OUTSOURCING AND ORGANIZATIONAL PERFORMANCE.

A CASE STUDY OF APA INSURANCE UGANDA LIMITED

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF SUPPLIES AND PROCUEMENT OF KAMPALA INTERNATIONAL UNIVERSITY

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Declaration

I declare that to the best of my knowledge, the work here is original. It has never been presented anywhere either partially or in total for any award. I would therefore like to present it for the award of the Degree of Bachelor of supplies and procurement of Kampala International University.

STUDENT

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29/6/2011

Date

Approval

This research dissertation has been submitted for examination with my approval as a supervisor to the school of Business and Management of Kampala International University:

SUPERVISOR

--------------------------   04th/07/2011

Pule Samuel   Date

Dedication

I wish to dedicate this research to my parents and friends for their love, financial support and moral guidance during my course of study.

Acknowledgements

I wish to acknowledge my guardian; Hajj. Hassan Bassajabalaba, my beloved mother; Bassajabalaba and all the brothers and sisters for their endless support and love. I would also wish to acknowledge the love of all my friends. Finally, I wish to acknowledge the efforts of my supervisor Mr. Pule Samuel for his excellent guidance during this project.

I am deeply indebted to my entire family members who collectively have been significant during my entire course of the study, for their faithful financial and moral support and endurance during my trying moments. I say thank you very much and may Allah bless you.

Table of Contents

CHAPTER THREE: METHODOLOGY

List of Tables

Abstract

Outsourcing is the strategic use of outside resources to perform activities that are usually handled by internal staff and resources. This study was designed to explore the relationships between outsourcing and organizational performances at APA Insurance Uganda Limited. The major objectives of this study therefore were to find out; the relationship between outsourcing and organizational performances, Reasons for outsourcing in the organization, the impact of outsourcing on organizational effectiveness and the challenges to outsourcing at APA insurance Uganda Limited. Twenty employees of all levels of the company were interviewed and the findings were analyzed.

The results show that the organization generally considered successful at outsourcing. The major reasons for outsourcing at the organization were; cost reduction, quality control, reducing risks; focus on core competencies, failure to have the required resources internally and the reduction of head counter employees in the organization. The major impact of outsourcing in the organization were; improved quality, cost reduction, improved reliability and delivery, productivity and shorted production cycle. Finally, the respondents identified the fear of change, including fear of job loss, long term contractual inflexibility, poor choice of outsourcing partners, poorly managed contracts and hidden costs and risks as the most the major challenges to outsourcing efforts. However, while the organization achieved significant improvement in organizational performance, it had not reached the magnitude of improvements ascribed to outsourcing.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

Outsourcing has been used throughout recorded history, as long ago as the 4th century. Halvey and Melby (2000) discuss how the outsourcing concept gained popularity during the mid twentieth century led by the heavy engineering and automobile industry search for partners to provide subassemblies to increase manufacturing outputs. From the 1950's as industrial growth accelerated, traditional organisations preferred to adopt a vertically integrated approach where they believed they should own each stage in the design to delivery process thereby controlling the supply chain (Farney et al., 2004).

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).

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).

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).

According to the theory of performance, outsourcing is an increasingly important initiative being pursued by organizations to improve efficiency (Vining and Globerman, 2000). To be able to survive and be profitable in current globalization era, companies tend to use outsourcing in larger extent (Brannemo, 2006). Bartell (1998) defines outsourcing as the strategic use of a third-party services provider to perform activities traditionally handled by internal staff and resources. This releases the organization to focus more on their core businesses. Outsourcing is often divided into two categories: back office outsourcing, which includes internal business functions such as billing or purchasing, and front office outsourcing, which includes customer-related services such as marketing or technical support.

Lacity and Willcocks (1998) write that, in today business environment, companies consider outsourcing to empower business focus, mitigate risks, build sustainable competitive advantage, extend technical capabilities and free resources for core business purposes. Some companies outsource their core activities on the value chain extensively and other companies in contrast are extensively outsourcing their secondary activities of their value chains such as information technology, accounting systems and distribution.

An organization is said to have outsourced their jobs when they delegate certain duties and functions to an external party. (Gilley et al, 2004). This is usually necessary in instances where a specific company has no skills for performing the task within the organization. Additionally, it can be done in order to minimize workload. Usually, the company that has provided the outsourcing service will be expected to look into matters surrounding the day to day administration of that work. For outsourcing of jobs to work for any company, there is a need for consistent communication between the parties involved. Furthermore, companies need to establish long term relationships in order to maximize the benefits of this business approach.

This study examines the relationships between outsourcing strategies and organizational performance. The study is designed to explore why companies opt for outsourcing other than concentrating on in-house supplies and identifies factors that may facilitate or impede outsourcing in organisations.

1.1 Statement of the Problem

There is a growth trend towards the outsourcing business activities in the world today. The drivers of outsourcing emanate from organizational initiatives, improvement focus, financial and cost objectives or growth objectives. 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 2009 (Greer, Youngblood, and Gray 2010). Despite the increasing practical significance of this phenomenon, many organizations in Uganda have not yet fully embraced this business experience. There is still a handful of organizations in the country that have fully delegated non core business functions such that they can enjoy the benefits of this outsourcing phenomenon. There are also different drives and phases in the process of outsourcing but little research has been done on the relationship between outsourcing and organizational performance in Uganda.

1.2 Purpose of the study

The purpose of this study is to examine the relationship between outsourcing and organizational performance at APA Insurance Uganda Limited.

1.3 Objectives of the study

These objectives are at the heart of the study;

(i) To find out the relationship between outsourcing and organizational performance

(ii) To identify the importance of outsourcing in organizations

(iii) To find out the impact of outsourcing on organizational performance

1.4 Research questions

The study was designed to answer the following research questions:

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

ii) What is the importance of outsourcing in organizations?

(iii) What is the impact of outsourcing on organizational performances?

(iv) What are the challenges faced by organizations during and after outsourcing?

1.5 Scope of the study

1.5.1 Content scope

The study focuses on assessing the relationship between outsourcing and organizational effectiveness. The reasons for outsourcing in organizations were identified and these included: cost reduction, reduction of head counter employees, improving quality and efficiency and focusing on core competencies. The challenges faced by organizations as a result of outsourcing were also explored which included: reduction I in house expertise, conflicts from the existing employees, poorly managed contracts and long term contractual inflexibilities.

1.5.2 Geographical scope

The study was conducted from APA Insurance Uganda Limited at the company's headquarters are located Kampala Road, Kampala, Uganda's capital city. The coordinates of the company headquarters are:00 19 12N, 32 35 58E (Latitude:0.3200;

Longitude:32.5995). The company has operations in other parts of the country, including northern, eastern, western and central districts of Uganda.

1.5.3 Time scope

The study was conducted in a period of only eight months, from September 2010 to April 2011.

