EFFECT OF OUTSOURCING STRATEGY ON PROJECT SUCCESS

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Abstract

This study focused on the effect of outsourcing strategy on project success,

A study of Nestle Nigeria PLC. Copies of Questionnaire were administered using stratified sampling techniques for the purpose of data collection and interviews were also conducted to authenticate the information derived. The data obtained was analyzed using frequency distribution and Chi-Square analysis. The findings revealed among others that firms outsourced their production process in order to manage cost, reduce time-to-market, boost bottom line, increase sales turnover and profitability, enhance expertise, improve service quality, reduce staff, streamline the process, reduce the administrative burden and save time for core activities. It was recommended that companies that outsource should continue to monitor the contractor's activities and establish constant communication. Workers should be made to embrace the strategy before implementation so as to alley the fear of loss of Jobs. Organization must embraced the outsourcing strategy and improved the service delivery to customer and there should be a shift in the mindset of company managers to managing papers or contracts rather than workers and also improve on how to work with others, that is

managing the suppliers or providers, integrating and managing a diverse split work force embodying different corporate cultures.

Key Words: Outsourcing strategy, project success, market value, profitability, customers' satisfaction

Introduction

In the last half of the 20th century, developed countries have experienced great transitions; one of the most remarkable is the change from manufacturing as the centre of the economic structure to services. It is more evident if we compare it with the long time and difficulties related to the change from agriculture to manufacturing-based economies. Globalization and accelerated competition as well as ever increasing consumer demand for value have pushed firms to create value through efficient use of limited resources; outsourcing is one of the ways through which firms attempt to address the new requirements of the marketplace. Outsourcing therefore, is a process of replacement of in-house provided activities by subcontracting it out to external agents. This strategy allows firms to concentrate their capabilities and resources in their respective core businesses, giving up those activities that have no competitive advantage added to their corporate value chain.

Consequently, management, execution, development of innovations, etc. In outsourced activities become responsibility of an agent external to the firm. Another well-known consequence of this process is the upper bias on the change of the share of service activities in the Gross Domestic Product by National Accounts due to the migration of employment from manufacturing industry to Business services (European Commission, 2003).

From a wider perspective, outsourcing strategies are part of the reorganization process that has characterised firm's behaviour along the last two decades. It fits in the set of downsizing strategies and the diversification decrease that many firms have adopted since the eighties. Firms have carried on a vertical disintegration process in many manufacturing activities, with an increasing use of sub-contractors of components (contract manufacturing). The firm's decision on outsourcing is usually analysed as a "make or buy" dilemma.. On one hand, market imperfections, such as measurement problems, difficulties to control the collaboration between the customers and the provider, reduction in control over how certain services are delivered and increased complexity in arms-length contracts may in turn raise the company's liability exposure. (De Bandt, 1996).

Research Questions

- What are the effects of Outsourcing Strategy on sales turnover?
- Does Outsourcing Strategy have any significant effects on profitability?
- Has Outsourcing Strategy improved Economic Value added?
- What is the significant effect of Outsourcing Strategy on Market Value added?
- Has Outsourcing Strategy affected customer satisfaction?

Literature Review

Conceptual Framework

Dwindling resources and market competitiveness have forced organizations to scrutinize their methods of producing goods and services and make changes in their processes in order to maximize economic returns. To be able to survive and be profitable in current globalization era, organizations have pursued continuous improvement, leaned up production, reengineered business processes, and integrated supply chains (Brannemo, 2006). Over the past decades there is a growing realization of the important that sourcing strategy (Cousins et al., 2006)

The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender 1999). Outsourcing is promoted as one of the most powerful trends in modern management. The rationale for outsourcing some functions and/or processes includes substantial financial economies, increased ability to focus on strategic issues, access to technology and specialized expertise, and an ability to demand measurable and improved service levels. Outsourcing differs from alliances, partnerships or joint ventures in that the flow of resources is one-way, from the vendor to the outsourcer; typically, profit sharing or mutual contribution are not a common practice (Belcourt, 2006).

Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers. According to Corbett (1999) outsourcing is nothing less than the wholesale restructuring the corporation around core competencies and outside relationships. The traditional outsourcing emphasis on tactical benefits like cost reduction. The market for providers of outsourced services of all types is growing rapidly.

Yankelovih (2003) 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.

Factors Associated With The Success Or Failure Of Outsourcing Strategies

Firms considered their outsourcing projects successful when the benefits generated by the outsourcing strategies were greater than the costs of developing the required resources and capabilities through internal development or acquisitions. On the other hand Foster (1999), affirmed that firms considered their outsourcing projects unsuccessful or failures, when the costs of managing the links between outsourcing partners were greater than the benefits generated by the outsourcing program.

Successful firms identified the clear objectives and expectations of outsourcing activities as the most useful and contributing factors to their outsourcing effort. Outsourcing must be done carefully, systematically, and with explicit goals and expectations. Sensible reasons to consider outsourcing include both strategic and tactical concerns on both a department and organizational level.

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. Sinderman (1995) argued that 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. Guterl (1996) developed a comprehensive plan outlining detailed expectations, requirements, and expected benefits during all phases of outsourcing activities may be the key to successful sourcing efforts

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 (Jones 1997; Foster 1999).

Project Success

Increasingly these days organizations are project based, meaning that the work they do is split into programmes of projects designed to deliver the organization's strategies and add value. Good management of these projects is essential if the organization is going to succeed. Equality important to individual project success is ensuring that the right projects are carried out. As project management guru bob buttrick put it, "directing the individual project correctly will ensure it is done right". Directing all the projects successfully will ensure we are doing the right projects. "Success is an interesting word and a word that is so general and wide in nature that it is difficult to define and obtain mutual agreement when asked form different individual. (Judges and Muller, 2005) in their article mentioned that in order to define what success means in a project context in like gaining consensus form a group of people on the definition of "good art". Project success is a topic that is frequently discussed and yet rarely agreed upon (Baccarini, 1999). Generally, the view on project success have evolved over the years from simple definitions that were limited to the implementation phase of the project life cycle to definitions that reflect an appreciation of success over the entire project and product life cycle (Judges and Muller, 2005)

Organizations have varying levels of expertise in the project management function. Many of these organizations realize that to be successful a better approach to project management is necessary. Project management maturity matrix can help organizations improve the maturity of their project management processes, in terms of an evolutionary path form ad-hoc, disorganized processes to mature, disciplined project management processes. The matrix describes four levels of maturity in project management.

Level 1

Projects are often delivered through the personal heroics and effort of the project manger and his/her team. They tend to be delivered in spite of the organization rather than because of it.

Level 2

Anybody can deliver here not just heroes, because there is an agreed methodology to be followed that helps repeat earlier successes form similar projects. Courses and training can help at this level.

Level 3

This is not only about delivering projects but also realizing benefits. This involves knowing what benefits are expected and when the project has delivered them.

Level 4

Is concerned with whether we are doing the right projects and how via those projects we can deliver the business strategy and add value.

De Wit, (1988) and other writers distinguish between project success (measured against the overall objectives of the project) and project management success (measured against the widespread and traditional measures of performance against cost, time and quality). The second distinction is also important it is the difference between success criteria (the measures by which success or failure of a project or business will be judged) and success factors (those inputs to the management system that lead directly to the success of the project or business)

Roackart, (1979) developed a three step procedure for determined which factors contribute to meeting organizational goals. His study reveals that many executives tend to link in terms of "what does it take to be successful" in their business rather than in terms of purposes, object and goals. Consequently the key question in the method is, "what doe sit takes to be successful in the business?" the three main steps, in the process are:

1. Generate critical success factor (CSFs): the key question in this step is, "what does it take to be successful in the business?"
2. Refine (CSFs) into objectives: the key question in this step is, "what should the organizations and goals be with respect to the critical success factors?"
3. Identify measures of performance: the key question in this step is "how will we know whether the organization has been successful on this factor?"

