made only after four questions have been answered (Gamble, 1995):

- i. What will be the net gain or loss in efficiency and cost-effectiveness of using outsourcing?
- ii. What will be the net gain or loss in performance quality of using outsourcing?
- iii. What will be the net effect on the strength, versatility and resourcefulness of the treasury department if the duties in question are outsourced?
- iv. What dependence on a third party will be created by outsourcing, and how vulnerable would the organization be if that third party somehow became unable to perform as expected?

### **2.2.3 The Outsourcing Decision**

A number of issues are involved in the decision to outsource an organization's resources.

To summarize, key items to analyze are scale economy, outsourcer expertise, short- and long-term financial advantage from the sale of resources, inability to manage the function, strategic realignment, and a need to focus on the core business. Additional issues that typically are involved and need to be considered in the context of a specific firm's situation include (Behara et al., 1995):

- i. impact on company competitiveness;
- ii. identifying services to be outsourced;
- iii. the number of suppliers to be used;
- iv. ability to return to in-house operations if required;
- v. supplier reliability;
- vi. supplier service quality;
- vii. coordinating with the supplier and evaluating performance;
  - i. flexibility in the products offered by the supplier;
- viii. providing the latest/advanced technology and expertise.

## **2.3 Advantages and Disadvantages of Outsourcing**

### **2.3.1 Advantages of Outsourcing**

Even though outsourcing has been variously defined, it has generated a lot of confusion.

However, literature on the subject has identified potential benefits. The most commonly mentioned in the literature are improved financial performance and non-financial effects



such as the effects on core competencies. Some of the advantages of outsourcing are discussed below.

Outsourcing firms often achieve cost advantages relative to vertically integrated firms (Bettis, Bradley, & Hamel, 1992; D'Aveni & Ravenscraft, 1994; Kotabe, 1989; Lei & Hitt, 1995; Quinn, 1992). Through outsourcing, manufacturing costs decline and investment in plant and equipment can be reduced (Bettis et al., 1992). The reduction in investment has the capacity to lower fixed costs and leads to a lower break-even point. The short-run cost improvement swiftly reinforces the outsourcing decision. Thus, outsourcing may be an attractive method of improving a firm's financial performance, especially in the short run.

There are other advantages that outsourcing may contribute. In-house production increases organizational commitment to a specific type of technology and may constrain flexibility in the long run (Harrigan, 1985). However, firms focusing on outsourcing can switch suppliers as new, more cost effective technologies become available. In addition, outsourcing allows for quick response to changes in the environment (Dess, Rasheed, McLaughlin, & Priem, 1995) in ways that do not increase costs associated with bureaucracy (D'Aveni & Ravenscraft, 1994). Thus, the long run advantages achieved by organizations that outsource is far enormous as compared to organizations relying on internal production. As noted by Quinn, "virtually all staff and value chain activities are activities that an outside entity, by concentrating specialists and technologies in the area, can perform better than all but a few companies for whom that activity is only one of many" (1992:37).

An increased focus on an organization's core competencies is another important benefit associated with outsourcing (Dess et al., 1995; Kotabe & Murray, 1990; Quinn, 1992; Venkatraman, 1989). Outsourcing noncore activities allows the firm to increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other organizations to oversee tasks at which the outsourcing firm is at a relative disadvantage.

The importance of defining and developing the core competence of the firm has attained great popularity among management researchers and practitioners (Prahalad & Hamel, 1990). This has increasingly led to a move away from market-based definitions of business toward more competence-based definitions. For example, Honda's core competence is in small engine production and, therefore, the domain of Honda's activities can be seen as any business in which this core competence finds an application. Nike's core competencies are in the design and marketing of shoes rather than in their manufacture. Therefore, Nike has focused on these aspects of the athletic shoe industry and has relied on outside firms for virtually all manufacturing activities. Quinn, Doorley, and Paquette (1990) and Quinn (1992) also make a strong case for outsourcing activities in which a firm cannot excel to provide the firm with heightened focus on its core competencies.

There is much less attention in the discussion of the non-financial services of outsourcing in research. One additional advantage is that it tends to promote competition among outside suppliers, thereby ensuring availability of higher-quality goods and

services in the future (Kotabe & Murray, 1990). Quality improvements may also be realized by outsourcers, because they can oftentimes choose suppliers whose products or services are considered to be among the best in the world (Dess et al., 1995; Quinn, 1992). Outsourcing also spreads risk (Quinn, 1992). By using outside suppliers for products or services, an outsourcer is able to take advantage of emerging technology without investing significant amounts of capital in that technology. Thus, the outsourcer is able to switch suppliers when market conditions demand.

### **2.3.2 Disadvantages of Outsourcing**

Whatever the potential benefits of outsourcing, there is the argument that reliance on outside suppliers is likely to lead to a loss of overall market performance (Bettis et al., 1992; Kotabe, 1992). One of the most serious threats resulting from a reliance on outsourcing is declining innovation by the outsourcer. Outsourcing can lead to a loss of long-run research and development (R&D) competitiveness (Teece, 1987) because it is often used as a substitute for innovation. As a result, firms that outsource are likely to lose touch with new technological breakthroughs that offer opportunities for product and process innovations (Kotabe, 1992).

Additionally, as suppliers gain knowledge of the product being manufactured, they may use that knowledge to begin marketing the product on their own (Prahalad & Hamel, 1990). In fact, firms from the Pacific Rim have a well-established pattern of market entry based on outsourcing partnerships (Willard & Savara, 1988). Many Asian firms have made their initial entrance into U.S. markets by first entering supplier arrangements with U.S. manufacturers, and subsequently marketing their

own brands aggressively. In this way, many Asian firms have achieved market dominance. There are several other dangers associated with outsourcing. First, the cost savings associated with outsourcing may not be as great as they seem, especially with respect to foreign suppliers. The transaction costs associated with repeated market-based transactions, especially overseas, can be significant. In addition, as long as foreign wages remain relatively low and the dollar remains relatively strong, foreign outsourcing is attractive (Markides & Berg, 1988).

The other disadvantage of outsourcing is that, there is the tendency to shift overhead allocation to those products or activities that remain in-house. This reallocation of overhead degrades the apparent financial performance of the remaining products or activities and raises their vulnerability to subsequent outsourcing (Bettis et al., 1992), perhaps leading to an outsourcing spiral. Consequently, this may lead to the outsourcing of activities which were performing satisfactorily before the onset of outsourcing to erroneously be targets for future outsourcing. In addition, longer lead times resulting from spatial dispersion cause several problems, such as larger inventories, communication and coordination difficulties, lower demand fulfillment, and unexpected transportation and expediting costs (Levy, 1995). Tariffs are another danger associated with outsourcing, as are increases in the difficulty of bringing back into the firm activities that may now add value because of market shifts (Dess et al., 1995).

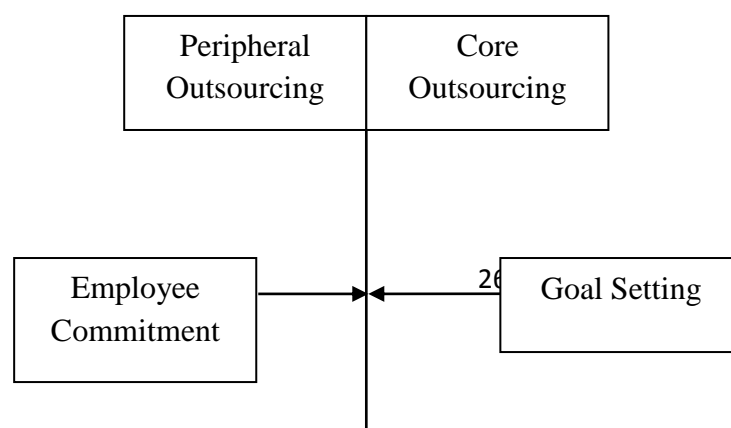
The above discussion of the merits and demerits of outsourcing makes it clear that reliance on outsourcing is not necessarily a viable competitive strategy. On the contrary,

continuously switching from one supplier to another may merely postpone the “day of reckoning” when firms must fix what is wrong with their organizations (Markides & Berg, 1988).

## 2.4 Conceptual Framework

The effects of the outsourcing decisions on organizational performance are discussed in various works. However, the current level of understanding of these outcomes is based primarily on anecdotal evidence. Performance enhancements are the results from a carefully formulated outsourcing strategy that are suggested by the competency-based and resource-based perspectives on strategic management. As previously mentioned, the competency-based view involves the investments in those activities that constitute its core competence while outsourcing the rest (Prahalad & Hamel, 1990; Quinn, 1992). The core competencies provide both the basis and the direction for the growth of the firm (Peteraf, 1993). Similarly, the resource-based view suggests that sustained competitive advantage is possible only through developing resources and capabilities that are valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991; Grant, 1991). The resource-based view provides that inputs that are traded should be procured from the market, because investments in their creation are unlikely to lead to any sustainable competitive advantage.

**Figure 2.4.A: Conceptual Framework on Outsourcing; Core or Peripheral Activity**

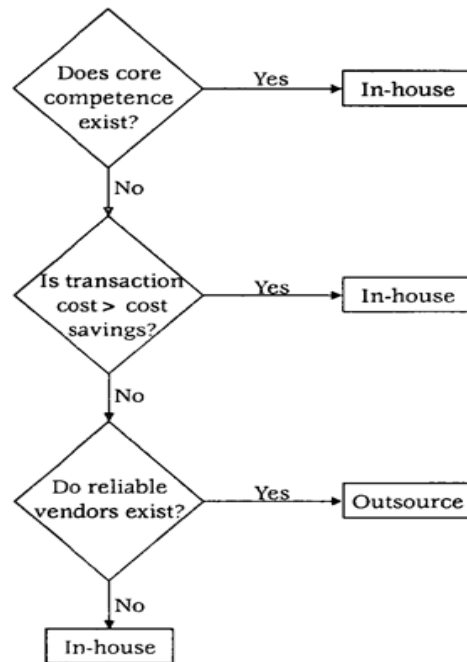


The most pronounced benefits of outsourcing, such as cost improvements which strictly focus on core competencies, make outsourcing an attractive option. On the contrary, the disadvantages, such as declining innovation by outsourcing firms and eventual competition from suppliers, make the benefits of outsourcing suspect. In this way, the performance implications of varying levels of outsourcing intensity appear uncertain. To settle the misunderstandings underlying this debate, and to move purposefully to resolving the issue of performance consequences of outsourcing, we propose organizational performance to be influenced by the two types of outsourcing (peripheral and core) in unique ways. Figure 2A above shows the proposed effects of peripheral and core outsourcing intensity on organizational performance. Additionally, it highlights the proposed moderating influence of firm strategy and environmental dynamism on outsourcing-performance relationships.

