European Journal of Logistics, Purchasing and Supply Chain Management

Vol.4, No.3, pp.59-86, June 2016

Published by European Centre for Research Training and Development UK (www.eajournals.org)

OUTSOURCING (LOGISTICS) SERVICES AND SUPPLY CHAIN EFFICIENCY - A CRITICAL REVIEW OF OUTSOURCING FUNCTION

Charles Kalinzi

Lecturer & Head of Department, Department of Procurement, Marketing & Supply Chain Management, Kyambogo University School of Management & Entrepreneurship

ABSTRACT: *The chapter is concerned with how outsourcing impacts overall organizational performance in general, without highlighting a specific sector or industry. The chapter further examines the various approaches and terminologies used by organisations on the possible adoption of such approaches. The current market is then analyzed and discussed regarding the impact of outsourcing on organisations. A number of outsourced activities with selected sector-led organizations shall be investigated and presented, and how decision making is conducted on deciding what to and what not to outsource. This is compared with extant literature on the same in the developed world before recommendations are made. The chapter concludes by projecting the likely future trends in the field of outsourcing in general and makes recommendations and conclusions on how organizations can move forward with the outsourcing ventures.*

KEYWORDS: Outsourcing; Logistics Outsourcing; Supply Chain Efficiency; Organisational Performance

INTRODUCTION

In recent years outsourcing has become a major factor in organisations' performance and can no longer be ignored (Tomas, 2010). Since the Industrial Revolution, companies have been concerned with how they can exploit their competitive advantage to increase their markets and their profits (Handfield, 2006). Firms have sought improve performance by outsourcing activities not considered a core competency of the business. The outsourcing of a number of services ranging from cleaning, logistics, and compound maintenance among others has become a significant force in global outsourcing trend services, yet there exists some questions about the degree to which outsourcing results in a positive outcome and the conditions supporting it. Although many firms outsource to reduce costs, they often fail to do so and may actually increase if not handled properly (Meixell, 2008).

Management of the outsourcing function and the role it plays in revolutionising increased performance of organizations are high-profile issues (Juettner et al., 2002). Most of Uganda's vibrant sectors have been revolutionizing at a very fast rate over the past few decades due to the widespread introduction of the Internet where benchmarking reports have been explored on outstanding cases of best performing organizations profiles and how they achieved the progress. This has led to an increase in promoting outsourcing services. New technologies, rapidly changing consumer requirements, the need for continuously modernizing organizational infrastructure to keep pace with these requirements, peak demand in mature markets countered by rapid advancement in emerging markets, and increased outsourcing of services present a number of sustainability challenges for such a function to be implemented successfully (Ernst & Young, 2011).

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

Profit warnings and adjusted market forecasts have triggered massive restructuring programs, lay-offs, and reduced demand for having operational- and non-core functions in place in many organizations. Firms have been evaluating repetitively a number of options to reduce costs while simultaneously improving their performance across the board. There is also a tendency at the leading edge of the industry to redefine core services away from those traditional functions to embrace only those that can define the firm's existence into pure technology developmental ones and the non-core ones being re-designed or closed down completely (Agrell et al, 2004). Because of demand uncertainty in both level and timing, the roles and responsibilities in the supply chain are changing, often accelerated by outsourcing, thus leading to initially unclear interfaces (Ernst & Young 2011). The strong growth and consolidation among suppliers leads to shifts in the power balance, and different business logic and clock speed among the players. This driving force has led to massive concentration of core competences and resort to outsourcing other functions in a bid to deliver different outputs and efficient service delivery.

At the theoretical level, the concept of outsourcing has been dealt with in many research works which have provided numerous definitions (Masson-Franzil, 2005). The concept has often been mentioned as a synonym of other and older notions such as subcontracting, although they also refer to other situations. We can mention here the influence of Barreyre's work (1968) on 'subcontracting'. He defines it as 'the action through which an economic agent entrusts another economic agent with the production of a good destined to be part of the combination of the final product of the subcontracting agent in question'. In the 1970s, subcontracting practices were rather restricted to the production of goods. However, in the 1990s, their range of application came to encompass such functions of the company as supportive or administrative ones which had been unheard of in terms of outsourcing (Parrotin & Loubère, 2001). The decision of outsourcing has thus become a strategic action showing that firms attempt to refocus their core activities or seeking skills they do not possess outside the company.

Beyond some conceptual and semantic differences of opinion, it seems more interesting to note that these practices are in keeping within the paradigm of inter-corporate relationships incurred by the restructuring of economic activities. Faced with the pressure of uncertainty and their environment, firms have transformed and new structures combining flexibility and dynamism have developed. Outsourcing practices have thus emerged as hybrid cooperation forms situated along a continuum between the market and the hierarchy.

Theoretical Background: Brief History Of Outsourcing

Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). However, most organizations were not totally self-sufficient, so they outsourced those functions for which they had no competency internally. Although outsourcing, Business Process Optimization (BPO), and shared services were not fully recognized as business strategies until the late 1980s, their history has roots in the Industrial Revolution.

