EFFECTS OF OUTSOURCING DECISION ON ORGANISATION PERFORMANCE IN THE MANUFACTURING INDUSTRY CASE OF UNILEVER GROUP LIMITED IN INDIA

Ankurita Bansal[1], Kavita[2]
[1,2]Guru Kashi University, Talwandi Sabo

ABSTRACT

Firms have always sought ways to gain a competitive advantage over their competitors; one avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage and heightened performance to these firms. The study therefore w a s purposed to establish the effect of outsourcing on decision on organizational performance of manufacturing industry using India Unilever Group Limited as a case study. Information technology adoption, cost reduction and top management support and commitment were positively correlated to organization performance The study recommends that the management should take in to account the variables considered since the results shows that there is a significant relationship between the predictor information technology adoption, top management support and commitment, focus on core competencies and cost reduction (taken together) and organization performance in Indian manufacturing firms.

Keywords*: outsourcing, organization performance, decision, manufacturing industry*

I. Introduction

Early researches in outsourcing indicates that outsourcing is not a new phenomenon, for example the company Electronic Data Systems handled the data processing services for other businesses as early as 1963 (Agren and Winther, 2007) . In this early stage of outsourcing, computer service companies were mainly used to run programs within the areas of financial and operational support, for example payroll and administration (McFarlan et al., 1995 cited in Agren and Winther 2007). One of the major turning points in the history of IS outsourcing experience was related to Eastman Kodak; at that time Kodak made the decision to make a total IS outsourcing agreement with three large IS external service providers. According to (Dibbern et al 2004 cited in Dublin and Cranfield, 2006), Kodak‟s one billion outsourcing deals led to the widespread interest in outsourcing.

Globalization has resulted in a more integrated and interdependent world economy, where firms choose to concentrate or disperse value adding activities around the world, according to potential locational advantages (Rundh, 2007, Stonehouse et al, 2005 and Zhao et al, 2006). Outsourcing is, according to Harland et al (2005), „Sourcing activities externally that an organization has internal capability to perform". Firms who achieve success in their international business, are those that perceive the changes in the international environment and who are able to develop strategies that enable them to respond accordingly, (Rundh, 2007).

Forrester 2006 cited in Gonzalez et al., (2009) Estimates that the value of the worlds outsourcing market is 120 billion dollars per year. In addition 87% of the companies interviewed by KPMG plan to maintain or increase their current outsourcing level and 42% of them thought that their outsourcing contracts improved their IS services.

II. Statement of the Problem

According to Leonard & Javaid. (2012) organizational performance has declined from 4.3 percent in 2011, to 3.4 percent in 2012. The organizational performance of Russia slowed in the second half of the year 2011 due to weak net exports, negative base effects, and destocking at the end of the year. More than four years after the global financial crisis hit, the world economy remains sluggish. Industrial production lost momentum throughout last year, exports declining at a moderate pace, and imports even declined for three month during autumn 2012. Growth declined mainly due to weaker performance of investment. According to preliminary estimates at Russia, the capital account deficit amounted to US$40.9 billion or 2 percent of Gross Domestic Product (GDP) in 2012, compared to US$76.2 billion or 4 percent of GDP in 2011. The labour market remains tight. The unemployment rate declined across the country, and vacancy and replacement rates increased.

According to World Bank (WB) (2006) there has been a decline in organizational performance. Statistics indicate there was a decline of organizational performance from 3.1 percent to 2.5 percent. Higher oil prices, domestic capacity constraints, and slower demand for export brought GDP growth down from 6.8 percent in 2004 to estimated 5.9 percent in 2006.In Africa organization performance declined further due to increased terrorism attacks since 2001. Example there was decline in organizational performance of 6 percent in Uganda, 5 percent in Bangladesh and Ghana. (WB, 2006).

Saingilu, (2008) Organization performance decline can be caused by several reasons such as; “taking too much debt, overestimating the potential for sales growth, ignoring the profit depressing effects of an overly aggressive effort to buy market share with deep price cuts, being burdened with heavy fixed costs because weak sales do not permit near-full capacity utilization, failing to come up with innovations, use of poor technology in operations, being too optimistic about the ability to penetrate new markets, making frequent changes in strategy, (because the previous strategy didn’t work out) and being overpowered by more successful rivals,” (Thompson et al, 2007).

Inspite of having various studies undertaken on outsourcing decision on organizational performance in an organization by (Njeri, 2011, Njuguna , 2010, Karani, 2007, Nyarandi, 2001, & Kinyua 2001) there has been little research on the effect of outsourcing decision on organization performance. Thus these research is uniquely positioned to establish the missing link on the effects of outsourcing decision on organization performance on special reference to unilever Group Limited

III. Research objective

The purpose of the study is to establish the effect of outsourcing decision on organizational performance in the manufacturing industry. The specific objectives are:

1. To establish the effect of Information Technology adoption on organizational performance.
2. To establish the effect of cost reduction on organizational performance.
3. To examine the effect of Top Management Support on organizational performance.
4. To determine the effect of increased Focus on Core Competencies/business on organizational performance.

