

## **THE IMPACT OF OUTSOURCING ACTIVITIES ON ORGANIZATIONAL PERFORMANCE OF A PRIVATE COMPANY, A CASE STUDY OF BRALIRWA LTD**

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### **Abstract**

The general objective of this research was to find out the impact of outsourcing activities on the organizational performance of private company especially BRALIRWA Ltd with specific objectives of identifying and assessing outsourced activities, assessing the level of organizational performance and establishing impact of outsourcing activities to the organizational performance. This research adopted a descriptive and correlation research design. A sample of 54 respondents was purposively selected from workers of BRALIRWA Ltd. Primary and secondary data were collected using questionnaire and documentary techniques. Data were processed through editing, coding, classification and tabulation. By the means of Statistical Package for the Social Sciences (SPSS)'s software, data were statistically analyzed. The findings revealed that all activities in the sequence of International logistic, distribution (transport), security, manpower, motor-vehicle repairing, cleaning and chicken staff were outsourced at 100%. Here BRALIRWA Ltd outsources activities with intent to reduce costs, access special expertise, and to get enough time to concentrate on its core activities. The study also revealed that BRALIRWA Ltd outsourcing increased employee productivity (90.7%), improved management of resources, and upgraded quality of products (94.4%). The findings also displayed that BRALIRWA Ltd outsourcing increased sales (96.3%), helped to expand into new markets (53.7%), thus boosted profits. Finally the study revealed that outsourcing activities impacted BRALIRWA Ltd performance at a rate of 2.5% ( $r^2 = (0.158)^2 = 0.024964 \approx 2.5\%$ ). This is normal as other factors contribute at the big remaining percentage of 97.5%. This very low correlation revealed a sound need that BRALIRWA Ltd continues to focus on the management of outsourcing activities.

**Keywords:** Outsourcing activities, Organizational Performance, Private Company

## **1. Introduction**

For most of the 20<sup>th</sup> century, a successful firm was defined by its ability to own, manage and directly control all of its assets and processes. In the 1960s, in order to protect profits, companies began to look for ways to broaden their base and take advantage of economies of scale. This resulted in the emergence of diversification as a popular strategy (Lysons, 2000). As competition became more global in the 1970's and 1980's, organizations found that diversification had actually bloated their management structures. Consequently, they had lost their flexibility (Lysons, 2000).

In today's world ever increasing competition, organizations are looking for new ways to gain competitive edge and generate value. Lyons and Farrington (2006) recognize competitive edge as a special requirement that enables an organization to deal with market dynamics and environmental forces better than its competitors. Organizations seek to achieve competitive advantage through outsourcing.

Outsourcing is defined as phenomena in which a company delegates parts of its in-house operations to a third party with the third party gaining full control over that operation (Ono and Stango, 2005). The clients inform their provider what they want,

how they want the work performed and the control of the process is with the third party instead of the parent company.

Several studies on outsourcing (Butler, 1991; Densai, 2012; Handfield, 2012; Thompson, 2012; Hayes, 2012; Baiye, 2012) cited by Achonjo (2014) have all confirmed that outsourcing is a business strategy in which one or more of company's business process is contracted out to an outside service provider with the intention of reducing operation cost and focusing on core competencies of the firm. In today's business environment it is important for most organizations to identify the core business competencies and focus on them for their performance.

Organizational performance refers to cost efficiency, productivity and profitability. According to Chaffey (2008), cost efficiency refers to total revenue or sales compared to the total costs and overhead costs incurred to provide outsource services. Productivity is the amount of output produced with a given amount of inputs (Houseman, 2006). Profitability refers to the efficiency of a company to generate earnings (Houseman, 2006).

The growing interest in outsourcing over the years from Western and Eastern countries to

the African countries and especially in Rwanda, the context of this study is due to the benefits associated with it. According to Al-shalabi, Omat and Runquist (2007), given the diverse nature of business processes a firm has to manage today, it is nearly impossible for the firm to manage all of its processes by solely depending on its own expertise. Even if it is visible, the firm may lose its focus and efficiency. Bathelemy and Adsit (2003) also emphasize that outsourcing some or all of non-core business processes can enable a firm focus on its core activities or activities in which the firm is more competent, rather services that fall outside its expertise. He adds that it will not only improve function effectiveness and flexibility by accessing a support network with highly qualified and specialized workforce but also help firms control their costs and business risk.

Despite that firms can benefit from outsourcing, some Rwandan firms never realize the full benefit of outsourcing and encounter many problems such as failure in maintaining effective and efficiency service delivery. Rwanda is making every effort to develop the services sector, especially the Business Process Outsourcing (BPO) as key for Rwandan economy in promoting exports while creating jobs and boosting profitability.

