



Risk and Benefit of Outsourcing in Southern Part of Ethiopia: A Case of MAA Garment and Textile Factory

Moges Assefa^{1*}

¹*Business School, Hohai University, Jiangsu Province, Nanjing, China.*

Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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ABSTRACT

The main objective of this study is to assess the perceived and existed benefits and problems of outsourcing on two outsourced functions of the organization. To select respondents for this study purposive sampling were used. The collected questionnaires were analyzed by using Statistical Package for the Social Sciences (SPSS) computer program. As result of the study indicated both outsourced functions brought many benefits to the organization. The most important benefits are focus on core activities, Cost and efficiency saving, continuity and risk management and operational control. Hence, the managers of the organization have gotten relief on following the routine problems which is related to noncore activities. On the contrary, the factory faces little challenges which can easily avoided, these are Loss of managerial control, Bad publicity and Tied to the financial well-being of other company.

Keywords: Outsourcing; core activities; non-core activities.

1. INTRODUCTION

In a progressively large production of goods and services with different price and quality around the global market place has helping companies to modify and amend their strategies to get a winning position on the competitive market [1]. Outsourcing is a strategy and tools used by different companies for business and economic advantages over its competitors. Outsourcing can be defined as the handover of organizational activities for the external body out of the organization who can make it better than our own [2]. This means to get enough and convenient time and effort on core activities of the organization, companies have handover their routine activities to external providers.

The basic reason for outsourcing is the increased trend of globalization [3]. The drivers behind outsourcing are to gain low production cost by access in low cost countries, utilize local firms' resources thus avoid capital investment on fixed asset for developing non-core products, and to gain access technology, performance through effective partnership. The traditional global outsourcing emphasis on tactical benefits like cost reduction, 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 [4].

According to [5], outsourcing is a decision-making line typically taken for entrusting some parts of organizational obligation to an external source for carrying out the activities of production or services process of an enterprise. In addition, outsourcing is the method of creating an agreement with suppliers and utilizing their expertise, skill and experience to deliver goods, components, or services [6]. In these contexts, it can be summarized that, outsourcing is an agreement between buyer and supplier(s) to avail processes or services that the buyer is providing internally at present; with an intention to reduce cost, increase focus on core business, improve quality of products and services and to ensure more flexibility.

As per [7], The aim of outsourcing thinking by organization can be cost reduction advantage and helps to assign employees on the right and manageable area. In addition, it's also important acquainting with the other world technology and experience sharing or challenges and benefits with suppliers. Moreover, the benefits

organization gain from outsourcing can be cost saving gaining new knowledge and time on the main production process of the organization, better competitive advantages than other rivalry [8].

In general outsourcing enables a firm to focus on its core competencies and let outside companies do what these firms can do best. As many benefits as outsourcing holding, there also some problems will be faced by companies sending their responsibility to outsiders such as losing the supply of products and managerial control over production activities [9].

Using all the parameters of benefits and risks of outsourcing, companies has periodize and weight each and every element of risks and benefits then analysis and investigate in detail. Because before giving administrative control to external expertise whom you are not control, its crucial to investigate and analyze the benefits and risks will face for the future. Based on this evaluation the companies will transfer the responsibility to outsiders if and only if the benefits outsourcing is better and valuable than doing inside [9].

In the Ethiopian case the application of outsourcing is in its infancy stage. Currently there are few companies that are engaged in providing limited outsourcing service. The current outsourcing provider Practice in Ethiopia is limited to a company's non-core activities which are confined to recruitment service, security service and janitorial service [10].

Therefore, this study is conduct to identify the major problems the organization faced after implementation of outsourcing and the major advantages the factory gain because of this approach.

2. MATERIALS AND METHODS

Non-probability sampling technique Purposive sampling was used for the data collection and we have targeted MAA garment and textile factory in southern part of Ethiopia. Moreover, sample size was selected based the following formula.

$$n = \frac{N(z)^2pq}{\epsilon^2(N-1)+(z)^2pq}$$

The questionnaire was developed and distributed physical. The survey was conducted from 159

employees and managers of the organization, through random sampling technique and the confidentiality of respondents was assured. The unanswered and incomplete questionnaires were deleted and unconsidered. Totally, I got total 142 considerable questionnaires after deleting unconsidered questionnaires.