1.6 Significance of the Study

i) The results of this study shall provide insight and information for administrators, practitioners, and researchers about outsourcing in relation to organizational performance. Once the level of organizational performance is measured, administrators can develop and implement change strategies that would actually improve the concept of outsourcing in their organization, thereby potentially increasing the overall effectiveness of the organisations, and possibly decreasing costs.

ii) This research provides an opportunity to consider procurement development towards outsourcing and incorporates a perspective on the application of organizational management techniques.

iii) The study is of paramount importance to academicians and practitioners as the proposed framework is expected to uncover many neglected relationships that are of interest to managers in different organizations. In addition, specific patterns of outsourcing practices would also be revealed which would further encourage managers to implement this technique and possibly improve both outsourcing and organization performance. The study seeks to systematically address this issue.

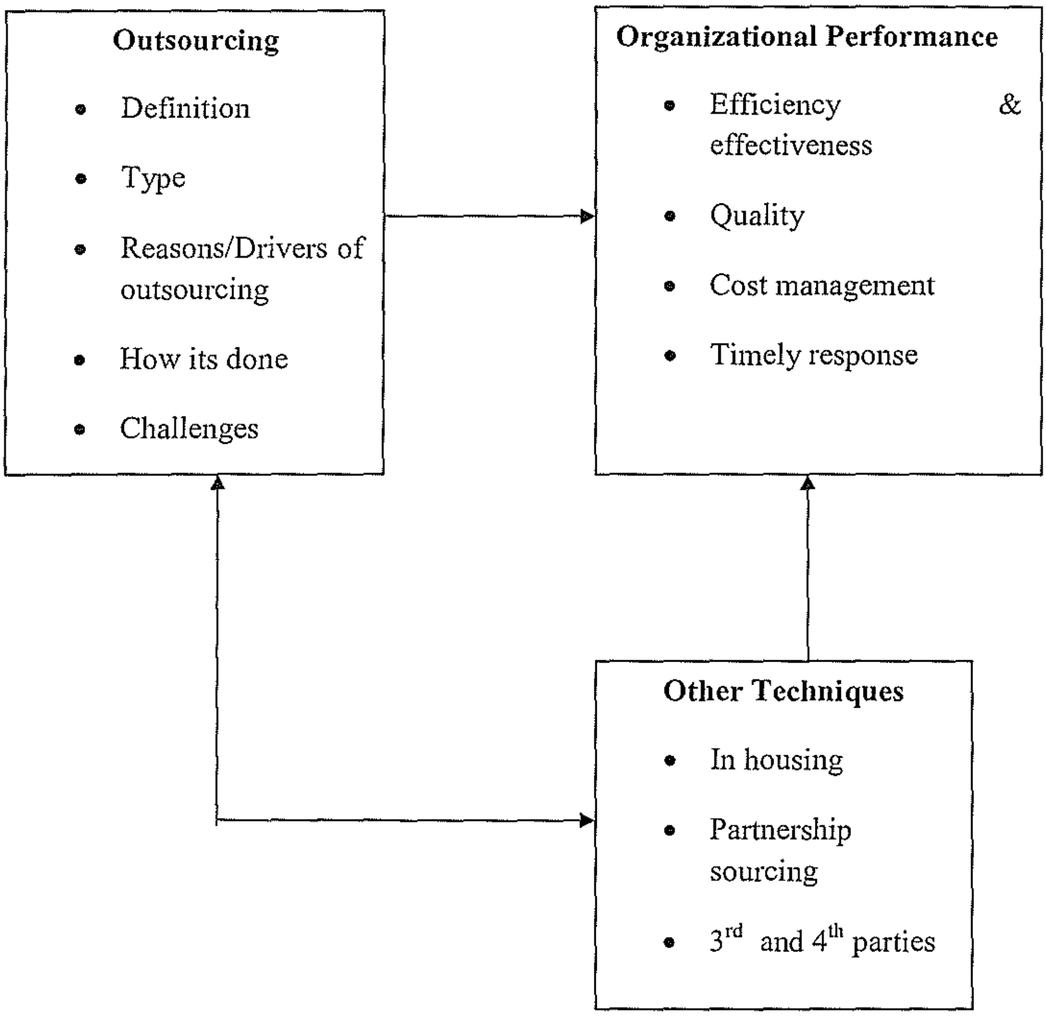
1.7 Theoretical Framework

The transaction cost theory introduced by Coase (1937) is the foundation for many of sourcing theories that concern cost perspective. The transaction cost theory tries to explain how companies consider the relative cost of transaction using their own employees on the other hand and external parties on the other. According to Klein (2005), transactions differ in the degree to which relationship specific assets are involved (asset specificity), the amount of uncertainty about the future (environmental uncertainty), the amount of uncertainty about other parties' actions (behavior uncertainty), and the frequency with which a given transaction occurs (Everaert, Sarens and Rommel, 2007). Previous studies provide evidence that asset specificity is a significant driver in the outsourcing decision.

1.8 Conceptual Framework

This study used Reseller's (2000) four stages outsourcing framework. This framework considers the value chain perspective, core competency thinking and the impact of supply base aspects. The framework is illustrated in Figure 1.

Figure 1: A practical framework for evaluating the outsourcing decision in relation to organizational performances



Source: Reseller's formulation

The development of the framework has been based on a literature research and on empirical evidences. Fill and Viser's (2000) outsourcing framework consists of three main components; outsourcing decision, its impact to the organizational performances and the other techniques used by organization besides outsourcing.

In the first part of the framework above, organizations before they outsource look from the strategic perspective, which focuses on further aspects to the outsourcing decisions like the reasons for outsourcing, the nature of outsourcing the organization needs, how the process of outsourcing will be carried out and the possible challenges of outsourcing to the organization. These are the contextual factors considered that are both quantifiable and non-quantifiable criteria of external and internal factors. Quantifiable criteria are costs, increased cover of fixed costs, investments and revenues (Brannemo, 2006). Meanwhile, non-quantifiable criteria are strategic interest, confidentiality, linkage with operations, stability of employment, management and dependence on suppliers (Fill and Viser, 2000).

The second part of the framework concerns with the impact of outsourcing to organizational performances. This part shows the result of outsourcing in relation to organizational performances. These are associated with the quality of operations, efficiency and effectiveness of the business functions, the cost management, completing these functions in time among others. The third part concerns with examining other techniques besides outsourcing used by the organization in carrying out the business functions. These usually include the in housing and partnership sourcing.

1.8 Summary of the chapter

This opening chapter has introduced the reader to the study. The chapter has revealed the need for the study; the research question and objectives have been set out, together with the justification of the study. A conceptual model has been introduced, to frame these key issues. The model allows for plotting of the relationship of outsourcing and organizational performances.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature on the relationship between outsourcing and organizational performance. The presentation follows the order of the objectives, which are; to identify the reasons for outsourcing, to find out the impact of business process outsourcing on organizational effectiveness and to find out how business process outsourcing can impede organizational effectiveness.

2.1 Outsourcing

Greaver (1999) describes outsourcing as "the act of transferring some of a company's recurring internal activities and decision rights to outside providers as set forth in a contract" (p.3). The definition is expanded with the view that outsourcing serves and extends an organisation's existing procurement infrastructure, managing the process and spending categories that the organisation feels it has opportunities to improve but lacks the internal expertise to manage effectively (Hazra, 2004).