History of outsourcing – the 19th century factory

Ever since the Industrial Revolution and the evolution of capitalism, businesses have sought new ways to exploit their competitive advantages to increase their markets and growth. This meant sourcing the right materials and components at the most cost effective price and

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

managing the processes to deliver the final goods and services to market. Companies have always sourced materials and components from other companies for their own manufacturing and processing needs. In the 19th century, railway companies relied on steel manufacturers, component manufacturers, and tool makers to construct locomotives. The 20th century experienced the emergence of large, integrated, and global corporations that controlled and owned their assets, requiring multiple divisions and departments with complex and multi-layered management structures. According to Handfield (2006), the model for most of the 20th century was a large integrated company that can "own, manage, and directly control" its assets.

In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures. Handfield further adds that to increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business that required identifying critical processes and deciding which could be outsourced. Outsourcing, which started in the early 1990s as a revolutionary phenomenon of sending unskilled work from developed countries to developing countries, has experienced tremendous growth over the past 10 years.

These corporations became lumbering giants with rigid and over bloated management structures that lacked the agility to address challenges in their markets and to exploit emerging opportunities. Strategies emerged where companies focused on their core business which entailed identifying which processes were critical to the company and which ones could be outsourced. Outsourcing was not formally recognized as a business strategy until the late 1980s. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not deemed to be mission critical. Organizations contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, and plant maintenance. Outsourcing components to affect cost savings in key functions was another area in which to improve their finances.

The model of the vertically integrated and self-sufficient organization has been further challenged by the speed of technological change and intense competition. Increasing expertise and specialization required for different operational activities makes it impractical for one organization to maintain "best practice" across every facet of its operation.

Emergence of new business functions

The use of contact centers and telemarketing rose to prominence at roughly the same time as outsourcing. It made sense for companies in bringing on board a new business function or strategy to use outsourcing to deliver that functionality. Most local Australian BPO providers such as UCMS (now Aegis) and Salesforce started with voice work in the 1990s, managing call centers and a range of customer service functions for service organizations such as banks, airlines, and telecommunication providers. More recently, with the rise of Social Media and big data analytics, outsourcing and BPO providers were very quick in establishing practices to offer their clients services in these areas.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

Other forms of Outsourcing

Offshoring

According to Manning, Massini, and Lewin (2008), offshoring is the process of sourcing any business task, process, or function from abroad (in particular from lower cost emerging economies). Technology is crucial in shaping the outsourcing, BPO, and shared services industries. Technology makes most of the work done by an organization "placeless", and if the work can be done anywhere then it can be done by anyone. Typically Western firms off-shoring non-core activities to developing nations became practical due to lower labor costs. When off-shore outsourcing began, the outsourcer's biggest focus was cost-saving; therefore, businesses outsourced their non-core activities and watched their processes being performed while saving phenomenal costs. This characterized BPO 1.0 or the "lift and shift" generation which was all about identifying low-cost locations and shifting the non-core processes to those areas.

What is Outsourcing?

Numerous definitions of outsourcing have been presented by various authors. Handfield (2006) writes that outsourcing can be defined as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources". Sometimes known also as "facilities management", outsourcing is a strategy by which an organization contracts out major functions to specialize and efficient service providers who become valued business partners. Outsourcing is, thus, the strategic use of outside resources to perform business functions traditionally managed by internal staff. Using an outsourced company which will help reduce costs and gain efficiencies by leveraging the talent, technology, and expertise of third party vendors.

Companies have always hired contractors for particular types of work or to level-off peaks and troughs in their workload, thus forming long-term relationships with firms whose capabilities complement or supplement their own. However, the difference between simply supplementing resources by "subcontracting" and actual outsourcing is that the latter involves substantial restructuring of particular business activities including the transfer of staff from a host company to a specialist firm (usually smaller) with the required core competencies.

Dave et al. defines outsourcing as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources". This definition is not different from other authors who presented it as the practice of handing over control of public services to for-profit corporations. Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring or relocating a business function to another country.

http://money.howstuffworks.com/outsourcing1.htm states that Outsourcing means just what it says; namely, going "out" to locate the "source" for what is needed. These days, many businesses outsource what they need to serve their internal and external customers. An external customer is the entity that ultimately purchases a company's product or services, while an internal customer is the company's own employees or shareholders. Nilakshi and Ghazali (2011) notes that Outsourcing is simply the shifting of an internal process or activity to an external body and it involves at least two parties: buyer and supplier. Other authors have defined it as a transfer of control (Donada & Nogatchewsky, 2009) of internal business activities and processes to an external party (Kotabe & Mol, 2009; Lee, 2001; Li & Choi,

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

2009; Kroes & Ghosh, 2010). Different studies have developed different meanings for outsourcing and these are varied in terms of contract type holding by partners, the drives for outsourcing, the expected outcomes and the nature of businesses. However, Li and Choi (2009) viewed services outsourcing as a 'choice of replacing internal service functions with the use of external agents to perform one or more services activities'

The Outsourcing process

Limited research has been conducted on outsourcing processes and how the function flows in outsourcing organizations. Zoran & Jørgen (2007) note that despite an impressive research intensity of the outsourcing process, there exist only few frameworks depicting the actual stages and layout of the overall outsourcing process. They identify the key stages as: preparation, vendor(s) selection, transition, managing relationship, and reconsideration as illustrated in the figure below.