IV. Research Questions

1. 1. What is the effect of Information Technology adoption on organizational performance in manufacturing industry?

2. What is the effect of Reduced Cost on organizational Performance in manufacturing industry?
3. What is the effect of Top Management Support on organizational Performance in manufacturing Industry?
4. What is the effect of increased focus on core competencies/business on organizational performance manufacturing industry?

V. Theoretical review

There is need to identify and explain relevant relationship between facts Verma & Beerd (1981). This means that there is need to build a theoretical structure that can explain facts and the relationship between them.

VI. Resource-Based View Theory

This study employed the Resource-Based View theory as argued by Wernerfelt, (1984). The theory argues that a firm has the ability to achieve and sustain competitive advantage if it possesses resources that are valuable, rare, imperfectly imitable and non-substitutable. Not all resources are strategically relevant within an organization.

The goal of an organization is to ensure it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. If a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. On the contrary, if the strategic value of target activities is low and no internal resources are available to perform such activities, it is beneficial for the company to outsource them. For the sustainable competitive advantages firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities (Langlois 1990). The argument here fits with the need and factors that lead to outsourcing decisions in firms, whether they are cost reduction, new product/services introduction, focus on core competencies or labour flexibility and how they improve organizational performance.

VII. Resource Dependency Theory

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behaviour of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. It was first argued by (Pfeffer & Salancik, 1978). Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy (Deckers, 2000).

The resource-based theory of the organization holds that, in order to generate sustainable competitive advantage, a resource must provide economic value and must be presently scarce, difficult to imitate, non- substitutable and not readily obtainable in factor markets. This theory rests on two keys points. First, that resources are the determinants of organization performance and second, that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs, a competitive advantage has been created (Priem and Butler, 2001).

Organizations depend on multidimensional resources: labour, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must have to function. For example, a burger outlet can't function without bread. An organization may adopt various countervailing strategies it may associate with more suppliers, or integrate vertically or horizontally (Kloptick, 2001).

According to the analysis of the findings, majority (67%) of the respondents indicated that they had on job training while 33% indicated that they had formal training. This implies that on job training is very important in outsourcing decisions on organization performance in manufacturing industry. The benefits of training will be to the company, due to an increase in worker output and productivity, and to the worker, as the increase in output should translate into higher wages and opportunities for career advancement. In general, a company will weigh the costs and returns to training to determine the amount of investment it will incur (Kaufman & Hotchkiss, 2006)

VIII. Information technology adoption

The study found it necessary to determine the influence of information technology adoption on outsourcing decision on organization performance. First it determined the IT procurement system in use in the organization. The findings were as indicated in Figure 7.

The study findings indicate that computer based procurement IT system is the most used in the organization as indicated by majority (62%). Further (25%) indicated manual based IT system with only few indicating that they used both as indicated by (13%). This implies that the organization uses computer system in procurement function which may influence positively the organization performance. IT-based tools have been introduced to support production procurement and supply chain operations. However, procurement activities in the non-production items have long under-estimated on an organizational level as well as with respect to the use of IT. Because of little process standardization and a majority of manual activities, the non-production procurement is often a poorly managed, uncoordinated, and non-valued activity (Croom, 2000; Gebauer & Zagler, 2000). From the analysis of the results, 11(44%) of the respondents indicated the influence to large extent while 8(32%) indicated very large extent. The study also revealed that 3 (12%) and 2(8%) of the respondents indicated moderate and small extent respectively.

The study then evaluated the extent some aspects of information technology applies to outsourcing decision on organization performance in the organization on a Likert scale where 5-strongly agree, 4- agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings were as indicated in Table 3. The study indicated that majority agreed that Adopting modern technology enables Unilever Group Limited overcome todays procurement operating challenges occasioned by use of manual processes as indicated by a mean of 4.32, that ICT in Unilever Group Ltd is intended to speed up the procurement process by productivity improving internal efficiencies hence lowering costs and increasing performance as indicated by a mean of 3.99, Adopting ICT in Unilever group ltd is intended to foster collaborations among various participants within the supply chain with a mean of 4.22, and Adoption of ICT has enabled security of information and transactions with a mean of 4.11. This implies that adoption of ICT influences outsourcing decisions and subsequent organization performance. According to Croom & Gebauer (2000) IT-based tools have been introduced to support production procurement and supply chain operations. However, procurement activities in the non-production items have long under-estimated on an organizational level as well as with respect to the use of IT. Because of little process standardization and a majority of manual activities, the non-production procurement is often a poorly managed, uncoordinated, and non-valued activity.