Rockart, (1979) and his associates applied the CSF method at several different organizations.

A list of critical success factor

Critical success factor (CSFs)	**Prime measures**
Image in financial markets	Price/earnings ratio
Technological reputation with customers	Order/bid ratio customer "perception" interview results
Market success	Change in market share (product wise) growth rates of company markets.
Risk recognition in major bids and contracts	Company's years of experience with similar products "new" or "old" customer prior customer relationship

Profit margin on jobs	Bid profit margin as ratio of similar jobs in this product line
Company morale	Turnover, absenteeism etc
Performance to budget on major jobs	Job cost, budgeted/ actual ratio

Source: (Rokart, 1979)

Theoretical Framework

There are few frameworks available to analyze decision process in outsourcing. Choudhury et al. (1995) explain outsourcing process model that consists of six steps: (i) the company describes whether to outsource or not (ii) the company decides on the degree to outsource (iv) the company prepares a list of possible vendors and (iv) the company start lists vendors based on key decisions (v) company issues request for proposal to receive bids from the short-listed vendors (vi) company selects a vendor and develops policies and control to manage outsource issues. Lee and Kim (1997) suggested that outsourcing process model involves six stages: (i) outsourcing strategy selection (ii) service provider evaluation (iii) service provider selection (iv) contract negotiation (v) outsourcing implementation (vi) control management and (vii) performance feedback.

These models are quite general and have not provided detailed guidelines for outsourcing decision process.

Quantifiable criteria are costs, increased cover of fixed costs, investments and revenues (Brannemo, 2006). Non-quantifiable criteria are of 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 strategy and structure. Companies should consider the structural aspects associated with the decision and help to focus on how integrated the company should be (Brennamo, 2006). The third part concerns with examining the transaction costs; production costs and transaction costs (Fill and Visser, 2000).

At the same time, McIvor (2000) suggested four stages of outsourcing framework: (i) identifying the core and non-core activities of the company. The core activity is perceived by the customers as adding value and being a major determinant of competitive advantage (ii) analyzing the competencies of the company in core activities in relation to potential external sources. This involves an evaluation of the relevant value chain activities' and the total cost analysis of the core activities. A relative performance of the company is identified and this

helps to understand the disparity between the sourcing company and the potential supplier (iii) attempting to measure all the actual and potential costs involved in sourcing activities. In this stage, two types of costs are identified: cost estimation of carrying out the activity internally, and cost estimations associated with potential suppliers and (iv) analyzing the relationship with the vendor if the company wishes consider to outsource its core activities.

In this research work, McIvor's framework will be used to explore outsourcing practice. McIvor's framework provides comprehensive as well as practical ways in analyzing outsourcing decisions. Advantage of this framework is that it does distinguish the core and non core activities analysis in outsourcing process. Even though, the framework did not taken into consideration the needs and constraints faced by small and medium sized companies, it is found useful for understanding the decision process especially when identifying the core and non-core activities of the company. At the same time, drivers of outsourcing are identified using classification by Ghodeswar and Vaidyanathan (2008).

Methodology

Questionnaires was used as the research instrument, and distributed among 120 respondents, who were staff of Nestle Nigeria plc using stratified and random sampling techniques.

Test retest was used to ascertain the reliability of instrument used and content validity was also adopted. Descriptive statistic and chi-square tools of analysis were used.

Chi-Square Analysis for Research Hypothesis 1

H_0:There is no significant relationship between Outsourcing Strategy and sales turnover.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Outsouring Strategy And Sales Turnover	1095	2.6621	1.51258	.00	4.00

Chi-Square Test

Frequencies

Outsourings Trategy And Sales Turnover

	Observed N	Expected N	Residual
.00	194	219.0	-25.0
1.00	78	219.0	-141.0
2.00	101	219.0	-118.0
3.00	253	219.0	34.0
4.00	469	219.0	250.0
Total	1095		

Test Statistics

	OUTSOURING STRATEGY AND SALES TURNOVER
Chi-Square	447.881[a]
Df	4
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 219.0.