However, BRALIRWA Ltd knew a gradual decrease of profit in the period of 2012-2014 that is to say 19.027 Billion in 2012, 15.459 Billion in 2013 and of 13.242 Billion in 2014. Such critical financial situation can result from diversified reasons as cash management, inventory management, financial management, sales, marketing, and as outsourcing activities or services. This study focused on the main purpose of finding out the impact of outsourcing services on financial performance of BRALIRWA Ltd.

## **2. Methodology**

This study used a descriptive and correlational research design. The target population was 116 employees of BRALIRWA Ltd working in finance and logistics departments (39 from finance and 77 from logistic). The sample size of 54 employees was determined using Yamane's formula:  $n = \frac{N}{1+N(e)^2}$  with a confidence level of 90% and a margin error of 10%." Those employees were purposively selected. Nominal, ordinal and scale data were collected by means of a four point Likert scale questionnaire and interview.

The questionnaire of this research was constructed in the steps like respondents' profile, outsourcing activities of BRALIRWA Ltd, level of performance of

BRALIRWA Ltd in terms of cost efficiency, productivity and profitability, and perception about relationship between outsourcing activities and organization performance in private company in BRALIRWA Ltd. To ensure validity the instrument was checked. Reliability was tested and a Cronbach's Alpha coefficient of 0.885 was found. The processing of data passed through editing, coding, data entry (classification), and tabulation. By the use of SPSS the primary data was analyzed using both descriptive and correlational statistics. Beside quantitative

analysis a qualitative data analysis was performed to complement prior findings.

### 3. Results and Discussion

The findings of the study were presented and analyzed in details following the three specific objectives of the study. The findings are indicated below:

For the first objective of this study which was to identify and assess respondents' perceptions on activities or services BRALIRWA Ltd outsourced, all respondents agreed that BRALIRWA Ltd has outsourced some of its activities since 1999 and table 1 summarizes results as follows:

**Table 1:** Views on activities outsourced by BRALIRWA Ltd

Items		Frequency	Percent
Strategic management	Yes	3	5.6
	No	51	94.4
	Total	54	100.0
Project management	Yes	3	5.6
	No	51	94.4
	Total	54	100.0
Product development	No	54	100.0
Marketing	No	54	100.0
Sales	No	54	100.0
		Frequency	Percent
Logistic	Yes	54	100.0
	Yes	2	3.7
Human resource	No	52	96.3
	Total	54	100.0
Financial management	No	54	100.0
Accounting management	No	54	100.0
Distribution	Yes	54	100.0
		Frequency	Percent
Security	Yes	54	100.0
Motor vehicle repair	Yes	54	100.0
Man power	Yes	54	100.0
Cleaning	Yes	54	100.0
Kitchen staff	Yes	54	100.0

**Source:** Primary data, 2015

To the question asking if BRALIRWA Ltd outsources their core activities, results from table 1 revealed that BRALIRWA Ltd do not outsource strategic management (94.4%), do not outsource project management (i.e.94.4%), do not outsource product development, marketing and sales (100%). The core activities like strategic management, project management, product development, marketing, and sales are vital areas of any manufacturing company. Outsourcing them should lead to waste of control and lead to business failure (Baveja, Jamil, and Mascarenhas, 1998).

To the question asking if BRALIRWA Ltd outsources their critical but non-core activities, results from table 1 revealed that BRALIRWA Ltd outsources logistics (100%), do not outsource human resources

(i.e.96.3%), do not outsource finance management and accounting management (100.0%) but outsources distribution (100.0%). Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management (Brigham and Daves, 2004).

The study went on asking if BRALIRWA Ltd outsources non-core non critical activities, results from table 1 show that BRALIRWA Ltd outsources security, motor vehicle repair, manpower, cleaning and kitchen staff (100.0%). These findings requested inquiry on for which reasons BRALIRWA Ltd outsources those activities, and table 2 presents results as follows:

**Table 2:** Views on which reasons BRALIRWA Ltd outsources some of its activities

		Frequency	Percent
Cost reduction	Yes	54	100.0
Specialization	Yes	54	100.0
	Yes	31	57.4
Innovation	No	23	42.6
Total		54	100.0

**Source:** Primary data, 2015

Results from table 2 showed that in most cases, BRALIRWA Ltd outsources for cost reduction (100.0%). This finding is in agreement with the statement that “in most

cases the objective of outsourcing is a targeted 20% cost reduction, with actual savings coming from direct labor and variable costs (Elliot, 2006, p.22)”.