Greaver (1999) identified how the term "outsourcing" was first used in the late 1980's by the Information Systems trade press to describe the trend of large companies transferring their information systems to specialist providers. Large high profile organisations such as Kodak and DuPont were at the forefront of this evolution by outsourcing information technology management. Davenport (2005) describes how this evolved from the outsourcing of products to the outsourcing of business processes as companies like BP and Procter & Gamble outsourced major pieces of their finance functions, while Nike and Hewlett-Packard outsourced much of their manufacturing, often sending it overseas. In the early 1990's successful outsourcing in the US private sector led to significant public sector outsourcing of non-core business functions. Those involved and affected have mixed views on procurement outsourcing, from those who see it as a threat to their jobs and familiar processes (Govpro, 2005), to those who see it as an alternative procurement tool and important business strategy (Heffes & Marshall, 2004).

2.1.2 Types of Outsourcing

According to "The Outsourcing Institute" (2005); Outsourcing can occur in a number of ways. For instance, some companies may choose to transfer all the activities and functions conducted by their employees to an external party. The overall effect of this is that a mother company may not have the need for these former employees and may be forced to release them. In other instances, outsourcing can occur by separating a certain department within a company from its mother company. Usually, the department that used to be part of the company is now the outsourcing partner and through this, a number of resources will also be transferred to the new outsourcing company. In other situations, companies may choose to outsource by taking all the resources and their employees to certain outsourcing providers. While all these methods are possible within a business environment, the most common method is the first one as mentioned above. It is essential to understand the form of outsourcing applicable to a certain company because that then determines the kind of problems that might arise in terms of organizational effectiveness. However, in order to apply the assertions in this paper to all business institutions, it is necessary to look at outsourcing in general rather than in under each of these forms.

Outsourcing is also chosen by many enterprises because through this business approach, it is possible to save on valuable time. Usually, companies that outsource can make faster deliveries to their respective consumers. The overall result is that consumers' needs are satisfied. All clients consider prompt delivery as a positive business attribute and this may keep them coming back to that respective business. In close relation to the latter argument is the fact that outsourcing heightens consumer satisfaction. This is because outsourcing produces better quality and also improves the nature of one's business practices. This eventually makes that respective company more competitive and also attracts greater levels of business management. Through such approaches, it is then possible to establish a relationship with one's clients and this makes them keep coming back to the business.

2.1.3 Reasons for Outsourcing

Reasons organisations choose outsourcing are linked to business performance and improvement. Initial decisions to outsource were based almost entirely on expected financial benefits (Greaver, 1999), with any other business improvement benefits seen as secondary (Halvey & Melby, 2000). An internet survey by the Outsourcing Institute of global business executives identified the following 10 reasons for procurement outsourcing; (The Outsourcing Institute, 2005b).

Whilst most authors agree with these reasons for outsourcing, Hanson and Olson (2005) prefer to focus on just three key benefits, "lower costs, increased focus on core competencies and improved operating performance" (p.18). Halvey and Melby (2000) go further and include the following additional reasons; Enhancing and improving methodologies and processes, benefiting from industry knowledge or experience, streamlining and standardising processes across an organization, sharing resources or technologies and committing less upfront investment to new methodologies

Greaver acknowledged that this list is not exhaustive and that it will vary depending on the industry, most authors quote similar reasons. Gay and Essinger (2000) include; To deal with a function that is difficult to manage or possibly out of control and to accelerate reengineering benefits. It may be more useful to initially consider the outsourcing reasons at the highest level to help develop a business perspective rather than drilling into specific detail. In a recent interview at The Outsourcing Institute, Dr James Quinn, (a professor of management at Dartmore University specialising in the study of outsourcing), gave one very simple but profound argument for organisations to consider outsourcing, "If you are not best in the world in doing something and are doing it in-house, you are giving up competitive edge. You could outsource to the best in the world, up the value and lower the cost" (The Outsourcing Institute, 2005).

Research shows that close to seventy percent of businesses in the country have embraced outsourcing as a viable business option. Consequently, it would be necessary to look at some of the reason behind this rush. The first and most prominent reason for choosing outsourcing is to minimize business costs. Research has shown that companies can save as much as sixty percent of their business costs when they choose outsourcing. This is possible because those companies that supply outsourcing services have adequate resources, personnel etc needed to conduct that business function under consideration. Additionally, such companies may be located in other regions or countries that supply input at a lower price than in the country of normal operation. For instance, some Asian countries giving call care services charge very little for their services owing to the fact that labor supply in these countries is cheap and they can then trickle down these low costs to respective consumers in the Western world. (Littler & Benson, 2002).

One of the reasons that organizations outsource is financial slack (Ang and Straub, 1998). In addition, lack of internal personnel and skills is another motivation for outsourcing.

2.1.4 Challenges faced by Organizations as a Result of Outsourcing

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.

In-House Challenges

Outsourcing can impede organizational effectiveness because its institution may meet resistance from pre-existing employees. Many books have depicted outsourcing as a scenario in which both the recipient and the supplier can benefit. However, there are many pre-requisites to this success and one of them is the cooperation of members in an organization. When employees within a certain company realize that part of their business functions will be outsourced, some of them may not accept this easily. For instance, they may not be sure about the future of the jobs and even though they will be retained within the company, some of them may be uncertain about their future. Additionally, these employees may worry about the career opportunities available to them once certain business functions have been outsourced. Furthermore, it may be a problem in terms of the amount of pay which these employees receive after outsourcing. All these could demoralize the existing workforce and thus impede organizational effectiveness (Gilley et al, 2004)

Closely related to this fact is that certain employees may just have a negative attitude towards outsourcing regardless of assurances from their employers. This means that such employees will always undermine activities or work conducted by other companies. This is usually depicted by a high level of mistrust between employees within the outsourcing company and the mother company. Such a negative attitude only serves to hinder business advances and organizational effectiveness. Furthermore, certain employees may not be committed to outsourcing as a viable business approach. This means that no matter what the outsourcing suppliers do, employees within the mother company may not meet their end of the bargain and this leads to failure. (Kessler & Shapiro, 2002)

Sometimes some employees may perceive outsourcing as mechanisms which their employers are using to breach their contracts (Kathawala & Elmuti, 2000). There are several repercussions to this psychological premise. First of all, employees may be demoralized from doing their jobs. Most of them may imagine that they no longer hold the important position that they did before introducing outsourcing and this eventually undermines organizational effectiveness. Besides the latter, it is also possible for employees to worry about the conditions of their workplace. For instance, issues such as commuting may change upon instituting outsourcing. Consequently, those employees that would have been very productive in the past eventually begin performing poorly and may eventually undermine organizational output.

In other instances, employees may feel that outsourcing is a demonstration of their employer's discontentment with their skills and talents. Consequently, such employees may assume that the outsourcing firms have been hired to make up for the deficiencies in their talents or skills. Usually, staff members that develop such tendencies may decide to quit the place of employment and may not adopt other alternatives in the end. As if this is not enough, some employees may loose their place within the organization. They tend to loose their sense of identity because the tasks that they used to do have now been taken over by other persons. (Gilley et al, 2004)

Partnership Challenges

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 (Foster 1999; Laabs 1998).

