



**IMPACT OUTSOURCING ON FIRM'S PERFORMANCE: A
STUDY OF TUYIL PHARMACEUTICAL COMPANY, ILORIN
KWARA STATE**

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ABSTRACT

This study examined the impact outsourcing on firm's performance, using Tuyil pharmaceutical company located in Ilorin metropolis as the case study. With the population of 435, sample size of 205 employees was arrived at using Krejcie and Morgan (1970) table of sample size determination. Multiple linear regressions analysis was employed on data collected. Among the findings were that there is significant relationship between the hiring and firm's sustainability with a p-value of .000 and Beta=.540. Also, contracting has significant effect on firm's sustainability with a p-value of .000 and Beta .429. The study concluded that outsourcing measured by hiring, contracting have a significant and positive influence on organizational performance. This implies that outsourcing enables organizations to focus on their core business objective, reduce and control operating costs, improve the firm's focus, help the firm gain access to world-class capabilities and as well as help an organisation in sharing risks, among others. The study recommended that Firm should endeavor to provide more frameworks for selecting outsourcing vendors that will benefit the organizations in the area of need to avoid financial crisis. Organization managers should agree that successful outsourcing requires a shift in their mindset, which means that they should manage their outsourcing vendors and workers in order to improve on efficient product/service quality and as well as product/service delivery and the organization performance, among others.

KEYWORDS: Outsourcing, Hiring, Contracting, Sustainability

Introduction

Most firms are in business for the purpose of profit, although there are many other business objectives. These firms then put measures in place to reduce cost in order to increase profits. A common strategy that is commonly used for purpose which has brought some debate in both academia and professional practice is outsourcing; a common trait of business-to-business firms. Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Outsourcing is a management strategy by which an organization delegates major, non-core business functions to specialized and efficient service providers. Outsourcing is the process whereby firms purchase products and services from other companies than to make the products or perform the services internally (Bearden, Ingram, & Lafarge, 2007). Almost every business organizations chose outsourcing as a tool of competitive advantage.

Outsourcing business operation and processes usually inevitable in instances where a specific firm has no knowledge skills for performing the task within the organization. beside company can be also outsourced in order to minimize workload, attain financial economies, increase ability to focus core competencies and strategic issued, access to technology and specialized expertise, ability to demand measurable and improved services levels, and achieve competitive advantages. Outsourcing is the process finding a partner with which a firm can establish a bilateral relationship and having the partner undertake relationship –specific investments so that the form able to produce goods or services that fit the firm’s particular needs. The term outsourcing can cover many areas, including the outsourcing of manufacturing as well as services.

A firm’s performance opportunities are highly related to its current organizational production activities. It is organization outcome resulting from the combination of firm-specific resources, capabilities and routines. Firm’s performance is also uncertain as environmental conditions such as competition and market dynamics play roles. Outsourcing is a very crucial business strategy in which firm most involves itself in, in other to meet the need to respond to market changes mean that organizations have

always seeking for ways to achieve a competitive edge over their potential competitors, however, with contemporary highly competitive environment in which today's business operate acts as a strong stimulus for organization to outsource. However, a firm needs to consider several factors that may influence its performance through outsourcing in deciding whether or not to outsource.

Some companies consider it more profitable to produce their products and services in house while other sees it more profitable to source from other expert companies. As noted earlier, outsourcing is a strategy that has become very crucial in most firms corporate decisions. As far as corporate strategy is concerned, the final decision may always have a positive or negative impact on the organization's position in the long run. Some firms, after considering, some profit benefit and cost reduction with regard to outsourcing, likely decide to go for it. On the other hand, some hold back due to certain misgiving about the entire outsourcing strategy. They are of the view that the organization's ability to quickly respond to the marketplace will be deeply affected when outsourced. While others say outsourcing is the best way to enhance the performance of a firm, others say in house production is the best option. This has created some academy degree of uncertainty (Asiamah, 2013). Based on these different perspectives, this study intends to examine the important of impact outsourcing of Hiring and contracting as it impact on firm performance with particular focus on Tuyil pharmaceutical company, Ilorin Kwara State.