### **2.4.1 Peripheral Outsourcing**

The attempt to peel off layers of peripheral tasks and shifting their production to highly focused, specialist organizations, firms can see enhanced performance (Bettis et al., 1992; D'Aveni & Ravenscraft, 1994; Kotabe, 1989; Lei & Hitt, 1995; Quinn, 1992). The improvement in performance of outsourcing organizations relative to non-outsourcing organizations manifests itself in three ways. First, by reducing peripheral activities, it allows organizations to focus on those activities they do best. This heightened focus on core competencies may greatly enhance the organizations' performance by allowing the organization to become more innovative and agile in its core domain. Secondly, outsourcing peripheral activities may greatly improve the quality of those activities (Dess et al., 1995). Specialist organizations, by focusing their attention on core functions, perform them much more successfully than could the outsourcing organization to which a given peripheral activity is only one of many (Quinn, 1992).

**Figure 2.4.B: Framework for making outsourcing decisions**



*Source:* Adapted from Ghani and Rana (2002)

Finally, the outsourcing of peripheral activities to the suppliers with lowest-cost may lead to incremental improvements in a firm's overall cost position. Therefore, the argument is that, by pursuing intense peripheral outsourcing strategies, firms can achieve higher levels of performance relative to firms that do not outsource their peripheral activities.

#### 2.4.2 Core Outsourcing

The performance of the organization may also be influenced by the propensity with which a firm outsources its near-core, strategically relevant activities. Several authors have noted that this "core outsourcing" may lead to declining innovation (Kotabe, 1990; Teece, 1987) and eventual competition from suppliers (Bettis et al., 1992; Prahalad & Hamel, 1990; Quinn, 1992), resulting in reduced firm performance. In addition, the transfer of specialized knowledge



necessary when firms outsource near-core activities may also place the firm's future performance in jeopardy. The decline of industries such as televisions, bicycles, and automobiles in the U.S. has consistently been used as examples of the dangers of outsourcing near-core activities (Bettis et al., 1992). It is the belief that those organizations outsourcing activities very near their strategic core achieve lower levels of performance relative to firms that retain tight control over these activities.

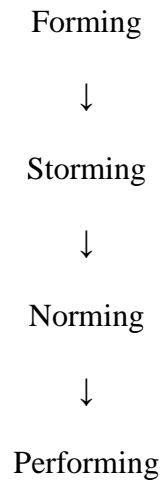
### **2.4.3 Moderating Relationships:**

The relationships between the two types of outsourcing and the organizations performance appear to be more complex. At some existing conditions, the positive effects of peripheral outsourcing and the negative effects of core outsourcing may be increased or reduced. Some of the potential moderating effects of organizational performance such as teamwork, reward recognition, commitment and goal setting are discussed below.

### **2.4.4 Teamwork**

Teamwork is important because it allows goals to be reached in an efficient and timely method. It combines many different skills from many people allowing achievements to be made that could not be made alone. Teams work well when each person knows what he/she has to do to achieve the result. It provides opportunities to compare the various viewpoints of team members and outsiders and relate them to the team vision and purpose. Tuckman (1965) presented the four stages of teamwork which are now widely used by work teams throughout the world to assess their progress. The model describes the stages as follows

**Figure 2c: Tuckman's stages of Teamwork Model**



Once teams are formed, they go through an unpleasant storming state before ground rules and norms are established. Eventually the performing stage is reached. In the 1980's it was acceptable to take maybe six months or so to reach the performing stage. However, in the 1990's, such is the speed of change and the intensity of competition that some teams have to get to good performance levels in six weeks or even six days.

Models such as the Types of Work Wheel give a reliable and valid way of measuring and managing team performance, by generating qualitative and quantitative feedback data both from team members and outsiders. Problems can be diagnosed or even predicted before they happen. In managing team performance, clever work teams will use the information to bypass the storming stage and move quickly to the norming stage by generating ground rules which will prevent major problems from occurring. The team can then accelerate its progress to the performing stage.

### **2.4.5 Reward Recognition**

Employee recognition is not just a nice thing to do for people. Employee recognition is a communication tool that reinforces and rewards the most important outcomes people create for your business. When you recognise people effectively, you reinforce, with your chosen means of recognition, the actions and behaviour you most want to see people repeat. An effective recognition system is simple, immediate, and powerfully reinforcing (Heathfield, 2006). When you consider employee recognition processes, you need to develop recognition that is equally powerful for both the organization and the employee. You must address five important issues if you want the recognition you offer to be viewed as motivating and rewarding by your employees and important for the success of your organization.

#### **2.4.5.1 The Five Most Important Tips for Effective Recognition**

You need to establish criteria for what performance or contribution constitutes rewardable behaviour or action.

- i. All employees must be eligible for the recognition.
- ii. The recognition must supply the employer and employee with specific information about what behaviours or actions are being rewarded and recognized.
- iii. Anyone who then performs at the level or standard stated in the criteria receives the reward.
- iv. The recognition should occur as close to the performance of actions as possible, so the recognition reinforces behaviour the employer wants to encourage.

- v. You don't want to design a process in which managers "select" the people to receive recognition. This type of process will be viewed as "favouritism" or talked about as "it's your turn to get recognized this month." This is why processes that single out an individual, such as "Employee of the month," are rarely effective (Heathfield, 2006).

#### **2.4.6 Employee commitment**

No organization in today's competitive world can perform at peak levels unless each employee is committed to the organizations objectives and works as an effective team member. It is no longer good enough to have employees who come to work faithfully everyday and do their jobs independently. Employees now have to think like entrepreneurs while working in teams, and have to prove their worth. However, they also want to be part of a successful organization which provides a good income and the opportunity for development and secure employment.

In the past, organizations secured the loyalty of their employees by guaranteeing job security. However, many organizations have responded to competitive pressures by downsizing, restructuring and transformation and thus created a less secure organizational climate. One of the challenges facing modern organizations involves maintaining employee commitment in the current business environment. For instance, employees expect employers to demonstrate their commitment in terms of pleasant working conditions, access to training and development, provision of a safe working environment and a balance between work and employees' commitments outside

workplace. The appointment of good workers is thus crucial, but of even greater significance is the organization's ability to create a committed workforce. Hence the need for managers to understand the concept of commitment – what it is, how it operates, and most importantly, which behaviours are displayed by employees committed to the organization. Meyer and Allen (1991) identified three types of employee commitment.

- i) Affective
- ii) Continuance
- iii) Normative

#### **2.4.6.1 Affective commitment**

Affective commitment refers to the employees emotional attachment to, identification with, and involvement in the organization. Employees with a strong commitment continue employment with the organization because they want to.

Although various research studies have been conducted to link demographic characteristics such as age, tenure, gender and education to commitment, the relations were neither strong nor consistent, the reason being that too many variables such as job status, work rewards and work values moderating the relationship. However, research has proved that affective commitment is related to decentralization of decision making and formalization of policy and procedures. Research to date suggests that work experiences play the largest role in employees' decisions to remain with an organization.

#### **2.4.6.2 Continuance commitment**

Continuance commitment refers to an awareness of the costs associated with leaving the organization. The potential costs of leaving an organization include the threat of wasting the time and effort spent acquiring non-transferable skills, losing attractive benefits, giving up seniority-based privileges, or having to uproot family and disrupt personal relationships. Apart from the costs involved in leaving the organization, continuance commitment will also develop as a function of a lack of alternative employment opportunities. Employees whose primary link to the organization is based on continuance commitment remain because they need to.

#### **2.4.6.3 Normative commitment**

Normative commitment reflects a feeling of obligation to continue employment. Employees with a high level of normative commitment feel that they ought to remain with the organization. However, normative commitment may also develop when an organization provides the employee with “rewards in advance” (eg. Paying college tuition), or incurs significant costs in providing employment (eg head-hunting fees or the costs associated with job training). Recognition of these investments causes employees to feel obliged to reciprocate by committing themselves to the organization until the debt has been repaid (Scholl, 1981).

In conclusion, employee commitment is defined as an individual’s identification with and involvement in a particular organization. It is characterized by a strong belief in and

acceptance of the organizations goals and values, a willingness to exert considerable effort on its behalf, and a strong desire to maintain membership of it.

#### **2.4.7 Goal Setting**

Goal setting involves establishing specific, measurable, achievable, reliable and time-targeted (S. M. A. R. T) goals. Work on the theory of goal-setting suggests that it's an effective tool for making progress by ensuring that participants in a group with a common goal are clearly aware of what is expected from them. On a personal level, setting goals helps people work towards their own objectives. Goal setting features as a major component of personal development literature:

- i) Goal provides a sense of direction and purpose (Goldstein, 1994, p96)
- ii) Goal setting capitalize on the human brains amazing powers: our brains are problem-solving, goal-achieving machines.
- iii) Goals convert the strategic objectives into specific performance targets.

Effective goals clearly state that, when, and who are specifically measurable.

Goals that are difficult to achieve and specific and to increase performance more than goals that are not. Shalley,(1995), and Locke and Latham (2002) have distilled four mechanisms through which goal setting can affect individual performance.

1. Choice: goals narrow attention and direct efforts to goal relevant activities, and away from perceived undesirable and goal-irrelevant actions.
2. Effort: goals can lead to more effort; for example if one typically produces four units an hour, and has the goal of producing 6, one may work through more intensely towards the goal than one would otherwise.

3. Persistence: Someone becomes more prone to work through setbacks if pursuing a goal.
4. Cognition: Goals can lead individuals to develop and change their behavior.

#### **2.4.7.1 Goal setting in business**

In business goal setting encourages participants to put in substantial effort. Also because every member has defined expectations for their roles little room is left for inadequate effort to go unnoticed.

Managers cannot constantly drive motivation or keep track of an employee's work on a continuous basis. Goals are therefore an important tool for managers since goals have the ability to function as a self-regulatory mechanism that acquires an employee a certain amount of guidance.

#### **2.4.7.2 Goal-performance relationship**

Locke et al (1981) examined the behavioural effects of goal-setting, concluding that 90% of laboratory and field studies involving specific and challenging goals led to higher performance than did easy or no goals.

