THE IMPACT OF OUTSOURCING ON ORGANISATIONAL PERFORMANCE
A CASE STUDY OF STANBIC BANK UGANDA LIMITED

BY

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A RESEARCH REPORT SUBMITED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF A BACHELOR OF HUMAN RESOURCE MANAGENT OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I Apio Finella declare that to the best of my knowledge this work has never been presented anywhere in any university for any award of a degree.

Sign__________________

Date: 09/12/2010

APPROVAL

This research report is submitted for examination with my approval as a University Supervisor.

Sign: ____________________ Date: 09/12/2010

Mr. SUNDAY ARTHUR
SUPERVISOR

DEDICATION

This work is dedicated to all the family members of Mr. Ben Emor and Mr. Yayiro Wilson Apenyo and to my parents Mr. and Mrs. Douglas Oluk Emor and to all the lecturers and friends who have helped me in achieving my degree.

ACKNOWLEDGEMENT

First of all, I thank God who has enabled me get this far, without Him nothing is possible.

I would like to express my sincere gratitude to my precious friends for all the support offered during my research and through the entire course. Thank you for being a true friend.

I wish to take this opportunity to express my utmost gratitude to my supervisor, Mr. Sunday Arthur for his untiring effort, guidance and patience which helped to shape this research. And to my lecturers for their knowledge they imparted into me in various ways.

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ABSRACT

The study sought to investigate the effect of outsourcing on organizational performance. The study was guided by the following research objectives, to investigate whether the bank undertakes outsourcing of projects/services, to establish whether outsourcing programs at the bank achieve their stated objectives of improving organizational performance, productivity, market share, and quality and to investigate the factors that are associated with the success or failure of outsourcing programs.

The study findings showed that the bank does carry out outsourcing of services from third party service providers as shown by the greater majority of respondents. The bank though did not suffer adverse disadvantages of outsourcing as only 46.15% of the respondents believed that the bank faced disadvantages as a result of its outsourcing of projects/services to third parties. Instead the bank's outsourcing programs did offer the bank rewards as was shown by just over 92% of the respondents believing that outsourcing benefited the bank. It was thus concluded that the bank's outsourcing programs marginally satisfied the bank's outsourcing objectives.

The findings also showed that when it came to outsourcing management, the bank was effective and thus concluded that factors that were considered by the bank before outsourcing were Cost restructuring, Quality Appraisal, Current Employee skills, Appraisal process and legal issues, Staffing issues and Risk management.

Major recommendations to the study were that the bank should reappraise its objectives for seeking to outsource particular functions of the business. The bank should invest in further training for its own personnel on core aspects of what services the bank carries out in-house and what it out sources. This would also act as an incentive to the current staff who may not feel completely secure in their jobs. This insecurity counter acts marginal gains that outsourcing may be providing to the bank in terms of productivity.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender 1999). Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn 2000).

Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, or as Corbett (1999). President of Michael F. Corbett and Associates asserts, "Outsourcing is nothing less than the wholesale restructuring the corporation around our core competencies and outside relationships." The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999; Bacon 1999).

The market for providers of outsourced services of all types is growing rapidly. In 1996, American firms spent over $100 billion in outsourced business activities (Casale and Overton 1997). Other estimates place the total U.S. market for outsourcing at more than $300 billion by the year 2001 (Dun and Bradstreet 2000). Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services is expected to increase to $200 billion by the year 2001 (Greer, Youngblood, and Gray 1999). A recent study was conducted by Yankelovih Partners indicated that two-thirds of companies world-wide already outsource at least one business process to an external third party. This practice appears to be most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought (Foster, 1999).

Uganda is becoming more involved in the industry known as outsourcing, where a company hires another company, often overseas, to produce goods and services at a lower cost than if the original company does it themselves. Companies that outsource should continue to monitor the contractor's activities and establish constant communication (Guterl 1996). Another big problem with outsourcing comes from the workers themselves as they fear loss of jobs (Malhorta 1997). According to a recent survey 55 percent of outsourcing relationships fail in the first five years. Of these that do manage to stay together, 12 percent are unhappy with their arrangement and regret ever making the deal (Foster 1999).

The bank was founded in Uganda as the National Bank of India in 1906, which after several name changes became Grindlays Bank. When the Standard Bank Group bought the Grindlays' network in Africa it also, in October 1993, re-established a connection with Uganda. Stanbic Bank is licensed as a merchant banker, stockbroker and financial adviser by the Uganda Capital Markets Authority, which licensed the Uganda Securities Exchange In June 1997. In February 2002, Stanbic Bank bought 90% shares into Uganda Commercial Bank, a largely retail government-owned bank that operated a countrywide network consisting of 67 branches. Stanbic Bank in Uganda is part of one of Africa's leading banking and financial services group, Standard Bank.

Standard Bank, based in Johannesburg, South Africa, has total assets of about US$81 billion and employs about 35 000 people worldwide. Its network spans 17 sub-Saharan countries (including South Africa) and extends to 21 countries on other continents, including the key financial centers of Europe, the United States and Asia. In addition to banking, Standard Bank has a strategic interest in the insurance industry through its control of the Liberty Group, one of Africa's leading life offices and financial services groups.

The group has one of the biggest single networks of banking services in Africa. Through this network we offer a wide range of banking products and services which are delivered through more than 1,000 points of representation in 17 African countries (including Uganda). The bank is active in international and cross-border transactions and in those areas liaises closely with Standard Bank Corporate and Investment Banking and Standard Bank London.

1.2 Statement of the Problem

Successful implementations of an outsourcing strategy has been credited with helping to cut cost, increase and improve capacity, improve quality, increase profitability and productivity, improve financial performance, lower innovation costs and risks and improves organizational competitiveness. However, outsourcing does generate some problems. Outsourcing generally reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure (Steensma and Corley 2000). In light of this, the researcher aimed at finding out how the bank's outsourcing strategy and programs affected its performance.

1.3 General Objectives

To investigate the relationship between outsourcing and organizational performance.

1.4 Specific Objectives

i). To establish the relationship between outsourcing and organizational performance.

ii). To establish whether outsourcing programs at the bank achieve their stated objectives of improving organizational performance, productivity, market share, and quality

iii). To investigate the factors associated with the success or failure of outsourcing programs

1.5 Research Questions

i). What is the relationship between outsourcing and organizational performance?

ii). Do outsourcing programs achieve their stated objectives of improving organizational performance, productivity, market share, and quality?

iii). What factors are associated with the success or failure of outsourcing programs?

1.6 Scope of the study

The study was carried out at Stanbic Bank Uganda Limited, in Kampala-Uganda and was concerned with the impact of human resource planning activities on job satisfaction. The staff of the procurement division was choice selected and other management personnel as well. Thirty participants were targeted for the study. The study was carried out in during the period September – November 2010.

1.7 Significance of the study

The study will be of importance to various stakeholders in the following ways;

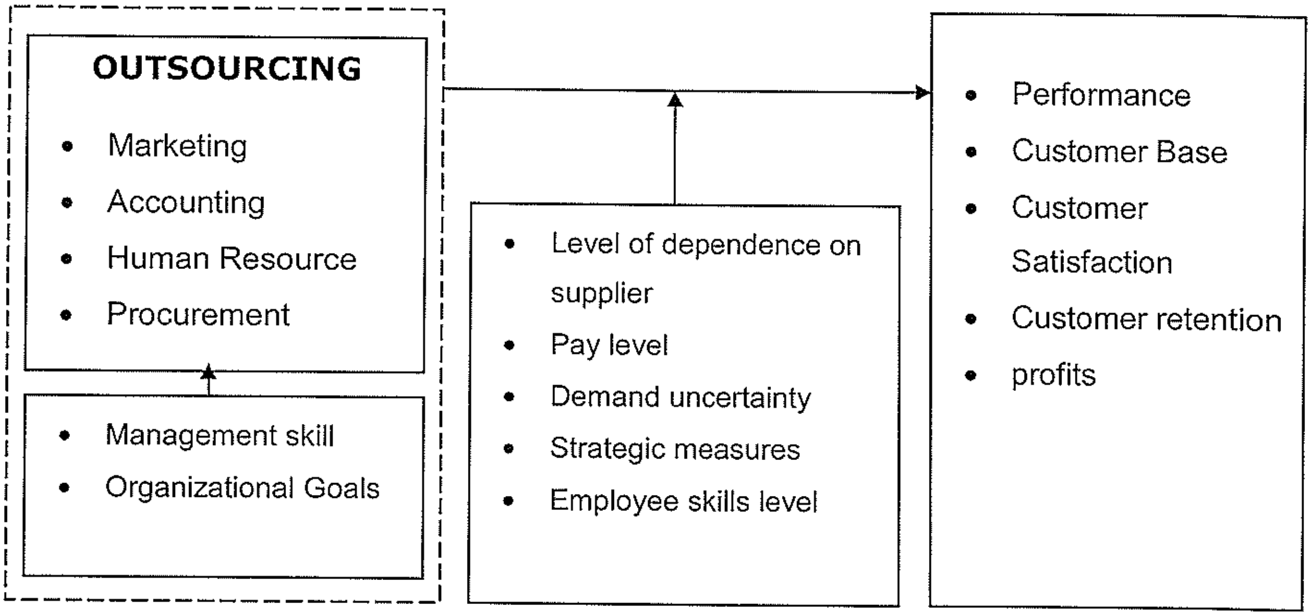
The findings of the study will be useful to the organization as it will highlight weaknesses that the current outsourcing strategies may have which then can be rectified.

The study will aim to show the benefits to the company that outsourcing projects have which the company can use to run a Cost-Benefit Analysis.

Other organizations may use the findings from the study to set up suitable mechanisms to appraise their outsourcing programs and activities.

The study will help the researcher achieve her academic goal of acquiring a dissertation since it is part of the requirements of the course.