Table 2 shows that BRALIRWA Ltd outsources for specialization. This is in accord with the findings of Lyons and Gillingham (2003), saying that “outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise. Again the results from table 2 revealed that in most cases, BRALIRWA Ltd outsources for innovation as innovation was found to be an

opportunity to have access to capabilities of suppliers into the products and services of the customer organization rather than attempt to replicate the capabilities of a supply network (Lyons and Gillingham, 2003).

The second objective was to assess respondents’ perceptions on the level of performance of BRALIRWA Ltd. The results are presented in table 3 as follows:

**Table 3: Opinions on level of performance of BRALIRWA Ltd**

		Frequency	Percent
Outsourcing led to cost reduction	Yes	54	100.0
	No		
Outsourcing enabled to hire people cheaply	Yes	47	87.0
	No	7	13.0
	Total	54	100.0
Outsourcing enabled to economize on Production cost	Yes	50	92.6
	No	4	7.4
	Total	54	100.0
Outsourcing enabled to be more efficiency	Yes	49	90.7
	No	5	9.3
	Total	54	100.0
Outsourcing led to increased employee Productivity	Yes	49	90.7
	No	5	9.3
	Total	54	100.0
Outsourcing led to access skilled personnel	Yes	43	79.6
	No	11	20.4
	Total	54	100.0
Outsourcing led to improve management of resources	Yes	51	94.4
	No	3	5.6
	Total	54	100.0

Outsourcing led to reduce number of employees			
	Yes	51	94.4
	No	3	5.6
	Total	54	100.0
Outsourcing helped to concentrate on core competences			
	Yes	48	88.9
	No	6	11.1
	Total	54	100.0
Outsourcing helped to promote growth			
	Yes	45	83.3
	No	9	16.7
	Total	54	100.0
Outsourcing helped to improve services delivery			
	Yes	49	90.7
	No	5	9.3
	Total	54	100.0
Outsourcing helped to improve quality of products			
	Yes	51	94.4
	No	3	5.6
	Total	54	100.0
Outsourcing helped to increase profits			
	Yes	52	96.3
	No	2	3.7
	Total	54	100.0
Outsourcing helped to expand into other markets			
	Yes	29	53.7
	No	25	46.3
	Total	54	100.0
Outsourcing helped to become more Competitive			
	Yes	43	79.6
	No	11	20.4
	Total	54	100.0

**Source:** Primary data, 2015

Table 3 shows that all respondents (100.0%) accepted the statement that outsourcing in BRALIRWA has led to cost reduction, has enabled organization to hire people to do its work more cheaply (87.0%), has enabled to economize on production cost (92.6%), has helped organization to be more efficient

(90.7%), and has led to increased employee productivity (90.7%) These findings agree with Schoeman's (2007) argument that outsourcing can help organizations to expand their total production capacity without heavy investments and develop and/or launch a new product without heavy investments or risks it

can also help them stay on the market with competitive prices, despite high price-pressure and without incurring heavy losses. Again results from table 3 revealed that outsourcing in BRALIRWA Ltd led to access skilled personnel (79.6%). These findings are in tandem with Brown and Wilson (2012) explaining that outsourcing gives organizations capability to access skilled personnel enabling to implement changes that would be hard to implement internally. Outsourcing led BRALIRWA Ltd to improve management of resources (94.4%) which is achieved due to the organization's ability to dedicate more time and resources to recruitment and training of employees (Nakanjako, 2012). Outsourcing led BRALIRWA Ltd to reducing number of employees (94.4%) which agrees with Elmuti's (2003) stating that outsourcing leads to cost saving due to decreased number of employees and often help curb inflexibilities associated with recreation leave, absenteeism and career development. Similarly, outsourcing helped BRALIRWA Ltd to concentrate on core competences (88.9%). Gulzhanat (2012) stated that the most significant advantages of outsourcing are focus on core activities, cost savings, access

to experience, improving performance, and flexibility.

Outsourcing has helped BRALIRWA Ltd to grow (83.3%) coping with the idea of Hill and Jones (2012) cited by Kiptum (2014) that outsourcing gives companies the opportunity to expand. This is particularly true since it enables companies to concentrate on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. This eventually improves their business sizes (King, 2002). Outsourcing helped BRALIRWA Ltd to improve services delivery (90.7%). These findings agree with Jansen and Stone (2004) explaining that by outsourcing an organization get specialized services which in turn improve organizational service delivery. Outsourcing helped BRALIRWA Ltd to improve quality of products (94.4%) (Gulzhanat, 2012). Outsourcing helped BRALIRWA Ltd to increase its profits (96.3%). This is in accord with the principle of profit maximization by cost minimization (Gulzhanat, 2012).

Outsourcing helped BRALIRWA Ltd to expand into other markets (53.7%). This is consistent with the idea stating that some

companies view outsourcing as a fast track system for penetrating new regions rather than a trend for the future (McCracken, 2002).