Objectives of Research

This study investigated the impact outsourcing on firm's performance, using Tuyil pharmaceutical company, located in Ilorin as the case study. The specific objectives of the study were stated as follows;

1. To examine the relationship between hiring and firm's sustainability;
2. To determine the extent to which contracting affects the sustainability of the firm.

Research Questions

The research question that would guide this study are started below;

- What is the relationship between hiring and firm's sustainability?

- How does contracting affect the firm's sustainability?

Research Hypotheses

Based on the research questions, the following hypotheses raised:

Ho₁: There is no significant relationship between the hiring and firm's sustainability

Ho₂: Contracting has no significant effect on firm's sustainability

Scope of the Study

The scope of this study was limited to the impact of outsourcing on firm's performance in Kwara State using Tuyl pharmaceutical company, Ilorin as the case study.

Literature Review

Overview of Outsourcing

With the conceptualization of different authorities such as Corbett (2006); Irefin and olateju (2012); Ganesh (2007); McIvor (2008); Alexsson and Wynstral (2000) about outsourcing, it shows that the scholars have almost the same view about outsourcing.

In the opinion of Corbett (2006), outsourcing is a management strategy by which an organization delegates major, non –core business function to specialized and efficient services providers. Irefin and olateju (2012) said outsourcing is a process of replacement of in–house provided activities by subcontracting it out to external agents. This strategy allows firms to concentrate their capabilities and resources in their respective core business. Ganesh (2007) stated that outsourcing otherwise known as 'sub –servicing' refers to the process of contracting tasks that are usually handled internally by the company itself to a third –party services provider. McIvor in 2008 was also of the opinion that outsourcing can also involve the transfer of both people and physical assets to the supplier.

Eyaa (2006) defined outsourcing as a decision by firms to have an external supplier to take over an activity that would have otherwise been performed in-house by organization employees. Usually organization look for the best service providers to whom to outsource their work, this is gives them a chance to get their work done by experts which means good quality work leading to a good company name.

Hiring

Hiring can be referred to as make or buy decisions on intermediate good to the hiring of temporary labour and to the use of external services. Hiring manager have a significant impact on their organization and play an important part in development the kind of culture that encourage employee loyalty and influences the type of candidate the agency attracts both the hiring manager and the barrier resource consultant should strives to build the organization reputation as an employer of choices

Hiring the wrong person is costly, time consuming and counterproductive in addition to the cost of recruiting and training new employees consider the additional demand on manager and coworkers when some leaves as well as missed opportunity or poor services due to unqualified or inadequate staff

Firm's Sustainability

Pearce and Atkinson (1993) opined that sustainability deals with the growth and development process, which has the aim of a constant consumption per capital over time. In this definition sustainability is compared with the aspect of generating a permanent income.

Hopkins and Mckeown (2002) see sustainability as sustainable development' or related terms really mean and whether they are indeed different. Some people, particularly from economically developed nations, prefer to use the term sustainability' rather than sustainable development; others for sustainable futures; sustainable living or sustainable communities; interestingly the focus of many of these terms is quality of life.

According to Muller (2001), sustainability is a systemic concept, relating to the continuity of economic, social, institutional and environmental aspects of human society. It is intended to be a means of configuring civilization and human activity so that society ,its members and its economies are able to meet their needs and express their greatest potential in the present' while preserving biodiversity and natural ecosystem, and planning and acting for the ability to maintain these ideals in a very long term. Sustainability affects every level of organization, from the local neighborhood to the entire planet.

Theoretical Review

Resource-based View

The resource-based view was proposed by Barney and Hesterly in 1991. The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney & Hesterly, 1991). If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor.

Empirical Review

In 2015, Nding'ori conducted a study on factors affecting outsourcing of customer service of Airtel networks Kenya Limited, using sample size of 78 personnel. The findings showed that despite many benefits of outsourcing, the level of service has gradually dropped and has caused delay in service delivery in meeting customers' needs. It was also revealed that there are no measures to ensure the workforce is competitiveness with no training to get familiar with the outsourced service.

