EFFECTS OF OUTSOURCING ON ORGANIZATIONAL PERFOMANCE AT DELMONTE KENYA LIMITED

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ABSTRACT

Globalization and accelerated competition as well as the ever increasing consumers 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 market place. Out sourcing has been adopted by many organizations with much success. These organizations have reaped many benefits of outsourcing such as access to best in class technologies and reduced costs of operations. However outsourcing may also pose major challenges to an organization like loss of control of the activities outsourced and dependency on suppliers. Available literature points to the role of outsourcing on various sectors but little research is available on the role of outsourcing in agricultural related industries. This research discussed the effects of outsourcing on organizational performance at Delmonte Kenya limited. The objectives of the study were to investigate the activities/services/products outsourced by Delmonte Kenya Limited, to establish the extent to which outsourcing has contributed to focus on core competence at Delmonte Kenya limited ,to determine the link between outsourcing and accessibility to modern technology and expertise at Delmonte Kenya Limited, to investigate whether outsourcing has contributed to costs saving at Delmonte Kenya Limited and to investigate effects of outsourcing on organizational flexibility of Delmonte Kenya Limited. The target population of the study was 250 employees who are in management levels in the company. A sample size of 70 employees was used in the study. Random and systematic sampling was used in selecting the respondents. The data was analyzed using descriptive data analysis through computer based statistical package on social sciences (SPSS). The finding shows that outsourcing has enabled the company to have greater access to Modern technology and expertise. The Company has been able to take advantage of Specialists skills and technologies which is otherwise not available internally and extremely expensive to acquire and own internally .This has enabled the organization to increase its production capacity. The company's image has also been enhanced by being associated with niche service providers such as metro Trans and G4S.Statistically the main findings of the study were that the outsourcing has helped improve the organizations performance through improved focus on core competences (activities) access to confidential information, negative altitude of the internal staff and the risk of 'spill over's of the outsourcing service Providers' problems such as labour strikes on the organization. Based on the above findings the researcher recommends that the organizations should outsource more if not all their noncore activities to the as a major strategy of remaining competitive. There should be a high level of supervision on the part of the company to maintain high level results. Specific management functions should be assigned the management of any outsourced activity as the ultimate responsibility of the outsourced activity remains with the firm. Companies should evaluate the capability and integrities of service providers before engaging them to safeguard against confidential sensitive information getting to competitors.

Keywords: *Outsourcing, Core competency, Performance, Competitive advantage*

Introduction

Outsourcing can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources “Hand field (2006).Sharpe (1997) defines outsourcing as turning over to a supplier, those activities outside the organizations chosen core competencies. In general outsourcing can be described as the transfer of activities that were previously conducted in house to a third party.

In the past decade there has been a move by world corporations towards outsourcing. According to Quinn (2004) the greatest risk today is not to outsource.”Without outsourcing, companies can’t keep up “He continues to say that the most successful companies use outsourcing for innovation .He cites Dell computer and Cisco systems as leaders in their fields who rely on their suppliers to do the development work. Dell for example concentrates “on the few things it does best in the world” and outsource the rest. Dell’s core competency is a responsive customer support system; the company relies on its upstream customers to do everything else.

Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services was expected to increase to $200 billion by the year 2001 (Greer, Youngblood, and Gray 1999). A study conducted by Yankelovih Partners (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 (Goldstein 1999; Bacon 1999).

Delmonte Kenya limited is a very large company involved in a variety of activities including farming, processing and distribution of fruits and vegetables. The company has of late attempted to reduce its management of the numerous activities by outsourcing such services like security, transport and catering.

Outsourcing allows companies to focus on their core competencies while having external experts handle non- core activities. The specialized company that handles the outsourced work is often streamlined and often has world class capabilities and access to new technology that a company could not afford to buy on their own, plus if a company is looking to expand, outsourcing is a cost effective way to start building foundations in other countries.

Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of the operations report significant savings on operational and capital costs (Rimmer-1991, Utley -93). Laurgers et all (2005) found a co-relation between outsourcing best practice and high performing companies. Outsourcing has been a major strategy for a company's growth; it has become a top management and not an operational issue. Successful implementation of outsourcing has been credited to cut costs Bowser (1990), increased capacity; Improve quality Lau and Hurley (1997) and increase productivity Casale (1996), improve organizational competitiveness Lever (1997).