3. RESULTS AND DISCUSSION

3.1 Reasons for Outsourcing

There are a number of reasons that drive companies to outsource some or many of their work activities. These include Lower costs (lower total costs), improve service, obtain expert skills, improve processes, improve focus on core activities [9]. In line with this, the driving reasons for the organization at hand to outsource some of the non-core activities are discussed as follows.

Table 1, shows the most strongly expressed reasons for outsourcing of janitorial service are allowing more focus on core business (4.55), cost savings (4.45) and improve service level (4.36). However, according to the same table, increase flexibility, acquire innovative ideas and control of budget is less important reasons for the outsourcing decision of janitorial service. From this one can easily understand the organization is highly motivated to focus on core activities by transferring those activities which are routine and time consuming with less important support for the organization production efficiency. According to [11], outsourcing frees management from having to worry about the inner-workings of a non-core activity. In the same fashion, by sourcing non-core business activities a company can focus on its core business in a better way. So, the efficiency of a company is likely to increase as more time and resources are focused only on the core business functions [12].

Moreover, the table also indicates the major reasons for outsourcing security service are reduce risk (5.00), focus on core business (4.91) and cost savings (4.36). It is possible to respond to risk either actively by allocating appropriate actions, or passively by monitoring the status of the risk [13]. On the other hand, acquire innovative ideas (2.09) are the least important reasons for the outsourcing decision of security service like janitorial service. Generally, focus on core activities and cost reduction is the common reasons to outsource for both functions but improve service level and reduce risks is the unique reasons to outsource for each function separately.

3.2 Reasons for Not Outsourcing

Outsourcing does not always turn out well. According to [14] the most common disadvantages of outsourcing of most functional areas are the cost, response time and confidentiality. In addition, service-level failures, scope disagreements, cost disputes, and personality clashes are the most common problems in relationships with outsourcing partners [15]. Accordingly, the reasons for not outsourcing some of the work activities of the organization are discussed as follows.

As depicted in Table 2 majority of the respondents are rated possible loss of confidentiality (4.73), loss of distinct competences (4.45), loss of control (4.18) and quality problems (4.18) as the very important reason for not outsourcing information technology. On the other hand, having no significant cost savings are less important reasons for not outsourcing information technology. Thus, the issues of possible loss of confidentiality and loss of distinct competences is the major reasons that hinder the possible

Table 1. Reasons for Outsourcing the JS & SS functions

Justification for decision	Janitorial service			Security service		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
Cost saving	4.45	1.214	2	4.36	1.027	3
Focus on core business	4.55	0.820	1	4.91	0.302	2
Improve service level	4.36	0.924	3	2.82	1.168	7
Reduce risk	3.73	1.348	5	5.00	0.000	1
Control of budget	2.64	1.286	9	2.55	1.128	8
Lack of internal expertise	3.36	1.502	6	3.09	1.044	6
Increase flexibility	3.00	1.549	7	4.18	0.405	4
Acquire innovative ideas	2.91	1.578	8	2.09	1.136	9
Free up resources and assets	4.00	1.342	4	3.55	0.934	5

Table 2. Reasons for not outsourcing the following two functions

Justification for decision	Information technology			Procurement & supply Mgt		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
No significant cost savings	3.64	1.502	5	4.55	0.820	1
Possible loss of confidentiality	4.73	0.647	1	2.91	1.758	6
Loss of distinct competences	4.45	1.036	2	2.55	1.695	8
Loss of control	4.18	1.250	3	4.27	1.272	2
Quality problems	4.18	1.250	3	4.00	1.414	3
Lack of company knowledge	3.91	1.375	4	3.55	1.753	4
No loyalty to company	3.36	1.502	6	4.00	1.414	3
Slow response time	3.09	1.446	7	3.09	1.921	5
Organization policy/tradition	2.55	1.572	8	2.64	1.629	7

