

# Outsourcing in Cooperatives in Tanzania: Assessing the Contribution of Outsourcing on Organisational Performance

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## Abstract

This study was designed to explore the contribution of outsourcing on organisational performance and why cooperatives are undertaking outsourcing projects. Also; this article examines the relationships between outsourcing strategies and organizational performance. The results show that cooperative organisations were unfamiliar with outsourcing and outsourcing strategies.

The study also found that cooperative organisation undertook outsourced activities in order to reduce cost, improve delivery and reliability of services as well as to make use of resources not available in the organisation. In addition, Cooperatives outsourced services in order to reduce manpower need in the organisation, focus on core organisational competencies as well as making organisational financial resources for profitable core activities.

**Keywords:** Outsourcing, cooperatives and organisational performance

## 1. Introduction

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender 1999). Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn 2000).

The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labour cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999; Bacon 1999). The market for providers of outsourced services of all types is growing rapidly.

Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services was \$200 billion in the year 2001 (Greer, Youngblood, and Gray 1999). A study conducted by Yankelovich Partners 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).

In Tanzania, outsourcing started to immerse in the 1990s and became identified as a method of spinning off unnecessary work in order to focus the organization on its primary goals. Processes and functions identified as not central to the enterprise started to be contracted out to other firms that specialize in providing those products or services, and thus enabling the contracting organization to concentrate its resources on the core business. In Tanzania cleanliness, security services, advertisement, information technology systems, transportation and catering services are examples of functions that are increasing procured through contracting with outside service providers.

## 2.0 Research objectives

### 2.1 General objective

The general objective of the study was to assess the contribution of outsourcing on organisational performance

### 2.2 Specific objectives

The study pursued the following specific objectives:-

- (i) To explore the extent to which cooperative leaders are familiar with outsourcing and outsourcing strategies
- (ii) To investigate the reasons for undertaking outsourcing in cooperatives
- (iii) To find out whether outsourcing achieve its objectives of improving organisational performance in cooperatives

This research paper tackled the problems by addressing the following questions:

- (i) To what extent do cooperative leaders are familiar with outsourcing and outsourcing strategies?
  - (ii) Why do cooperative organisations undertake outsourcing?
  - (iii) Do outsourcings achieve its objectives of improving organisational performance in cooperatives?
- approach to connect and make use of existing technologies with human interfaces (McFarlane 1995). HMS

### **3.0 Methodology**

#### **3.1 Sampling procedures**

*Population of the study comprised selected seven (7) honey processing cooperatives, fifty (50) SACCOS and forty three (43) AMCOS in Singida Region.*

#### **3.1 Sample size**

The study sample size comprised of 6 honey processing cooperatives, 45 SACCOS and 40 AMCOS totaling 91 cooperative societies that returned dully filled questionnaires.

#### **3.2 Sampling Techniques**

The study adopted stratified sampling to select study respondents.

#### **3.3 Stratified sampling**

A list of operating types of cooperatives organisations available in Singida Region was obtained from Regional cooperative office. Researcher identified three types of cooperatives in Singida according to their core functions that were honey processing, savings and credit and agricultural marketing cooperatives. A simple random sampling was then applied to these sub-groups of cooperatives to obtain a total of 7 honey processing cooperatives, 50 SACCOS and 43 AMCOS making a sample of 100 cooperatives societies though only 91 cooperatives societies returned dully filled questionnaires.

#### **3.4 Data collection procedures**

In this study, data collection method was done through questionnaires that were administered to cooperatives managers or executive secretary. Primary data were employed for the empirical analyses. The primary data were collected through survey questionnaire administered to Cooperative managers/executive secretary.

#### **3.5 Questionnaires**

The four-page questionnaire was divided into two parts. The first part consisted of items dealing with outsourcing familiarity, reasons for implementing outsourcing strategy, duration of an existing program, the extent of interest in establishing a new program, improvement of an ongoing program or discontinuation of the present outsourcing strategy.

The second part consisted Likert's scale to measure organisational performance. We used Likert's Profile of Organization Characteristics because, unlike other potential measures, it allowed additions to be made to the questionnaire in order to assess overall performance with specific new programs or initiative (Likert 1973).