Lau and Hurley (1997) find a significant relationship between outsourcing and profitability margin where they found that Chryslers profit margin is four times as high as that of general motors (GM) due to effective outsourcing through strategic alliances. Increasingly outsourcing has become a top management and not an operating issue. Price water House Coopers (1998)found that outsourcing had moved markedly from performing a single function more efficiently to reconfiguring or re-bundling whole processes in new ways to generate greater shareholder value across the enterprise. As a consequence the decision on whether and how to outsource is steadily moving up to the top levels of management.
However outsourcing is also fraught with various problems. Outsourcing reduces a company's control over how certain services are delivered which in turn may raise the company's liability. Pearce and Robinson (2009) avers that by definition outsourcing places control and coordination of that function to outsiders, this is loss of control can result in many future problems such as delays in delivery, quality, customers complaints and loss competitive sensitive information.

According to Lysons and Farrington (2006) Problems related to outsourcing include ;overdependence on suppliers ,costs escalation, lack of supplier flexibility ,lack of managerial skills to control suppliers and unrealistic expectations of outsourcing providers due to over promising at negotiations stage.

Relly and Tamken (1996) mention that a principle objection to outsourcing is the possible loss of competitive advantage particularly the loss of skills and expertise of staff ,insufficient internal investments and the passing of knowledge and expertise to the suppliers which may be able to seize the initiative for their advantage.

Successful outsourcing requires a strong understanding of the organizations capabilities and future growth. As King William (1994) observes " decisions regarding outsourcing significant functions are among the most strategic that can be made by an organization because they address the basic organizational choice of the functions for which internal expertise is developed and nurtured and those for which such expertise is purchased. These are basic decisions regarding organizational design. Hasty and Reas sighted outsourcing may result in the loss or unintended transfer of critical learning opportunities. Gartner (2003) reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board level executives in Western Europe. He noted that European countries wasted 6 billion Euros due poor deal structures and poorly managed relationships with IT outsourcing companies in 2002. From the foregoing unless carefully planned and mooted a firm may not achieve the many acclaimed benefits.

Statement of the problem

Out sourcing has emerged as a major strategy for organizations remaining competitive in the ever challenging economic global environment and many organizations have adopted it with much success. Many studies have been carried out on various aspects of outsourcing. For example Kotable (1999) focused on outsourcing performance measures. He identifies three types of performance measures as necessary components in any outsourcing measurement system, strategic measure, financial measures and quality measures. Gakii (2010) carried out a study on challenges of implementing outsourcing in East Africa breweries. She found out that the organization needed to develop clear criteria on the choice of service providers. Boya (2010) carried out research on the implementation of the outsourcing strategy in cement manufacturing industry in Kenya. He established that the strategy had assisted in lowering the operation costs of the companies.

Bosire (2010) carried out a survey on impact of outsourcing on lead time and customer service. This survey involved supermarkets in Kenya .The study found a positive correlation between outsourcing and lead time but cited mistakes in implementing the strategy.

Lau and Hurly (1997) find a significant relationship between outsourcing and profitability when they find that Chrysters profit margin is five times as that of general Motors (G.M) due to effective outsourcing strategic alliances. Yan Kelovil (2003) indicated that 2/3 (two thirds) of companies Worldwide already outsource at least one business process to a third party. He notes that outsourcing is now a fact of life in most industries around the world.

However, outsourcing is also fraught with various problems if not properly thought of and managed. According to Lysons and Farriangton (2006) outsourcing among other problems reduces a companies control over how certain services are delivered which in turn raises the company's liability. Many of the studies which have been carried out have covered mainly banking, insurance and retail outlets. Little research is available on contribution of outsourcing on the performance of some specific sectors such as Agricultural food processing industries, such as Delmonte Kenya Limited.

Many companies in the sector are normally engaged in a lot of activities ranging from farming, processing, and welfare of workers among others. This has necessitated them to search for ways of offloading some of these activities for efficiency and competitiveness.

Outsourcing their non core activities has been their major strategy. Delmonte is one of the leading agricultural foods processing industry which has been steadily outsourcing some of its activities such as transport, cleaning and catering. Despite the wide use of the outsourcing policy in the company no empherical study has been carried out to evaluate its effects on the firm's performance.

There is therefore a need to carry out an empherical study of the effects of outsourcing these activities on the firm's performance. This would enhance wide implementation of the strategy or otherwise scale down its use.