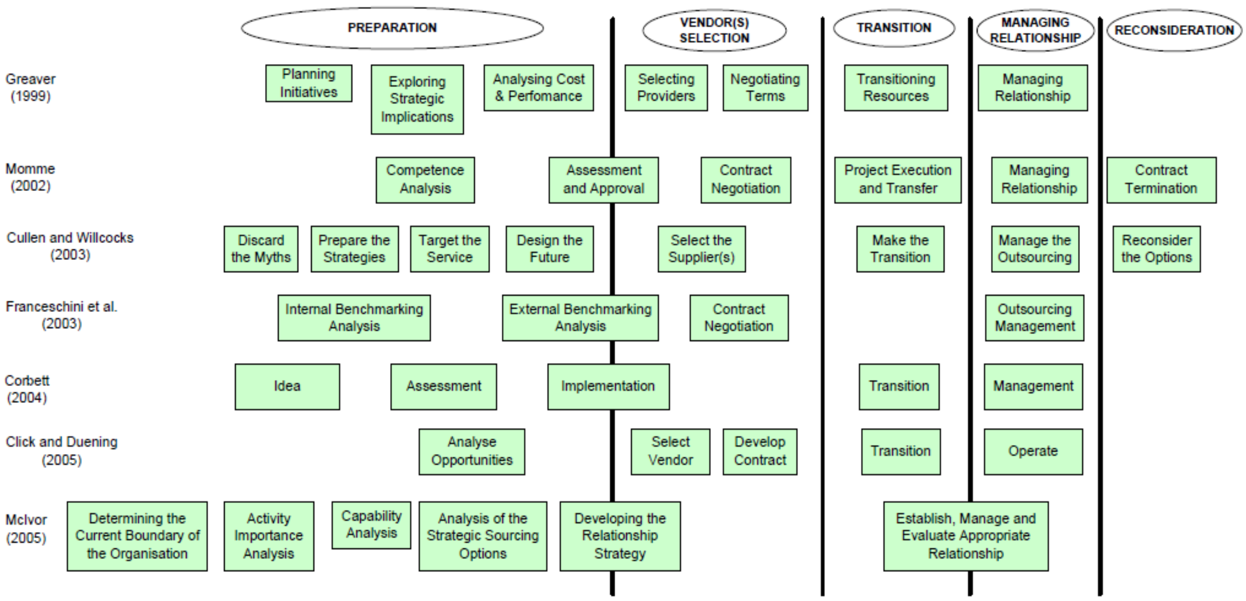

Figure 1: An overview of outsourcing reported frameworks: pp 3-4

Source: Zoran Perunović & Jørgen Lindgaard Pedersen (2007): The outsourcing process and theories; ©2007: "Zoran Perunović & Jørgen Lindgaard" Used with permission.

The preparation phase involves answering questions such as how, where, why, when, whether or not, among others. The next phase of vendor selection is plainly simple in addressing the key question of whom to pick and not to pick from an identified and qualifying pool of potential service providers. The subsequent stage addresses the transition stage of how to manage relationships with the approved service provider. The final stage examines the end result of the outcome of the entire process and focuses on "what now" issue.

Outsourcing in a Global Context

Outsourcing has become a megatrend in many industries, most particularly in logistics and supply chain management (Feeney et al., 2005). The overall scope of outsourcing is continuing to grow as companies focus on their core competencies and shed tasks perceived as noncore (Lindner, 2004). For example, recent data indicate that the outsourcing of human resources (HR) functions is pervasive with 94 percent of firms outsourcing at least one major HR activity, and the majority of firms planning for outsourcing expansion (Gurchiek, 2005). Research assessing the outsourcing of sales, marketing, and administrative functions provides parallel results, with at least portions of these functions now being outsourced in 15–50 percent of sampled firms (The Outsourcing Institute, 2005; GMA, 2006). Similarly, the third- and fourth-party logistics industries are booming, with between 65 percent and 80 percent of U.S. manufacturing firms contracting with or considering use of a logistics service provider in the last year (Langley et al., 2006).

Thus, managers are increasingly feeling pressure to make the right sourcing decision as the business consequences can be significant (McGovern & Quelch, 2005). Good outsourcing decisions can result in lowered costs and competitive advantage, whereas poorly made outsourcing decisions can lead to a variety of problems, such as increased costs, disrupted service and even business failure (Cross, 1995). Poor outsourcing practices can also lead to an unintended loss of operational level knowledge. Consider the case of Japan-based Toyota Motor Corporation which, by outsourcing the design and manufacture of electrical systems for its automobiles, surrendered its own capability to understand the processes required for this highly specialized work. As a result, Toyota is no longer able to leverage its own technological advantage with respect to these systems during product development (Lindner, 2004). Problems such as these and others related to the outsourcing of goods and services are prevalent when outsourcing arrangements are not well understood by managers in the contracting firms.