1.8 Conceptual Framework



Source: Literature Review

The conceptual framework shows that the independent variable (Outsourcing) influences the dependent variable Organizational Performance. It shows that when the organization carries out outsourcing arrangements such as in marketing, accounting, human resource and procurement among others it is left to concentrate on its core business, which is banking. The success of this is however controlled by the management skill and organizational goals. This when controlled resulted in an increased customer base, higher customer satisfaction, increased customer retention and higher profits.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, the researcher reviewed previous studies, literature and books written and conducted on similar studies.

2.1 Outsourcing

According to Overby, S (2007), Outsourcing is a subcontracting process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering firm or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources.

Overby, S (2007) asserts that outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include information technology, human resources, facilities, real estate management, and accounting. Many companies also outsource customer support and call center functions like telemarketing, cad drafting, customer service, market research, manufacturing, designing, web development, content writing, ghostwriting and engineering.

Outsourcing and Offshoring are used interchangeably in public discourse despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. Offshoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation/company. With increasing globalization of outsourcing companies, the distinction between outsourcing and off shoring will become less clear over time. This is evident in the increasing presence of Indian outsourcing companies in the US and UK. The globalization of outsourcing operating models has resulted in new terms such as nearshoring, noshoring, and right shoring that reflect the changing mix of locations. This is seen in the opening of offices and operations centers by Indian companies in the U.S. and UK. A major job that is being outsourced is accounting. They are able to complete tax returns across seas for people in (Babu M., 2005).

Drezner D. W. (2004) states that outsourcing also involves multisourcing. Multisourcing refers to large (predominantly IT) outsourcing agreements. Multisourcing is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a governance model that communicates strategy, clearly defines responsibility and has end-to-end integration.

Strategic outsourcing is the organizing arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm's value chain (Engardio, et al 2006). Such an arrangement produces value within firms' supply chains beyond those benefits achieved through cost economies. Intermediate markets that provide specialized capabilities emerge as different industry conditions intensify the partitioning of production. As a result of greater information standardization and simplified coordination, clear administrative demarcations emerge along a value chain. Partitioning of intermediate markets occurs as the coordination of production across a value chain is simplified and as information becomes standardized, making it easier to transfer activities across boundaries.

2.2 Reasons for undertaking outsourcing of projects/services

According to Norwood (2006), the decision to outsource is taken at a strategic level and normally requires board approval. Outsourcing is the divestiture of a business function involving the transfer of people and the sale of assets to the supplier. The process begins with the client identifying what is to be outsourced and building a business case to justify the decision. Only once a high level business case has been established for the scope of services will a search begin to choose an outsourcing partner. Due to the complexity of work definition, pricing, and legal terms and conditions, clients often utilize the advisory services of outsourcing consultants to assist in scoping, decision making, and vendor evaluation.

The significant level of outsourcing programs used across all business sectors is well documented in the literature First, some researchers have focused on motivations and reasons for outsourcing activities According to this perspective, the global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host countries or third party nationals (Greer et al. 1999). Most corporations believe that in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue increases which Conner and Prahalad (1996) also agreed to. As companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses (Mullin 1996; Grant 1996).

Frayer et al (2000) stated that other researchers have identified several outsourcing issues, trends and strategies that companies take in establishing and effectively managing their outsourcing activities. The trend is for outsourcing relationships to function more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives. A survey of U.S. CEO's shows that 42 percent of communication firms, 40 percent of computer manufactures, and 37 percent of semiconductor companies rely on global outsourcing. According to another survey conducted by Duncan and Groves R. (1997), more than 65 percent of banks surveyed indicated that they were already involved in at least one type of outsourcing function. "The five most commonly used outsourcing functions in banking were taxes, bankruptcy/foreclosures, systems, cashiering, and insurance". Personnel expenses were the primary reason behind banking outsourcing; however, it also improves operating efficiency and reduces service costs.

On the other hand Kotabe (1998) argues that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long-term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies. Outcomes of technology-sourcing partnerships from the sourcing firms' point of view found that, in general, equity-based alliances were more effective than contract-based outsourcing. Steensma, Kevin and Corley (2000) suggest that the outcomes from technology partnerships for sourcing firms depend on the interaction between technology attributes and the interdependence between source and sourcing firms.

Dun and Bradstreet 2000 state that outsourcing has different dimensions. On one hand, it could mean obtaining talent, skills or information not present within the company. It could also be defined as reallocating the management and operation of a business activity to a different service provider. Some also define outsourcing as subcontracting non-revenue operations to consultants and professionals. Note that all the descriptions seem to involve a movement of services from one group to another, which is what outsourcing basically is. There are different kinds of assistance and tasks that can be outsourced. Some of the more popular ones are Information Technology (IT) Outsourcing and Human Resource (HR) Outsourcing. Another kind would be Application Outsourcing. Each of these provides a number of advantages to the client organization; however, there can also be certain drawbacks.

Application Management involves the support, preservation and development of existing services. When a company has activities that provide no revenue, or has problems with regards to productivity or the quality, predictability and responsiveness of a service, enterprises turn to Application Outsourcing. Application Outsourcing is actually one of the first types of outsourcing. A number of issues may arise from this, though. An example will be who handles the documentation, the service provider or the client? What about the operation procedures? How should they be addressed?

How should a company's processes be dealt with? Who will get the rights to the warranties? (Greer et al, 1999).

Quinn B. J. (2000) states that Information Technology deals with the utilization of electronic devices for the processing of data. Its scope now involves, though it should already have been obvious, technology, and computing. Those involved in IT may have skills in data manipulation, networking, as well as in software designing. Database and administration of systems are often included too. Information Technology Outsourcing is employed when a company has a lack in the ability to do IT functions. Also, IT is quite costly. Today, data is becoming more and more intricate and elaborate that handling it has become quite expensive. This is where outsourcing comes in. Outsourcing seems to be the solution for cheaper, yet quality service. The issues for this kind of service have a wide scope. It could involve setbacks in software, equipment, and even people. A problem would certainly arise from lack in benchmarking, as well as when expected costs are not clearly defined, initially.

Human resources used to be exclusively synonymous to the word 'labor', which is one of the four factors of production. The term has now evolved to mean something quite different to businesses and corporations. It now refers to the group of people or department who sees to the screening, hiring, training, firing personnel. In Human Resource Outsourcing, the agency examines, employs and then prepares workers for another enterprise. Like the preceding services, a number of complications arise from such a setup. For example, the issue of whether the service provider will have allotted space within the company it lends its assistance to. The limits to what the department can do might also be unclear, and cultural differences may be present. Outsourcing seems to be a very good and advantageous move for businesses, however, unless reviewed thoroughly, and terms set specifically, a number of problems may arise and what is supposed to make things lighter could do a 360 and become a burden.

2.2 How outsourcing programs help Stannic Bank to achieve their stated objectives of improving organizational performance, productivity, market share, and quality

Firms consider their outsourcing projects successful when the benefits generated by the outsourcing strategies are greater than the costs of developing the required resources and capabilities through internal development or acquisitions. On the other hand, firms consider their outsourcing projects unsuccessful or failures, when the costs of managing the links between outsourcing partners is greater than the benefits generated by the outsourcing program (Heywood F., 1996).

In appraising the impact of any outsourcing arrangement, it is important to consider whether the program took into consideration the strategic and tactical concerns of the program. These should be considered on both a department and organizational level (Drezner, D.W. (2004). A good choice of outsourcing partners was the second most useful and contributing factor among successful organizations. Outsourcing partners should be selected based on their expertise in the operation being outsourced and their cultural fit with the firm. The third factor is providing adequate training skills needed to manage outsourcing activities and to negotiate a sound contract. Providing managers with skills that will enable them to adapt to other cultures and work with other managers may be very important to ensure the success of outsourcing. Developing a comprehensive plan outlining detailed expectations, requirements, and expected benefits during all phases of outsourcing activities may be the key to successful sourcing efforts.

Klepps, R. and W. Jones. (1999) believe that organizations that outsource are seeking to realize benefits or address the following issues:

Cost savings. The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-structuring. Access to lower cost economies through off shoring called "labor arbitrage" generated by the wage gap between industrialized and developing nations. One of the most talked about advantages of outsourcing to locations like India is the cheap labor costs in these countries. Processes outsourced to these locations are done at much cheaper rates and same quality levels as in the donor location. This translates into major cost savings for companies. They also save on operational costs such as payroll, administrative costs, Human Resource, power, rentals and utilities as processes move to other locations.

Cost restructuring. Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable.

Improve quality. Achieve a step change in quality through contracting out the service with a new service level agreement. Quality of service is measured through a service level agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price. There are a number of stakeholders who are affected and there is no single view of quality. The CEO may view the lower quality acceptable to meet the business needs at the right price. The retained management team may view quality as slipping compared to what they previously achieved. The end consumer of the service may also receive a change in service that is within agreed SLAs but is still perceived as inadequate. The supplier may view quality in purely meeting the defined SLAs regardless of perception or ability to do better. Quality in terms of end-user-experience is best measured through customer satisfaction questionnaires which are professionally designed to capture an unbiased view of quality. This allows quality to be tracked over time and also for corrective action to be identified and taken (Maddock, B. et al, 2005).

Knowledge. Access to intellectual property (IP) and wider experience and knowledge. Outsourcing requires the sharing of a wide array of proprietary knowledge. The nature and critical importance of intellectual property will differ in every sector of industry and business. Nonetheless, every type of IP asset – trade secrets, trademarks, industrial designs, patents, copyright and related rights, etc. – may be involved at the different levels of outsourcing relationships. However, each type of IP asset is generally governed by its own distinct national law, which varies from one country to another, adding further complexity to managing IP assets in offshore outsourcing relationships, especially if there are many partners in different countries. These issues will become increasingly important to enterprises as the practice of offshore outsourcing continues to grow.

Contract. Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services. It's important to ensure that specific service levels are agreed on between you and your service provider. Service levels should be as precise and business-relevant as possible. Avoid ambiguity and use a small number of significant measures. Where possible, try to ensure the numbers are baseline against accurate data of current and historic service volumes. Service levels must be realistic -- there must be confidence within the service provider and the client that the targets will be achieved. Very often service providers are pushed into aggressive yet unrealistic service levels.