Kiptum (2014) found that contracting out was the most common method used in outsourcing in surveyed parastatals in Kenya. The services most outsourced were security, cleaning and disposal. It was further noted that outsourcing these services resulted in reducing operational costs and improved resource management. The study recommended that parastatals should also adopt other forms of outsourcing other than contracting out.

In research carried out by Akinbola, (2012) on the effects of outsourcing strategies on the organizational performance of fast foods industry in Lagos state. The study found that Nigeria fast food industry has adopted the usage of outsourcing strategies to reduce cost of business operations which is due to many factors that has to do with transferring of certain business process rights to specialized firms to avoid unwanted losses and increase revenue.

Supo, and Wale, (2010) found that organisations that outsource experience reduce average cost, increased sales turnover and profitability, enhance expertise, improve service quality, reduce staff strength, streamline the production process, reduced administrative burden and save time for core activities. It was recommended that companies that outsource should continue to monitor the contractor's activities in order to ensure compliance with best practices. Workers should be made to embrace the strategy before implementation so as to alley the fear of loss of jobs.

Methodology

This study adopted the survey research design and utilized data from primary sources. Primary data were generated through the administration of questionnaire. This study has a population of 435 employees of Tuyil Pharmaceutical Company, Ilorin while a sample of 205 was purposively selected using the Krejcie and Morgan (1970) table of sample size determination, out of which 192 copies of questionnaire were returned and valid for analysis and generalization of the study. The retrieved copies of questionnaire were analyzed using descriptive statistics in the form of frequencies and percentages, while the hypotheses were analysed using Multiple regressions.

Discussion of Findings

Table 1 Distribution table for Demographic Information of Respondents

S/N	Factor	Factor Level	Frequency	Percentage (%)
1.	Gender	Male	97	50.5
		Female	95	49.5
		Total	192	100.00
2.	Age	20-29	61	31.8
		30-39	67	34.9
		40-49	45	23.4
		50-59	19	9.9
		Total	192	100.00
3.	Marital Status	Single	72	37.5

		Married	111	57.8
		Others	9	4.7
		Total	192	100.00
4.	Years in service	5years and Less	51	26.6
		6-10	129	67.2
		11years and above	12	6.3
		Total	192	100.00

Source: Authors' Field Survey, 2023

Table 1 above showed the demographic features of the respondents (employees of Tuyil Pharmaceutical Company) in categories and sections as follows;

The gender section presented that there were 97 male employees in the organization representing 50.5% and 95 female employees representing 49.5% of the selected sample of the study. This means that the study is a representative of both male and female responses. Also, the age section illustrated that employees between the ages of 30-39 gathers the largest population with 34.9% amounting to 67 respondents, ages between 20-29 has 61 respondents with 31.8% rate, 45 respondents were in the category of 40-49 years of age with 23.4% and 9.9% with 19 respondents were between the ages of 50-59. This means that respondents in the age bracket of 30-39 are more in the study. Additionally, the table presented the marital status section with 111 married respondents with 57.8%, also, 72 single respondents amounting 37.5% while the respondents with no specified status are 9 with 4.7%. This by implication means that there are more married respondents captured in this study.

In addition, the length of service section presented that respondents who have spent between 6-10 years are 129 with 67.2%, respondents who have been with the organization between 5years and less have 26.6% with 51 respondents count in the study and respondents who have spent between 11 years and above are 12 with 6.3%. The implication is that there are experienced employees involved in the study.

Test of Hypotheses

Ho₁: There is no significant relationship between the hiring and firm's sustainability

H₀₂: Contracting has no significant effect on firm’s sustainability

Table 2a Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787 ^a	.538	.525	.89611
➤ Predictors: (Constant), Hiring, Contracting ➤ Dependent Variable: Sustainability				

Source: Author Fieldwork Computation, 2023.