While some managers believe it is sufficient to urge employees to 'do their best,' Locke and Latham have a contradicting view on this. The authors state that people who are told to 'do their best' don't. 'Doing your best' has no external, referent, which implies that it is useless eliciting specific behavior. To elicit some specific form of behaviours from others, it is important that the person has a clear view of what is expected from him/her.



A goal is thereby of vital importance because it facilitates on individual in focusing their effort in a specified direction. In other words, goals canalize behaviours (Cumming and Worley p. 368). However, when goals are established at a management level and thereafter solely laid down, employee motivation with regard to achieving these goals is rather suppressed (Locke of Latham, 2002 p. 705). To increase motivation, employees not only must be allowed to participate in the goal setting process, but the goals must be challenging as well (Cumming and Worley p. 369).

#### **2.4.8 Firms Performance**

Corporate performance is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of the organization. It keeps the organization in business and creates a greater prospect for future opportunities.

Debates still continue on the performance implication of outsourcing decisions. Research carried out to determine the extent to which outsourcing influences a firm's performance has been very little.

##### **2.4.8.1 Financial Statements**

Prior literature on management disclosure (eg. Healy and Palepu, 2001) suggests that disclosure decisions reflects both informational motivations (that is, organizations use these decisions to inform financial statement users about the underlying economics of their firms) and opportunistic motivations (i.e. managers use these decisions to bias users perspectives).

Prior research on disclosure choices to emphasise financial performance metrics has generally focused on alternative settings, particularly proforma reporting. A number of papers provide evidence consistent with management reporting in the context reflecting opportunism. Mcvay (2006) provides similar evidence, documenting that managers opportunistically shift reported expenses from core expenses (such as cost of goods sold) to special items, thereby overstating “core” earnings. Consistent with this perspective, prior literature provides experimental evidence that financial presentation can affect user’s judgement (eg. Hirst and Hopkins 1988, Maines and McDaniel 2000).

Return on investment(ROI) is defined as a measure used to evaluate the efficiency of an investment or to compare the efficiency of different investments. Simply, it’s a way of considering profits in relation to capital invested.

The formula for ROI is given as:

$$\frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

$$\text{OR}$$

OR

$$\text{ROI(\%)} = \text{Net Profit/Investment}$$

Gain from investment refers to the proceeds obtained from selling the investment of interest. It is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI or if there are other opportunities with a higher ROI, then the investment should not be undertaken.

For example, a marketer may compare two different products by dividing the gross profit that each product has generated by its respective marketing expenses. A financial analyst, however, may compare the same two products using entirely different ROI calculations, perhaps by dividing the net income of an investment by the total value of all resources that have been employed to make or sell the product.

This flexibility has a downside, as ROI calculations can be easily manipulated to suit the user's purposes and the result can be expressed in many different ways. A higher ROI means that investment gains compare favourably. In most methods, an ROI greater than 0.00 (percentage greater than 0%) means the investment returns more than its cost.

One serious problem with using ROI as the sole basis for decision making is that ROI by itself says nothing about the likelihood that expected returns and costs will appear as predicted. It is important to note that business decisions are rarely made on the basis of one financial metric. Therefore, when comparing investments with ROI, it is usually a very good idea to consider other financial metrics as well.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter deals with the methodology used by the researcher to investigate the effect of the Human resource outsourcing on microfinance productivity and efficiency.

Components of the methodology adopted include the following:

- i. Research Design (3.2)
- ii. Population (3.3)
- iii. Sampling Technique (3.4)
- iv. Instrumentation (3.5)
- v. Validation (3.6)
- vi. Data collection procedure (3.7)
- vii. Analysis (3.8)

#### **3.2 Research Design**

Research Design is an arrangement of conditions for collecting and analyzing data which will be relevant to the researcher in the most economical manner. It is the program that guides the researcher in the process of collecting, analyzing and interpreting an observation. It also defines the domain of generalization; that is, it indicates whether the obtained interpretation can be generalized to different situation or not (Amoani, 2005). The research design used in the study is descriptive survey. According to Avoke (2005), descriptive surveys are designed to portray accurately the characteristics of particular individuals, situations, or groups.

Surveys sample population in order to discover the incidence of, and the interrelations among sociological, psychological and educational variables. Its purposes are to identify present conditions and to point to current needs. It is used as needs assessment tool to provide information on which to base sound decisions and to prepare the background for more constructive program of educational research. It also serves as foundation for more vigorous and precise investigation. The data gathered in a survey are usually responses to predetermine questions that are asked of respondents (Alhassan, 2006). Burns (1999) also notes that descriptive design involves collecting data in order to test hypothesis or to answer questions concerning the current status of the subject of study. A descriptive survey also determines and reports the way things are. The researcher adopted this design because it was deemed appropriate as the study sought to investigate the possible relation that exists between HR outsourcing and microfinance productivity and efficiency.

### 3.3 Population

The staff of the selected institutions in Kumasi was the target population for the study. This population is deemed appropriate because for efficient and effective service delivery they represent the key players.

**Table 3.3: Staff Population in the Selected Institutions**

Institution	Management Staff	Other Staff	Total Staff	Sample Size	
				Management	Staff
First Allied Savings and Loans Limited	8	472	500	3	100
Multi Credit Savings and Loans Limited	11	1089	1100	4	125
Pacific Savings and Loans Limited	9	104	113	3	25
Sinapi Aba Trust Limited	22	378	400	5	100
Total	50	2043	2093	15	350

### **3.4 Sample Size**

A total of three hundred and sixty five (365) respondents were to participate in the research. These were members of staff from the four selected institutions and it included management staff.

### **3.5 Sampling Technique**

Sampling techniques are the approaches that researchers use to select respondents or organization of interest from a population for a study (Fink, 1995). Various ways of sampling include systematic, simple random, purposeful, convenient and snowballing among others. Purposive selection is the techniques of carefully selecting the sample to reflect the purpose of investigation. The objective of the investigation decides the sample members and the stratification of the sample is arbitrary as it selects only those variables that relates to the objective of the study (Creswell, 2005). The researcher used the purposive sampling technique to select the sample for management and the convenience sampling technique for the staff. The study restricted the sample size to the number of branches within the Kumasi Metropolis. The issues and explanations were discussed with the managers of the branches and they distributed the questionnaires to the staff. This was done in order not to disrupt their work and also for the fact that the operation staff who constitute the bulk of the population were mostly on the field and it was difficult to access them.

### **3.6 Instrumentation**

The main instruments used by researchers to collect data from the field fits the purpose of the study (Carr and Kemmis, 1986). The methods used in this study to gather data were a set of questionnaires.

Various types of questionnaire include;

- i. Dichotomous or Yes or No questions
- ii. Rating scale and
- iii. Open ended questions

The close-ended questions, which included the dichotomous, multiple choice and rating scales has the advantage of being easier to administer to a large group of respondents and therefore saves time. It is easier to score, tabulate and analyze and it is more objectively and reliably scored. A major disadvantage is that it does not provide detail information about the problem and fails to yield information of sufficient depth. The opposite is true of open-ended questions (Robson, 2003).

This researcher strictly used the close-ended items to collect the required data. In this technique the respondents were only to tick the correct option to the question according to their opinions using a likert scale of 1-5 for the employees.

### **3.7 Reliability**

Reliability was tested using crowbach alpha. The overall reliability on the 34 item questionnaire was 0.840. Items were used to measure the reasons why organizations outsourced. The items had a crowbach alpha of 0.574. Performance had 2 items with a

crowbach alpha of 0.825. Team work had 3 items with a crowbach alpha of 0.746. Reward recognition had 2 items of 0.773. Involvement was measured with a 2 item question with a crowbach alpha of 0.732. Competency had 2 items with crowbach alpha of 0.655. Commitment had 3 items with a cross back alpha of 0.713. Management effectiveness had a crowbach alpha of 0.775 on a 2 item questions. Goal setting had 0.689 crowbach alpha on a 2 item question.

### **3.8 Validation**

Validity is based on the view that a particular instrument measures what it is meant or purposes to measure (Robson, 2003). The content validity of the instruments was established by first submitting the prepared questionnaires on separate sheets to the researchers' supervisor and two colleagues for their comments. Those items that proved ambiguous and did not address the issue being investigated were dropped.

### **3.9Data Collection Procedure**

The research employed structured questionnaires and semi-structured interviews to solicit information from the employees and management respectively. Questionnaires were administered through the managers by the researcher to the employees to respondents who completed them during normal working hours. The management and employees constituted the study population. A sample size of Three Hundred and fifty (350) respondents was chosen for the employees in the four organizations and fifteen (15) management personnel. The responses of the seven (7) officers who were pre-tested were



omitted from subsequent analysis of the survey data. Participation was voluntary for all respondents and confidentiality of responses was assured.

### **3.10 Analysis of Data**

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

### **3.11 Early History of Banking Development in Ghana**

The first banking institutions were set up in British West Africa in the late 19th century. Backed by the London-run African Banking Corporation, the Bank of British West Africa was opened in 1894. West Africa and its banking institutions were controlled by the British until 1957.

The Bank of Ghana, established in 1953 by the Bank of England, became the main banking institution in the country and oversaw issues of currency, business and personal banking. Further development and economic policies allowed the bank of Ghana to open branches across the nation. In the past it used to be very frustrating transacting business in Ghanaian banks particularly if one was not privileged to be a member of one of the few elite banks operating in the country. The reason is simple. For decades, the banking sector was dominated by Barclays and Standard Chartered banks. Barclays Bank (known as the Colonial Bank) in February of this year celebrated ninety years of its operations in

Ghana and Standard Chartered bank (known as the Bank of British West Africa) has been operating in Ghana since 1896. These imperialists' banks exploited Ghanaians by charging exorbitant bank charges for every little service rendered.

### **3.12 Recent History**

Today, the banking system in Ghana has seen a wide range of policies implemented to keep up with the western world. 1989 saw the inception of the Ghana Stock Exchange, and Ghana has worked with the IMF (International Monetary Fund) to develop new, progressive policies.