Operational expertise. Access to operational best practice that would be too difficult or time consuming to develop in-house. Outsourcing of this level can be done at different levels which consider;

- Basic Level of Outsourcing Relationships. Focus is on labor intensive tasks, which require unskilled, low-wage labor, then moves on to tasks requiring educated and skilled low-wage labor.
- Second Level of Outsourcing Relationships. Manufacture of commodity products: Focus on standardized (and often labor-intensive) production systems for standardized or mature (limited value-addition) products, often reaping economies of scale.
- Third Level of Outsourcing Relationships. Focus on highly skilled science and engineering/technical personnel employed in state-of-the-art R&D setups in lower-wage countries.

Staffing issues. Access to a larger talent pool and a sustainable source of skills. While the "outsourcing" process may provide benefits to less developed countries or global society as a whole, in some form and to some degree - include rising wages or increasing standards of living - these benefits are not secure. Further, the term outsourcing is also used to describe a process by which an internal department, equipment as well as personnel, is sold to a service provider, who may retain the workforce on worse conditions or discharge them in the short term. The affected workers thus often feel they are being "sold down the river."

Capacity management. An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier. Companies outsource to vendors who have domain expertise in the outsourced process. Their experience in the field translates into greater operational efficiencies for the outsourcing company.

Catalyst for change. An organization can use an outsourcing agreement as a catalyst for major step change that can not be achieved alone. The outsourcer becomes a Change agent in the process. Although innovation was not initially a primary driver of outsourcing, many customers now perceive innovation as one of the biggest advantages of outsourcing. Business practices can certainly drive process innovation, but technology facilitates it, as in the case of self-service techniques.

Reduce time to market. The acceleration of the development or production of a product through the additional capability brought by the supplier. In other words, an enterprise should do in-house only those activities that it is capable of doing faster, cheaper and/or better than others; all other activities are candidates for being outsourced to others who are capable of doing such activities faster, cheaper and/or better. On this basis, a firm should be able to create new value for itself as well as its customers through one or more outsourcing relationships. The supply chain is essentially concerned with the supply of raw materials, their transformation into finished products by a manufacturing process, and their distribution through a network of distributors, warehouse and retailers. The concept of the value chain is, on the other hand, extended and applied to the whole supply chain and its distribution networks.

Commodification. The trend of standardizing business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.

Risk management. An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation. Companies often need to build one time applications. Such ad hoc or one time applications will require high manpower resources and companies find that they are faced with the need to ramp up in relatively short time spans. Outsourcing such needs is the best solution for companies that want to avoid expensive outlays for the short term.

Accelerate migration to new technology: Migrating to newer technologies allows companies to make better use of their investments and enjoy enhanced productivity and quality. Companies with outsourced IT processes are better enabled to migrate to new technologies with minimum downtime and productivity disruption.

2.3 Factors associated with the success or failure of outsourcing programs

The decision to outsource is taken at a strategic level and normally requires board approval. Outsourcing is the divestiture of a business function involving the transfer of people and the sale of assets to the supplier. The process begins with the client identifying what is to be outsourced and building a business case to justify the decision. Only once a high level business case has been established for the scope of services will a search begin to choose an outsourcing partner. Due to the complexity of work definition, pricing, and legal terms and conditions, clients often utilize the advisory services of outsourcing consultants to assist in scoping, decision making, and vendor evaluation (Engardio, P. et al, 2006).

Kotabe (1998) argues that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long-term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies. Having examined the outcomes of technology-sourcing partnerships from the sourcing firms' point of view found that, in general, equity-based alliances were more effective than contract-based outsourcing. Also, Steensma et al (2000) suggest that the outcomes from technology partnerships for sourcing firms depend on the interaction between technology attributes and the interdependence between source and sourcing firms.

Gibson F. (2006) suggests that small businesses (SMBs) have always confronted with addressing their IT necessities. The lack of resources - be it staff, budgets or managing resources - have determined SMBs to start exploring the offshore outsourcing option. But start ups and small enterprises have specific needs that few outsourcers can address correctly. Affordable IT solutions that are easily to install and configure, service/support requirements and, most of all, integrated ready-to-use methodologies and tools are the most critical demands of an SMB willing to outsource its IT department.

Other researchers have focused on outsourcing strategy effectiveness and its impact on organizational characteristics which (Frayer et al, 2000) suggests that in order for an out-sourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they suggest that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance, and customer service.

Babu, M. (2005), suggest that the influence of organizational characteristics was highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities outsourced. As such, it appears that many factors such as pay level, promotional opportunities and demand uncertainty should be considered when deciding to outsource functions or activities.

Other researchers have focused on outsourcing performance measures (Kotabe et al 1998). For example Kotabe et al. (1998) identifies three types of performance measures as necessary components in any outsourcing performance measurement system: strategic measures; financial measures; and quality measures. Other studies use additional dimensions of market performance such as costs savings, cycle time, customer satisfaction, and productivity to measure the effectiveness of outsourcing strategy.

From a different perspective, obstacles such as poor choices of sourcing partners, inadequate planning and training/skills needed to manage outsourcing activities and poor organizational communication have also been identified as impacting the success of outsourcing projects (McCue, A., 2006). A poor choice of sourcing partners was the second most serious problem facing unsuccessful organizations. Establishing strategic supplier alliances and adoption of the philosophy that the firm is a partner with the suppler may help alleviate this problem (McCue A., 2006).

Effective communication among cross-functional areas reduces the negative effects of outsourcing projects on the morale and performance of the remaining employees. Management must step in and rebuild trust among the workers, and jobs may need to be reevaluated and expanded or changed to fit the new organization. This can be achieved through support and involvement of top management and by providing incentives to employees and vendors who meet and exceed the contracted performance expectations (Babu M., 2005). Another factor is to acquire the right people, with the right skills involved in all phases of outsourcing activities. Early in the evaluation, persons must be identified as to who will take leadership responsibility, perform the analysis, and make the decisions. Adequate supporting infrastructures, commitment by top management, and development of objective performance criteria were among the factors contributed to successful outsourcing projects. Properly defined performance criteria for an outsourcing engagement are objective, quantifiable, and collectible at a reasonable cost, and should be metrics which can be benchmarked against performance of other organizations and providers (Kleepes and Jones 1999). Other factors identified among the top priorities in successful firms include adequate performance feedback, emphasis on both short and long-term benefits, anticipation of change for both good and bad times and accommodation of cycles of demand that require an adjustment in services.

SMB business specific challenges and "pain points" determine specific needs for small enterprises. Most outsourcing providers are specialized on the early adopters of outsourced software services - large companies multinationals. Therefore there are few specialized providers for SMBs and able to adapt to their business model and needs. Yet small-sized, SMBs are still technology-intensive businesses that require great attention from outsourcing providers (Quinn, B. J., 2000).

Literature identifies high-level approaches to outsourcing (Quinn, B. J., 2000), but not detailed methodologies. Further there is little empirical research investigating outsourcing performance implications. Additionally, while consultants identify the success of their approach, they do not identify the failures or problems of their approach as readily. Even fewer studies have examined the outcomes of outsourcing activities. Find a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin is four times as high as that of GM due to effective outsourcing through strategic alliances. Frayer et al (2000) suggest that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firm's overall competitive position.

2.4 Other literature on the subject

2.4.1 Trends in Offshore Outsourcing

Outsourcing can be generally defined as a means of marrying efficiency with innovation, which requires managers to consider the following: time-cycle and cost reduction, levering scale and scope, reduction of resources, partners as role models for change, and reduction of risk". It refers to an enterprise making an arm's length alliance with one or more entities or enterprises to perform carefully selected operations and day-to-day business processes that were previously done in-house.

The qualifying term 'offshoring' – outsourcing offshore – is used to distinguish the activities that occur when, for example, company *A* turns over responsibility, in whole or in part, of an in-house business function to company *B* whose location is outside of company *A*'s national jurisdiction, thereby making it a more complex arrangement than what it would have been if the two enterprises were in the same country. This may be considered as a form of foreign direct investment (FDI), a good thing, but not so it seems when the firm closes a plant or reduces its home-based activity and goes offshore to 'outsource a function' and then import product back into the domestic market.

The United Nations Conference on Trade and Development (UNCTAD, 2004) World Investment Report 2004, in exploring the factors behind the global shift to outsourcing offshore, states that "FDI plays an important role in offshoring, although this is difficult to quantify owing to the lack of reliable data. In principle, FDI affects offshoring in two ways: through captive offshoring, and when specialized service providers set up foreign affiliates to serve foreign clients. While such investments can create many jobs, they typically do not generate large capital flows. Consequently, they do not account for large shares in the FDI statistics".

Outsourcing arrangements in the manufacturing sector – for example in the apparel, automotive, textile and steel industries – have a long history. The practice, termed contract manufacturing or subcontracting, was and is still used to reduce overall costs. As Wan Jr. H. (2008) Henry points out, traditional contract manufacturing operations ("bulky goods with standard specifications, transacted at arms' length") have evolved to the contract manufacturing of services; "Today, goods like clothing, automobiles, and electronic products not only have complex composition but also experience frequent style change. To manage the large number of parts and components of diverse origin becomes an independent activity: they must meet specifications, be ready on time, in large volumes, and at a competitive cost. Such management tasks have become the basis of a separate industry: the contract manufacturing service".

What then is the cause of the changing trading environment? Over the last decade, the evolution of information and communications technologies (ICTs) has considerably improved the ability to control outsourced activities or processes, whether in one, or more, distant national or international location(s), making outsourcing a more attractive option for many other sectors. ICTs have also improved overall logistics, i.e., by allowing for reliable transport to destinations – "just in time" delivery – inventory costs for companies are reduced. As many enterprises using subcontractors in this way were able to improve their overall competitiveness, they moved on to outsourcing service-related functions. "Out-Servicing" started with information technology-based tasks, and has evolved to what is known as 'Business Processing Outsourcing' (BPO).