In the 1990s, outsourcing was the focus of many industrial manufacturers and firms considered outsourcing everything from the procurement function to production and manufacturing. Executives were focused on stock value, and huge pressure was placed on the organization to increase profits. Of course, one easy way to increase profit is by reducing costs through outsourcing. Indeed, in the mid-1990s there was a significant increase in purchasing volume as a percentage of the firm’s total sales. More recently, between 1998 and 2000, outsourcing in the electronics industry has increased from 15 percent of all components to 40 percent. Consider, for instance, the athletic shoe industry, a fashion industry with products that require significant investment in technology. No company in this industry has been as successful as Nike, a company that outsources almost all its manufacturing activities. Nike, the largest supplier of athletic shoes in the world, focuses mainly on research and development (R&D) on one hand and marketing, sales, and distribution on the other hand. Indeed, this strategy allowed Nike to grow in the 1990s at an annual rate of approximately 20 percent.

Cisco’s success story is even more striking. According to Cisco’s Chief Information Officer (CIO), Peter Solvik, the company’s Internet-based business model was instrumental in its ability to quadruple in size from 1994 to 1998 (US$1.3 billion to over US$8 billion), to hire approximately 1,000 new employees per quarter while increasing their productivity, and to save US$560 million annually in business expenses. Specializing in enterprise network solutions, Cisco used, according to CEO John Chambers, a global virtual manufacturing strategy. As he explained, “First, we have established manufacturing plants all over the world. We have also developed close arrangements with major suppliers. So, when we work together with our suppliers, and if we do our job right, the customer cannot tell the difference between my own plants and my suppliers in Taiwan and elsewhere”.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

This approach was enabled by Cisco's single enterprise system which provides the backbone for all activities in the company, and connects not only customers and employees, but also chip manufacturers, component distributors, contract manufacturers, logistics companies, and systems integrators. These participants can perform like one company because they all rely on the same Web-based data sources. All its suppliers see the same demand and do not rely on their own forecasts based on information flowing from multiple points in the supply chain. Cisco also built a dynamic replenishment system to help reduce supplier inventory. Cisco's average inventory turns in 1999 were 10 compared with an average of 4 for competitors. Inventory turns for commodity items are even more impressive; they reach 25 to 35 turns a year.

Apple Computers also outsources most of its manufacturing activities; in fact, the company outsources 70 percent of its components. Apple focused its internal resources on its own disk operating system and the supporting macro software to give Apple products their unique look and feel.

Making the right outsourcing decision requires a clear understanding of the broad array of potential engagement options, risks, and benefits, and the appropriateness of each potential arrangement for meeting business objectives. Many variations of outsourcing alternatives exist, resulting in a lexicon of terms, such as out-tasking, collocation, managed services and business process outsourcing. This has led to confusion for many managers who feel pressure to make the right decisions and often view outsourcing as an all or nothing proposition to offload and lower the costs of non-core activities. In fact, one of the biggest misconceptions about outsourcing is that it is a fixed event or a simple make-or-buy decision. In reality, outsourcing is an umbrella term that encompasses a spectrum of arrangements, each with unique advantages and risks. Understanding the relative risks and benefits of each of the potential alternatives is critical in making the right outsourcing decision.

Why organizations outsource?

In this section, overview of previous academic works on outsourcing is provided to identify reasons for outsourcing. However, according to Wilding (2004), consumer goods companies choose to outsource primarily in order to benefit from the competencies of 3PLs. Flexibility and cost objectives are also very important, but cost reduction is definitely not an uncontested leader. There are several reasons why so few firms outsource for cost reasons:

i) Primary business focus is on service rather than cost. Of the four main drivers for outsourcing (3PL competencies, cost, flexibility and focus on core), only one is cost-related. The other ones are directly or indirectly service-related, showing that service considerations dominate over cost ones. It may be argued that outsourcing decisions in the consumer goods logistics tend to be less cost-driven than they are average over all industries.

ii) Costs are a qualifying, not a winning factor. Companies assume low costs from 3PLs and make outsourcing decisions on other grounds, such as service. Szymankiewicz (1994) even suggests that grocery retailers take both low cost and good service from 3PLs for granted.

iii) 3PLs' ability to actually lower logistics costs. Our evidence suggests that consumer good companies are aware of the fact that not every outsourcing decision decreases

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

costs and therefore they do not expect cost cuts in the first place. A profit margin charged by 3PLs is reflected in the price for the services and may mean that keeping logistics in-house is cheaper than outsourcing.