Sometimes, outsourcing may be more of curse than a blessing when organizations go for it for the wrong reasons. For instance, in countries with outsourcing booms, it has become common to find certain companies taking up outsourcing just because their competitors are doing the same. Such companies may want to convince their consumers that they are keeping-up-with-the-times. In the end, they may not be sure of which business functions really need outsourcing and which ones will result in maximum profitability if they do so. Consequently, such firms will perform poorly and their organizational effectiveness may be impeded. (Kathawala & Elmuti,2000)

Outsourcing can also be very problematic to a business because certain instances arise when outsourcing partners become dependent on one another. This usually occurs when the business function to be outsourced is quite complicated and may require a lot of time before an outsourcing provider familiarizes himself/herself with the intricacies of the business. This places the mother company in a vulnerable position because they may not be satisfied with services offered but may have to stick there just because they have become dependent on the service provider. The overall effect of this dependency is that companies may not get a chance of aligning their business functions with their strategic objectives. This makes them less effective (Kathawala & Elmuti,2000).

Research has shown that a large number of employees in firms that outsource their business activities may have similar problems to those employees that have undergone downsizing. Usually, employees who remain behind after a company has outsourced it business functions may think of themselves as survivors. In other words, they may assume that their respective organizations are not doing very well and that they may be next on the line. Usually, such employees have fears about available career opportunities. It is in fact true that some career opportunities may be limited to individuals who adopt such mechanisms for doing business. Additionally, it may also be problematic for these respective individuals when the affected company has no method for ascertaining better career opportunities in the future (Kathawala & Elmuti,2000)

When employers fail to deal with these issues, then organizations may not realize the benefits of outsourcing and as matter of fact, they may begin registering organizational ineffectiveness.

2.2 Organizational Performance

The Oxford English dictionary defines performance as the "accomplishment, execution, carrying out, and working out of anything ordered or undertaken". Armstrong and Baron (2005) argue that performance is a matter not only of what people achieve, but how they achieve it. Bates and Holton (1995) suggest that performance is a multidimensional construct, the measurement of which depends on a variety of factors. Brumbach (1988) offers the most precise definition. "Performance means both behaviours and results. Behaviours are also outcomes in their own right and can be judged apart from results". From the definition, and interpretations above, it can be argued that performance is not just about outputs, it is also concerned with actions and behaviours demonstrated to achieve given targets. This issue will feature strongly through the research.

Much has been written on the need to manage performance. The Audit Commission acknowledged this, suggesting in 1995 that performance management had become something of an industry in its own right, dominated by "industry experts" and management consultancies (Audit Commission 1995). Performance management is now considered an essential part of normal management (Rose and Lawton 1999) and is increasingly accepted as an integral part of public sector management (Wisniewski and Olafson 2004). However, Hale and Whitman (2000) cite research by the Institute of

Personnel Management (1992) that suggests no consistent definition emerged from over 1800 employers surveyed. Williams (2002) also indicates that performance management is difficult to define. This suggests a lack of understanding of performance measure issues from those who are subject to the processes, and this will be explored later.

2.2.1 Efficiency and Effectiveness

An organization needs to be able to utilize existing resources and accumulate new resources more efficiently compared with its competitors. For needed resources not within the organization, outsourcing is an option (Grant, 1991). By outsourcing, organizations can quickly access to human and non-human resources, both tangible and intangible, which will be difficult for them to obtain otherwise.

Outsourcing can improve organizational effectiveness when applied as an organizational strategy. Usually, companies may choose to outsource with certain business objectives in mind. The first objective amongst this is the need to improve on financial performance. Usually, such companies are aware that outsourcing companies my offer them an opportunity to work cheaply through efficient technology and economies of scale. This is the reason behind the high cost saving strategies that US companies have enjoyed. By minimizing costs, companies can achieve their economic related goals and this enhances their organizational effectiveness.

The second objective is that companies get a chance of improving their operational flexibility. Usually, when a company controls all its business functions, then chances are that it may not respond to certain business conditions e.g. infrastructural changes.

However, when a business has outsourced its functions, then it can always request for reductions or increases in these business functions. The overall result of this is that companies gain operational flexibility and can therefore enhance their organizational effectiveness (Halvey & Melby, 2000).

Through outsourcing, businesses can benefit from the differences in time zones between the outsourcing company and the company buying the services if they come from different countries. Many companies that outsource their business functions to Asian countries or other countries with different time zones can get the chance of business continuity. In other words, they can still be running on a twenty four hour basis even without subjecting their employees to hectic shift programs. This is because an outsourcing partner can be doing certain tasks during the night and have it completed when the company under consideration comes back in the morning. The two partners can complement one another because of the differences between their time zones. When one country is asleep, the other can be busy working on a particular assignment. Eventually companies exceed their expectations and consumers will always be satisfied with their efficiency. (Woolson & Speckhals, 2001)

Outsourcing can also contribute to the overall effectiveness of a particular country. For instance, numerous companies have managed to grow their economies by outsourcing their business functions. Taking the example of the United States, during the late nineties, there was an outsourcing boom and most of the companies that took up this approach began recording increases in profitability. The overall effect was that the country's economy began going up. In fact, more jobs were created and national wage went up.

(Lacity and Willcocks, 1998; Domberger et al, 2000). This well performing economy was a platform for further reinvestment and this created a favorable climate for more investment thus better performance again. Similarly, other countries and regions have also recorded such positive benefits and these include; Australia, United Kingdom Etc

The common perception has been that most outsourcing jobs shift jobs to the receiving countries and hence drain the economy. However, an analysis of the latter countries has shown that most of these companies have created higher standards of living for their populace owing to the fact that new lines of work were be created. For instance, when one analyzes a country such as the US; the country began outsourcing most of its manufacturing jobs to the Asian continent. Many people thought that this would drain their economy but that was not the case. Instead, the financial services sector began growing and this eventually filled the void created by outsourcing manufacturing jobs. (Freeman et al, 2001)

2.3 Relationship between Outsourcing and Organizational Performance

Outsourcing has proved good for business because there are certain situations that can be avoided through it. For example, companies that perform all their business functions may have to spend huge amounts on replacing obsolete technology. However, when that business function is outsourced, then companies do not the feel the pinch. This means that companies can dedicate their resources to productive activities alone and thus enhance their effectiveness. (Hellriegel et al, 2002)

Many businesses that do everything on their own may be exposed to greater levels of risk than those who outsource. Usually, the former mentioned companies may have problems trying to balance between choosing the right alternatives, training their employees in that area of interest, increasing reliability and maximizing efficiency. Consequently, by doing everything on its own, a company may have a difficult time trying to eliminate risks. Besides this, companies usually run the risk of spending too much on infrastructural capital. Consequently, this eats into their profitability and also reduces their chances of growing their firm. However, through outsourcing, companies can minimize their risks with regard to huge infrastructural expenditure and the overall result of this issue is that more investors will be attracted to such companies (Kathawala & Elmuti, 2000).