The Likert instrument has been shown to have acceptable levels of reliability and validity across a variety of settings. It is based on a scale of 1 - 5 (a Likert 5 type rating scale), with 5 as the most effective level and 1 as the least effective level. A reliability test was conducted for indices of organizational performance to enhance their credibility. The coefficient alpha for this study was above 0.73. Most researchers consider an alpha at .70 to be an acceptable criterion for adequate scale reliability. In addition to the scales described above, basic demographic questions including gender, age, job status, industry type, size of the firms by number of employees, and annual sales/loans were included in the survey. Several variables were identified as being significant for the purpose of this study. First, there were the elements used to measure the independent variables – outsourcing strategy with measures (derived from Casale 1996; Lever 1997; and Duncan and Groves-Rowan 1997) that included outsourcing dimensions such as types of activities or functions outsourced. The second variable focused on the elements used to measure the dependent variable—organizational performance— that included productivity (cost savings, efficiency, cycle time), quality (customer service and percentage of defects), satisfaction and market performance (market share, return on investment, return on sales). These measures of performance were used by several authors (Kotabe, Murray and Javalagi 1998; Goldstein 1999; Likert 1973; Gupta and Zheuder 1994).

#### **3.6 Data Analysis and Presentation**

Qualitative and quantitative data were collected. Both types of data were analysed by means of Statistical Package for Social Science Software (SPSS). Qualitative data were analysed descriptively to give clear interpretation and they were analysed and presented in forms of tables.

#### **3.7 Limitation of the Study**

This exploratory empirical investigation into outsourcing provides tentative avenues for increasing the probability of success of outsourcing projects in cooperatives and raises many issues for further study of the outsourcing phenomenon in cooperatives. This study is limited by its small sample across three types of cooperative organisations. In addition, a survey methodology was also used, which is susceptible to both misinterpretation and common method variance. Despite these limitations the research contributes to developing

an understanding of outsourcing in cooperatives by identifying areas that need further research.

#### 4.0 RESULTS AND DISCUSSIONS

##### 4.1 FAMILIARITY WITH OUTSOURCING AND OUTSOURCING STRATEGIES

Outsourcing strategy generally refers to determining which production units will serve particular markets and how components/ goods/services will be procured. About 31.9 percent of cooperative organizations surveyed reported that they were familiar with outsourcing and outsourcing strategy while 68.1 percent organisations reported that they were not familiar with either outsourcing or outsourcing strategy. From table 4.1 it is shown that most of cooperative organisations are not aware of outsourcing and strategies to undertake outsourcing.

**Table 4.1: Familiarity with outsourcing and outsourcing strategy**

Familiarity	Frequency	Percentage
Familiar	29	31.9
Unfamiliar	62	68.1
Total	91	100.0

Source: Survey data (2012)

##### 4.2 REASONS FOR UNDERTAKING OUTSOURCING IN COOPERATIVES

The reasons for undertaking outsourcing projects identified by the survey results were to: reduce costs, improve quality, improve delivery and reliability, use resources not available internally, reduce the overall amount of specialized skills and knowledge needed for operations, make capital funds available for more profitable operations, and focus on core competencies of the organisation as outlined in Table 4.2. These findings complement previous studies (Bowersox 1990; Crane 1999; and Quinn 2000) that suggest that outsourcing is undertaken for purposes that have a large impact on the organization's bottom line, although more tangential purposes such as strategy, profitability, and competitive advantage may have been the rationale for the more direct reasons.

**Table 4.2 Reasons for Outsourcing**

Rank	Factor	Number of Respondents
1	Reduce cost	71
2	Improve delivery and reliability	63
3	Use resources not available internally	23
4	Reduce the overall amount of specialised skills and knowledge needed	11
5	Make capital funds available for profitable operations	29
6	Focus on core competencies	32

Source: Survey data (2012)

##### 4.3 TYPES OF ACTIVITIES OUTSOURCES

Outsourcing projects target specific types of activities or functions. Organizations were asked to identify the types of activities that they outsourced or were attempting to outsource. The top activities identified were: information technology (such as software installation, data entry and simple processing), human resource and general training, transportation and warehousing as outlined in table 4.3. These findings are in line with other studies on outsourcing activities (Corbett 1999; Buss 1995; Jones 1997; Bender 1999; Greer, Youngblood, and Gary 1999).

**Table 4.3 Types of activities Outsourced**

Activity	Frequency
Information technology	36
Human resources and general training	40
Transportation	39
Warehousing	43

Source: Survey data (2012)

##### 4.4 PROJECTED AND ATTAINED GOALS OF OUTSOURCING

Outsourcing strategy should have a specific goal or an objective with a measurable outcome. Organizations were asked to identify their most specific goals or projected benefits and to indicate both the projected and the actual percentage of improvement achieved as a result of the outsourcing effect. The survey choices included: performance, cost-savings, productivity, customer service, and quality as the primary goals of outsourcing efforts. The same goals were also suggested by several authors (Jennings 1996; Quinn 1999 and Bender 1999).

