

FACTORS AFFECTING THE FIRM DECISION TO GO FOR OUTSOURCING

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Abstract

Circular Economy makes an effort to overcome “take-make-waste” pattern of production and proposes a system in which value of products, services and resources is maintained in the system. It helps organizations to synergize their value systems for economic, social and environmental gains. Closed Loop Supply Chains (CLSC) can serve as a mean towards creating value in circular economy. Eminent scholars have contributed to the literature of CLSC focusing on key business decisions like product remanufacturing, inventory and demand management etc. Through a SLR, this paper aims to highlight the importance of different business and quantitative models that have been developed and have informed firms’ decision making in CE and CLSC. Our analyses suggest that conceptual models have been developed in much extent in CE and now there is a need to yield results by deploying these models through CLSC.

Keywords: *Strategic Human Resource, Employee perception of HR practices, Theoretical perspective*

Introduction

The study explores strategic outsourcing decisions and their impact on an organization's operations strategy, both in manufacturing and service sectors. A critical aspect of these decisions is the precise definition of the scope of operations being considered for outsourcing. Increasingly, businesses of all sizes are turning to outsourcing, which involves delegating a segment of an organization's functions or processes to another entity. The primary motivation for outsourcing is often cost savings, along with the ability to focus the core team's efforts on essential tasks.

In Lahore, numerous manufacturing companies are evaluating outsourcing as a means to reduce costs, surmount internal constraints, and achieve operational efficiencies. This research aims to identify and analyze the factors influencing outsourcing decisions in the Lahore plastic molding manufacturing sector. It seeks to understand how these factors affect the industry's propensity to outsource certain business functions to external service providers, as well as how they help companies overcome internal limitations. Outsourcing becomes a vital strategy for businesses in their growth phase, particularly when the existing setup is inadequate for handling all operations and the hiring of permanent staff or extensive equipment installation is not feasible. However, it's a critical organizational function, impacting operational activities directly. In Lahore's plastic molding industry, challenges like delayed deliveries, inadequate cleaning, and high transportation costs have been addressed by engaging more qualified and reliable service providers. Despite these efforts, outsourcing's contribution to organizational performance remains modest. This study aims to investigate the factors influencing a firm's decision to outsource.

The research will delve into the fundamental reasons companies choose to outsource, examining its effects on organizational performance and the benefits it can bring. It will explore which activities are typically outsourced and which are not, the advantages of outsourcing for an organization, and the challenges encountered in its implementation (H Sarvaret al 2023)

This study will provide valuable insights for business managers in the plastic molding manufacturing industry, helping to reduce losses by lowering costs. It will also guide organizations in determining when to

outsource, understanding outsourcing benefits, and developing strategies for gaining competitive advantages. For the management of the plastic molding manufacturing industry, this research could be instrumental in enhancing shareholder value.

Literature Review:

The current study examines the array of issues and factors discussed in existing literature on outsourcing, identifying potential gaps. Robert Collins and Carlos Cardon (IMD, Switzerland) in their work "Survey Methodology Issues in Manufacturing Strategy and Practice Research" highlight practical challenges in designing and managing survey tools for large-scale research in manufacturing strategy and practice. They contrast two studies – one on manufacturing strategies in Western Europe and another on manufacturing practice and performance in Switzerland to illuminate issues such as sector selection, respondent preparation, data input quality assurance, bias reduction, and paired data collection. Sabiti (2004) cautions in "When Outsourcing Comes with High Risk of Exposure" that while outsourcing primarily aims to cut costs, it can introduce significant risks if not thoroughly evaluated. He emphasizes that organizations should consider the broader outcomes of outsourcing beyond immediate cost reductions.