2.4.2 Protecting Intellectual Property Assets and Know-how

Effective management of this sharing of knowledge requires that both parties properly administer their IP while keeping the overall business objectives in view. The benefits according to Baily M. et al (July 2004) of sharing IP assets must outweigh the multiple risks encountered in outsourcing, including the risks linked to the shared IP assets. Such risks include challenges in monitoring and/or dealing effectively with various types of breaches of contract clauses, theft or misappropriation of trade secrets, misuse or loss of other types of IP rights (resulting in partial loss of control of business), poor or inconsistent quality of goods and services (that may affect the reputation or brand image), enforcement of IP rights, parallel imports and grey-market issues. Therefore, an intellectual property due diligence enquiry should be undertaken before finalizing any outsourcing plan to safeguard an enterprise's IP, while determining which functions be kept in-house or outsourced. It will include a range of essential issues, as listed in **Box 1**.

2.4.3 Criticisms of outsourcing

There is a strong public opinion regarding outsourcing (especially when combined with off shoring) that outsourcing damages a local labor market. Outsourcing is the transfer of the delivery of services which affects both jobs and individuals. It is difficult to dispute that outsourcing has a detrimental effect on individuals who face job disruption and employment insecurity; however, its supporters believe that outsourcing should bring down prices, providing greater economic benefit to all. There are legal protections in the European Union regulations called the Transfer of Undertakings (Protection of Employment). Labor laws in the United States are not as protective as those in the European Union. A study has attempted to show that public controversies about outsourcing in the U.S. have much more to do with class and ethnic tensions within the U.S. itself, than with actual impacts of outsourcing (Steensma, Kevin and Corley, 2000).

Language skills.

In the area of call centers end-user-experience is deemed to be of lower quality when a service is outsourced. This is exacerbated when outsourcing is combined with off-shoring to regions where the first language and culture are different. The questionable quality is particularly evident when call centers that service the public are outsourced and off shored. There are a number of the public who find the linguistic features such as accents, word use and phraseology different which may make call center agents difficult to understand. The visual clues that are present in face-to-face encounters are missing from the call center interactions and this also may lead to misunderstandings and difficulties (Steensma, Kevin and Corley, 2000).

Social responsibility

Outsourcing sends jobs to the lower-income areas where work is being outsourced to, which provides jobs in these areas and has a net equalizing effect on the overall distribution of wealth. Some argue that the outsourcing of jobs (particularly off-shore) exploits the lower paid workers. A contrary view is that more people are employed and benefit from paid work. On the issue of high-skilled labor, such as computer programming, some argue that it is unfair to both the local and off-shore programmers to outsource the work simply because the foreign pay rate is lower. On the other hand, one can argue that paying the higher-rate for local programmers is wasteful, or charity, or simply overpayment. If the end goal of buyers is to pay less for what they buy, and for sellers it is to get a higher price for what they sell, there is nothing automatically unethical about choosing the cheaper of two products, services, or employees (Steensma, Kevin and Corley, 2000).

Quality of service

Quality of service is measured through a service level agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price (Steensma, Kevin and Corley, 2000).

Quinn, B. J. (2000), there are a number of stakeholders who are affected and there is no single view of quality. The CEO may view the lower quality acceptable to meet the business needs at the right price. The retained management team may view quality as slipping compared to what they previously achieved. The end consumer of the service may also receive a change in service that is within agreed SLAs but is still perceived as inadequate. The supplier may view quality in purely meeting the defined SLAs regardless of perception or ability to do better. Quality in terms of end-user-experience is best measured through customer satisfaction questionnaires which are professionally designed to capture an unbiased view of quality. Surveys can be one of research. This allows quality to be tracked over time and also for corrective action to be identified and taken.

Staff turnover

Steensma et al (2000), the staff turnover of employee who originally transferred to the outsourcer is a concern for many companies. Turnover is higher under an outsourcer and key company skills may be lost with retention outside of the control of the company. In outsourcing offshore there is an issue of staff turnover in the outsourcer companies call centers. It is quite normal for such companies to replace its entire workforce each year in a call center. This inhibits the build-up of employee knowledge and keeps quality at a low level.

Company knowledge

Steensma et al (2000) states that outsourcing could lead to communication problems with transferred employees. For example, before transfer staff have access to broadcast company e-mail informing them of new products, procedures etc. Once in the outsourcing organization the same access may not be available. Also to reduce costs, some outsource employees may not have access to e-mail, but any information which is new is delivered in team meetings.

Qualifications of outsourcers

The outsourcer may replace staff with less qualified people or with people with different non-equivalent qualifications. In the engineering discipline there has been a debate about the number of engineers being produced by the major economies of the United States, India and China. The argument centers around the definition of an engineering graduate and also disputed numbers. The closest comparable numbers of annual gradates of four-year degrees are United States (137,437) India (112,000) and China (351,537) (Quinn, B. J., 2000).

Productivity

Offshore outsourcing for the purpose of saving cost can often have a negative influence on the real productivity of a company. Rather than investing in technology to improve productivity, companies gain non-real productivity by hiring fewer people locally and outsourcing work to less productive facilities offshore that appear to be more productive simply because the workers are paid less. Sometimes, this can lead to strange contradictions where workers in a third world country using hand tools can appear to be more productive than a U.S. worker using advanced computer controlled machine tools, simply because their salary appears to be less in terms of U.S. dollars. In contrast, increases in real productivity are the result of more productive tools or methods of operating that make it possible for a worker to do more work. Non-real productivity gains are the result of shifting work to lower paid workers, often without regards to real productivity. The net result of choosing non-real over real productivity gain is that the company falls behind and obsoletes itself overtime rather than making investments in real productivity (Steensma et al, 2000).

Standpoint of labor

Dun & Bradstreet. (2000) believes that the standpoint of labor within countries on the negative end of outsourcing this may represent a new threat, contributing to rampant worker insecurity, and reflective of the general process of globalization (see Krugman, Paul (2006). "Feeling No Pain." *New York Times*, March 6, 2006). While the "outsourcing" process may provide benefits to less developed countries or global society as a whole, in some form and to some degree - include rising wages or increasing standards of living - these benefits are not secure. Further, the term outsourcing is also used to describe a process by which an internal department, equipment as well as personnel, is sold to a service provider, who may retain the workforce on worse conditions or discharge them in the short term. The affected workers thus often feel they are being "sold down the river."

Security

Before outsourcing an organization is responsible for the actions of all their staff and liable for their actions. When these same people are transferred to an outsourcer they may not change desk but their legal status has changed. They no-longer are directly employed or responsible to the organization. This causes legal, security and compliance issues that need to be addressed through the contract between the client and the suppliers. This is one of the most complex areas of outsourcing and requires a specialist third party adviser (Drezner, D.W., 2004).

Fraud

Fraud is a specific security issue that is criminal activity whether it is by employees or the supplier staff. However, it can be disputed that the fraud is more likely when outsourcers are involved, for example about the credit card theft when there is scope for fraud by credit card cloning. In April 2005, a high-profile case involving the theft of $350,000 from four Citibank customers occurred when call center workers acquired the passwords to customer accounts and transferred the money to their own accounts opened under fictitious names. Citibank did not find out about the problem until the American customers noticed discrepancies with their accounts and notified the bank (Steensma et al, 2000).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter put forward and described the research methods and reasons that were used in the study. It entailed research design, study area, target population, sample size, data collection methods, instruments, data processing and analysis and limitations of the study.

3.1 Research Design

A case study design was used since this study looked at an individual area. The study employed quantitative techniques to arrive at an understanding of the relationship between outsourcing and company performance. This was done by acquiring frequencies of respondents' feedback and calculating percentages. The results were then used to draw up bar graphs and pie charts. This is because the bulk of the data that was collected was quantitative in nature and thereby required statistical interpretation. Qualitative analysis was later used to interpret the quantitative data in terms of the highest and lowest results.

3.2 Study Area

The study was carried out at Stanbic Bank Uganda Limited, located on Plot 17 Hannington Road, PO Box 7131 Kampala. The study involved procurement department staff, administrators from other departments and general staff members.

3.3 Target population

The target population of the study selected all of the procurement department staff of Stanbic Bank Uganda Limited. These were also complemented with respondents from other departments of the bank. The author highly depended on the purchasing and procurement department and the finance and accounting department group of management since the author believed they were the most influential contributors of information to the study.

3.4 Sample size

The total sample targeted a total of 30 respondents and retrieved 26 successful responses. These were selected in the following way: 15 administrative and assistant administrative staff members from respective departments of operations, procurement, human resource, finance and marketing. A further 15 respondents were selected at random once the staff from procurement and finance were exhausted.

3.5 Sample size selection

The study sought to obtain a total of 30 successful respondents through use of the questionnaires and interviews conducted. However due to factors such as;

- the unreliability of respondents attributed to business obligations
- respondents out on business trips (6.67%)
- personal reluctance resulted in the study

The above reasons resulted in the study obtaining a response rate of 26:30. The table below shows the detailed response rate by category.

Table 1: Sample Size Selection

Category	Total Sought	Total Obtained	Success Rate
Administrators	6	4	67%
Assistant Administrators	4	4	100%
Procurement	5	5	100%
General Staff Members	4	3	75%
Finance Department	5	5	100%
Marketing Department	3	2	67%
Human Resource	3	3	100%
TOTAL	30	26	86.67%

3.6 Data collection

This was the process of gathering information from the field. It included the use of primary and secondary data collection methods as elaborated below;

3.6.1 Data Collection Methods

Primary and Secondary Data Collection Methods

The study used both primary and secondary data collection methods for acquiring raw data. Secondary data collection was carried out by review of available literature, magazines, organization publications and mass media sources at the library, articles and internet. Primary data collection involved the questionnaires and interview guides as stated below;

Questionnaire

These are preformatted written set of questions to which the respondents recorded their answers. They were preferred because they gave straight forward answers, easy to evaluate and they can be stored for future reference.