Literature Review

Effects of Outsourcing

Most corporations believe that in order to compete globally they have to look at efficiency and costs containment rather than relying strictly on revenue increases Conner and Phrahad (1996). As companies seek their competitive positions in an increasingly global market place, they are discovering they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core business Mullin (1996),Grant-(1996). Outsourcing plays a big role on organizational through;

Improved Focus on Core Competencies

Various scholars had different views on what constitutes core competency. Some refer to core competencies as the basic skills required when competing in an industry. Hamel and Prahald (1996) define core competencies as “the collective skills that create competitive advantage “ in other words a core competency is not a competitive advantage instead it’s the source of competitive advantage. Core competencies must provide a Company with either a real or perceived advantage. For example advertising may be a source of competitive advantage to a firm and thus a core competency

According to Greaver (1999) core competencies are innovative combinations of knowledge special skills, proprietary technologies, information, and unique operating methods Organizations use to produce products or services which customers value and want to buy. According Wario Guyo (2012) the core capabilities of an organization include critical skills of employees, management systems norms and values. Skinner (1969) identified the benefits of concentrating on a small, manageable number of tasks at which the operation becomes excellent. Findings by Maina G.M (2011) in a research aimed at whether linkage to large enterprises promotes SMEs growth indicated that business linkages between SMEs and large enterprises were important because they made it possible for small businesses and their associations to specialize on their core competences while relying on others to undertake tasks for which they had less competence.

By focusing on fewer, manageable core activities organizations could lessen the costs and complexity of their own operations. This provides better customer focus flexing and changing offerings and processes to meet changing customer demands. 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 functions of a company. Companies can therefore concentrate on aspects of business that encircle their business objectives and eventually improve their business function Kakabadse and Kakabadse (2003).

Many companies see outsourcing as a way to hire the best in class companies to perform routine business functions and the focus corporate resources on key activities on their value chain where the impact will be felt the most by the customer. He continues to argue that the strategy of focusing corporate resources mainly on those activities where clear differentiation can be developed and outsourcing much of the rest has also served many other companies well . The key often lies in knowing which of the main value drivers to concentrate on-customer intimacy, product leadership or operational excellence.

Outsourcing also enables an organization to grow without increasing in size “scaling without mass.” Outsourcing offers the opportunity to grow without a corresponding expansion in organizational size or bureaucracy Brian Leavy, (2000). According to Fisher L.M (2001) outsourcing also enables a more customer centric strategy, outsourcing production, while creating in house supply chain management teams for each major customer. Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill in the areas where they want to outsource.

Maina (2009) studied outsourcing service in the mobile phone industry in Kenya and found out that the major reasons for outsourcing were search for local expertise, market knowledge, language issues, cost effectiveness, effective coverage, special expertise and focus on core competence. Outsourcing saves on valuable time. Usually companies that outsource can make faster deliveries to their consumers. The overall result is that their consumer’s needs are satisfied. All clients consider prompt delivery as a positive attribute and this may keep them coming back for repeat services. Related to the above outsourcing heightens consumer satisfaction. This is because outsourcing produces better quality and also improves the nature of one’s business practices. All this goes along to increase the business competitiveness.

Access to modern technology and expertise

As lamming (1993) notes as suppliers may be significantly more advanced, outsourcing to them allows organizations to exploit their more advanced technologies. Successful implementation of outsourcing has been accredited with helping to improve quality, increase capacity and productivity, lower innovation costs and risks Crane (1999). Outsourcing enables an organization to benefit from complimentary assets by partnering with organizations whose resource bases compliment one’s own Mowery (1988).

Greaver (1999) highlighted the potential benefits of improving credibility and image by associating with superior providers. . Byham (1996) informs that companies of all sizes outsource part of their service to effect improvement in efficiency. Outsourcing gives an organization exposure to outsourced specialized systems. Specialization provides more efficiency that allows for quicker turnaround time and higher levels of quality. Outsourcees are bound to certain service levels and quality. Since the people hired to deliver the same have more time to concentrate on it, it means they put more caution in the provision of the service heading to improved qualities.

Outsourcing also helps the organization from being locked up into specific assets and technologies. Outsourcing enables an organization to have means of accessing expertise not otherwise available. Particularly in the information technology era, companies may not have personnel available in house to take on certain projects. According to Bakas (1996) some services requires experts who are scarce. By outsourcing organizations seek

to access companies with latest technological and to increase their competitive edge. Technological knowhow can be achieved by using vendors with more expensive and more specialized processors.
An outsider service would have the required resources for hiring proper training facilities and inspection ability that many not be available if the function were kept in house. In addition if a company is growing rapidly the organization may not have time to recruit the workers needed and may outsource the necessary labour.