Table 3. Reasons for not outsourcing the following two functions

Justification for decision	Accounting			Human resource Mgt		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
No significant cost savings	4.09	1.578	3	3.82	1.722	3
Possible loss of confidentiality	4.91	0.302	1	3.64	1.690	4
Loss of distinct competences	3.82	1.722	4	2.82	1.601	7
Loss of control	3.45	1.864	5	2.09	1.514	8
Quality problems	4.55	1.036	2	4.27	1.272	2
Lack of company knowledge	2.45	1.695	8	3.27	1.794	5
No loyalty to company	2.82	1.834	7	3.09	1.700	6
Slow response time	3.09	1.868	6	2.09	1.300	8
Organization policy/tradition	2.18	1.471	9	4.55	1.036	1

popularity of information technology outsourcing in this organization. As per the unstructured interview with human resource manager and general manager the reason behind this decision is that, since the service providers are working in many organizations, they may give confidential information of the origination to its competitor. This is similar to the view of [16], loss of data confidentiality or Security considerations in general are widely recognized as important factors impeding wider adoption of IS/IT outsourcing. In addition, the table also summarizes the importance of the reasons for not outsourcing procurement and supplies management. As a result, no significant cost savings (4.55), loss of control (4.27), and quality problems(4.00) are rated as very important reasons for not outsourcing.

A simple look at Table 3 confirms that majority of the respondents are agree with the importance of the reasons for not outsourcing accounting service is possible loss of confidentiality (4.91), quality problems (4.55) and no significant cost savings (4.09) respectively. As per the unstructured interview with human resource manager and general manager the reason behind this decision is similar with that of information technology, since the service

providers are working in many organizations, they may expose the financial statements of the origination to its competitors. The accounting is among the most commonly outsourced, though it is usually limited to only a few tasks within the function [14]. On the other hand, respondents considered organization policy/tradition, lack of company knowledge, no loyalty to company as less important reason for not outsourcing accounting service. More over the table depicts the most important reasons for not outsourcing human resource management. As a result, organization policy/tradition(4.55), quality problem(4.27) and No significant cost savings (3.82) is rated as very important reasons for not outsourcing human resource management. According to [8], changing a business support activity, like security, to an external vendor effects little organizational change. In contrast, transferring the majority of a firm’s human resource staff to another company certainly changes the traditional structure of a firm and may affect employee expectations and attitudes.

According to Table 4, organization policy/tradition (4.73), quality problems (4.36) and no loyalty to company (3.91) are the top three reasons for not outsourcing administration function. On the other hand, slow response time and loss of control are

considered as unimportant reason for their decision. Similarly, no significant cost savings is considered as less important for their decision of not outsourcing administration function. Organization policy/tradition takes higher importance for the decision of not outsourcing human resource and administration function than its importance in the decision of not outsourcing the other business functions. Furthermore, the table shows the three very important reasons for not outsourcing sales and marketing function quality problems (5.00), no significant cost savings (4.91), no loyalty to company (4.73). On the other hand, organization policy/tradition is considered as unimportant reason for their decision.

3.3 Benefits and Problems before Outsourcing the Security and Janitorial Service

Analysis of the open ended questions indicate the security service was not delivering the desired benefits to the organization rather it had many problems such as; less commitment of guards, the guards were not loyal to the company and the decision makers of the organization were over burdened with the day to day transactional activities of none core nature. In addition, there was high number of thefts. The main reason for this problem is the

guards and the employees who were taking the materials had family relation, so the guards were not voluntary to expose those employees to the concerned body. Furthermore, the frequency of losing materials was very high. Similarly, most of the respondents indicated that the janitorial service also had a problem rather than benefit to the organization. The problem identified by the respondents are the following; poor quality of cleaning service, coming late and wasting the working time, high number of absenteeism and the management was over burdened with handling routine cases relating to this specific function. It is possible to say that the organization is forced to outsource these activities in order to alleviate the above-mentioned problems and to give emphasis on core activities of the organization that is production (from spinning up to garment). This is related with the analysis of [17], the decision to outsource is a strategic choice with the potential to cause ripple effects throughout the entire organization. In addition, [5], states that outsourcing is a managerial approach usually taken for delegating the responsibility to an external source for carrying out the operation of production process or services of an enterprise. The following tables indicate some of the benefits the organization gain and the risks the organization faced after outsourcing implemented.