From the above, the frequency of responses to strongly disagree option was 78(7.12%), disagree was 101 (9.22%), undecided was 194 (17.72%), agree was 253 (23.11%), while strongly agree was 469 (42.83 %).This further reveal a calculated X^2 value of 447.88, table x^2 value of 9.49 at 0.05 level of significance and 4^0 of freedom.

Since calculated value X^2 = 447.88 is greater than 9.49 from the table, we reject the null hypothesis; therefore, there is a significant relationship between Outsourcing Strategy and sales turnover.

Chi-Square Analysis for Research Hypothesis 2
H_0:There is no significant relationship between Outsourcing Strategy and profitability.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Outsouringstrategyandprofitability	1095	2.7096	1.49516	.00	4.00

Chi-Square Test

Frequencies

Outsouringstrategyandprofitability

	Observed N	Expected N	Residual
.00	187	219.0	-32.0
1.00	71	219.0	-148.0
2.00	93	219.0	-126.0
3.00	266	219.0	47.0
4.00	478	219.0	259.0
Total	1095		

Test Statistics

	OUTSOURINGSTRATEGYANDPROFITABILITY
Chi-Square	493.580[a]
Df	4
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 219.0.

From the above, the frequency of responses to strongly disagree option was 71(6.48%), disagree was 93 (8.49%), undecided was 187 (17.08%), agree was 266 (24.29%), while strongly agree was 478 (43.65 %).This further reveal a calculated X^2 value of 493.580, table x^2 value of 9.49 at 0.05 level of significance and 4^0 of freedom.

Since calculated value X^2 493.580 is greater than 9.49 from the table, we reject the null hypothesis, therefore, there is a significant relationship between Outsourcing Strategy and profitability.

Chi-Square Analysis for Research Hypothesis 3

H_0:There is no significant relationship between Outsourcing Strategy and Customer Satisfaction.

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Outsouring strategy and customer satisfaction	1095	2.6858	1.49830	.00	4.00

Chi-Square Test

Frequencies

Outsouring strategy and customer satisfaction

	Observed N	Expected N	Residual
.00	185	219.0	-34.0
1.00	84	219.0	-135.0
2.00	92	219.0	-127.0
3.00	263	219.0	44.0
4.00	471	219.0	252.0
Total	1095		

Test Statistics

	OUTSOURINGSTRATEGYANDCUSTOMERSATISFACTION
Chi-Square	460.959[a]
Df	4
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 219.0.

From the above, the frequency of responses to strongly disagree option was 84(7.67%), disagree was 92 (6.40%), undecided was 185 (16.89%), agree was 263 (24.02%), while strongly agree was 471 (43.01 %).This further reveal a calculated X^2 value of 460.959, table x^2 value of 9.49 at 0.05 level of significance and 4^0 of freedom.

Since calculated value X^2 460.959is greater than 9.49 from the table, hence, we reject the null hypothesis therefore, there is a significant relationship between Outsourcing Strategy and Customer Satisfaction.

Discussion Of Findings

The discussion of findings shall be based on major issues raised in the hypothesis of the study. All findings were held at a significant level $p < 0.05$

Hypothesis One

This states that there is no significant relationship between outsourcing strategy and sales turnover.

The alternative hypothesis was accepted which says that there is a significant relationship between outsourcing strategy and sales turnover. The result presented shows that the implementation of outsourcing strategy by NESTLE significantly and positively influence organizational sales turnover and consequently the organization performance. The research has shown that outsourcing as a strategy adopted by Nestle has resulted in production cost reduction, competitive selling price and ultimately increased sales turnover. This finding further supports resource-based thinking which stipulate that firms –specific resource

endowments are determining source of competitive leverage (Rumelt, 1984; Wernerfelt, 1984).