According to Wilding's survey, some survey respondents outsourced for alternative reasons that had not been included in the list. Two firms outsourced to solve capacity problems. One company was motivated by a major organizational change (de-merger) and another one was looking to find synergy with the 3PL. Bendor and Samuel (1998) assert that outsourcing provides a certain power not available within an organization's internal departments. This power can have many dimensions: economies of scale, process expertise, access to capital, access to expensive technology, etc. Another possible benefit is that outsourcing provides companies with greater capacity for flexibility, especially in the purchase of rapidly developing new technologies, fashion goods, or the myriad components of complex systems (Harrison 1994; Carlson 1989).

As the world becomes more globally integrated and the boundaries between countries and cultures disappear, many developing countries such as Turkey are becoming attractive centers for international firms because of their geographical locations, low wages, and high potential for market extensions. However, the study shows that in Turkey, outsourcing is still solely based on transportation (Uluengin & Uluengin, 2003). According to Aktas and Uluengin (2005, p. 317), many Turkish firms understand logistics services as taking the transportation order from the manufacturer and delivering the goods to destination points without considering the warehouse design, the optimum location of the warehouse, or inventory management. Such ways of thinking are concerned only with one side of the subject and reduce logistics services to a narrow transportation perspective.

Forms/Types of Outsourcing

1. Service Outsourcing: Refers to companies hiring outside businesses to provide specialized work and expertise.

2. Procurement Outsourcing: According to Rich (2014), it is crucial that the purchasing staff ensure the company is receiving the best value, service, and products possible from every supplier in order to satisfy clients' current demands and future requirements.

3. Offshore outsourcing: This is the practice of hiring an external organization to perform some business functions in a country other than the one where the products or services are actually developed or manufactured. It can be contrasted with offshoring in which the functions are performed in a foreign country by a foreign subsidiary. There are four basic types of offshore outsourcing:

    a. ITO — Information Technology Outsourcing (Technology process outsourcing)

    b. BPO — Business Process Outsourcing

    c. Software R&D — offshore software development

    d. KPO - Knowledge Process Outsourcing.

BPO is considered the most popular, especially when considering that most companies outsource business processes to offshore locations such as India. It is important that

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

organizations figure out what type of outsourcing works best and what a firm requires from the process.

4. Legal Process Outsourcing: LPO is the practice of a law firm or corporation obtaining legal support services from an outside law firm or legal support services company. When the outsourced entity is based in another country, the practice is sometimes called offshoring

Benefits of Outsourcing

Rich (2014) notes that to remain competitive and relevant, many organizations will need to respond even more quickly, accurately, and thoroughly to future market changes, supply channel issues, client requirements, competitive challenges, global options, new opportunities, technological advances, and resource demands. With all this activity occurring within many companies simultaneously, it is imperative that corporate management accurately determine their procurement staff's skill sets, effectiveness, resourcefulness, workload capacity and available talent pool. In other words, it may be necessary for some organizations to "think out of the box" regarding available resources and consider the potential benefits listed below for procurement outsourcing.

Outsourcing offers many advantages. For instance, outsourcing allows companies to find and hire the best experts for specialized work. Using outsourcing also helps companies keep more cash on hand, freeing resources for other purposes, such as capital improvements. It is also often cheaper in terms of salaries and benefits and reduces risks and costs. Outsourcing can also help a business focus on its core components without distractions from ancillary and support functions. Another advantage – such as that in the fictitious Smith & Company – involves speed and nimbleness. It is sometimes quicker and more efficient to hire a specialist to do something than it is to bring a company up to speed. Many large companies use outsourcing to fill roles in their organization that would be too expensive or inefficient to create themselves. Smaller companies also turn to outsourcing, though the cost savings is sometimes diminished. Rich (2014) outlines a number of benefits associated to outsourcing which include time, expertise of resources, speed and financial benefits.

Aberdeen Group (2007), while comparing expected results and results realized, where companies outsource with performance expectations in mind, outlined a number of these expected results in the table below:

Table 1: Outsourcing results: Expected and Achieved

Expected Results	% Enterprises - Expected	% Enterprises - Realized
Access to improved pricing	61%	51%
Access to spending category expertise	48%	39%
Lower transactional processing costs and fewer burdens	45%	35%
Fewer full-time employees	39%	32%
Enhanced ability to track and report savings to the bottom-line	38%	15%
Refocusing on more strategic activities	47%	23%

Source: Abeerdeen Group (2007)

The future of outsourcing

Its projected that many companies are gradually adopting the outsourcing concept, with majority of firms resorting to concentration of core competencies and phasing out those activities that are considered non-core.

In order to understand the topic better, http://www.flatworldsolutions.com/ outlined a number of research questions thus: Will the advantages of outsourcing become overshadowed by governmental pressures and rising offshore outsourcing costs? Will outsourcing continue to grow or be curtailed by force in the years to come?