Gilley et al, (2004) writes that outsourcing is crucial to those businesses with minimal expertise in a given field. Companies that supply outsourcing services usually have a long history of performing the services offered. This means that they can add the following qualities to their respective enterprises; expertise, economies of scale and efficiency. It should be noted that outsourcing is the platform that allows small companies to compete with big ones because the latter mentioned qualities (bulleted list) are usually available in companies that engage in outsourcing their business functions. Companies can access these advantages easily without having to train the members of their organization in this area. Additionally, they need spend too much time and resources on hiring personnel who have a lot of experience in that field of expertise. Usually, getting such professionals to work for an organization can be detrimental to their finances (Mears, 2005).

Outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the core business functions of a company. Companies can therefore concentrate on aspects of business that they encircle their business objectives and this eventually improves their business functions. (Kakabadse,N., & Kakabadse, 2003)

Outsourcing also gives companies the opportunity of expanding. Since a company is concentrating on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. The overall effect of such an approach is that many persons may now have the opportunity to improve their business values. This then gives them a platform for improving their business sizes.

2.3.1 Quality Management

Service quality is defined as how well service provided by vendors meets or exceeds users' expectation. Users here include both internal users in the organizations and customers of the organizations. Improving service quality is one of the drivers of outsourcing. Low performance is reported to be one determinant of outsourcing (Loh and Venkatraman, 1992).

Organizations who desire better performance with their business functions often turn to outsourcing for solutions. Henry Pfendt, the former director of IT management at Kodak mentioned that outsourcing facilitates the needed services to business managers (Lacity, Willcocks and Feeny, 1996). Outsourcing can also provide direct service to end customers. A lot of retailers have outsourced Amazon.com's e-business solutions including Toy "R" Us, Borders.com, American Online and Virgin Megastores. Amazon's strong web presence draws customers to its site and its partners can sell their products to customers more quickly. Since improved service quality can enhance organizations' value and allow organizations to respond to customers more rapidly, service quality is one of the indicators of successful outsourcing (Lacity and Willcocks, 1998; Domberger et al, 2000). Strategies for improving service quality include customer feedback or survey, inspection by third-party and random monitoring (Lee et al, 2003).

Information quality is defined as the quality of information that is produced by outsourced systems. Dynamic environment requires timely and accurate information. Teng, Cheon and Grover (1995) prove that the gap between an organization's information needs and the ability of its internal resources to meet these needs is one important determinant of outsourcing. Information quality is also regarded as one of the dimensions of outsourcing success (Lee, 2001). The attributes of information such as reliability, relevancy, accuracy, currency, completeness and timeliness contribute to customers' satisfaction (Sengupta and Zviran, 1997). For example, Schlumberger can provide its clients reliable and relevant information about drilling activities, costs, trends and discovery (Quinn, 1999). However, there is little empirical research on how and to what extent outsourcing influences the quality of information provided by the vendors.

2.3.2 Cost Management

Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Youngblood and Gray 1999), increase capacity, improve capacity, improve quality, increase profitability and productivity (Casale 1996; Sinderman 1995), improve financial performance (Crane 1999), lower innovation costs and risks (Quinn 2000), and improve organizational competitiveness.

Although researchers argue that cost savings is not the dominant benefit for successful outsourcing (Beaumont and Costa, 2002), cost saving is still one of the most important dimensions of outsourcing success (Lee, 2001). Although outsourcing can result in transaction costs, which are the costs of creating, negotiating and monitoring among the parties (Ang and Straub, 1998), it is usually agreed that outsourcing is an effective strategy to lower costs.

2.5 Literature Conclusion.

Whilst the evidence certainly points towards an increasing trend in outsourcing, there are real concerns with the performance of outsourcing to date. The high dissatisfaction rates reported by Heffes and Marshall (2004) and Mears (2005) link to the continued focus on refining how organisations identify outsourcing needs, standardise business processes, evaluate outsourcing opportunities and develop specific arrangements for managing each outsourcing project (Greaver, 1999).

Whilst the available literature helps illuminate key issues and trends with outsourcing internationally, current practices and intentions for outsourcing in Uganda are unclear. The lack of knowledge in this area reinforces the focus of this research project, which is to investigate the future potential for Ugandan companies to outsource.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter gives a description of the study area and the methods that were used to collect data from the field. It gives a summary of the research design, sample population and size, data collection methods and the problems faced during the process of data collection and analysis

3.2 Research Design

The research was based on both the qualitative and quantitative research designs. A case study of APA insurance company limited was chosen as the most appropriate research strategy. Saunders et al (2003) define a case study as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". This fits well with the author's intention to investigate a real life issue through a variety of data collecting methods. Jankowicz (2000) suggests the appropriateness of a case study when the thesis focuses on a set of issues in a single organization. The qualitative research design will be descriptive in nature and this enable to meet the objectives of the study. Statements will be used to assign variables that were not adequately measured using numbers and statistics. The quantitative research design is to be used in form of mathematical numbers and statistics assigned to variables that may not be easily measured using statements or theme.

3.3 Research Environment / Area

The study will be carried out at APA insurance Company Limited. The company's headquarters are located Kampala Road, Kampala, Uganda's capital city. The coordinates of the company headquarters are:00 19 12N, 32 35 58E (Latitude:0.3200; Longitude:32.5995).

3.4 Population of the Study

The population of the study is all the employees and management of APA insurance company limited. According to the Personnel Manager of the company, by the time of the study, the company had a total staff compliment of 165 employees all over the country.

3.5 Sample Frame

The key participants in this study included: the heads of the departments of the company which include: Finance, Administration, Sales and Marketing, Human resource management, operations, agents and underwriting. Other participants considered for the study were the receptionist, clerks and sales personnel.

3.6 Sample Size

Of all the possible participants, the study considered a total of 20 respondents all enrolled from the study population. A total of 20 employees are also assumed to enough due to the nature of the information required for the study.

The above sample size was arrived at with the use of ;

$$n = \frac{Z\, a/_2 . d}{e}$$

where, d = Standard Variance, e = Estimated error, n = sample Size, $a/_2$ = Confidence Value. Because of the time consuming nature of these data collection methods the sample were limited to only one organization from across industry sectors.

3.7 Sampling Technique

The study participants were chosen using a purposive sampling technique for top executives and random sampling technique for lower level employees because of the nature of the research where the respondents were identified.

3.8 Sources of Data

Primary data was got from the respondents at the company. Secondary data was got from sources like Journal articles internet magazines, newspapers and company reports related to the subject of the study and these were consulted at length to extract the information required in answering the research questions.

3.9 Methods and Instruments of Data Collection

The research study incorporated the use of various methods in the process of data collection which helped the researcher to come up with sound, concrete and credible research findings. The researcher therefore amalgamated the use of questionnaire, interviews and documentary analysis in the process of collecting primary data.

Questionnaires

Questionnaires titled "Purchasing department and organizational performance" were used in the process of collecting data. The researcher administered questionnaires to selected employees and management officials of APA Insurance Company limited. The relevance of this is that the questionnaires were convenient and less time consuming. With management staff who did not have time for an appointment, an email of the questionnaire was sent to them which was easily filled.

Interviews

The researcher interviewed the lower level employees of the organization using the interview guide. This was used to tap the vital information that would have not been collected using the questionnaires from the top level employees. The researcher used a face to face method of interviews with the respondents.

Observation

The researcher also incorporated the use of observation methods in identifying the kinds of businesses activities that are outsourced by APA insurance. Various outsourced functions were observed and analyzed.