Sales turn over and corporate/technology reputation is affected by stakeholder integration and capability development.

Hypothesis Two

There is no significant relationship between outsourcing strategy and profitability. The result shows that there is a significant and positive effect of outsourcing strategy on an organizational profitability because production process, constant innovation and concentration on core competence are the activities in which an organization should make use of in order to increase its output and perform better competitively.

Capability development and corporate/technology reputation was linked with the concept of competence trust (Berger, 1993; Nootboom, 1998). This was fully supported by the data which implies that firms that develop capabilities for handling modern technology with care and concern should be rewarded for their effort.

Hypothesis Three

This hypothesis states that there is no significant relationship between outsourcing strategy and customer satisfaction.

After testing the null hypothesis, it was discovered that outsourcing as a strategy has a positive and significant effect customer satisfaction resulting to high organizational performance.

Organizations that integrate the voice of the environment into their decision-making structure tend to accumulate short run economic gain. This result yields further support for instrumental stakeholder theory. Corporate and technology reputation represent an assessment of a firms relative standing by its relevant stakeholders.

Summary Of The Findings

Today's product development processes are mostly based on outsourcing principle which has caught the imagination of entire business world. Often firms outsourced their product development process in order to manage cost, reduce time-to-market, boost bottom line, increase sales turnover, profitability and save time for core activities. Outsourcing strategy is generally considered in order to acquire expertise, tools, resources, and plan for gaining, storing and using expertise knowledge. Standard cost optimizations processes are generally prompted through applying this strategy in various industrial sectors.

Firms are adopting outsourcing strategy to achieve better time to market, minimize risks, access the latest technology with comparatively cheaper rate, improve return on their product development investment and improve the overall competitiveness of their products. Industries can overcome competitive market challenges through specialist knowledge of innovation, reducing design cycle times and introduction of new products through outsourcing engagement. It is increasingly being evaluated and regarded as a viable option for more strategic business functions; however care must be taken through critical evaluations among different production processes before implementing this strategy.

Conclusion

Outsourcing strategy is at the center of the process of organizational change tending towards the flexibility of the business structure. In this respect, these processes may be preceded by radical changes which lay the ground work for process re-engineering.The trend towards virtual corporations based on the relationship of co-operation among several firms starts with the identification and exploitation of the concept of core competences, in such a way that new advantages are obtained from specialization and that the customer receives added value superior to the levels previously offered.The contemporary relationship of firms to their business surroundings are conditioned by the changes in technology and the economic environment. Firms face these alterations to their surroundings by making qualitative change in the way that they perform their activities and structure their organization.

In conclusion, outsourcing facilitates the transition to the new flexible organizational models leading to the virtual corporation using a process which is not free of some uncertainties which affect its conceptualization and empirical analysis.

Recommendations

First of all, outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure. Companies that outsource should continue to monitor the contractor's activities and establish constant communication.

Secondly, outsourcing strategy should come from the workers themselves that is workers should be made to embrace the strategy before implementation so as to alley the fear of loss of Jobs.

Also Successful implementation of an outsourcing strategy has been credited with helping to cut cost increase profitability and productivity, therefore organization must embraced the outsourcing strategy and improved the service delivery to customer.

Company managers agree that successful outsourcing requires a shift in their mindset, which means that they must manage paper or contracts rather than workers, improve on how to work with others, that is managing the suppliers or providers. Integrating and managing a diverse, split work force embodying different corporate cultures and perhaps divided loyalties can be a daunting assignment compare to the more traditional approach to work force management.

Contribution To Knowledge

The fundamental contribution of this study is that outsourcing decision should be treated as a fundamental business decision. Cost analysis and risk analysis should be carried out in order to evaluate the external capabilities with internal capabilities.

Another important contribution of this study is the revelation that organizations generally considered 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.

The study indicates that in many cases, one of the primary risks to firms is the effect of outsourcing on employee morale and performance.

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