The Ghanaian banking sector is now very vibrant and modern. According to the second Deputy Governor of BoG, Dr. Mahamadu Bawumia, bank branches in Ghana increased by 11.3 per cent from 309 to 344 between 2002 and 2004 with 81 new branches springing up from 2004 and 2006 indicating an increase of 23.5 per cent. Because of the very fierce but healthy competition in the banking sector, daily newspapers are adorned with catchy adverts of re-branded or new products all in an attempt to lure new customers to their products and services. Many banks in the commercial centres now work half day on Saturdays, thus making it possible for busy workers to access banking services at the weekend. The Home Finance Company (HFC Bank) last year introduced the "Homesave Account", a product which offers prospective homeowners the opportunity to save, in return for a down payment on a new house. In addition, HFC bank also grants long-term mortgage loan to its customers. This means that in the new Ghana one does not need to "burger" (no need to travel to Germany, UK, Italy, Canada or US) before one can own

their dream home. There is an adage that says that “catch them young” and true to this adage CAL Bank invited tertiary students to a job fair. All participants were promised “zero accounts opened at CAL Bank, free ATM cards and SMS sign up”. Barclays Bank has just introduced a new product called "Aba Pa" savings and current accounts to encourage more Ghanaians to access bank services. The product advert in the Daily Graphic newspaper read like this; “Aba Pa you can also bank with us”. The product, which targets the employed with low-income levels below ₵500,000 and the agricultural sector, offers customers low initial deposits, transaction costs and free bank statements to grow their savings balance on a graduated scale. "Aba Pa", which required a minimum opening balance of ₵40,000, would also provide funeral insurance cover, a Visa Electronic Debit card and access to loans for all its customers (GNA, April 16, 2007). GCB has a product whereby money can be deposited at any of its branches and received on the same day anywhere in Ghana. No need from businessmen and women to carry huge sums of cash on business trips. ECOBANK's Auto Leasing promotion says that “walks in with an invoice for a new car from any car dealer of your choice and drive your dream car away at the Ecobank base rate” (Daily Graphic, April 17, 2007). Stanbic bank is also offering car loans, Standard Chartered, ADB and others are all introducing new products for the benefit of Ghanaians. The most significant thing is that whereas African politicians have failed in integrating African economies on the political front, the financial sector is moving closer to full integration. The banks are leading in the economic integration of Africa. Most of these banks are Pan-African in nature with branches in several other African states.

The vibrancy in the financial sector witnessed the spring-up of Savings and Loans and microfinance institutions whose operations are the more or less like the traditional banks. Their core clientele are the micro and small and medium enterprises.

They are engaged in the mopping up of savings through “susu” collection from their clients who are mostly petty traders. In their bid to assist this group of entrepreneurs who hitherto could not access credit facilities from the traditional banks, loans are granted to groups and individuals for the expansion of their businesses. Loans to such persons are granted when the person has saved for a minimum period of three (3) months.

This sector has witnessed enormous growth and has provided great service to numerous individuals and groups including public sector workers in growing their business and in the acquisition of movable and immovable properties. Their activities are spread throughout the country with branches in other cities and towns in the region. The Bank of Ghana has put in place rules and regulations guiding the operation of these institutions.

The difference in their activities with respect to the traditional banks is their capital base requirements which is Seven Million Ghana Cedis (GH¢7m) while the traditional banks are Sixty Million Ghana Cedis (GH¢60m). They are also restricted from engaging in foreign transactions except with the express approval of the Bank of Ghana.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.0 Introduction**

This chapter is a presentation of the study of 159 employees from four different financial institutions on the subject of outsourcing in companies. The research also features a presentation of the study on opinions of management staff on factors considered in outsourcing, direct result of outsourcing, activities outsourced by the different companies and the qualities that management considers in outsourcing. The employee respondents were individuals from different sectors and departments within their working environment. The researcher sought to investigate through opinions from management, employees and by secondary data obtained in the form of financial statements the functions being outsourced, reasons for outsourcing and an overall outlook at the performance of the companies involved in outsourcing.

In order to address the research questions, there are key questions presented to employee respondents on teamwork, competence, commitment, management effectiveness, goal setting, performance and possible reasons for outsourcing. The questions are asked on a level of agreement basis (i.e. Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree). These questions are analyzed through the Weighted Mean Score (WMS) which considers all opinions using a percentage score. The researcher also used frequency tables, bar charts, pie charts and cross tables to present, analyze and discuss the data collected.

## 4.1 Background of Respondents

This research took into consideration responses from 365 employees of different institutions comprising of microfinance, savings and loans, banking and other financial institutions. A total of one hundred and fifty nine (159) responses were received. This section gives a background on the respondents from which the data was collected from.

### 4.1.1 Gender of Respondents

**Table 4.1.1: Gender of Respondent**

Gender	Frequency	Percent	Cumulative %
Male	79	50.0	50.0
Female	80	50.0	100.0
Total	159	100.0	

**Source: Researcher's fieldwork**

From the above table, majority of the respondents were female employees constituting 50.0% of the total number of individuals. The summary of this information is shown in Table 4.1.1. There were 79 male employees representing approximately 50.0%.

### 4.1.2 Age of Respondents

**Table 4.1.2: Age of Respondent**

Age Range	Frequency	Percent	Cumulative %
18-30 years	93	58.5	58.5
31-40 years	57	35.8	94.3
41-50 years	8	5.0	99.4
Above 50	1	.6	100.0
Total	159	100.0	

**Source: Researcher's fieldwork**

Table 4.1.2 shows the frequency distribution of the age of the respondents. Most of the respondents were 18-30 years representing 58.5 percent. From Table 4.1.2, up to 94.3

percent were 40 years or less. 5 percent were 41-50 years while approximately 1 percent were above 50.

#### 4.1.3 Department where Respondents Work

Out of the total number of respondents, 6.9 percent of the respondents were from the ICT department, 19.5 percent were in the Accounts department and 13.8 percent were in Administration within their various institutions. This is summarized in Table 4.1.3.

**Table 4.1.3: Department of work**

Department	Frequency	Percent	Cumulative %
ICT	11	6.9	6.9
Accounts	31	19.5	26.4
Administration	22	13.8	40.3
Others	95	59.7	100.0
Total	159	100.0	

Source: Researcher's fieldwork

There were also individuals from other departments mostly in operations and credit departments. Employees from other departments summed up to 59.7 percent.

#### 4.1.4 Employment and Educational Status

**Table 4.1.4: Employment Status \* Educational Attainment**

		Educational Attainment			Total
		Basic	Secondary	Tertiary	
Employment Status	Permanent Staff	1	64	88	153
		1%	42%	57%	100%
	Temporal Staff	0	0	6	6
		0%	0%	100%	100%
Total		1	64	94	159
		1%	40%	59%	100%

Source: Researcher's fieldwork

There were 153 permanent staff out of which 7 percent had basic education, 41.8 percent had secondary education and the remaining majority 57.5 percent had tertiary education. Table 4.1.4 shows the cross tabulation of the educational and employment status of the employee respondents involved in this research. There were six individuals who were temporal staff all of who had tertiary education.

#### **4.1.5 Marital Status of Respondents**

**Table 4.1.5: Marital Status**

Status	Frequency	Percent	Cumulative %
Single	99	62	62
Married	60	38	100
Total	159	100	

**Source: Researcher's fieldwork**

62.3 percent of the respondents were single summing up to 99 employees. The rest of the employees were married employees representing a percentage of 37.7. Table 4.1.5 is a frequency distribution of the marital status of respondents from various institutions.

#### **4.1.6 Sector of Organization of Respondents**

**Table 4.1.6: Sector of Organization**

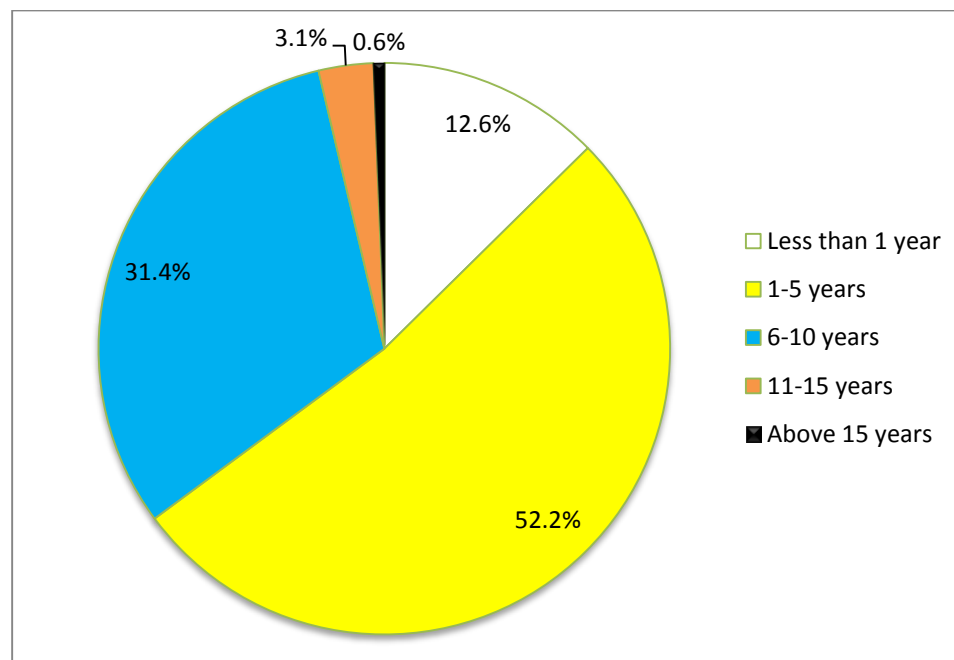
Sector	Frequency	Percent	Cumulative %
Savings & Loans	137	87	87
Microfinance	18	11	98
Bank	2	1	99
Other	2	1	100
Total	159	100	

**Source: Researcher's fieldwork**



Table 4.1.6 shows the frequency distribution of the sector of the organization which respondents belong to. There were respondents in Savings & Loans, Microfinance, Banks and other sectors represented in percentage as 86.2 percent, 11.3 percent, 1.3 percent and 1.3 percent respectively. Table 4.1.6 shows that up to 97.5 percent of the respondents were with either Savings and Loans or Microfinance.