3.10 Reliability and Validity

Validity of an instrument to be used in this study is consistent with the definition provided by Miles and Huberman (1994), as the "extent to which the items in the instrument measure what they are set out to measure." The validity of the instruments was established by pre-testing them with a sample of actual respondents in the field.

Reliability, according to Miles and Huberman (1994), has to do with the extent to which the items in an instrument generate consistent responses over several trials with different audiences in the same setting or circumstances". The reliability of the instruments and data were established following a pre-test procedure with a sample of respondents before their use with actual research respondents. This was done at Ugabytes Initiative Uganda, an organization based in Muyenga, Kampala.

3.11 Data Analysis and Management

After collecting all the necessary data, these data was coded and edited, analyzed and rephrased to eliminate errors and ensure consistency. It also involved categorizing, discussing, classifying and summarizing of the responses to each question in coding frames, basing on the various responses. It also helped to remove unwanted responses which were considered insignificant. Data collected from the field with the use of study instruments were classified into meaningful categories. Data was entered into a computer and analyzed with the use of SPSS. Finally, a research report was written from the analyzed data.

3.12 Ethical Consideration

Before commencing the research, an introductory letter from the University was sought and the purpose of the study explained to the authorities to avoid inconveniences and misunderstandings about the purpose. The information collected will be kept with high confidentiality.

CHAPTER FOUR

PRESENTATION, DISCUSSION AND ANALYSIS OF FINDINGS

4.0 Introduction

The statistical techniques that were outlined in chapter three were applied to the data, and the results obtained are presented in this chapter. Descriptive statistics have been used in the presentation and analysis of the data. The findings are mainly from primary data obtained from the respondents with the use of questionnaires.

4.1 Characteristics of Respondents/ Profile of Respondents

The section presents the characteristics of all respondents who were interviewed. This includes gender, age, position of respondent at APA Insurance Uganda limited and academic qualification of respondents. The findings are shown in the figures and tables below:

4.1.1 Age of Respondents

Table 1: Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 20	3	15.0	15.0	15.0
	20-30	7	35.0	35.0	50.0
	30-40	7	35.0	35.0	85.0
	40 and above	3	15.0	15.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

Table 1 show that the majorities, 35% of the respondents were in the age bracket of (20-30) and (30-40) years respectively; 15% of the respondents were in both age brackets of below 20 years and above 40 years respectively. This implies that majority of the respondents were youth who are responsible long serving staff.

4.1.2 Sex of respondents

Table 2: Sex of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	13	65.0	65.0	65.0
	Female	7	35.0	35.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

The table above indicates that, 65% of the respondents were males while 35% of the respondents were females. The reasons for this were as a result of the nature of the activities of the organization that implied the use of more men than women.

4.1.3 Title of Respondents

Table 3: Title of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sales Persons	8	40.0	40.0	40.0
	Marketing Officials	3	15.0	15.0	55.0
	Accountant	1	5.0	5.0	60.0
	Agents	2	10.0	10.0	70.0
	Technical officers	3	15.0	15.0	85.0
	Receptionists	2	15.0	15.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

Figure 1 shows that 40% of the respondents were sales persons in the organization sampled. On the other hand, 15% were managers at different levels of the company, 5% were accountants and procurement officers, 10% were technical officers of the company, while 15% consisted of both agents and receptionists of the company.

4.1.4 Number of Years worked in the organization

Table 4: Years worked in the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2	4	20.0	20.0	20.0
	2-4 years	10	50.0	50.0	70.0
	Above 4 years	6	30.0	30.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

According to table 4, 50% of the respondents had spent between 2-4 years in the service of the organization, 30% of the respondents had spent in the organization more than 4 years while 20% of the respondents had been with organization for less than 2 years. The findings imply that majority of the respondents had spent some considerable period of time with the organization and hence their responses could be relied upon.

4.1.5 Level of Education of Respondents

Table 5: Level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary level	2	10.0	10.0	10.0
	Secondary Level	9	45.0	45.0	55.0
	Tertiary level	9	45.0	45.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

Regarding the level of education of respondents, 10% of the respondents were primary leavers; 50% of the respondents were secondary leavers and 50% of the respondents were graduates from tertiary institutions and universities. This implies that APA employed a cross section of people with the majority literate.

4.2 Research Question I: Relationship Between Outsourcing & Organizational Performance

This section addresses the relationship between outsourcing and organizational performance in terms of various issues raised by the researcher to the respondents

According to various respondents, there is a strong relationship between outsourcing and organizational performances and these include: improving competitive advantage of the organization, reducing business risks, focusing on core competencies and expansion and growth of the organization. The following responses show the relationship between outsourcing and organizational performances according to different managers in the organisation.

According the procurement manager of the organization, " *Our decision to outsource some of our business functions, has resulted into competitive advantage, we have been able to concentrate on our core business functions where some of our competitors are still lagging behind because of concentrating on what is not core to their businesses".*

The Business Development Manager also revealed that *"Outsourcing functions like auditing that are not core to this organization has reduced risks, improved efficiency, resulted into fast growth of the organization and improved our service delivery in time. Therefore, I believe that there is a strong relationship between outsourcing and organizational performances".*

All in all, there is a strong relationship between outsourcing and organizational performances.

4.3 Research Question : Reasons for Outsourcing

This section addresses the reasons for outsourcing some of the core business activities of the in terms of various issues raised by the researcher to the respondents. In addressing this question respondents were asked about the business activities being outsourced, the level at which the outsourcing decision is taken and the main reasons for outsourcing. Below are the findings:

4.3.1 Are there organizational activities being outsourced?

All participants had experience of outsourcing and while they signaled intentions to continue outsourcing, they are likely to pursue opportunities to outsource in the foreseeable future. The respondents were further asked to name the core organizational activities that were currently or had ever been outsourced in the organization.

This question was designed to measure outsourcing strategy familiarity and duration of existing outsourcing programs among the surveyed respondents. About 95 percent of the respondents reported that they were familiar with outsourcing strategy

Table 6: Business activities outsourced

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Transportation	6	30.0	30.0	30.0
	Meals	3	15.0	15.0	45.0
	Auditing Services	3	15.0	15.0	60.0
	Cleaning Services	2	10.0	10.0	70.0
	Marketing Services	1	5.0	5.0	75.0
	Office Deliveries	1	5.0	5.0	80.0
	Equipment Repair	4	20.0	20.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

Table 6 above shows the main business activities outsourced at APA Insurance Uganda Limited. 30% of the respondents noted that the organization out sources the transportation vehicles needed for the company. This was followed by 20% who revealed that the repair of company equipment like office equipment like computers, 15% of the respondents revealed that the company out sources the provision of meals like breakfast and lunch, and auditing services respectively. The respondents revealed that the organization often hires external auditors to audit the company accounts at both the head offices and the respective company branches around the country.

It was further revealed by 10% that APA insurance also out sources from cleaning agencies to clean the company premises. Other respondents revealed that in the recent times the company has hired external marketing agencies to market the company products and services. Finally, 5% revealed that the company the company out sourced the delivery of company products and documents around and outside Uganda. Among the important documents delivered include; credit notes, bank statements and debit notes.