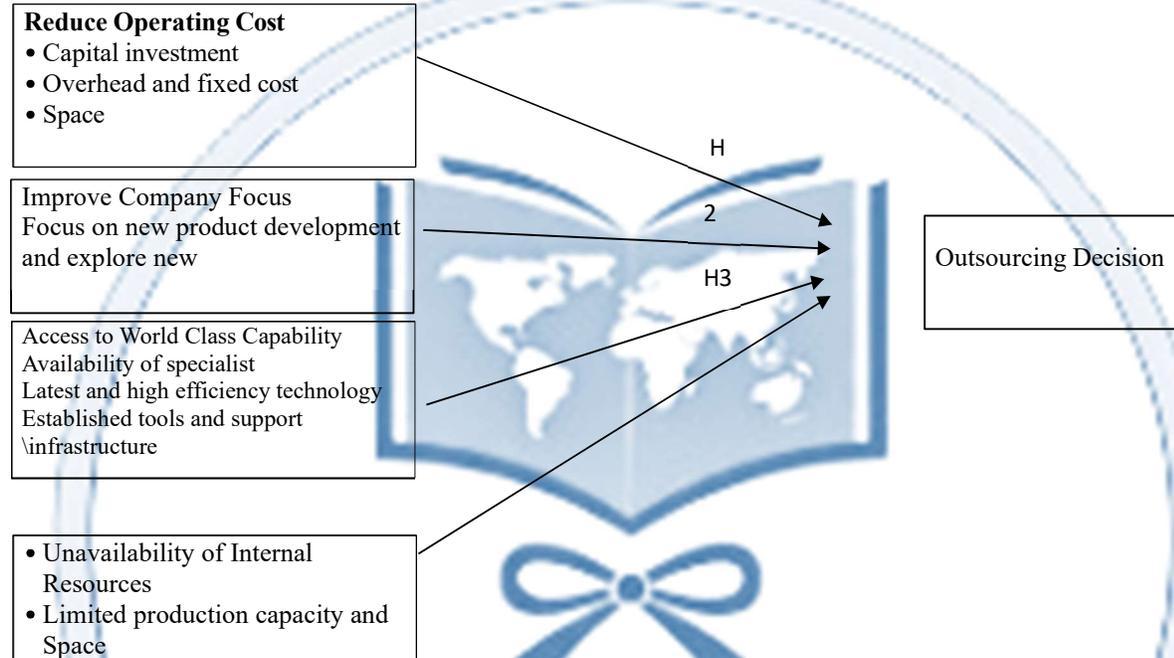
Lysons and Gillingham (2003) define outsourcing in "Purchasing and Supply Chain Management" as a strategic use of external resources for activities traditionally handled internally. They argue that outsourcing allows organizations to focus on their core competencies. Axelsson and Wynstra (2000) describe outsourcing as a decision-making and transfer process wherein functions previously performed in-house are procured from external suppliers. This approach often leads to specialization, benefiting organizations. Ravi Kumar Jain and Ramachandran Natarajan, in their study on banking sector outsourcing in India, found that quality factors like process and service improvement, and cost transparency, are valued over mere cost savings. Baily (1998) in "Purchasing Principles and Management" observes the increasing trend of companies hiring external services for various functions, leading to improved organizational performance and competitive advantage.

Researchers like Bender (1999), Quinn (2000), and others document the widespread use of outsourcing across business sectors, focusing on motivations and global imperatives driving this trend. Peter Jeans (2008) and Garry Petty highlight the importance of organizational support in successful outsourcing implementation. Greer, Youngblood, and Gray (1999), along with others, discuss the role of HR outsourcing in reducing costs and enabling HR professionals to focus on more strategic roles. McClintock (2002) and Kim (2003) define contract manufacturing as a business model where a firm outsources its manufacturing processes. Baatz (1999) and subsequent studies reveal the increasing trend of contract manufacturing in various industries, highlighting its resilience and growth. These perspectives collectively provide a comprehensive view of outsourcing as a multifaceted strategy, emphasizing the need for careful consideration of its various implications and the importance of strategic alignment and organizational support.

The literature review identifies key factors that significantly influence outsourcing decisions. These factors are relevant both to offshore and local outsourcers. The primary objective of this study is to conduct research within the Lahore Plastic Molding Manufacturing Industries to verify the accuracy of these factors, as identified by the Outsourcing Institute, in shaping management's outsourcing decisions. The study will assess how effectively various factors, considered as independent variables, influence the decision to outsource, which is the dependent variable in this context. This investigation will concentrate on a subset of the top ten factors identified in the literature review, leaving the rest to serve as a basis for further inquiry in this field. The focal point of this research is the outsourcing decision, treated as the dependent variable.

Four key independent variables that are hypothesized to impact this decision will be scrutinized. These include the reduction of operating costs, enhancement of company focus, access to world-class capabilities, and the lack of available internal resources. The structure of the research is organized as follows:

Theoretical Framework:



The following hypotheses are proposed:

This examines how outsourcing can reduce operating costs in areas such as capital investment, overhead and fixed costs, and space usage. It looks at how outsourcing can reduce capital investments in equipment, buildings, and land, thereby saving costs and allowing for reinvestment in core business areas. It also explores how outsourcing can decrease overhead, such as human resources and utility costs, and free up space for core business activities.

H1a: Outsourcing positively impacts the reduction of capital investment, thus lowering operating costs.