Costs saving

Outsourcing reduces costs. According to Lange's et all (2005) reduced costs would come from economies of scale and scope. Scale economies would come from using focused large scale specialists for activities where the outsourcers lack the necessary volume of requirements for current technology. Scope economies would be gained through access to a wide range of service provided by niche specialists. Outsourcing one's business functions can improve one's competitive advantage. Scope economies might also arise through the outsourcer providing complimentary assets Tecce (1986).

Successful implementation of outsourcing strategy has been accredited to cutting cost Bowersox (1990). "Outsourcing can improve organizations 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 financial performance usually, such companies are aware that outsourcing companies may offer them an opportunity to work cheaply through efficient technology and economies of scale.

Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of their in house operations report significant savings on operational costs Rimmer (1991). Laugen et al (2005) found a co relation between outsourcing best practice and high performing companies. Many companies decide to outsource because it cut costs such as labour costs, regulatory and training costs. Foreign countries tend to have workers who will complete the same work as in the United States but for less than half the salary that an American will take. This encourages companies to outsource overseas to find foreign workers who are willing to work for these lower wages.

Outsourcing by reducing costs helps the organization to generate more profit. More profit comes in when vendors are able to purchase products at a less expensive rate and continue to sell them at a reasonable price for consumers. Another way outsourcing saves business money is due to the fact that the business doesn't have to pay payroll tax deductions and other benefits to outsourced workers. If some work can be outsourced it can cut down on this expense, which means that the business can operate more profitably. There is also less need for infrastructure. A company that outsources its works has less need for furniture, IT infrastructure equipments and other expensive machines and vehicles. There is also less need to rent or to own large property.

Empirical literature on outsourcing

The outsourcing institute (2000) reports that outsourcing in the United States has become a standard business practice across small and large companies in about every industry. From 1996 onwards outsourcing has grown at a steady rate. Outsourcing expenditures in 2000 in US were around $340 billion and were expected grow at a rate of 15 percent annually. This trend is not only visible in the US but in Europe and Asia as well where the market for outsourcing is expected to grow to double digits.
In the public sector research has highlighted substantial increases in the U.K. Australia and New Zealand Graham and Scabough (1997). A survey of U.S shows that 42% of semi-conductor companies rely on global outsourcing Forbes (1995).According to another survey conducted by Duncan and Groves-Rowan (1997) more than 65% of banks surveyed indicated that they were already involved in at least one type of outsourcing functions.

According to outsourcing institute (2004)the following physical services are generally outsourced among others; printing and publishing, mail room and shipping, warehouse and distribution, component manufacturing and facilities maintenance. Specialist services outsourced include; public relations and legal affairs, payroll and tax, recruitment and training and advertising and promotion. Transaction services outsourced include; order processing, travel and expenses management, accounts payable and industrial specific cases for example insurance claim. Expected to grow is the fourth party logistics providers (4pl) who manage services of third party logistics providers (3pl) such as transportation and warehousing.

Research Methodology

The research design to used for this study was descriptive research survey method. Descriptive research enabled the development of relationships between variables and the development of generalization of principles and theories that have universal validity. The target population will be the 250 employees who are in management levels in the company and who are likely to be knowledgeable about outsourcing activities in the company.

Findings and Discussion

Effects on focus on core competences /core business

The findings on management focus on core competences in terms of time presents that over 90% of the respondents agree that outsourcing improves management on core competences in terms of time. This means they are able to allocate more time to essential activities and thus the overall efficiency of the organization. By concentrating on only a few tasks the management is able to greatly improve the overall performance of the organization. This is in tandem with teachings by Alexander and Young (2007) who avers that firm’s value is enhanced when management attention is more focused on strategic issues and less on daily operational problems or organizational conflicts.