Interviews

In this technique the researcher carried out a face to face interaction with the respondent about various aspects of the research objectives. This method was preferred because it offered opportunity for the researcher to have direct conversation with the respondents and be able to ask probing questions relevant to the study.

3.6 Procedure

The researcher obtained a letter of introduction from the university and used this letter as proof that she is a student of Kampala International University. She showed it to the respondents before administering the questionnaire or interview guide to the respondents. The researcher assured the respondents of utmost confidentiality and thanked the respondents after they had participated in answering the questionnaire or responding to interview questions.

3.7 Data processing and analysis

The data collected included both qualitative and quantitative which was analyzed and processed to make it useful and understandable. Data was collected, tabulated and then analyzed using percentages and frequencies.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

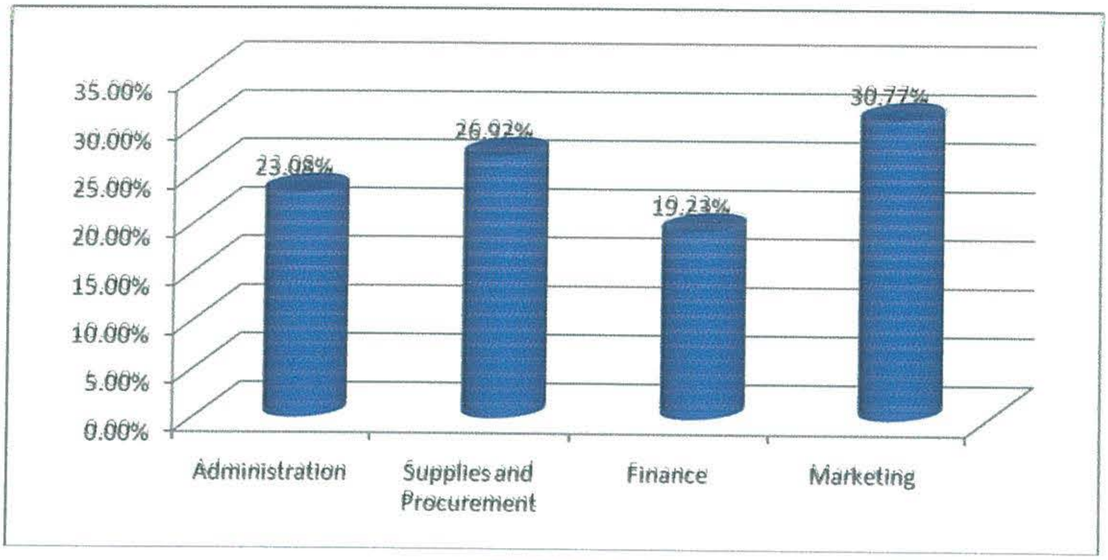
4.0 Introduction

The aim of the study was to find out the effects of outsourcing on organizational performance. Case study of Stanbic Bank Uganda Limited. The study sought to answer this objective through answering the research questions. As such the findings of the study are shown below;

4.1 Demographic information.

The study sought to investigate the demographics of the respondents so as to ascertain possible biases in the study findings. These are illustrated below by use of bar graphs and pie charts.

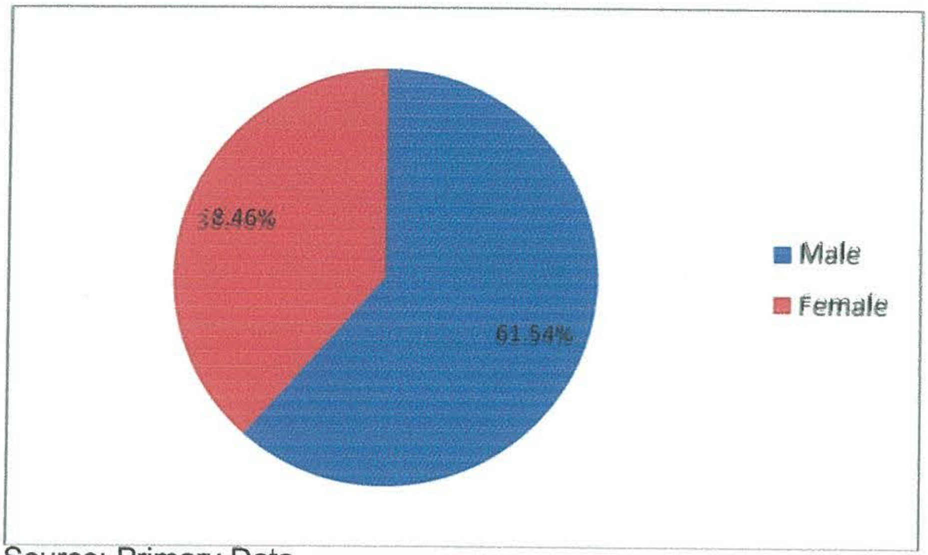
Figure 1: Department of Respondents



Source: Primary Data

The Figure 1 above shows that the greater number of respondents were from the marketing department with just over 30.77% followed by those in the supplies and procurement department (26.92%), administration (23.08%) and then finance with only 19.23% of the respondents.

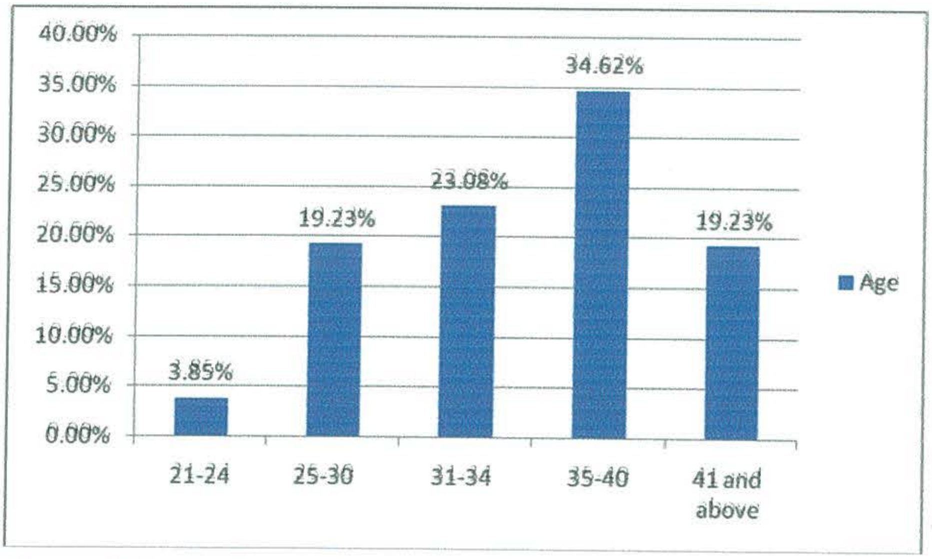
Figure 2: Sex of Respondents



Source: Primary Data

The study findings in Figure 2 above showed that the majority of respondents were male at 61.54% while only 38.46% were female.

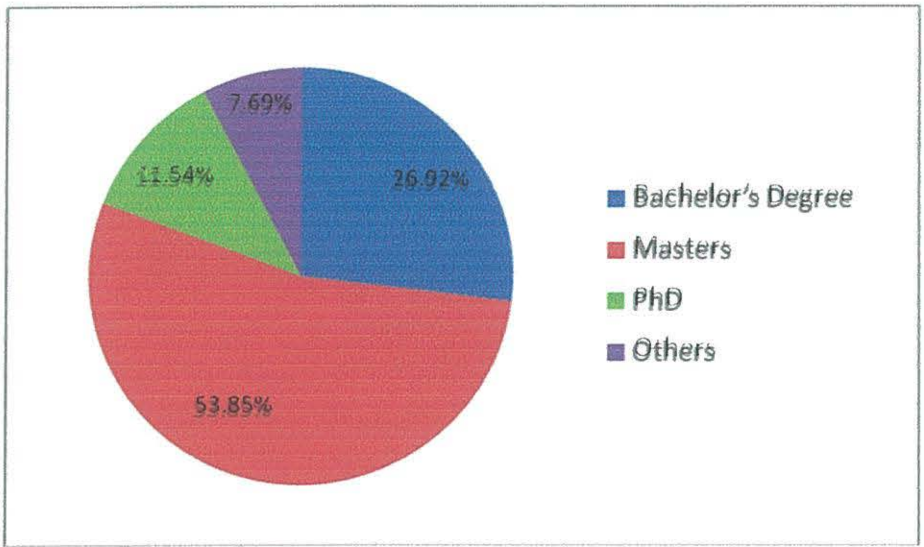
Figure 3: Age Group of Respondents



Source: Primary Data

The findings shown in Figure 3 above shows that the majority of the respondents were between the ages of 35 and 40 with 34.62% of the respondents. The findings also showed that the respondents were made up of 23.08% of those aged 31-34 years, 19.23% aged between 25-30 and also a further 19.23% aged 41 and above while those in the age group 21-24 were only 3.85%.

Figure 4: Academic qualification attained



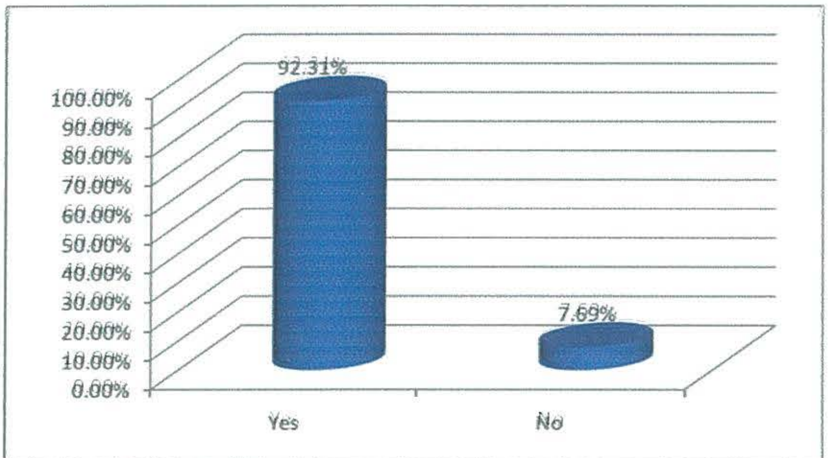
Source: Primary Data

The education qualification of the respondents was investigated and the findings showed that the majority of the respondents (53.85%) were Master's Degree holders while those with bachelor's degrees, PhDs and other certifications were 26.92%, 11.54% and 7.69% respectively.