#### 4.1.7 Length of Service



**Figure 4.1.7: Respondents' years of Service with Institutions**

**Source: Researcher's fieldwork**

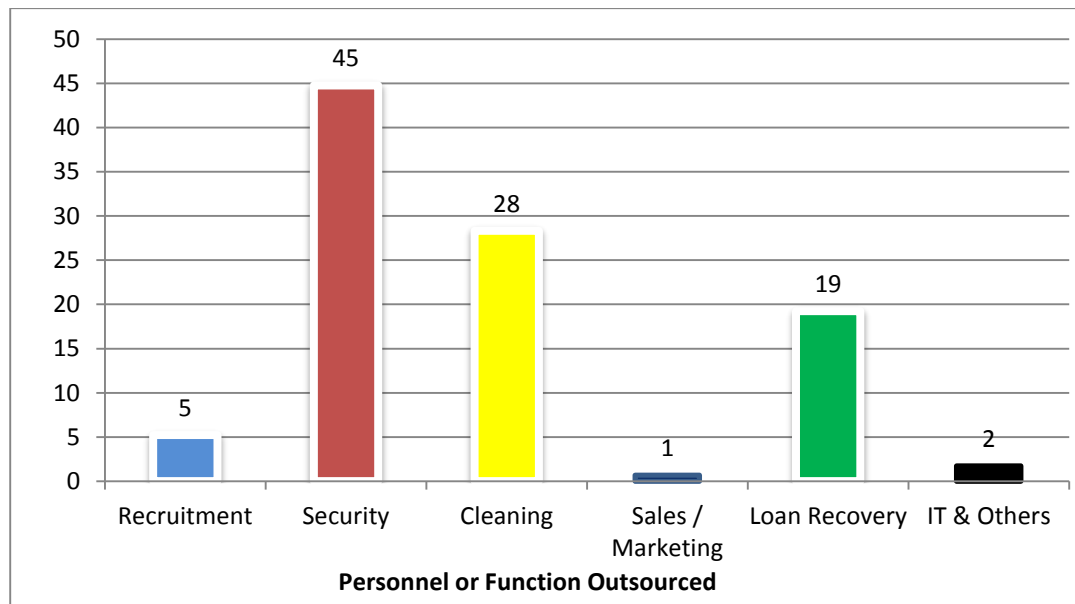
The length of service concerning the 159 respondents is summarized in the Figure 4.1.7 above. Up to 5.2 percent have been working with their respective companies for between 1-5 years. 31.4 percent have been working for 6-10 years. Also 3.7 percent have worked with their companies for 11 years or more. Employees who have worked for less than a year with their companies represented only 12.6 percent. This implies that almost 88

percent of the respondents have worked for a year or more with their companies and therefore stand a good chance of giving reliable information regarding working subjects like outsourcing.

#### **4.1.8 Personnel or Functions Outsourced**

Responses were taken from the employees involved in this research on what functions or personnel that their companies outsourced. There were options on recruitment, payroll, security, cleaning, sales/marketing, loan recovery, information technology and others.

The summary of the responses in the bar chart in Figure 4.1.8 shows that security is the prime factor that is outsourced by the companies in this research. Also noted in order of the magnitude of opinions of respondents are as follows: Security (45 percent), Cleaning services (28 percent), loan recovery (19 percent), recruitment (5 percent), information technology (2 percent) and sales/marketing (1 percent).



**Figure 4.1.8: Personnel or Function outsourced by organizations**

**Source: Researcher's fieldwork**

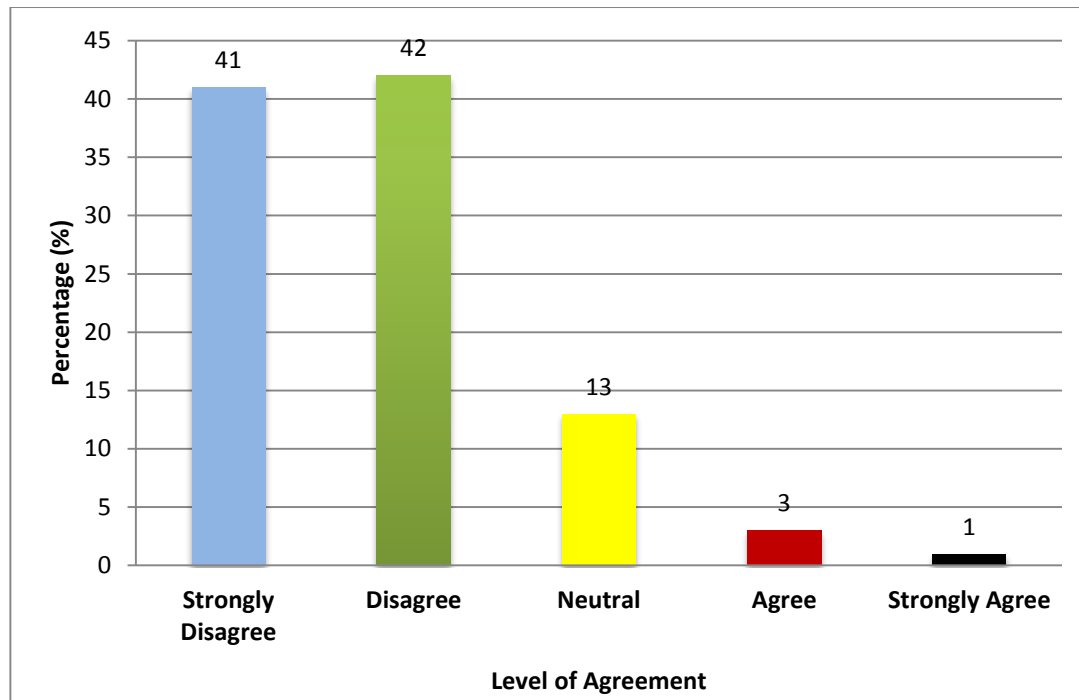
## **4.2 Factors Involved in Outsourcing: Opinions from Respondents**

In this section, the researcher presents and analyzes the opinions of respondents on reasons their companies are involved in outsourcing, whether outsourcing has an overall negative effect on the company's, employee performance, teamwork, reward recognition, involvement, competence, commitment, management effectiveness and goal setting of the various organizations.

The responses are given with respect to the level of agreement (i.e. Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree). These responses are analyzed using the Weighted Mean Score (WMS) that takes into account all the levels of agreement. This returns a percentage score that gives a representative figure of the collective response to a given question. The following subsections are the general opinions of respondents on the subject of outsourcing.

### **4.2.1 Overall effect of Outsourcing**

The bar chart in Figure 4.2.1 represents the opinions of respondents on a level of agreement regarding the negative outcome of outsourcing in their various organizations.



**Figure 4.2.1: Opinions on negative outcome of Outsourcing in Organization**

**Source: Researcher's fieldwork**

Only one person strongly agreed out of the 159 respondents with five individuals agreeing that outsourcing as a negative outcome in their companies. There were 21 respondents representing 13.2 percent who were neutral on the subject. Up to 83 percent of the respondents either disagreed or strongly disagreed on the negative outcome of outsourcing. The Weighted Mean Score (WMS) was 20.1 percent representing a general disagreement that outsourcing has a negative outcome in the organizations considered. These responses contrast the position of Bettis, Bradley and Hamel (1992) who argue that outsourcing may reduce innovation, shift knowledge to supply organizations and may reduce a firm's activities and destroy long run competitive advantage.

#### 4.2.2 Reasons for Outsourcing

Respondents' opinions on the reasons for outsourcing are summarized in Table 4.2.2. The summary shows a general agreement for all the factors enlisted. The Weighted Mean Score for the opinions are between 60.7 percent for the reason of the company avoiding investment in technology to a high 72.2 representing a general agreement that outsourcing causes a reduction in operational cost. The deviations in the opinions are also validly wide because the standard deviations range from 29.0 to as high as 47.4. The outcome is in line with Kotabe (1989) and Quinn (1992). They state that outsourcing firms achieve cost advantages and has the capacities to reduce fixed cost and lead to lower breakdown point.

**Table 4.2.2: Respondent Opinions on Reasons for Outsourcing**

Reasons for Outsourcing	WMS (%)	Standard Deviation
Allow core staff to focus	62.4	30.3
Allow company focus on core business	65.4	31.4
Avoid cost of investment in technology	60.7	29.0
Reduce operational costs	72.2	38.2
Reduce staff and related expenses	70.9	42.6
Gain access to vendor expertise	69.0	39.9
Gain access to vendor technology	69.8	36.8
Make up for reduction in staff	69.5	47.4
Make up for lack of in-house talent	68.6	38.5
Offer services currently unavailable	69.7	45.8
Provide consistent service delivery	69.5	46.4

**Source: Researcher's fieldwork**

#### 4.2.3 Performance

With regards to performance, there was also a general agreement on all the factors from respondents. The summary in Table 4.2.3 shows the highest score was for customer satisfaction (70.9%) and the lowest score for outsourcing being strategic (64.8%).

**Table 4.2.3: Factors under Performance**

	WMS (%)	Standard Deviation
Better comparative performance	69.8	45.0
Expectation from outsourcing met	69.2	42.8
High employee morale	67.9	47.8
Satisfied customers	70.9	44.0
Outsourcing has become strategic	64.8	39.0

**Source: Researcher's fieldwork**

#### **4.2.4 Teamwork and Reward Recognition**

Table 4.2.4 shows the Weighted Mean Scores (WMS) and standard deviations in opinions regarding Teamwork in the company and also Reward Recognition within the company. This represents a general agreement in both the nature of Teamwork and Reward systems. This means that respondents generally agree that all workers are involved as a team, individual confidence is high within the working environment and there is assistance from other working units when there is the need. With concerns to rewards, employees are rewarded by how well they do in their jobs and there is acknowledgement of individual contribution of employees by the organization. This implies that persons working as a team for sometime build a common telepathy which eventually enhances the group's performance.

**Table 4.2.4: Teamwork and Reward Recognition**

Attribute		WMS (%)	Stand. Dev.
Teamwork	All workers involved as a team	73.1	45.6
	Confidence in co-workers high	74.7	43.5
	Helpful work units in assistance	76.9	42.3
Reward Recognition	Individual performance is rewarded	68.6	50.0
	Individual acknowledgement	72.2	33.3

**Source: Researcher's fieldwork**

#### 4.2.5 Involvement, Competence and Commitment

**Table 4.2.5: Opinions on Involvement, Competence and Commitment**

Attribute		WMS (%)	Stand. Dev.
Involvement	Sensitive to individual needs	67.5	46.3
	Involvement of workers in decisions	66.4	25.7
Competence	Effective training available at work	68.1	48.0
	My job makes good use of my abilities	73.7	41.0
Commitment	I am willing to put in extra effort	79.6	39.5
	I work beyond expectations	75.3	48.6
	Satisfaction with job	73.1	44.0

**Source: Researcher's fieldwork**

The responses for the various questions by respondents on employee involvement in decisions of the organization, extent of competence and level of commitment showed similar general agreements as the other attributes. The standard deviations representing the extent of dispersion in opinions are also comparatively indifferent. Table 4.2.6 shows the Weighted Mean Scores (WMS) for the various opinions together with their corresponding dispersions. For example, there is a high evidence of commitment at the workplace with Weighted Mean Scores (WMS) of 76.0%. (Figure 4.2.7).