The findings on innovations on core competencies presents that 70% of the respondents agrees that outsourcing improves innovations on core competences. By concentrating on a few activities the organization has been able to carry out more intensive research on more innovative ways of carrying out those activities. On the effect of outsourcing on freeing resources to core competences the findings presents that 93% of the respondents feel that outsourcing highly contribute to freeing resources to core business of the firm. Outsourcing enables an organization achieve adequacy of the required resources as resources previously used in providing the outsourced services are used to supplement resources used in the core activities of production and production and processing of pineapples .This is tandem with the finding of Brian Leary (2000),when he notes that outsourcing offers the opportunity to grow without a corresponding expansion in organizational size or bureaucracy. The findings show that 83% of the respondents feel that outsourcing has a high effect on improving customers' satisfaction. The external service providers like transporting service providers tend to be more efficient than the complacent internal staff. The organization is also able to offer better quality goods and services which further enhance customer satisfaction.

From the table of the summary of findings on focus on core competencies core business, three of the factors have a mean of above 4 on a Likert scale of 1-5 and a standard deviation of below 1. This means that outsourcing has a significant impact on the organizational focus on the core competence / core business.

Access to modern technology and expertise

On access to modern technology and expertise 67% of the respondents felt that outsourcing has moderate to very high effect on the organization's access to modern technology and expertise. Outsourcing enables a firm source products or services from providers who may at times be way ahead in terms of quality of production processes. This is tandem with Lamming (1993) who notes that as suppliers may be significantly more significantly more advanced; outsourcing to them allows organizations to exploit their advanced technologies. On effects on outsourcing on reducing innovation cost, credibility of being associated with leading companies and increasing production capacity over 70% of the respondents felt that outsourcing has from a very high to moderate effect. Outsourcing reduces innovation costs because it enables an organization to seek from external providers goods and services for which it doesn't have adequate technology to produce instead of trying to develop the technology itself which may be done at a tremendous cost. With the use of modern technology availed by the outsourcing partners and as entities involved are specialized in the activities they undertake the productivity of the company has increased tremendously. Through efficient transport provided by Metro Trans workers are able to arrive at working stations on time and thus no production capacity is wasted.

Cost savings

The findings on the effects of outsourcing on labour cost, capital expenditure cost and final product cost present that above 80% of the respondents felt that outsourcing strongly leads to cost saving in the organizations.

On labour cost the company has been able to save on staff training welfare cost, statutory deductions, no payment on employees on sick leave, maternity and absent employees. On capital expenditure cost, the organization saves expenditure on such assets like fleet of vehicle for ferrying workers provided by Metro Trans Company. The service providers also bring with them their own machines and tools and thus saving Delmonte Kenya limited on such tremendous expenditure. On operating cost, the company by outsourcing such services as catering, transport, cleaning and security the organization has been able to reduce operation costs by avoiding labour related costs and insurance costs. On final product cost the respondents felt that the reduction on labour costs, capital expenditure cost, and the organization is able to produce and sell its products at competitive prices with resultant increase sales and profitability.

Summary

The study was designed to investigate the effects of outsourcing on organizational performance at Delmonte Kenya limited. The objectives of the study was to establish the extent to which outsourcing has contributed to focus on core competencies at Delmonte Kenya limited, to determine the link between outsourcing and accessibility to modern technology and expertise at Delmonte Kenya limited, to investigate whether outsourcing has contributed to cost savings at Delmonte Kenya Limited and to investigate the effect of outsourcing on organizational flexibility of Delmonte Kenya limited. The finding shows that outsourcing has facilitated the organization's performance by helping to improve its focus on its core competencies/business i.e. Production and processing of fresh produce which has led to more innovation in these core activities and more resources have been freed to these activities. The company has also been able to access new and modern technologies such as those offered G4S surveillance services using the latest IT technologies. The organization has also been able to cope with fluctuating demand patterns. Not of least importance is the tremendous cost savings in terms of labour, operational cost and capital expenditures. The organization has also been able to achieve improved customer satisfaction in terms of timely delivery and high quality of services offered.

Conclusions

From the summary of the findings in sections 5.2 outsourcing has positively impacted on Delmonte performance through cost saving, increased access to technology and expertise, core competence business concentration and improved organizational flexibility. Outsourcing also poses various challenges to the organizations such as loss of control of the outsourced services, dependence on suppliers, loss of confidentiality of important information which may land in the hands of competitors, poor quality of certain products such as spare parts and outsourcing service providers company' problems spilling over to the outsourcing company for example cases of staff strikes.

Recommendations

From the study findings Organization should consider outsourcing more if not all their non core business to outside providers as a major strategy of remaining competitive. This is because outsourcing gives company management and staff more time to concentrate on core business to produce quality product to out compete their competitors in the market place and hence a source of competitive advantage .

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