The Bloomburgbusinessweek magazine (2006) reports that:

“Then, two years ago, one of the company's biggest customers told it to slash its machinery prices by 40% and urged it to move production to China. Last year, a St. Louis holding company, Barry-Wehmiller Cos., acquired the manufacturer and promptly cut workers and nonunion pay. In five years sales have plunged by 40%, to $170 million, and the workforce has shrunk from 2,000 to 1,100. Employees have been traumatized, says operations manager Craig Compton, a muscular former hockey player. "All you hear about is China and all these companies closing or taking their operations overseas." As quoted from “The future of outsourcing” available at http://www.businessweek.com/stories/2006-01-29/the-future-of-outsourcing

By doing this, its reported that most companies are slashing development costs and time among others and keep production in green bay. Offshoring is therefore boosting a lot of profits. The magazine quotes one CEO who noted “…Ever since the offshore shift of skilled work sparked widespread debate and a political firestorm three years ago, it has been portrayed as the killer of good-paying American jobs. "Benedict Arnold CEOs" hire software engineers, computer help staff, and credit-card bill collectors to exploit the low wages of poor nations. U.S. workers suddenly face a grave new threat, with even highly educated tech and

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

service professionals having to compete against legions of hungry college grads in India, China, and the Philippines willing to work twice as hard for one-fifth the pay"

This view is not different from that of Allan (2013) who further stressed that Long ago, we moved away from the attitude that it is possible to spend our way out of trouble and now, wherever you look, business leaders are constantly and consistently trying to drive down operating costs. He further went on to say that Political and economic gridlock in emerging markets and continuing uncertainty surrounding the global economy are forcing businesses to renew their cost-cutting programmes.

http://www.flatworldsolutions.com identified a number of core reasons that are shaping the future of outsourcing and after careful assessment of the various offshore outsourcing trends have revealed that outsourcing to India and other countries will continue to grow due to the following reasons:

Cost savings will continue to be a major advantage of outsourcing

One of the major benefits of outsourcing in the early years was the vast difference in cost. Companies were able to reduce their overall expenditure considerably by paying less than half the usual amount in salaries to their offshore outsourcing partners.

In the late 90's many outsourcing experts predicted that cost savings would no longer be one of the main advantages of outsourcing due to the rising cost of living and technological advances. But the financial woes brought on by the 2008-2009 economic crisis has made the whole concept of cost saving even more important. With the economic recovery still unsure cost saving remains one of the major reasons for outsourcing to India.

Outsourcing will focus more on core business activities

Latest trends in outsourcing point to the major change of focus from the outsourcing of non-core services to the outsourcing of core business functions. Most businesses, with a significant number of SMEs, consider fully outsourcing their IT department, not only to save money, but especially to gain better experienced and skilled specialists to produce high quality solutions.

Outsourcing to India, especially IT outsourcing, is on the rise due to the abundance of qualified professionals who have the skills, resources, and methodologies it takes to create superior results.

Standardized outsourcing solutions will be favored over customization

Another trend that will affect the future of outsourcing is the move towards standardization of outsourcing solutions. The economic crisis of the recent years has led to companies favoring standardized outsourcing solutions over custom made solutions which are more expensive. Companies prefer to use their dollars saved to acquire new customers and to think out new business concepts.

This has led to organizations outsourcing to India and other countries more willing to move to a standardized way of working for non-strategic processes. With the huge pressure to keep costs down, service providers will also rely more heavily on mass automation tools that will

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

create additional opportunities and reduce the staff necessary to support critical business applications.

Outsourcing of smaller projects will continue to be an important benefit of outsourcing

The future of outsourcing will witness an increase in the outsourcing of smaller projects. Although big corporate houses will continue to outsource huge projects to major service providers, there will be an increase in smaller buyers who will be looking for flexible and specialized smaller providers to support them in realizing new business concepts. This benefit of outsourcing will be even more applicable to entrepreneurs and individuals who spent years watching from the sidelines and who now want to benefit from a piece of the outsourcing action.

Outsourcing of smaller projects will help companies, especially those looking towards outsourcing as a way to resurrect their businesses as the economy rebounds. Outsourcing to India will also continue to rise due to a surge in smaller IT service deals from first-time buyers.

Outsourcing and cloud sourcing will merge and grow exponentially

Industry experts who have been observing the benefits of outsourcing and cloud sourcing predict that cloud sourcing will soon merge with the existing outsourcing market and provide better opportunities for the entire outsourcing industry. With businesses in general pushing towards cloud solutions for different reasons like flexibility, scalability and cost savings, outsourced IT services will be required for migration of existing infrastructure and services to make them cloud enabled.

This major advantage of outsourcing will benefit infrastructures supported by cloud resources and other smaller outsourcing providers.

On the whole outsourcing is expected to increase dramatically in the years to come. This is because globalization which inextricably links the world's economies leaves no room for individualism. Companies will not be able to meet the various challenges they face relying solely on their own internal resources but will have to look beyond for more cost-competitive and capable sources. This is where outsourcing and the many advantages it brings with it plays an extremely important role.

From the analysis above, its therefore evident that the implication, at least for the outsourcing industry, is thus positive. In part this is because organizations are looking, once again, at redesigning and re-engineering core business processes. It's also because they intend to outsource business critical support services – with finance and HR heading the list. All this was further cemented and compounded by the KPMG Global Pulse survey that suggested that reported that almost two-thirds of providers anticipate customer demand for business and IT services to increase, and the indications were that outsourcing faces a healthy future.