#### 4.2.6 Effectiveness of Management and Organizational Goal Setting

**Table 4.2.6: Management Effectiveness and Goal Setting**

Attribute		WMS (%)	Stand. Dev.
Management Effectiveness	Takes employee suggestions into consideration	62.9	34.3
	My supervisor does a good of team building	71.5	36.6
Goal Setting	Clearly explained goals	64.6	34.9
	Achievable goals set	73.9	41.6

**Source: Researcher's fieldwork**

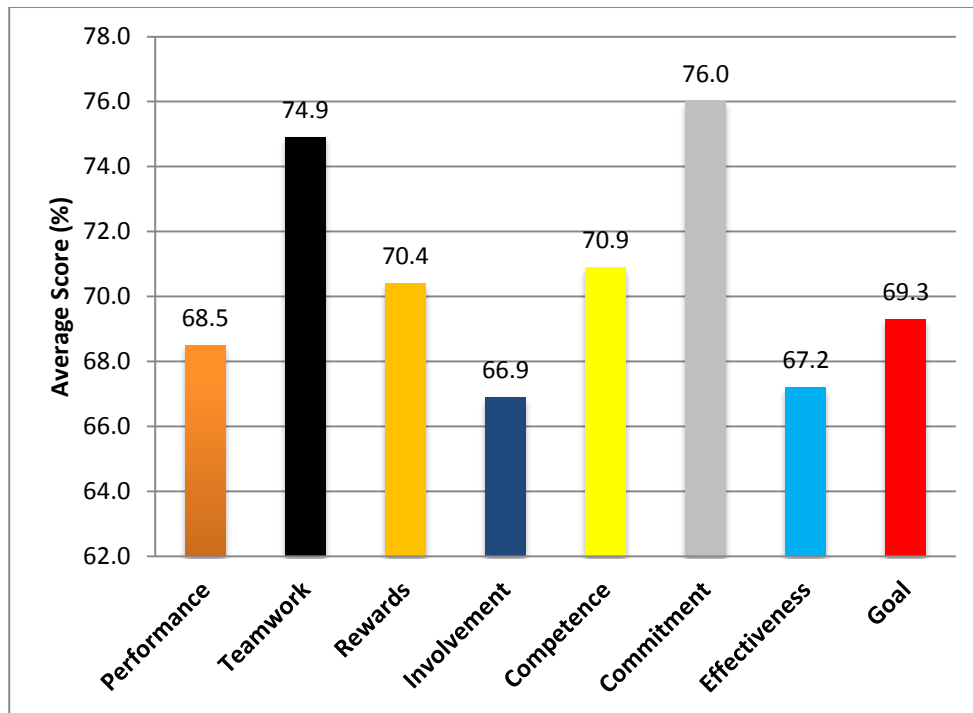
Table 4.2.6 shows the opinions regarding management effectiveness, the management of organizations generally takes into consideration employee suggestions and supervisors do a good team building within the various departments. For goal setting, the company's goals are generally explained to everyone and these goals are achievable.

#### **4.2.7 Attributes of the Industry**

Based on the opinions of the respondents, an average taken from the sample in view of its size cannot be used to make a general statement to cover the whole financial sector. However, some of the attributes could be replicated in other banks in the sector to give a much broader outlook which can then be used to make a general statement about the industry. The opinions as expressed in percentages were commitment 76.0%, team work 74.9%, reward recognition 70.4% and goal setting 69.3%. The results of the assessment of the various attributes are summarized in the bar chart in Figure 4.2.7.

This implies that in order of priority, there is Commitment, Teamwork, Competence, Rewards Recognition, Management goal setting, Performance, Management effectiveness and Employee Involvement.





**Figure 4.2.7: Assessment of Industry Attributes**

**Source: Researcher's fieldwork**

### **4.3 Responses from Management**

The second part of the questioning was solely centered on the opinions from the table of the management of the organization involved in this research. Responses on varying subjects with reference to outsourcing were taken from management staff.

The aim was to consider opinions apart from employees that management actually sought in outsourcing. There were therefore questions on factors that management considered in selecting an outsourcing vendor, whether management incurred cost or saved in the process of outsourcing and which general activities that management outsourced. Management staffs were also questioned on the key reasons why management outsourced and the qualities to which management looked for in an outsourcing vendor.

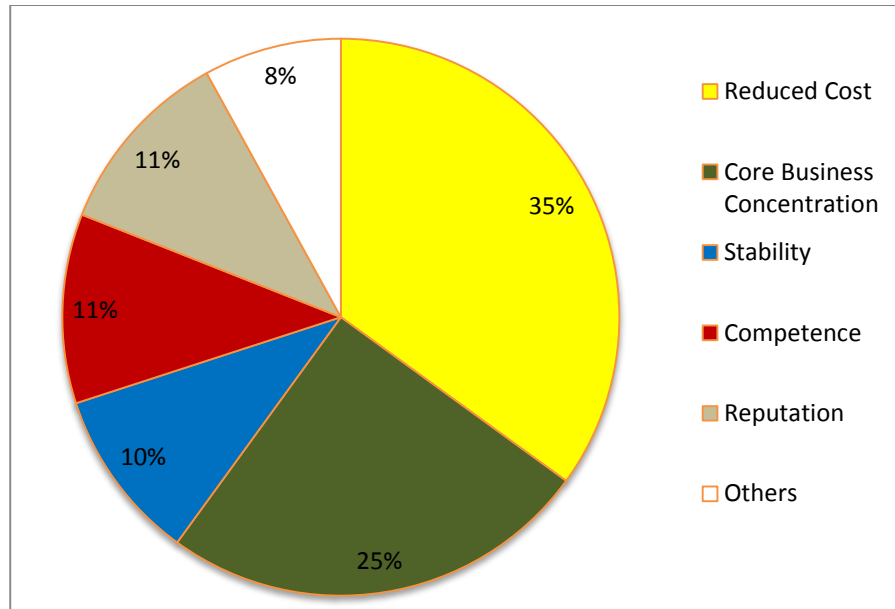
Behara et al, summarized nine issues to bear in mind when considering outsourcing in relation to a firm's specific situations. The responses for management coincides with some of the issues raised which include reliability, expertise, quality of service and cost.

#### **4.3.1 Background Information on Management Staff**

The respondents involved in this part of the research were 8 males and 1 female management staff of the different companies involved in this research. These individuals were heads of departments, managers (including finance managers, treasury managers, and operation managers) and an officer. Four of the respondents were with the Accounts departments of their respective companies with the rest in information technology and Administration.

#### **4.3.2 Factors Influencing Outsourcing and Results of Outsourcing**

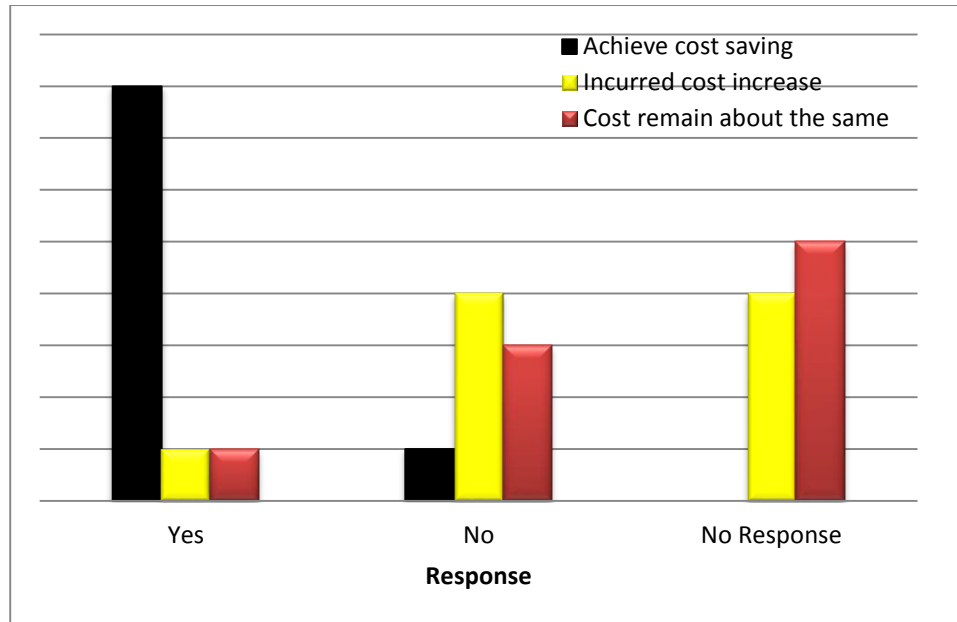
Majority of the respondents listed reduction in price and efficiency as prime factors that influenced their choice of an outsourcing vendor. Figure 4.3.2a is a graphical display of the opinions of the management staff on the key factors that management considered in the choice of an outsourcing vendor.



**Figure 4.3.2a: Factors of Consideration for Management in Outsourcing**

**Source: Researcher's fieldwork**

The results of outsourcing as enlisted by management staff is shown in Figure 4.3.2b. Most of the respondents agreed that a direct result of outsourcing was the effect of saving on cost. A few more indicated that incurred cost increased. This confirmed that there are actual savings on cost which constitutes a competitive advantage or benefits to the organizations. Most of them did not respond to the direct result of cost remaining the same with few more disagreeing that cost was unchanged in the use of outsourcing.



**Figure 4.3.2b: Direct Result of Outsourcing**

### 4.3.3 Activities Outsourced and Reasons for Outsourcing

**Table 4.3.3: Activities Outsourced**

	Frequency	Percent	Cumulative %
Peripheral	6	67	67
Core	1	11	78
Both	2	22	100
Total	9	100	

Majority of the management indicated that they outsourced peripheral activities representing 66.7. Table 4.3.3 is a percentage distribution of the activities that management outsourced. One of the management staff indicated core activities while two of the respondents mentioned both core and peripheral activities.