IX. Conclusion and recommendations

The research analysis showed that focus on core competencies has the strongest positive influence on organization performance. In addition, information technology adaption, cost reduction and top management support & commitment are positively correlated to organization performance. The correlation matrix implies that the independent variables are very crucial determinants of organization performance. The correlation matrix implies that the independent variables: focus on core competencies information technology adaption, cost reduction and top management support and commitment are very crucial determinants of organization performance as shown by their strong and positive relationship with the dependent variable; organization performance. The study recommends that the management should take in to account the variables considered since the results shows that there is a significant relationship between the predictor information technology adaption, top management support and commitment, focus on core competencies and cost reduction (taken together) and organization performance in Indian manufacturing firms.

X. References

Burke, R.J./Ng, E. (2006). The changing nature of work and organizations: Implications for Human Resource Management: In: Human Resource Management Review, Vol. 16, No. 2, pp. 86-94.

Calantone, R. J. and Stanko, M. (2007) Drivers of Outsourced Innovation: An ExploratoryStudy. Journal of Product

Innovation Management 24: 230–241.

Cannon, D. (2009). Keeping Outsourcing in Hand', Chief Executive, November-December:38 Cappelli, P. (1995). 'Rethinking Employment', British Journal of Industrial Relations, 33 (4):563-602.

Cánez, L.E.,Platts, K.W.,Probert, D.R. (2000). Developing a Framework for Make-or-Buy Decisions. In:

International Journal of Operations & Product Management, Vol. 20, Issue 11, pp. 1313-1330.

Chandler, M. (2004). Management Rights and Union Interests, McGraw-Hill, New York. Chiesa, B.Catchpowle, L.Hall, D. (2000). Outsourcing and Off shoring. In: CES info Forum

2/2004, pp. 17-21

Cooper, D.R and Schindler P.S (2000). Business Research Methods.10th edition, McGraw Hill, International Edition.

Cohen, M., March, J. and Olsen, J. (1972) A Garbage Can Model of Organizational Choice. Administrative Science

Quarterly 17: 1–25.

Croom, S. R. (2000). The impact of Web-based procurement on the management of operating resources supply. The Journal of Supply Chain Management 36(1)

Dublin, M., and Cranfield, P., (2006). IT backsourcing: from 'make or buy ' to 'bringing it back in -house. Dekkers, G. G (2000). "The New Corporate Architecture", Academy of Management Executive, 9(3), Dess, G. G., Rasheed, A. McLaughlin, K., and Priem, R. (1995). "The New Corporate Architecture", Academy of

Management Executive, 9(3),

Doz, Y.L. and Baburoglu, O. (2000) From Competition to Collaboration: The Emergence and Evolution of R&D Cooperatives. In: David O Faulkner and Mark de Rond , (Ed.) Cooperative Strategy: Economic, Business and Organisational Issues, Oxford University Press, New York.

Dyer, J. and Singh, H. (1998). The relational view: Cooperative strategy and sources of inter organizational competitive advantage, Academy of Management Review

Elmuti, D. and Kathawala, Y. (2000). "The effects of global outsourcing strategies n participants‟ attitudes and organizational effectiveness", International Journal of Manpower, Vol. 21 No. 2, pp. 112-28.

Embleton and W right (1998), A practical guide to successful outsourcing, Empowerment in Organizations,

Vol. 6 No. 3, pp. 94-106.

Enrique, C., Gonzalez, R., Gasco, J., Llopis, J., (2002) : Information systems outsourcing: reasons, reservations and success factors, Logistics Information Management, Vol. 15

Farag. N. I., and Krishnan, M. S. (2003). The market value of IT outsourcing investment announcements: An event-study analysis. In D. Galletta and J. Ross (Eds.), Proceedings of the 9th Americas Conference on Information Systems: 1623-1629. Atlanta: Association for Information Systems.

Feeny, Lacity and W ilcocks (2005), Taking the Measure of Outsourcing Providers, MIT Sloan Management Review, Spring

Field. N. I., (2005). The market value of Research; 1623-1629. Atlanta: Association for information Systems.

Ford, J.W., Joseph, M. and Joseph, B. (1993). "Service quality in higher education: A comparison of Universities in the US nd NewZealand using SERVQUAL: Unpublished manuscript, Old Dominion Univesity, Norfolk, VA

Gallivan, M. J., & Kim, J. W. (2006). The market's perception of the transactional risks of information technology outsourcing announcements. Outsourcing and its Effects on Firm Performance" Journal of Management, 26(4).

Gary N. Powell (2004). Managing a Diverse Workforce: Learning Activities(Second Ed.)

Gonzalez, R., Gasco, J., Llopis, J., 2009. Information systems outsourcing reasons and risks: An Empirical study, International Journal of Social Science, 4 (3).

Gopal, C. and Gagnon, J. (1995). Knowledge, information, learning and the IS manager. Computer world, vol 29 No. 25,

Harris. P. (2008). "Outsourced Learning: A New Market Emerges", Training and Development, 57(9). 30-38

Harrison, B. and Kelley, M. (2003). 'Outsourcing and the Search for Flexibility', Work, Employment & Society, 7 (2): 213-235.