H1b: Outsourcing positively impacts the reduction of overhead and fixed costs, aiding in operating cost reduction.

H1c: Outsourcing positively impacts space reduction, contributing to lower operating costs.

This assesses how outsourcing can enhance a company's focus by reallocating resources towards core functions, like new product development and market exploration.

H2a: Outsourcing enhances focus on new product development and market exploration, improving company focus.

This evaluates how outsourcing grants access to suppliers with top-tier expertise, advanced technology, and robust support infrastructures.

H3a: Outsourcing grants access to world-class expertise through supplier specialization. H3b: Outsourcing provides access to the latest and most efficient technology.

H3c: Outsourcing offers access to established support tools and infrastructure.

This investigates how outsourcing addresses production and space limitations, and the lack of technical expertise and support infrastructure in-house.

H4a: Outsourcing effectively addresses production and space limitations when internal resources are insufficient.

H4b: Outsourcing compensates for the lack of internal technical expertise and support infrastructure. These hypotheses will be tested to ascertain their validity and the extent to which they influence the decision to outsource.

Methodology:

This section provides an overview of the study, detailing the methods utilized for data collection and processing. It outlines the research design, including sampling techniques, sample size, and the approach to data processing. The study is a combination of quantitative and descriptive research designs. These methodologies facilitate self-report data collection sample, enabling a comprehensive and straightforward analysis of respondents' opinions. The sampling techniques used are non-probability and convenience sampling. These survey designs are instrumental in gathering dependable information, particularly in describing the effect of outsourcing on performance within the study area. Data collection encompasses interviews aimed at understanding resources and timing, along with secondary sources like magazines, textbooks, internet sources, and newspapers. Secondary data is cited appropriately and utilized in making inferences relevant to the study. The primary data collected from respondents will be processed using the Statistical Package for Social Sciences.

The focus of this project is on managers within the plastic molding manufacturing sector in Lahore. The objective is to capture their perspectives on outsourcing in the manufacturing industry. A random sampling technique is employed, specifically targeting managers involved in production and manufacturing. This approach ensures a representative collection of data from the relevant demographic. The study features 103 questionnaires completed by individuals related to varying sizes of manufacturing concerns. Data will be gathered through interviews conducted in different plastic molding manufacturing industries and responses to questionnaires. Additionally, secondary data sources, including magazines, textbooks, internet sources, and newspapers, will be used. This secondary information will be properly cited and applied to draw conclusions relevant to the study. The gathered data will undergo a rigorous process of assessment and editing to remove errors. Subsequently, it will be coded and categorized according to the study's requirements to simplify analysis. The analysis will be performed using SPSS. Findings will be interpreted in the context of the research objectives and literature review, providing meaningful insights into the collected data.

Conclusions

From the study presented, it's evident that outsourcing significantly enhances organizational performance. This improvement manifests in various forms: reduced costs, improved access to innovative technology and expertise, heightened focus on core skills, expedited delivery, and increased revenue and profits. Consequently, the impact of outsourcing on organizational performance is substantial in both the short and long term. Many business leaders attribute their success to effective outsourcing strategies. As observed in the previous chapter, outsourcing is particularly pertinent in the Plastic molding manufacturing industry. However, it's important to acknowledge that outsourcing is not without its challenges. It can lead to certain adverse outcomes, and organizations must invest time in developing and implementing clear, effective outsourcing methodologies to fully harness its benefits.

Recommendations

Organizations can gain a competitive edge by outsourcing their non-core activities to external specialists. This approach allows internal staff to focus more effectively on core competencies, enhancing product

quality and market competitiveness. To maximize the benefits of outsourcing, organizations should foster strong partnerships with service providers, developing metrics to evaluate performance. This involves aligning organizational needs with the outsourcing process and recognizing the required skills, knowledge, and abilities for each project. This encourages organizations to pursue leading-edge outsourcing strategies. The range of options for service outsourcing and the variety of providers available necessitate careful assessment of potential partners by organizations. It's important for organizations to look beyond mere cost reduction and not solely focus on the lowest prices or the most prominent providers. Equal consideration should be given to the nature and dynamics of the relationship between the outsourcing organization and its service providers. Organizations should clearly understand whether their chosen provider can adapt effectively to ongoing changes in business and technology, thereby ensuring consistent and reliable service delivery.

Further research

There remains significant scope for additional research in this domain. While the current study focuses on outsourcing and its influence on organizational performance, future investigations could beneficially explore the contribution of procurement professionals in the effective implementation of outsourcing strategies.

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