4.2 Reasons why the Bank Undertakes Outsourcing

The first research question was to investigate the reasons that the bank has for outsourcing some of its services and business projects to third party service providers. The results are displayed according to the questionnaires below:

Figure 5: Showing whether the Bank Outsources Services



Source: Primary Data

The study findings showed that the bank does carry out outsourcing of services from third party service providers as shown by the greater majority of respondents in figure 5 showed that the majority of respondents (92.31%) believed that the company did carry out outsourcing. When further asked what services the company outsourced, the respondents listed auditing, human resource acquisition, market research among others as displayed in Table 1 below.

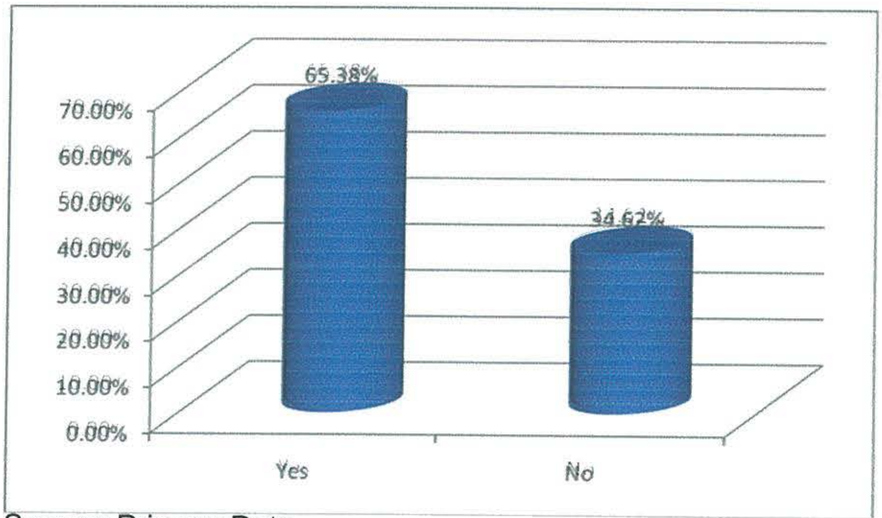
Table 2: Services the Bank Outsources

What services does the Bank outsource?	Frequency (f)	Percentage (%)
Information technology	16	61.54%
Human resources	14	53.85%
Real estate management	21	80.77%
Bankruptcy/foreclosures	18	69.23%
Internal quality initiatives	8	30.77%
Accounting and auditing	23	88.46%

Source: Primary Data

The study found that the bank currently outsources information technology, human resources, facilities, real estate management, bankruptcy/foreclosures, internal quality initiatives, and accounting as shown in the figure above. It was observed that the emphasis has been on human resource, facilities and real estate management and accounting.

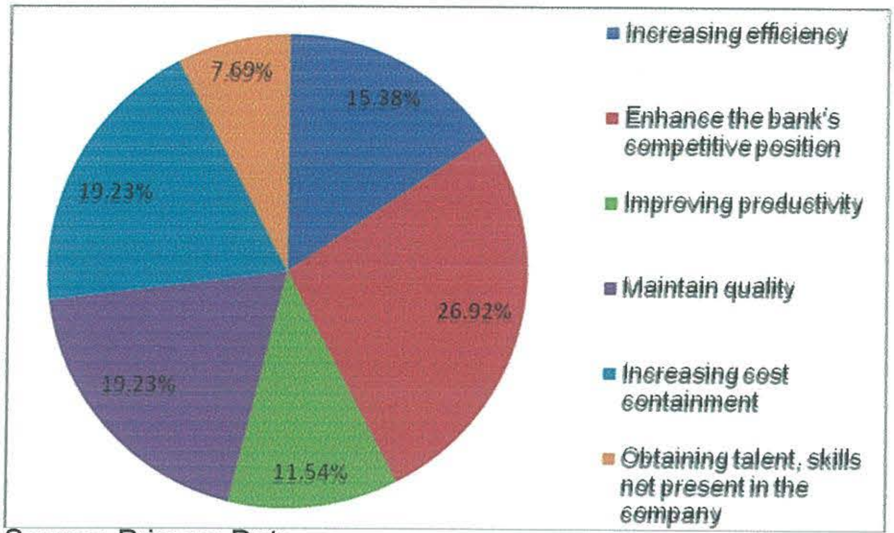
Figure 6: Whether respondents knew reasons for Bank Outsourcing Services



Source: Primary Data

The Figure 6 above shows that the majority of respondents were aware that the bank outsources some of its core activities/services. This was shown by 65.38% who said the bank outsources services while 34.62% said no.

Figure 7: Reasons for Outsourcing by the bank

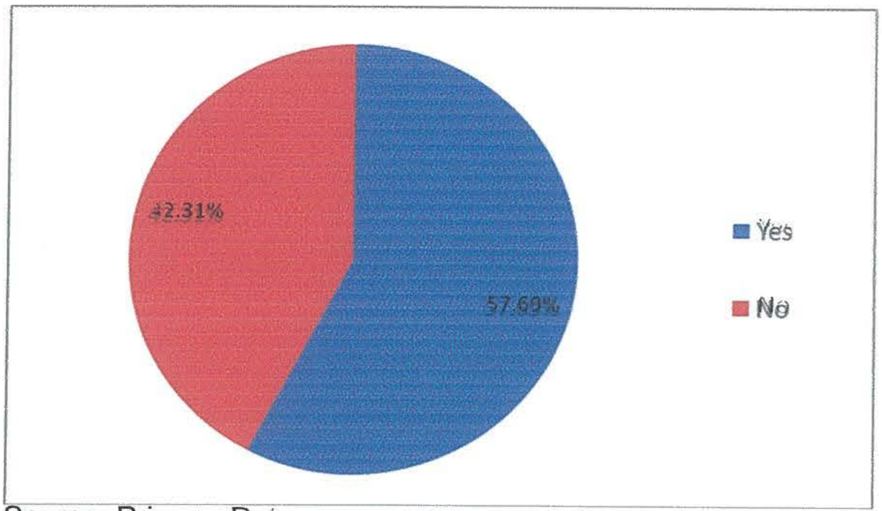


Source: Primary Data

The findings showed the majority of respondents believed that the bank carries out outsourcing for purposes of increasing efficiency (15.38%), enhance the bank's competitive position (26.92%), improving productivity (11.54%), maintain quality (19.23%), increasing cost containment (19.23%) and obtaining talent, skills not present in the company (7.69%).

This means that the bank aimed most of its stretegy goals on enhancing its competitive position and concentrated least efforts on obtaining talent and skills not present in the company. This is also apparent in that, maintaining quality, improvement of efficiency and productivity are all measures that ensure the bank's competitive position.

Figure 8: Whether the Bank met its Targets of Outsourcing



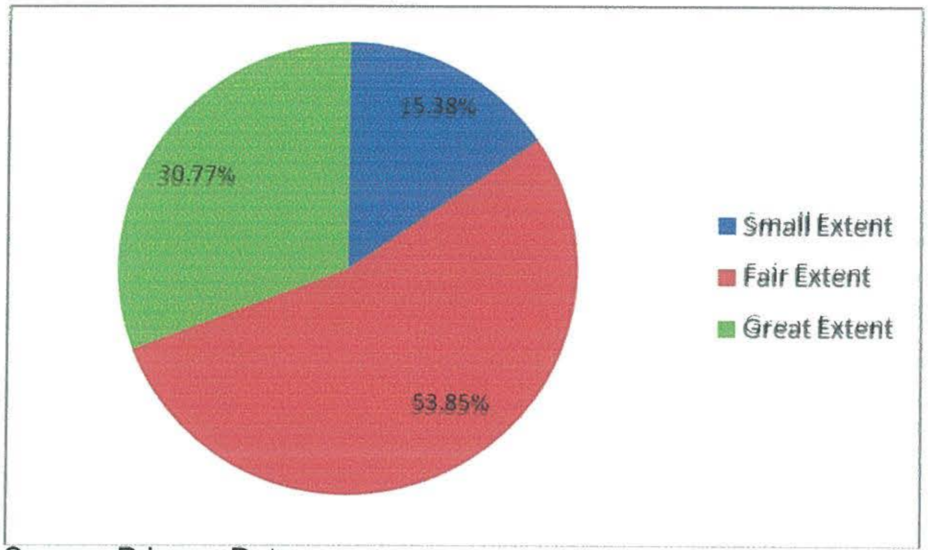
Source: Primary Data

The findings in

Figure 8 above shows that the majority of respondents 57.69% believed that the bank was achieving its targets while as much as 42.31% said the bank was not achieving its targets for outsourcing.

The respondents were further queried to investigate the extent to which they felt the bank met its targets for outsourcing with the findings shown in Figure 9 below.