Table 4. Reasons for not outsourcing the following two functions

Justification for decision	Administrative			Sales and marketing		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
No significant cost savings	2.82	1.662	7	4.91	0.302	2
Possible loss of confidentiality	3.45	1.695	5	3.45	1.695	7
Loss of distinct competences	3.09	1.758	6	3.09	1.758	8
Loss of control	2.82	1.662	7	3.73	1.679	6
Quality problems	4.36	1.206	2	5.00	0.000	1
Lack of company knowledge	3.55	1.864	4	4.09	1.446	5
No loyalty to company	3.91	1.700	3	4.73	0.647	3
Slow response time	2.45	1.572	8	4.45	1.036	4
Organization policy/tradition	4.73	0.647	1	2.91	1.578	9

Table 5. The major benefits acquired by the firm after outsourcing

Benefits	Security service			Janitorial service		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
Focus on core activities	4.77	0.784	1	4.88	0.523	1
Cost and efficiency saving	4.65	0.970	2	4.68	0.989	2
Reduce over head	4.27	1.382	5	4.50	1.191	4
Operational control	4.42	1.276	4	4.59	1.088	3
Staffing flexibility	4.08	1.547	6	4.32	1.378	5
Continuity and risk management	4.56	1.069	3	4.21	1.482	6
Develop internal staff	3.97	1.586	7	4.15	1.500	7

Table 6. The major problems faced by the organization after outsourcing the following two functions

Problems	Security service			Janitorial service		
	Mean	Std. Deviation	Rank	Mean	Std. Deviation	Rank
Loss of managerial control	4.80	0.621	1	4.74	0.670	1
Hidden cost	1.50	1.049	5	1.24	0.730	5
Threat to security	1.42	0.994	6	1.19	0.653	6
Threat to confidentiality	1.38	0.967	7	1.13	0.528	7
Quality problem	1.53	1.048	4	1.27	0.760	4
Tied to the financial well being	4.60	1.007	3	4.49	1.042	3
Bad publicity	4.65	0.971	2	4.67	0.859	2

By making a glance at Table 5 one can easily notice that majority of the respondents have rated focus on core activities (4.77), cost and efficiency saving (4.65) and continuity and risk management (4.56) as the major benefits that the organization achieve after outsourcing the security service. Astonishingly, the above two benefits with only the mean difference they are also rated as the benefits of the organization on the janitorial service. These are focus on core activities (4.88) and cost and efficiency saving (4.65). Similarly, operational control (4.59) is benefit of the organization on the janitorial service. From this, it is possible to infer that both service providers (Agar and Efoyta) have been providing the expected services to the organization. Further, administrative burdens of the top decision makers of the organization were reduced. Hence, it has facilitated the way the organization to focus on its core business that production (from spinning to garment). This is similar with the view of [13], by outsourcing the non-core activities, an organization can direct more resources (time, money and managerial attention) to its core activities. Similarly, [3], states that outsourcing may also enable a company to redirect energy to its particular core competencies by making more efficient use of worldwide labor, capital and technology for non-core work.

A simple look at Table 6 confirms that majority of the respondents are agree that loss of managerial control (4.80) bad publicity (4.65) and tied to the financial well-being (4.60) are the problems of security service respectively. Surprisingly, the above three problems with only the mean difference they are also the problems of the organization on the janitorial service. These are loss of managerial control (4.74) bad publicity (4.67) and tied to the financial well-being (4.49). As per the unstructured interview with the general and human resource manager both of them said, these are not that much problems. For

example, loss of managerial control is mandatory when one organization is thought to outsource. Therefore, by outsourcing these two functions we are at good rest and without doubt the benefits are greater than risks in this organization. The open-ended questions also strengthen their ideas because most of the respondents listed the benefit observed in the organization such as the organization properties are protected properly, the guards are well disciplined and responsible, the number and frequency of theft dramatically decreased, the guards are very committed to carry out their responsibilities, there is service in non-working days, the janitorial service is conducted at the proper time without touching the working hours and the quality of service is improved. This similar with the analysis of [18], outsourcing has been promoted as the way for the organization to reduce costs focus on core business process, improve services, enhance skills, reduce time to market and increase overall competitive advantage.

4. CONCLUSION

This study is conduct to identify the major problems the organization faced after implementation of outsourcing and the major advantages the factory gain because of this approach. The managers of the organization have gotten relief on following the routine problems which is related to noncore activities. On the contrary, the factory faces little challenges which can easily avoided, these are Loss of managerial control, Bad publicity and Tied to the financial well-being of other company.

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COMPETING INTERESTS

Author has declared that no competing interests exist.

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