Insourcing Vs Outsourcing

Insourcing is the opposite of outsourcing. Insourcing is a business decision that is often made to maintain control of critical production or competencies. Insourcing is widely used in production to reduce costs of taxes, labor and transportation. In-sourcing is a recent concept that has been advocated as an alternative to outsourcing. Supporters believe that it will lead to

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

better management control and job creation at the local level (http://www.outsource2india.com)

Insourcing is also defined as bringing a third party outsourcer to work inside a company's facility. Defining whether insourcing or outsourcing is the best option is not easy. Outsource India Website clearly says that …"Before deciding whether insourcing or outsourcing is the best option, it is important to first define business goals. A poorly defined objective may result in neither insourcing nor outsourcing being beneficial". Although many companies think insourcing is an easier option, such websites warn that organizations need to look closely to see how difficult it is to implement.

Aaron Marquis, in his "Demand Media" articles as quoted by www.smallbusiness.chrone.com, looks at both as mere methods; thus he states that …" Outsourcing and insourcing are methods of dispersing work among different departments or companies for strategic reasons". He says the only difference is the operational area where each is implemented. Below is a summary of key differences between the two, as articulated by various scholars:

Differences between insourcing and Outsourcing

Table 2: Differences between Insourcing and outsourcing

Issue	**Insourcing**	**Outsourcing**
Location of performing a task	done solely from within a company's own operational infrastructure	uses companies not affiliated with the outsourcing company to perform a task
Cost to the Company	generally more expensive to a company because new work processes must be developed to start the new division of the company	uses an outside company that already has a workflow developed and employees familiar with the process
Resources requirements	uses resources already owned by the company to achieve a goal	do not use their own resources for manufacturing products or providing services
Control/Autonomy	have complete control over its operations and employees	have little to no managerial control over the way in which the outside company operates
Location	involves placing the new operation on site at the company or somewhere in the immediate vicinity	involves using an outside company that is not near the main company's operations
Activities	appropriate for activities such as program finance, human resources and core competencies	more diligent and more flexible.. payroll, cleaning, IT and telephony systems, and facilities management, to name a few

Critical success factors of outsourcing

In order to ensure the success of using contract logistics, certain additional factors are to be considered during and after the implementation of the outsourcing process. The first and foremost is that decision to outsource must come from the top. Communication between logistics users and providers (Bowman 1995; Andel 1994; McKeon 1991; Trunick 1989), which is essential for the coordination of internal corporate functions and outsourced logistics, is also a very important factor in this respect. Firms need to specify clearly to service providers their role and responsibilities as well as their expectations and requirements.

Internal communication is also equally important. It has been asserted that managers must communicate exactly what they are outsourcing and why – then get the support of every department (Bowman 1995). Richardson (1990) and Maltz (1995) also emphasize the importance in educating management of the benefits of contract logistics.

Management needs to be convinced to try outsourcing and view it as a strategic activity. Success of outsourcing depends on a user-provider relationship based on mutual trust and faith (Bradley 1994). This does not imply that control measures are redundant, firms should mandate periodic reporting by the service providers (Distribution 1995; Richardson 1990). The need to select third parties wisely and maintain control while building trust is very important (Richardson 1994). Any deal must be tied to internal controls that link all payments to invoices, bills of lading, or purchase orders (Bradley 1994). A crucial aspect of successful outsourcing linking to trust is that users ought to be willing to part with proprietary information, which can help a capable third party to reduce total logistics costs (Bowman 1995). On the other hand, service providers have the responsibility and obligation to protect users' sensitive data on products, shipments and customers (Distribution 1995).

According to Richardson (1990), there are several other critical factors that make outsourcing work. They include focus on the customer; establishing operating standards and monitoring performance against those standards; knowing the payback period, benefits expected by the firm, and the means to achieve those benefits. Factors, such as being aware that outsourcing may require a longer term of service than the firm is used to and building information systems that will allow the firm to make ongoing cost/value comparisons, are also critical. However, for McKeon (1991) understanding each other's cultures and organizational structure to ensure a good match, and knowing logistics strategy, i.e., understanding the logistics function's role in meeting the business objectives of the firm (e.g. differentiation or low cost) are the most important factors for successful outsourcing. The business objectives of the firm may dictate the extent to which it will use partners: outsource a single function or outsource all key functions.

The importance of the human factor in outsourcing also cannot be undermined. The firm must involve the people currently providing the logistics service since their expertise enables them to facilitate the transition from in-house logistics to third-party logistics.

Furthermore, they must be given an opportunity to move with the function if outsourcing is implemented, proving how valuable they can be. However, there is the risk that the fear of getting retrenched due to outsourcing of a function may prompt current employees to sabotage the process (Maltz 1995).