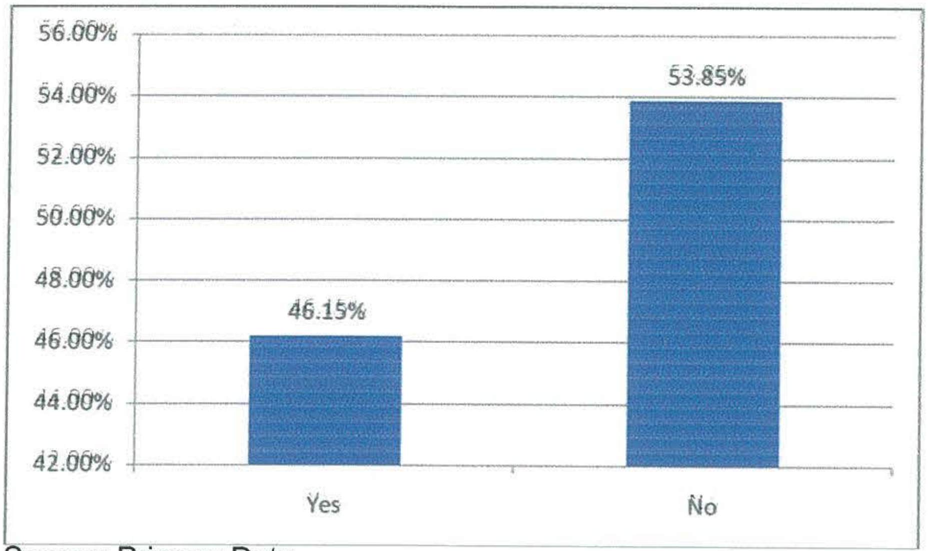
Figure 9: Extent to which the bank meets the targets



Source: Primary Data

The extent to which the bank was meeting the targets of its outsourcing strategies was investigated and the findings are shown in figure 9 above. The study findings of the respondents feelings show that; only 30.77% felt that the bank succeeds to a great extent, (53.85%) felt the bank meets its targets to a fair extent, (15.38%) felt that the bank meets its targets only barely.

Figure 10: Disadvantages the bank faces as a result of outsourcing some of its projects/services



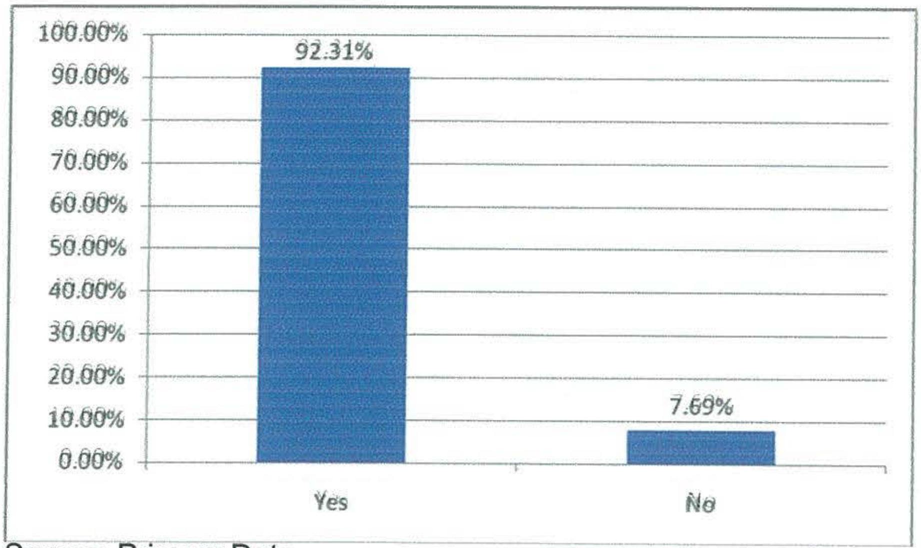
Source: Primary Data

The findings in Figure 10 above show that only 46.15% of the respondents believed that the bank faced disadvantages as a result of its outsourcing of projects/services to third parties. This compared to 53.85% of respondents felt the bank did not meet disadvantages as a result of the outsourcing program.

4.3 How the Bank's Outsourcing Programs Help Achieve Their Stated Objectives Of Improving Organizational Performance, Productivity, Market Share, And Quality

The second research question intended to investigate whether the outsourcing programs achieved their stated objectives. The study findings are displayed below;

Figure 11: Whether the Bank's Outsourcing Policy Provides the Bank With Rewards



Source: Primary Data

The figure 11 above, shows that the majority of the respondents believed that the bank's outsourcing programs did offer the bank rewards. This was shown by just over 92.31% of the respondents believing that outsourcing benefited the bank while only 7.69% did not think that outsourcing benefited the bank.

Table 3: Areas in which the bank benefits from in outsourcing programs

If yes, in which of the following areas do you think the bank benefits as a result of outsourcing programs?	**Frequency (f)**	**Percentage (%)**
Organizational Performance	17	65.38%
Productivity	23	88.46%
Market Share Increase	14	53.85%
Quality of the services	19	73.08%

Source: Primary Data

The study findings showed that the majority of the respondents (88.46%) believed that the bank benefited from outsourcing by improving the productivity of the bank. Other benefits included improvement in quality of the services (73.08%), improving organizational performance as noted by 65.38% and market share increases as noted by 53.85%.

Table 4: Opinion on which outsourcing areas the bank centers its efforts

In your opinion, which of the following does the bank concentrate its outsourcing efforts on?	**Frequency (f)**	**Percentage (%)**
Organizational Performance	14	53.85%
Productivity	4	15.38%
Market Share Increase	5	19.23%
Quality of the services	3	11.54%
	26	100.00%

Source: Primary Data

The study investigated which of the outsourcing programs the bank concentrated its outsourcing efforts on. The study findings shown in Table 3 **Error! Reference source not found.** showed that 53.85% of the respondents believed that the bank concentrates on organizational performance, while 19.54% felt that the bank concentrates on market share increase, 15.38% said productivity and 11.54% said quality of the services.

Table 5: Effectiveness of the Bank's Outsourcing Model

How effective is the bank's outsourcing arrangements in terms of cost reduction?	**Frequency (f)**	**Percentage (%)**
Very Effective	12	46.15%
Effective	7	26.92%
Not Effective	5	19.23%
Needs restructure	2	7.69%
	26	100.00%

Source: Primary Data

The table in Table 4 above shows that the majority of respondents (46.15%) believed that the bank's outsourcing arrangement was very effective while those that thought the outsourcing arrangement were effective, not effective or needs restructure where 26.92%, 19.23% and 7.69% respectively.

Table 6: Effectiveness Rating of the Outsourcing Model of the bank

Rating the effectiveness of the outsourcing components in regard to outsourcing.			
Outsourcing Component	**Rating**	**Frequency (f)**	**Percentage (%)**
Outsourcing Management	1	1	3.85%
	2	-	0.00%
	3	6	23.08%
	4	7	26.92%
	5	12	46.15%
		26	100%
The Bank's Outsourcing Partners	1	-	0.00%
	2	3	11.54%
	3	15	57.69%
	4	5	19.23%
	5	3	11.54%
		26	100%
Employee skills	1	4	15.38%
	2	3	11.54%
	3	8	30.77%
	4	8	30.77%
	5	3	11.54%
		26	100%
The bank's outsourcing plan	1	2	7.69%
	2	5	19.23%
	3	2	7.69%
	4	3	11.54%
	5	14	53.85%
		26	100%

Source: Primary Data

The findings in Table 5 above show that when it came to outsourcing management, the majority of the respondents rated the bank as being effective with a collaborative rating of 46.15% feeling the bank was very effective with a rating of 5, while 26.92% and 23.08% rated the bank with 4 and 3 respectively. This represented 36a higher average rating for the bank's outsourcing management. Only 3.85% of the respondents gave a rating of 1 while none provided a rating of 2.

The rating of the bank's outsourcing partners on the other hand received a distributed response with the majority (57.69%) providing a rating of 3. Other ratings included 4 with 19.23% of the sample population while 2 and 5 both had equal responses of 11.54% each.

On examining the rating of the employee skills in relation to the bank's outsourcing, it was found that the employees were suitably skilled as a combined total of 61.54% rated the employee skills either 3 or 4 as shown in the table above. Also, 15.38% gave a rating of 1 while 11.54% gave a rating of 5 which equaled those that gave a rating of 1(11.54%).

The bank's outsourcing plan appeared to be suitable with over half (53.85%) of the respondents providing a rating of 5 while a further 11.54% gave ratings of 4. This compared favorably with the rating of 1, 2 or 3 which had responses of 7.69%, 19.23% and 7.69% respectively.

Factors Associated With the Success or Failure of the Stanbic Bank Outsourcing Programs

The third research question was aimed at establishing the reasons/factors that affect the success or failure of outsourcing programs. This was investigated by providing non-structured questions which provided the respondents space to answer the questions.

According to observations of the bank, the decision to outsource is taken at a strategic level and normally requires board approval. Advisory services of outsourcing consultants to assist in scoping, decision making, and vendor evaluation is sought.

The study findings from the respondents also found the following shown in the table below;

Table 7: Factors considered in implementing an outsourcing program

Factors considered	Frequency (f)	Percentage (%)
Cost restructuring	16	61.54%
Quality Appraisal	23	88.46%
Current Employee skills	23	88.46%
Appraisal process and legal issues	13	50.00%
Staffing issues	17	65.38%
Risk management	21	80.77%

Source: Primary Data

The study findings showed that the bank considered the factors of cost restructuring, quality appraisal, current employee skills, appraisal process and legal issues, staffing issues and risk management. It was seen that while a greater majority of respondents (88.46%) stated that quality appraisal and current employee skills (88.46%), it was found that 50% of the respondents believed that appraising process and legal issues was the least considered.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this chapter, the researcher reviewed the study findings and drew conclusions based on the literature review of other authors. It also showed the recommendations of the study.

Summary

The study sought to investigate the effect of outsourcing on organizational performance. The study was guided by the following research objectives, to investigate whether the bank undertakes outsourcing of projects/services, to establish whether outsourcing programs at the bank achieve their stated objectives of improving organizational performance, productivity, market share, and quality and to investigate the factors are associated with the success or failure of outsourcing programs.

It used a case study design on the Stanbic Bank Uganda Limited. Quantitative techniques to arrive at an understanding of the relationship between outsourcing and company performance were used. This was done by acquiring frequencies of respondents' feedback and calculating percentages. The results were then used to draw up bar graphs and pie charts. Qualitative analysis was later used to interpret the quantitative data in terms of the highest and lowest results.