Respondents were asked to identify the types of activities that they outsourced or were attempting to outsource. The top activities or functions identified were: information technology (such as repair of computers), management services (auditing, manufacturing of components for the final product or the whole product, product design, marketing, distribution, and sales of products or services). These findings support recent studies on outsourcing activities (Youngblood, and Gary 1999).

4.3.2 At what level was the outsourcing decision made?

At the time the survey was conducted several business activities were also considered outsourced or for outsourcing. Whilst outsourcing was not stated as part of the recorded business plan, it appears this strategy was promoted widely by senior management; as a result some activities were outsourced and some retained in-house where the business risk was perceived to be high. The following quote from one respondent summarises how decisions to outsourcing were often taken;

"A Small number of people involved, senior executive decision, put up a paper to the board, based on proposed saving and in some cases it was very compelling. e.g. with catering, it meant instead of running internally, we pay another company to allow them to run it and took away the headaches".

Table7: Level of outsourcing decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Top Management level	10	50.0	50.0	50.0
	Middle management level	7	35.0	35.0	85.0
	Lower employee level	3	15.0	15.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

According to the findings in table 7 above, 50% of the respondents revealed that the decision to is often taken by the top management of the company. This is because this decision always involves changing the company policies and strategies. 35% revealed that sometimes the decision to outsource can be taken by middle level managers. An example was an accountant taking some decisions while branch managers given some authorities to outsource. Finally, 15% of the respondents revealed than on some occasions lower level employees can decide to outsource though on a very small scale.

4.3.3 Reasons for outsourcing some business activities at APA Insurance

Table 8: Reasons for outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cost reduction	6	30.0	30.0	30.0
	No available internal resources	2	10.0	10.0	40.0
	Reduction of head counter employees	2	10.0	10.0	50.0
	Reduction of Risks	1	5.0	5.0	55.0
	Improve Quality	4	20.0	20.0	75.0
	Focus on core competencies	5	25.0	25.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

The reasons for outsourcing can be condensed into the categories that affect organizational performance. According to 30% the respondents, one reason is cost (another firm can do the activity for less). 20% said quality (another firm can do the activity better). 5% revealed that outsourcing is done because of reducing risk (another firm is better able to assume the risk of doing the activity). 25% revealed focus (another firm should do this activity because it is time consuming and diverts focus). Finally, 10% revealed that there are available internal resources to carry out the work and the reduction of head counter employees respectively.

The top reasons for undertaking outsourcing projects identified by the survey results were to: reduce costs, improve quality, improve delivery and reliability, gain access to materials only available abroad, use resources not available internally, reduce the overall amount of specialized skills and knowledge needed for operations, and focus on core competencies of the company. These findings complement previous studies (Bowersox 1990; Crane 1999; and Quinn 2000) and suggest that outsourcing is undertaken for purposes that have a large impact on the organization's bottom line, although more tangential purposes such as strategy, profitability, and competitive advantage may have been the rationale for the more direct reasons.

4.4 Research Question III: The impact of outsourcing on organizational effectiveness

This section addresses the impact of outsourcing on organizational effectiveness in terms of various issues raised by the researcher to the respondents. In addressing this question respondents were asked if outsourcing has been effective and finally asked to reveal the real impact. Below are the findings:

4.4.1 Has outsourcing been effective at APA Insurance Uganda Limited?

To examine the effectiveness of the strategy, respondents were asked of their opinions concerning the degree of usefulness of outsourcing strategies by the company.

Table 9: Has outsourcing been effective?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	17	85.0	85.0	85.0
	No	3	15.0	15.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

According to the study findings, 85% of the respondents revealed that the strategy had been successful while only 15% all lower level employees were in agreement with the strategy especially in fear of their jobs.

4.4.2 Impact of outsourcing on organizational performance

Further evaluation of the impact of outsourcing strategies on organizational efficiency, was accomplished by the study to evaluate the dependence of measures of organizational performance on outsourcing strategy dimensions. This analysis determines the proportion of variance in organizational performance scores explained by outsourcing program.

Table 10: Impact of outsourcing on organizational performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Improved quality	4	20.0	20.0	20.0
	Cost minimization	6	30.0	30.0	50.0
	Firm focuses on key skills	3	15.0	15.0	65.0
	Cycle time	2	10.0	10.0	75.0
	Productivity	3	15.0	15.0	90.0
	Improved delivery and reliability	2	10.0	10.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

According to the findings, 30% of the respondents revealed that outsourcing had led to minimizing costs, the company has achieved its economic related goals and this enhances their organizational performance. 20% reveled that the company had improved the quality of service delivery. Due to control of a few of its business functions, then the company respond to certain business conditions e.g. infrastructural changes. Also, the respondents in this table indicated that 15% of the responses in cycle time, 31% of the variance in productivity and, 10 percent of the variance in improved delivery and reliability.

Outsourcing is also good for business because there are certain situations that can be avoided through it. For example, companies that perform all their business functions may increase productivity and efficiency. These findings complement previous studies (Casale 1996; Jennings 1996; Quinn 1999; Lau and Hurley 1997; Steensma, Kevin and Corley 2000) that found a positive relationship between outsourcing activities and performance.

Furthermore, respondents reported that the outsourcing strategies in their organizations were making a huge contribution to overall organizational performances. They indicated that the savings and indirect benefits generated by the outsourcing programs were greater than the costs of developing the required resources and capabilities through internal development. Outsourcing strategies were believed to help improve performance, increase access to international markets and leading edge technologies, enhance responsiveness to customer needs, and contribute to organizational goals of increased productivity, efficiency, reduced costs, reduced cycle time, and improved quality of the goods and services in their organizations.

4.4 Research Question 3: Challenges to outsourcing at APA Insurance Uganda limited

To examine challenges to outsourcing, respondents were asked to identify the seriousness of risks facing outsourcing. The respondents identified the fear of change, including fear of job loss, long term contractual inflexibility as the most serious problem facing their sourcing efforts.

Table 11: Challenges to outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Long term contractual inflexibility	2	10.0	10.0	10.0
	Resistance from existing employees	7	35.0	35.0	45.0
	Reduction in house expertise	5	25.0	25.0	70.0
	Poorly managed out sourcing contacts	3	15.0	15.0	85.0
	Poor choice of outsourcing partners	2	10.0	10.0	95.0
	Hidden costs and risks	1	5.0	5.0	100.0
	Total	20	100.0	100.0	

Source: Field Data

From the study findings, 35% of the respondents revealed that the biggest challenge to outsourcing is the resistance form employees who fear the loss of their job and feel that the organization's management has little trust in them. 25% revealed that outsourcing leads to a reduction in house talents if some of the core business activities are outsourced other than developing them internally, 15% reveled that some outsourcing activities are sometimes poorly managed while 10% reported that outsourcing leads to long term contractual inflexibilities and there are poor choices of contracting partners sometimes. Finally, 10% of the respondents revealed that sometimes outsourcing comes with hidden costs and risks.