The result of the regression as contained in Table 2a: Model summary, shows that the R Square gave a value of 53.8% percent, this means that the model (Hiring, Contracting) explained about 53.8% percent of the variance in perceived sustainability.

Table 2b ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.025	2	30.013	3.229	.003 ^b
	Residual	1766.160	190	9.296		
	Total	1826.185	192			
a. Dependent Variable: Sustainability						
➤ Predictors: (Constant), Hiring, Contracting						
Source: Author Fieldwork Computation, 2023.						

Also, Table 2b: ANOVA, shows that there is variation in the dependent variable with large value of regression sum of squares (60.025) in comparison to the residual sum of squares with value of 1766.160 (this value indicated that the model does not fail to explain a lot of the variation in the dependent variables). It also shows that the F-test was 3.229 as given in the table above with significance value of 0.003, which is less than p-value of 0.05 ($p < 0.05$), which means that the explanatory variable elements as a

whole can jointly influence change in the dependent variable (sustainability). This showed that the model was well specified.

Table 2c. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.304	3.180		3.869	.000
	Hiring	.778	.079	.540	9.848	.000
	Contracting	.478	.095	.429	5.032	.000
a. Dependent Variable: Sustainability						

Source: Author Fieldwork Computation, 2023.

Specifically, the result of regression as contained in Table 2c: Coefficients, from the output above there is a positive relationship between hiring and sustainability such that a unit rises in hiring induced about .167 unit rise in sustainability which was statistically significant at 1 percent going by the p value (.000). Based on the result, the null hypothesis was rejected, while the alternative hypothesis was accepted. Thus, there is significant relationship between the hiring and firm's sustainability. The result from this hypothesis conforms to the findings of Nding'ori (2015); Supo, and Wale, (2010) found that organisations that outsource experience reduce average cost, increased sales turnover and profitability, enhance expertise, improve service quality, reduce staff strength, streamline the production process, reduced administrative burden and save time for core activities.

Also depicted on the table, the coefficient of contracting of 0.478 suggests that there exists a moderate positive relationship between contracting and sustainability. In addition, the probability and [t-statistics] value of .000 and [5.032] further suggests that the relationship between contracting and sustainability is significant since alpha level of .05 is greater than the p-value. The conclusion therefore is that modification of the

contracting is also a contributor to sustainability. Based on the result, the null hypothesis was rejected, while the alternative hypothesis was accepted. Thus, contracting has significant effect on firm's sustainability. The outcome of this study aligns with the finding of Kiptum (2014); Akinbola, (2012) who found that outsourcing through contracting their services resulted in reducing operational costs and improved resource management.

Conclusion

The success of any business organisation in today's global world cannot be over-emphasized. Businesses all over the world go as far as possible to acquire the necessary resources that they perceive would aid and enhance their business transactions and performance. This study is an important study that helps to evaluate the effects of outsourcing on organization performance.

Based on the findings above, it can be concluded that outsourcing enables organizations to focus on their core business objective, reduce and control operating costs, improve the firm's focus, help the firm gain access to world-class capabilities and as well as help an organisation in sharing risks, among others.

Furthermore, this study has proved that outsourcing incorporates a wide variety of advantages for organization. That leads to a conclusion that, outsourcing brings lots of benefits for the organizations performance.

Recommendations

Based on the findings of the study, the following recommendations can be summarized;

- (i) Firm should endeavor to provide more frameworks for selecting outsourcing vendors that will benefit the organizations in the area of need to avoid financial crisis. Organization managers should agree that successful outsourcing requires a shift in their mindset, which means that they should manage their outsourcing vendors and workers in order to improve on efficient product/service quality and as well as product/service delivery and the organization performance.
- (ii) Organizations should not outsource an activity fully until they have confirmed beyond doubt that the service provider is capable of handling the activity.

Organization in Nigeria should engage the service provider on the quality standards which are expected before entering into the contract, organizations should select the service provider on the basis of consistent technical and managerial capabilities.

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