The respondents gave the following reason when asked why they outsourced. Most of them mentioned that they wanted to fill the gaps that they lacked in the areas they

outsourced. Also a common reason was to concentrate on their core financial activities so they can improve performance. One executive also indicated that outsourcing aids in risk sharing. That was the company does not handle the sole responsibility of risk involved in carrying out tasks. Also an independent assessment is often needed and outsourcing fills the place of the independent factor in operations.

#### 4.3.4 Sources of Outsourcing

The opinions of management staff on the qualities of the companies they outsourced from is shown in Table 4.3.4.

Table 4.3.4: Opinions on qualities of outsourced vendors

Do you outsource from companies	Yes	No	No Response
With corporate culture	7	0	2
With proven track record	8	0	1
With a Lower transactional cost	7	1	1
With a niche in a specific area	8	1	0
With an advantage relative to location	5	2	2
That provides jobs for staff laid off to outsourcing	1	5	3
That was recommended by other organizations	5	3	1

Table 4.3.4 shows that management considered outsourcing vendors with compatible corporate culture, proven track record and low transactional cost.

Also if an outsourcing vendor had a niche in a specific area, had an advantage in terms of location or if the outsourcing vendor as recommended by other organizations, the outsourcing vendor stood a better chance of being approached by these institutions. The only factor not agreed on was whether management would consider outsourcing from a company that provides jobs for staff laid off due to outsourcing.

Additionally respondents commented on the effect of outsourcing on the performance of the financial institution. Benefits listed by the respondents include provision of quality service, evident reduced cost and firm control of operational costs.

#### **4.4 Financial Performance**

To conclude the assessment on the organizations involved in this research, the researcher further investigates the effect of the key variables found to be outsourced by these companies on their financial standings.

From section 4.1.8, the variables found to be outsourced were security and cleaning services (sanitation). Also profound was the service of loan recovery and recruitment but loan recovery was not a commonly outsourced service in all the organizations involved in the research and also variables like recruitment and information technology services were not highly outsourced by the respective companies. In percentage terms, they amounted to 15.0% and 3.0% respectively.

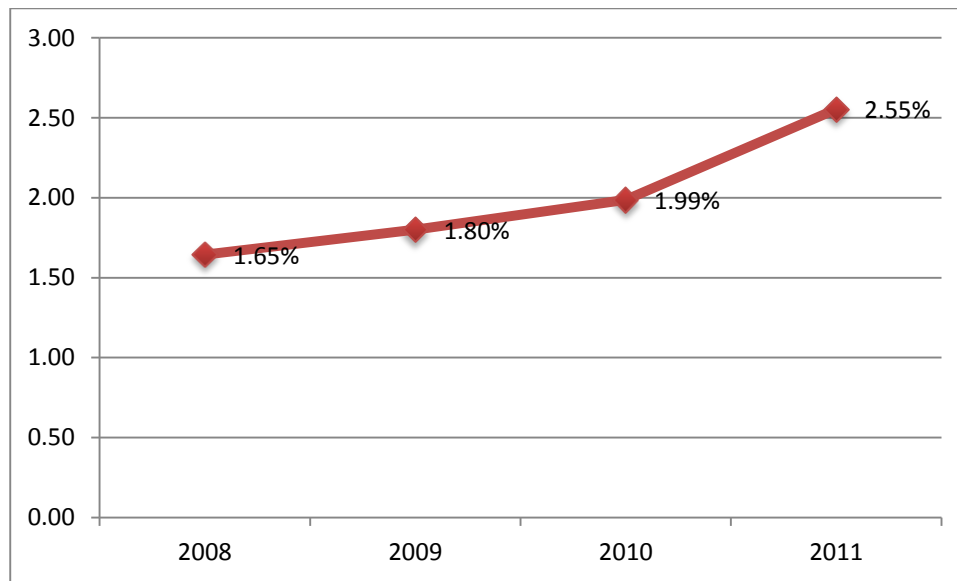
We therefore take a look at the effect of the proportion of the cost involved in assessing security and cleaning services with respect to the total expenditure of the companies. The researcher therefore collected secondary data in the form of financial statements including the balance sheet and profit and loss account of the different institutions. The secondary data collected spanned the financial years from 2008 to 2011 inclusive.

An investigation into the trend of the proportion of the total expenditure allocated to the key variables that respondents agreed were highly outsourced by their companies showed

that there was a gradual increase in expenditure allocated to cleaning and security services outsourced from 2008 to 2011. The increase in expenditure could be due to investment into these outsourced services.

Figure 4.4a shows a line graph of the gradual increase in expenditure allocated to cleaning and security services. There was gradual increase from 2008 in which the percentage allocation to cleaning and security services was 1.65 percent to 2009 in which 1.80 percent of the total expenditure was on cleaning and security services.

From 2009 there was comparatively marginal increase from an allocation of 1.80 percent to 1.99 percent of the total expenditure on cleaning and security services. The increase rose sharply to 2.55 percent.



**Figure 4.4a: Percentage Expenditure Allocation to Cleaning and Security Services**

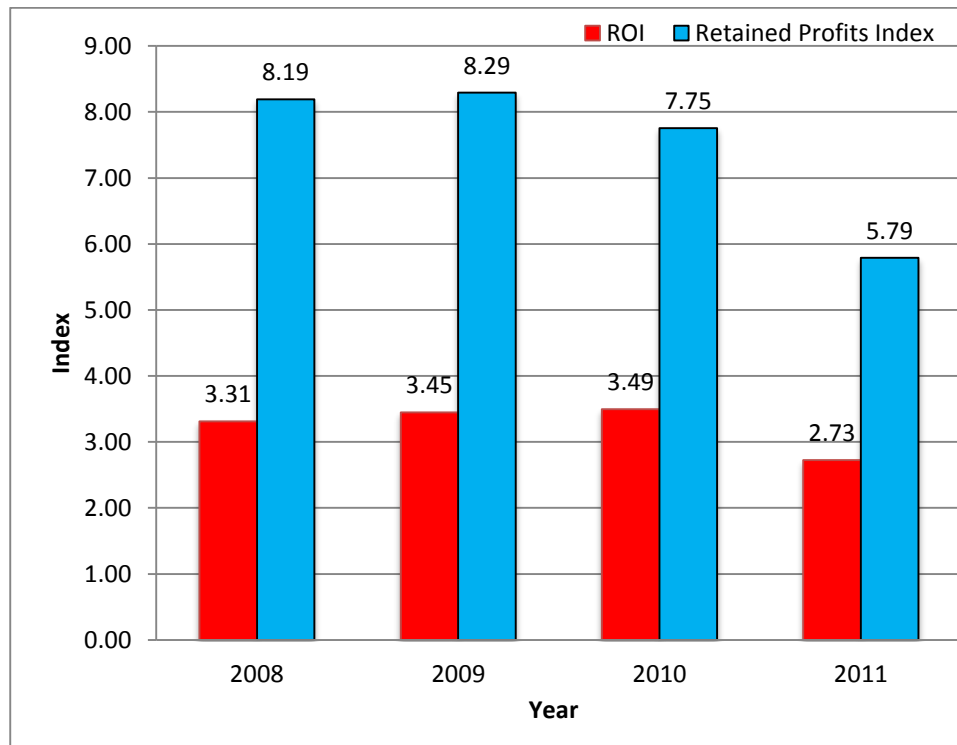
**Source: Researcher's fieldwork**

The financial performance in terms of efficiency within the same period is also considered. The use of the Return on Investment (ROI) index which determines the ability of the companies to utilize the assets employed in the company effectively and

efficiently to earn a good return was also considered. This measures the efficiency of the company in generating profits on its assets.

Also factored is a relative performance of retained profits to assets index. This is similar to the Return on Investment (ROI) index which uses Net profits relative to assets.

Figure 4.4.b displays the performance of the organizations involved in this research using ROI and retained profits relative to assets index.



**Figure 4.4b: Financial Performance of the Organizations**

The ROI increased from 2008 being 3.31 percent to 2010 where the return on investments was 3.49 percent. There was a reduction in 2011 for the year on year return on investment index computed as 2.73 percent. The retained profits relative to assets index only increased year on year from 2008 being 8.19 percent to 2009 where it was 8.29 percent. From 2009 however, the index dropped to 7.75 percent in 2010 and further to 5.79 percent in 2011.



This means that in 2011 when there was a steady increase in the proportion of expenses allocated to both cleaning and security expenditures from 1.99 percent to 2.55 percent, there was a corresponding decrease in the year on year performance indicators.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.0 Introduction**

This chapter is a summary of the findings and analysis of the data collected, conclusions and recommendations which will help the researcher to establish what services the financial institutions involved in this research are currently outsourcing, the current proportion of allocation to the services highly outsourced with the overall expenditure and to consider the corporate and financial performance of the organizations involved in outsourcing within the same period.

#### **5.1 Summary of Findings**

##### **5.1.1 Overview**

This research investigated the outcome of outsourcing (whether there was an overall negative outcome or positive outcome), the services outsourced and performance based on respondents from both employees and management staff. The corporate social performance was based entirely on the data collected from employee respondents on important factors including performance, teamwork, reward recognition, involvement, competence, commitment, management effectiveness and goal setting.

There was also an investigation into the form of outsourcing that the companies were involved in from management. Management staff made available information on reasons for choosing an outsourcing vendor, the general outcome of outsourcing (beneficial in terms of cost saving, neutral effect or incurred costs).

The study employed the use of questionnaire and interview guide as main instruments for research. The data gathered was analyzed using percentages and frequency including bar charts, pie charts and line plots. The researcher also makes use of Weighted Mean Score to analyze question as on the level of agreement scale.

### **5.1.2 Findings**

The following findings emerged from the study. The findings are presented according to the research questions:

### **5.1.3 Types of functions outsourced**

- i. The services mainly outsourced by the financial institutions are security services, cleaning services, loan recovery.
- ii. Security and cleaning services were highly patronized commonly by all the institutions involved in this research
- iii. There was an overall positive outcome of outsourcing

### **5.1.4 Evaluation of performance**

- i. The attributes of the organizations' standings were fairly above average (generally agreed to be in existent and functional)
- ii. In order of priority of the attributes, there is Commitment, Teamwork, Competence, Rewards Recognition, Management goal setting, Performance, Management effectiveness and Employee Involvement

### **5.1.5 Reasons for outsourcing and cost**

- i. The key factors that influenced management choice in outsourcing include reduced cost, concentration on core business, stability, competence and reputation
- ii. Management confirmed that outsourcing had a positive overall effect by agreeing to the cost saving benefits of outsourcing
- iii. Most of the activities outsourced were peripheral activities according to management.
- iv. There is a constant increase for year on year expenditure allocation to security and cleaning services.
- v. There is an steady increase in return on investment of the organizations involved in this research for the first three financial years and a decrease in the last year being 2011.