The target population of the study was selected from all of the procurement department staff the bank. The author highly depended on the purchasing and procurement departments and the finance and accounting department group of management since the author believed they were the most influential contributors of information to the study. The total targeted sample comprised of a total of 30 respondents while the study received 26 successful respondents representing a response rate of 86.67%. The study was carried out using questionnaires as the major data collection instrument with secondary data collected from bank brochures and performance appraisal sheets.

Conclusions

The study findings showed that the bank does carry out outsourcing of services from third party service providers as shown by the greater majority of respondents in figure 4.5 showed that the majority of respondents (92.31%). The services the company outsourced were listed as auditing, human resource acquisition, market research which was in agreement with literature reviewed. The bank also out sources services of information technology, management, bankruptcy/foreclosures and internal quality initiatives. From the findings it was established that the majority of respondents were aware that the bank out sources some of its core activities/services. This was shown by 65.38% who said the bank out sources services while 34.62% said no. It was concluded that the bank carried out sourcing of some of its core activities.

The findings showed the major reason of outsourcing was increasing efficiency (15.38%), enhance the bank's competitive position (26.92%), improving productivity (11.54%), maintain quality (19.23%), increasing cost containment (19.23%) and obtaining talent, skills not present in the company (7.69%). The literature reviewed showed that . On further examination it was found that the outsourcing carried out by the bank did obtain beneficial results.

The extent to which the bank was meeting the targets of its outsourcing strategies was investigated and findings showed that though the company was enjoying the benefits of outsourcing, the results were just average as only 53.85% respondents said the bank was achieving its targets. The bank though did not suffer adverse disadvantages of outsourcing as only 46.15% of the respondents believed that the bank faced disadvantages as a result of its outsourcing of projects/services to third parties. This compared to 53.85% of respondents felt the bank did not meet disadvantages as a result of the outsourcing program. Instead the bank's outsourcing programs did offer the bank rewards as was shown by just over 92% of the respondents believing that outsourcing benefited the bank. This was most likely due to the fact that the bank concentrated its outsourcing activities on increasing productivity and improvement of quality. This is also attributable to the fact that the respondents believed that the outsourcing policy followed by the bank was effective as noted by 46.15% of the respondents. These findings were in agreement with the literature reviewed. It was thus concluded that the bank's outsourcing programs marginally satisfied the bank's outsourcing objectives.

The findings showed that when it came to outsourcing management, the majority of the respondents rated the bank as being effective as shown in Table 4.5 above. This represented a higher average rating for the bank's outsourcing management. Only 3.85% of the respondents gave a rating of 1 while none provided a rating of 2. The bank's outsourcing management plan was found to be more than adequate according to the respondents ratings while that of the bank's outsourcing partners was an average distributed effectiveness rating of 3. The bank's outsourcing plan appeared to be suitable with over half (53.85%) of the respondents providing a rating of 5 while a further 11.54% gave ratings of 4. This compared favorably with the rating of 1, 2 or 3 which had responses of 7.69%, 19.23% and 7.69% respectively. This could be the reason for respondents suggesting that the bank needed to carry out a restructure of the outsourcing plans. It was thus concluded that the reason for the bank's reduced effectiveness in its outsourcing strategy may be supplier based.

In establishing the reasons/factors that affected the success or failure of outsourcing programs at the bank, it was discovered that the bank's decision to outsource is taken at a strategic level and normally requires board approval. Advisory services of outsourcing consultants to assist in scoping, decision making, and vendor evaluation is also sought. The study findings showed that the bank considered the factors of cost restructuring, quality appraisal, current employee skills, appraisal process and legal issues, staffing issues and risk management. It was seen that while a greater majority of respondents (88.46%) stated that quality appraisal and current employee skills (88.46%), it was found that 50% of the respondents believed that appraising process and legal issues were the least considered. The literature by Frayer et al. (2001) suggests that in order for an out-sourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities.

From the study findings, there was no mention of proactive management of the outsourcing policy by establishing top management commitment or establishing of business capabilities. This may affect the ability of the bank to maintain high productivity levels since outsourcing for the purpose of saving cost can often have a negative influence on the real productivity of a company. It was concluded that factors that were considered by the bank before outsourcing were Cost restructuring, Quality Appraisal, Current Employee skills, Appraisal process and legal issues, Staffing issues and Risk management. These however, were not sufficient as factors such as, social responsibility, staff turnover, company knowledge, qualifications of outsourcers, productivity assessment, standpoint of labor, security and fraud prevention should also be considered as highlighted by Drezner, D.W. (2004)

Recommendations

After completing the study, the study sought to provide possible recommendations in light of the findings. The recommendations of the study are as follows;

The bank should carry out an appraisal of the outsourcing model that it is using which should also take into consideration the relationship the bank has with the respective service providers.

The bank should carry out a strict and rigorous appraisal process when selecting a potential outsourcing partner. This should be done in line with establishing reliability, post transaction, service guarantees and warrantees as well as legal cover. This however should be backed up by a more reliable equitable partnership structure which would ensure that both stakeholders ensure the highest standards and returns.

The bank should restructure its outsourcing strategy to take into account the need for productivity in the bank since productivity is pivotal to organizational performance.

The bank should invest in further training for its own personnel on core aspects of what services the bank carries out in-house and what it out sources. This would also act as an incentive to the current staff who may not feel completely secure in their jobs. This insecurity counter acts marginal gains that outsourcing may be providing to the bank in terms of productivity.

The bank should reappraise its objectives for seeking to outsource particular functions of the business. This will enable the bank efficiently select the services it can consider core to the business and concentrate on these for maximum output.

The bank's outsourcing model is effective but should not be concentrated at the expense of productivity.

Areas for further Research

Other areas that the bank may explore in relation to its outsourcing strategy include;

i. Quality assessment of outsourcing package services provided to the bank
ii. Cost benefit analysis of outsourcing strategy employed by the bank
iii. Impact of outsourcing strategy on bank market position

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APPENDICES

APPENDIX A: QUESTIONAIRE

Dear Sir/ Madam,
I humbly ask you to participate in this research on **EFFECTS OF OUTSOURCING ON ORGANISATIONAL PERFORMANCE**. Your responses will be treated with utmost confidentiality.

Instructions: TICK the appropriate answer and **FILL-IN** the blanks where necessary.

1. Sex:
   - ☐ Male
   - ☐ Female

2. Age:
   - ☐ 21-24
   - ☐ 25-30
   - ☐ 31-34
   - ☐ 35-40
   - ☐ 41 and above

3. Department
   - ☐ Administration
   - ☐ Supplies and Procurement
   - ☐ Finance
   - ☐ Marketing

4. Academic qualification attained
   - ☐ Bachelor's Degree
   - ☐ Masters
   - ☐ PhD
   - ☐ Others..

SECTION A
WHAT IS THE RELATIONSHIP BETWEEN OUTSOURCING AND COMPANY PERFORMANCE?

1. Does the company outsource any services?
   - ☐ Yes
   - ☐ No

2. What services does the Bank outsource?

....

....

....

3. Do you know why the bank outsources these services?

- ☐ Yes
- ☐ No

4. If you answered Yes to Question 3 above, why do you think the bank carries out outsourcing?

- ☐ Increase operating efficiency
- ☐ Cost containment
- ☐ Enhance their bank competitive positions
- ☐ Maintain quality
- ☐ Obtaining talent, skills not present in the company
- ☐ Improve productivity
- ☐ Increase Market Share
- ☐ Other (please specify) ....

....

....

....

5. In your opinion, does the bank meet its targets above?

- ☐ Yes
- ☐ No

If Yes, to what extent do you think the bank meets the targets mentioned in Question 4 above?

- ☐ Small Extent
- ☐ Fair Extent
- ☐ Great Extent
- ☐ Other (please specify) ....

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6. What benefits do you think the bank obtains from outsourcing some of its projects/services?

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7. Are there any disadvantages the bank faces as a result of outsourcing some of its projects/services?

- ☐ Yes
- ☐ No

If yes, specify the benefits below;

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....
....

SECTION B

DO OUTSOURCING PROGRAMS ACHIEVE THEIR STATED OBJECTIVES OF IMPROVING ORGANIZATIONAL PERFORMANCE, PRODUCTIVITY, MARKET SHARE, AND QUALITY?

1. Do you think the bank's outsourcing programs offer the bank rewards?
   - ☐ Yes
   - ☐ No

   If yes, in which of the following areas do you think the bank benefits as a result of outsourcing programs?
   - ☐ Organisational Performance
   - ☐ Productivity
   - ☐ Market Share Increase
   - ☐ Quality of the services
   - ☐ Other (please specify) ....

....
....
....

2. In your opinion, which of the following does the bank concentrate its outsourcing efforts on?
   - ☐ Organisational Performance
   - ☐ Productivity
   - ☐ Market Share Increase
   - ☐ Quality of the services

3. Rate the following according to how effective they are in regard to outsourcing.
   Rating Guide: 1 = Not Effective, 5 = Very Effective

   - ☐ Outsourcing Management
   - ☐ The Bank's Outsourcing Partners
   - ☐ Employee skills
   - ☐ The bank's outsourcing plan

4. How effective is the bank's outsourcing arrangements in terms of cost reduction?
- ☐ Very Effective
- ☐ Effective
- ☐ Not Effective
- ☐ Needs restructure

SECTION C
WHAT FACTORS ARE ASSOCIATED WITH THE SUCCESS OR FAILURE OF OUTSOURCING PROGRAMS?

1. What factors do you take into consideration when starting an outsourcing program?

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....
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....

Order the factors listed above in order of importance starting with the most important to be considered.

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....

2. In your opinion, what strengths do the bank's outsourcing programs have?

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....
....
....

3. What weaknesses do the bank's outsourcing programs have?

....
....
....
....

Thanks for your participation in the study.