Table 4.4 shows the results of the inquiry and also shows the number of respondents who indicated that they

achieved some improvement in attaining the primary goals. Eighty (80) respondents indicated that they achieved 20 percent improvement in performance; seventy eight (78) respondents indicated that they achieved 8 percent in cost savings and sixty one (61) respondents indicated that they attained 16 percent in improvement in productivity.

Fifty seven (57) respondents indicated that they achieved 38percent improvement customer service while seventy nine (79) respondents indicated that they had 38 percent improvement in quality. This suggests that while cooperative organizations were not getting the projected or the promised magnitude of improvements ascribed to outsourcing they are achieving significant improvement in the outsourced activities.

**Table 4.4 Attained goals of outsourcing**

Goal selected	Frequency	Projected % of Improvement	Achieved % of Improvement
Performance	8	20-22 %	20%
Cost saving	78	5-10%	8%
Productivity	61	15-20%	16%
Customer services	57	20-25%	23%
Quality	79	35-40%	38%

Source: Survey data (2012)

#### **4.5 RELATIONSHIPS BETWEEN OUTSOURCING STRATEGY AND OVERALL PERFORMANCE**

Further evaluation of the relationships between outsourcing strategies and organizational performance, was accomplished by using multiple regression analysis to evaluate the dependence of measures of organizational performance on outsourcing strategy dimensions. The analysis determined the proportion of variance in organizational performance scores explained by outsourcing program scores. Multiple regression analysis was also used in this study to determine the strength of the dependency relationship between the outsourcing programs and organizational performance. Two major variables were identified as being significant for the purpose of this study: first, the elements used to measure the independent variables and the mean scores of all outsourcing dimensions such as functions and outsourced activities, and second the elements used to measure the dependent variable — organization performance — that included productivity, Performance (e.g., performance indicators include profit margins and return on investment,) Costs Savings and Productivity.

**Table 4.5 Dependence of organisational performance on outsourcing strategy**

Dependency Variable	Multiple Regression	Regression Square (R <sup>2</sup> )	F-Ratio
Productivity (1)	0.46	0.40	4.75
Quality (2)	0.42	0.31	5.20
Satisfaction (3)	0.20	0.14	6.40
Performance (4)	0.45	0.39	4.75
Overall Performance (1-4)	0.40	0.32	6.5

Source: Survey data (2012)

The multiple regression values in table 4.5 indicated that 40 percent of the variance in productivity, 31percent of the variance in quality, 14 percent of the variance in satisfaction, and 32 percent of the variance in performance is explained by linear regression on the outsourcing strategy dimensions. The F-ratings indicate, with more than 95 percent confidence, that these linear associations are statistically significant. These findings complement previous studies (Casale 1996; Jennings 1996; Quinn 1999; Lau and Hurley 1997; Steensma, Kevin and Corley 2000) that found a positive relationship between outsourcing activities and performance.

## **5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary of Major findings**

The study found that most of cooperative organisations (68.1%) of cooperative organisations were not familiar with outsourcing and outsourcing strategies.

It was also found that cooperative organisation undertook outsourced activities in order to reduce cost, improve delivery and reliability of services as well as to make use of resources not available in the organisation. In addition, Cooperatives outsourced services in order to reduce manpower need in the organisation, focus on core organisational competencies as well as making organisational financial resources for profitable organisations.

The study also revealed that cooperatives outsourced information and technology activities, manpower and general trainings, transportation and warehousing activities.

The attitudinal results presented in this study provide support for the claims of outsourcing proponents that outsourcing allows companies to enhance expertise, improve service quality, streamline the process, lower costs and reduce the administrative burden and saving time.

## 5.2 CONCLUSIONS

The study concludes that Outsourcing is beneficial to organizational performance (Casale 1996; Crane 1999; Quinn 2000). However, while cooperative organisations achieved significant improvement in organizational performance by outsourcing, they have not reached the magnitude of improvements ascribed to outsourcing strategies

## 5.3 RECOMMENDATIONS

Emphasis on the contribution of outsourcing on organisational performance needs to be clearly stipulated. Emphasis should be put on employing appropriate outsourcing strategies in order enhance organisational performance. This is because in this study it has been observed outsourcing can impact organisational performance. The lack of knowledge in outsourcing and outsourcing strategies is the persistent problem facing cooperatives which is yet to be addressed by the government. On the other hand, cooperative managers must ensure that they make use of benefits ascribed to outsourcing.

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