## **5.2 Conclusions**

### **5.2.1 Outsourcing**

Outsourcing has become a strategic human resource approach in our current competitive business environment. Companies involved in the practice need to stick to their core competencies and go for strategic outsourcing to reduce cost and become more effective in their customer service. A company's business success could be determined on how well it manages its outsourcing relationship (OPPapers, 2009).

In general, organizations outsource to achieve cost reductions and/or to be able to focus on their core business. They also resort to outsourcing as a way to achieve more efficient, effective and competent functions in their processes (Leplante et al, 2004)

One of the fasters growing changes currently adapted by organizations is to outsource non-essential but critical functions to a large scale service provider, that is commonly referred to as Business Process Outsourcing or BPO (Namasivayam, 2004).

As the trends in outsourcing are evaluated, it is realized that the benefits of outsourcing far outweigh its disadvantages.

It is established from the research that security is the most outsourced function. This cut across all the organizations studied. These functions to the institutions are peripheral activities and could easily be outsourced given credence or confirming earlier research positions (Quinn, 1992) that firms by pursuing intense peripheral outsourcing strategies, can achieve higher levels of performance relative to firms that do not outsourced their peripheral activities.

Even though profits from the organizations activities and Return on Investments (ROI) increased year on year, this position cannot solely be attributed to outsourcing. Other factors like commitment, team work, reward recognition, management goal setting and employee involvements serving as motivation all play critical role in the overall performance of the organizations. However, institutions that integrate the above moderating factors with outsourcing may achieve performance enhancement.

The most critical reason adduced for outsourcing was the cost saving benefits which though increased year after year for all the organizations; it forms relatively a minimal percentage of the total cost to the organizations. The percentage cost of outsourcing security in the institutions in relation to the overall cost range from 1.65% in 2008 to 2.55% in 2011. From the study it could be concluded that outsourcing is definitely here to stay and we share an equal responsibility to help improve this business practice.

### **5.3 Recommendations**

#### **5.3.1 Future of Outsourcing**

The subject of outsourcing is creating endless discussions and many sleepless nights among workers whose jobs are, or may be in danger of, or already been outsourced. Managers see it as the savior of businesses racked by high employee costs while the ordinary working class person also sees it as practice that is destroying the very livelihood of many hard working middle class workers.

Outsourcing is continually growing as a corporate strategy for stakeholders to increase their Returns on Investments (ROI) by constantly lowering overall expenses of their organizations (Rogue Economist, 2008). Many organizations are using outsourcing as the single biggest operational cost reduction approach. It is the most likely candidate for reducing wage and salary cost.

### **5.3.2 Functions Outsourced**

It is observed from the research that security is the most outsourced function in all the organizations. This has led to the establishment of many security companies in the country offering job opportunities to our teeming unemployed youth. Government is therefore being entreated to formulate policies to enhance the operation of these companies, such as tax rebates, exemptions or tax holidays to enable them plough back profits to expand and retool their business practices to create avenues to employ qualified personnel to reduce the increasing rate of unemployment in the country. The youth unemployment situation has culminated in the formation of Unemployed Graduate Association of Ghana (UGAG), the first of its kind in the country.

### **5.3.3 Evaluation of Performance**

The research concentrated on organizations in the financial sector which offer services. In this situation, it becomes difficult to measure performance in terms of services. Further research is therefore recommended in other organizations engaged in manufacturing and production where output can be measured quantitatively to establish whether outsourcing has a direct correlation to performance.

The most outsourced functions from the research are peripheral activities, I recommend therefore the traditional banks and particularly the public sector institutions consider outsourcing since it may reduce cost or may enhance performance and may also help to establish how widespread the practice is in the country.

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## **APPENDIX**

### **KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI QUESTIONNAIRE FOR STAFF OF SOME SELECTED ORGANIZATIONS IN KUMASI.**

**This questionnaire is intended for the collection of data that will help the researcher to investigate into the effects of outsourcing on organizational performance. The exercise is purely meant for academic purposes. Whatever information you provide will be kept confidential.**

**Please complete this questionnaire with appropriate number or tick where necessary.**

**1. Gender:**

- a. Male [ ]                      b. Female [ ]**

**2. Age:**

- a. 18 – 30years [ ]    b. 31 – 40years [ ]    c. 41-50years [ ]  
d. Above 50years [ ]**

**3. Department**

- a. ICT [ ]    b. Accounts [ ]    c. Administration [ ]  
d. other (Specify).....**

**4. Employment status**

- a. Permanent staff [ ]    b. Outsourced agency staff [ ]**

**5. Educational Attainment**

- a. Basic [ ]    b. Secondary [ ]    c. Tertiary [ ]**

**6. Marital Status**

- a. Single [ ]                      b. Married [ ]**

**7. What sector does your organization belong**

- a. Savings & Loans [ ]    b. Microfinance [ ]  
c. Bank [ ]    d. Others (Specify).....**

**8. How many years have you worked with the current institution?**

- Less than 1year [ ], 1-5years [ ], 6-10years [ ],  
11-15years [ ], above 15years [ ]**

**9. What type of personnel or functions do you outsource?**

- a. Recruitment [ ]    b. Pay Roll [ ]    c. Security [ ]    d. Cleaning [ ]  
e. Sales/Marketing [ ]    f. Loan Recovery [ ]    g. I T [ ]  
h. Others (specify) .....

Using the scale below, please tick your level of agreement or disagreement for the following questions:

- 1 – Strongly Disagree (SD), 2- Disagree (D), 3- Neither Agree nor Disagree (NAD),  
4 – Agree (A), 5 – Strongly Agree (SA).

	<b>SD</b>	<b>D</b>	<b>NAD</b>	<b>A</b>	<b>SA</b>
<b>10. Outsourcing has had a negative outcome in my organization</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

**11. My organization outsourced in order to:**

<b>a. Allow core staff to focus more on coming up with organizational strategies</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>b. Allow the company to focus on its core business</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>c. Avoid the cost of major investment in technology</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>d. Save money/ reduce operating costs</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>e. Reduce the number of staff and related expenses</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>f. Gain access to vendor talent/expertise</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>g. Gain access to vendor technology</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>h. Make up for a reduction in staff</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>i. to make up for the lack of in-house talent/expertise</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>j. Offer services the organization could not otherwise provide</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>k. Provide consistent/improved service delivery</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

## 12. Performance

1.Overall, the performance (i.e. profitability) of my organization is better than that of other companies in the industry	1	2	3	4	5
2.Overall, I think my organization has performed well with outsourcing as has been expected	1	2	3	4	5
3.Employee morale is high in my organization	1	2	3	4	5
4.Our customers are always satisfied with the services we provide	1	2	3	4	5
5.Outsourcing has become more strategic in my organizations performance	1	2	3	4	5

## 13. Team Work

1.All workers in my organization work together as a team	1	2	3	4	5
2.I have confidence in my co-workers in my organization	1	2	3	4	5
3. Other units are helpful to my work unit whenever assistance is needed	1	2	3	4	5

## 14. Reward Recognition

1. In my organization, people get rewarded by how well they do their jobs.	1	2	3	4	5
2. My organization acknowledges me for my contribution when the organizational goals and objectives are achieved.	1	2	3	4	5

## 15. Involvement

1.My company is sensitive to my individual needs	1	2	3	4	5
2. My company seeks the involvement of all workers when making important decisions.	1	2	3	4	5



### **16. Competency**

<b>1.I receive training to stay current in the skill that I need in order to be effective in my job</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>2. My job makes good use of my abilities</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

### **17. Commitment**

<b>1.I am willing to put in extra effort when necessary to get the job done</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>2. I work beyond the expectations of my organization.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>3. I am satisfied with my job</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

### **18. Management Effectiveness**

<b>1.Management takes employee suggestions into consideration</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>2. My supervisor does a good of team building in my department.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

### **19. Goal Setting**

<b>1.Goals are clearly explained to everyone in my organization</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>2. Goals set in my organization are achievable</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

**THANK YOU**

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND  
TECHNOLOGY, KUMASI  
QUESTIONNAIRE FOR STAFF OF SOME SELECTED ORGANIZATIONS IN  
KUMASI.**

This questionnaire is intended for the collection of data that will help the researcher to investigate into the effects of outsourcing on organizational performance. The exercise is purely meant for academic purposes. Whatever information you provide will be kept confidential.

**THIS PART IS FOR MANAGEMENT STAFF ONLY.**

Please complete this questionnaire appropriately and sincerely as possible

1. Sex: a Male [ ☐ ]      b. Female [ ☐ ]

2. Position: .....

3. Department

a. IT [ ☐ ]

b. Accounts [ ☐ ]

c. Human resource [ ☐ ]      d. Other (specify).....

4. What are the main factors you consider in selecting an outsourcing vendor?

.....

.....

.....

.....

.....

**5. As a direct result of outsourcing, does your organization:**

- a. Achieve cost saving YES [ ] NO [ ]**
- b. Incur cost increases YES [ ] NO [ ]**
- c. Cost remain about the same YES [ ] NO [ ]**

## **PART B**

**1. What activities do you outsource?**

- a. Peripheral activities [ ]**
- b. Core activities [ ]**
- c. Both [ ]**

**2. Why do you outsource?**

.....

.....

.....

**3. In general, what is your opinion about outsourcing in the financial sector of Ghana**

.....

.....

.....

**4. Do you outsource from:**

- a. a company with compatible corporate culture? YES [ ] NO [ ]**
- b. a company with a proven track record? YES [ ] NO [ ]**
- c. a company with a lower transactional cost? YES [ ] NO [ ]**

d. a company with a niche in a specific area? YES [ ] NO [ ]

e. a company with an advantage relative to its location? YES [ ] NO [ ]

f. a company that provides jobs for staff laid off due to outsourcing?

YES [ ] NO [ ]

g. a company that was recommended by other organizations? YES [ ] NO [ ]

5. How has outsourcing contributed to the performance of your organization?

.....

.....

**THANK YOU.**