Outsourcing helped BRALIRWA Ltd to become more competitive (79.6%) (Gulzhanat, 2012).

The third objective was to analyze the impact of outsourced activities on BRALIRWA Ltd performance by concentrating on analyzing effect of outsourcing activities to the cost efficiency, productivity, profitability and to the general organizational performance.

For Outsourcing activities, the study transformed responses of core activities, critical but non-core activities and non-core,

noncritical activities questions which formed variable called “outsourcing activities”. For cost efficiency, productivity and profitability the study took the responses of cost efficiency questions, productivity questions and profitability questions put them together and formed variable called simply cost efficiency, productivity and profitability respectively. Finally for organizational performance, the study transformed variable of cost efficiency, productivity and profitability and formed variable called organizational performance.

Table 4 presents results as follows:

**Table 4:** Relationship between outsourced activities-Organizational Performances

Section I			
		Outsourced activities	Cost efficiency
Outsourced activities	Pearson Correlation	1	.068
	Sig. (2-tailed)		.627
	N	54	54
Cost efficiency	Pearson Correlation	.068	1
	Sig. (2-tailed)	.627	
	N	54	54
Section II			
		Outsourced activities	Productivity
Outsourced activities	Pearson Correlation	1	.060
	Sig. (2-tailed)		.667
	N	54	54
Productivity	Pearson Correlation	.060	1
	Sig. (2-tailed)	.667	
	N	54	54
Section III			
		Outsourced activities	Profitability

Outsourced activities	Pearson Correlation	1	.176
	Sig. (2-tailed)		.202
	N	54	54
Profitability	Pearson Correlation	.176	1
	Sig. (2-tailed)	.202	
	N	54	54
Section IV			
		Outsourced activities	Organizational performance
Outsourced activities	Pearson Correlation	1	.158
	Sig. (2-tailed)		.252
	N	54	54
Organizational performance	Pearson Correlation	.158	1
	Sig. (2-tailed)	.252	
	N	54	54

\*. Correlation is significant at the 0.05 level (2-tailed).

Legend:

- [-1.0 - .00[ : Negative correlation
- [.00 - .25[ : Positive and very low correlation
- [.25 - .50[ : Positive and low correlation
- [.50 – .75[ : Positive and high correlation
- [.75 – 1.0] : Positive and very high correlation

Table 4. Section I shows that the correlation of outsourced activities on BRALIRWA Ltd's cost efficiency is .068 (i.e. 6.8%). It is situated in the interval of [.00 - .25[which is qualified as positive and very low correlation. This means that changes in outsourcing do not strongly cause changes in cost efficiency. Besides a p-value of .627indicates that there is no significant relationship between outsource activities and cost efficiency.

Table 4 Section II shows that the correlation of outsourced activities on BRALIRWA Ltd's productivity is .060 (i.e. 6.0%). It is situated in the interval of [.00 - .25[which is qualified as positive and very low correlation. This means that productivity of BRALIRWA Ltd does not greatly depend on outsourced activities It is also shown by a p-value of .667 emphasizing that there is no significant relationship between outsourced activities and productivity.

Table 4 Section III shows that the correlation of outsourced activities on BRALIRWA Ltd's profitability is.176 (i.e. 17.6%). It is situated in the interval of [.00 - .25[which is interpreted as positive and very low correlation. This means that outsourcing activities does not strongly impact

profitability. A p-value of .202 means that there is no significant relationship between outsourced activities and profitability of BRALIRWA Ltd.

Table 4 Section IV shows that the correlation of outsourced activities on BRALIRWA Ltd's performance is .158 (i.e. 15.8%). It is situated in the interval of [.00 - .25] which is qualified as positive and very low correlation. This is not abnormal. It means that the organizational performance of BRALIRWA Ltd is due to the contribution of many factors such as outsourcing activities which can explain 2.5% ( $r^2 = (0.158)^2 = 0.024964 \approx 2.5\%$ ) of the variations or changes in the dependent variable. Other factors contribute at the big remaining percentage (97.5%) and this is not strange.

#### 4. Conclusion

The study concludes that:

- ✓ BRALIRWA Ltd outsources non-core activities which are part of logistics, distribution, security, manpower, cleaning, motor vehicles repair and kitchen staff.
- ✓ BRALIRWA Ltd's outsourcing reduces cost, helps to access skilled personnel, allows to concentrate on core competence activities, improves quality of product, enhances quality

services delivery and thus boosts profits of the company.

- ✓ Outsourced activities lowly impact organizational performance of BRALIRWA Ltd.

BRALIRWA should reinforce outsourcing practices of the non-core activities to get great and continuous organizational performance.

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