From the study findings, dealing with these fears through communication and honesty is important to managing these challenges (Jones 1997; Quinn 2000). A poor choice of sourcing partners was the second most serious problem facing unsuccessful organizations. The individuals responsible for managing the outsourcing relationship should receive specific training that includes a complete understanding of the business goals of the contract, the specific performance criteria agree to, and individual roles (Foster 1999). Inadequate comprehensive plans outlining detailed expectations, requirements, and expected benefits of outsourcing efforts was the fourth factor identified by unsuccessful firms in their outsourcing projects. The effects of outsourcing projects on the morale and performance of the remaining were among the most serious obstacles to outsourcing success. Keeping people informed every step of the way and working out a deal perceived as fair for them is important because an organization trades more than its physical assets to the vendor in any outsourcing arrangement – it often gives away its people as well (Bender 1999).

Somewhat surprisingly, given the nature of outsourcing activities, the following obstacles were ranked lower than other problems in respondent's outsourcing efforts: inadequate control systems over how certain services are delivered (which in turn may raise the company's liability exposures, Guterl 1996), and hidden costs and risks such as travel costs (Ramarapu, Parzinger, and Lado 1997). Other problems identified including poor organizational communication, cross functional political problems, unclear expectations, lack of flexibility, keeping contracts short, and taking a tactical rather than an strategic approach to outsourcing activities (Laabs 1998; Mullin 1996; Grant 1996).

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The attitudinal results presented in this study provide support for the claims of outsourcing proponents that outsourcing allows organizational performances in form of; enhanced expertise, improved service quality, reduced staff, streamlined process, lowered costs and reduced administrative burden and saved time. Outsourcing in this sense, is beneficial to organizational performances.

In addition, this study identified current outsourcing strategy trends and practices. One of the important contributions of this study is the revelation that organizations generally consider themselves successful at outsourcing. However, while they achieved significant improvement in organizational performance, they have not reached the magnitude of improvements ascribed to outsourcing strategies.

A number of organizational strategies were also identified as key contributors to outsourcing success. These included strategies with clear objectives, right outsourcing partners, adequate skills, adequate planning, effective communication, and cooperation and collaboration throughout the organization. These strategies are thought to improve quality, deliver, and performance.

5.2 Concluding Recommendations.

The following recommendations were identified as a result of this research.

More should be done to communicate the value proposition of outsourcing in organizations. Senior executives should improve their understanding of outsourcing relevance and procurement officers could emphasise strategic procurement value while simplifying tendering and purchasing processes which are sometimes seen as narrowly focused and overly bureaucratic. This should include promotion in terms of strategy development and management structure representation which could also help identify future outsourcing possibilities. It may also help avoid potential conflict of interests in outsourcing situations when business functions which could potentially be impacted are responsible for initiation and investigation of outsourcing evaluations.

The organisation in this research had some positive outsourcing experiences but had not explicitly mentioned outsourcing in their strategic or business plans. Organisations should include consideration of outsourcing strategies during long term planning cycles.

Without alignment of organisational culture, senior management philosophy and core business activities; outsourcing investigations, evaluations and subsequent contracts are unlikely to succeed. As scope and expectations of outsourcing projects are clarified, formal commitment to the project objectives and process should be obtained from senior management and key organisational stakeholders.

When a business process improvement role is taken on as part of an outsourcing project there are often problems associated with process commitment and buy- in to changes from throughout the organisation, even though this role may be valued at a senior level. It is important to clarify and confirm the mandate for these involvements, as well as the interdependencies with other activities and commitment from key internal stakeholders at the initiation of each project and at key stages during the project life cycle.

A model for outsourcing of in Uganda should be accessible and scalable with emphasis on the Ugandan market. It should be easily adaptable for industry sectors or business activities and include identification and analysis of existing and planned outsourcing categories. It should also draw on project management principles and to develop clarity of objectives, support for related changes and transparency of delivery processes.

5.3 Limitations and areas of further research

This exploratory empirical investigation into outsourcing provides tentative avenues for increasing the probability of success of outsourcing projects and raises many issues for further study of the outsourcing phenomenon. This study is limited by its small sample. In addition, a survey methodology was also used, which is susceptible to both misinterpretation and common method variance.

Despite these limitations the research contributes to developing an understanding of outsourcing in identifying areas that need further research. First, the study indicates that in many cases, one of the primary risks to firms is the effect of outsourcing on employee morale and performance. However, more must be learned about the specific changes made to human resources, how these were successfully implemented, and how they contributed to the outsourcing effort. Second, the study found that organizations with different levels of success at outsourcing identified different factors as problems in the outsourcing project. These factors need to be explored in more depth to identify those that must be managed to ensure the highest level of success of an outsourcing project.

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APPENDIX I: QUESTIONNAIRE

Dear Respondent,

My name is Nansikombe Rashidah, a student of Kampala International University pursuing a Bachelor in Supplies and Procurement. I am conducting a study on outsourcing and Organizational Performance. You are kindly requested to respond to this questionnaire that has been sent to you. This study is purely for academic purposes and the information given shall be treated with utmost confidentiality.

Background

Please, briefly provide some individual information;

Your age...

Level of Education...

Title...

Reporting to..

Length of time employed by this organization...

Marital status..

Please describe what your organization does?

....

Approximately how many permanent staff does your organization employ?

....

Business Strategy

A) Does your organisation have a written strategic plan?

....

Outsourcing

A) How does outsourcing relate to your strategic plan?

....

B) Is outsourcing or procurement explicitly mentioned in your strategic plan?

....

C) What business activities are considered to be "core" in your organization?

....

D) What business functions are outsourced?

....

E) Were any of these outsourced functions ever considered to be "core business activities"?

....

Outsourcing Drivers

A) What were the key drivers behind your organisation's decision to outsource?

....

B) At what level in the organisation was the decision to outsource made?

....

D) How did you determine what activities should be outsourced?

....

E) Why did you decide to keep your organisation's other activities in-house?

....

F) Does you organisation currently have any agreements with external procurement service providers?

……………………………………………………………………………………………

If Yes, Please provide brief summary.

……………………………………………………………………………………………

If No, Has the management considered outsourcing some or all business activities?

……………………………………………………………………………………………

Organizational Performance

A) What are the major goals of your organization?

……………………………………………………………………………………………

B) With outsourcing, were your organization's objectives met? If yes, briefly explain

……………………………………………………………………………………………

C) To what extent have business activities been successfully outsourced by your organisation, please indicate (circle) the general perception of success for this outsourcing in relation to the organizational performances.

……………………………………………………………………………………………

D) What can be done to improve the organizational performance of your organization?

……………………………………………………………………………………………

Challenges

A) What do you believe to be the biggest challenges for outsourcing arrangements?

……………………………………………………………………………………………

B) What plans to you have for outsourcing activities in the future?

....

C) What plans do you have for outsourcing other business processes?

....

Thank you for taking the time to complete this survey

APPENDIX II: A guide for Observation check List

1. Are there business activities outsourced in the organization?

2. Are there business activities not outsourced?

3. Are the employees of the organization happy with the outsourcing or they are not?

3. Who decides on the outsourcing decision?

4. Are there identifiable benefits to the organization as a result of outsourcing?

5. If some or all business activities have not been outsourced, what are the reasons for this?