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

The success criteria needed to establish sustainable partnerships in the area of contract logistics are the various relationships between the people involved. Open and honest environment, key management, coherent and effective internal measurement systems, mutual respect and empathy, commitment to investment, and financial and commercial arrangements are of particular importance in this aspect. For Razzaque (1998, p. 101), it is evident that, to make contract logistics work, a high level of commitment and resolution is needed on the part of the buying firms. Management must examine critically each of these success factors to determine how they can be put into practice. Only then firms can truly harness the benefits of outsourcing and to develop long-term partnerships that manifest the many advantages that are possible with the use of third-party logistics.

Logistics Outsourcing

Since the early 1990s, the worldwide practices of outsourcing services such as logistic activities have been increasing, resulting in an annual 10% increase (Sohail & Sohal, 2003). According to “Cap Gemini Ernst & Young” survey (2002), the rates of resorting to logistic suppliers have reached 94% in Europe, 78% in North America and 92% in Pacific Asia.

Logistics Outsourcing Vs Sub-Contracting

The increasing number of research works on outsourcing has led to some kind of stabilization of the concept today. Barthélemy (2001, p. 7-8), in his research work on outsourcing strategies, clearly distinguishes outsourcing from subcontracting, downsizing and reengineering by defining it as “the fact to entrust a supplier or an external provider with an activity and its management rather to carry it out in-house”. According to the author, three crucial elements characterize outsourcing: 1) the activity used to be carried out by the outsourcer, 2) the outsourced activity usually goes together with an assets transfer, 3) the relationship between the outsourcer and the provider usually runs on the middle or long term.

As for logistics outsourcing several synonyms are often used: “outsourcing”, “third party logistics” or “contract logistics” (Larson & Kulchitsky, 1999). Reviewing the definitions pointing at this concept (e.g., Langley, Dobrey, & Newton, 1997; Lieb, 1992; Lieb, Millen & Van Wassenhove, 1993; Lieb & Randall, 1996; Murphy & Poist, 1998; Tage, 2000; Virum, 1993) allowed us to define logistics outsourcing as the fact of entrusting all or part of the logistic chain, whose activities were previously performed in-house, to an external supplier on the long run, with a potential transfer of resources and with an objective of performance.

This definition, including a strategic dimension thus makes outsourcing different from the concepts of subcontracting, contracting out and so on which are often considered close or equivalent to it. According to Tage (2000: 113), it “presupposes that several characteristics are fulfilled before the relationship between buyer and seller” such as “a certain duration, joint efforts to develop further cooperation, a customerization of the solution, together with a fair sharing of benefits and risks”.

The enthusiasm of management for the phenomenon of logistic outsourcing has affected scientific literature (Razzaque & Sheng, 1998). Articles and books for the layman aimed at managers often describing ready-made methods (best practices) to achieve outsourcing operations. Yet this literature is not related to any rigorous theoretical framework (Lynch, 2001) and it remains mostly descriptive (Knemeyer, Corsi, & Murphy, 2003).

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

Existing research works are often incomplete and only deal with a particular part of the logistic chain, such as physical distribution (Aertsen, 1993; Ballou, 1999), goods warehousing (Maltz, 1994), transport or tailored logistics(Guérin & Lambert, 2000), transport for exports (Bigras & Désaulniers, 1998; Stank & Maltz, 1996), integrated logistics (Rabinovitch, Windle, Dresner & Corsi, 1999) or supply chain(Amami, 2001). In these research works what is stressed is the study of the various configurations and relations resulting from a decision of logistic outsourcing rather than the factors of decision (Amami, 2001; Kannan & Tan, 2002; Menon, Macginnis, & Ackermann, 1998; Tage, 2000).

In the field of logistics, numerous works have been published (Sohail & Sohal, 2003) resulting in a host of definitions for the concept of logistics (Masson-Franzil, 2003) and the outsourcing phenomenon (Tage, 2000) but these are largely on activities in the developed world. Its on this premise that the concept would be investigated further in developing countries to compare notes with those of the developed countries in order to establish any point of convergence or otherwise.

After having introduced logistics and outsourcing, the question arises how to organize logistics processes on the level of the individual firm. The options for the firms are to either operate them by themselves or to partially or completely outsource them to a third party in the form of a logistics service provider (LSP).

Origin and definition

Logistics capabilities are an important source of competitive advantage. As described before, the configuration of the individual logistics processes depends largely on the current phase of logistical development. At the same time, the question arises which parties are involved in the formation and realization of the processes. When approaching the concept of logistics outsourcing, Razzaque and Sheng (1998, p.89) offer some valuable insights. According to them, a company can basically choose between three different options to handle its logistics activities effectively and efficiently: It can provide the function in-house by making the service, It can either set up an own logistics subsidiary or buy a logistics firm and It can outsource the service and then buy the service from an external provider.

The issue of outsourcing logistics services has received widespread attention over the last 15 years (Razzaque & Sheng 1998; Cooper 1993; Virum 1993; Bardi & Tracey 1991; Sheffi 1990; Bowersox et al. 1989). In the early discussion, different views of the meaning of logistics outsourcing became apparent. Lieb et al. (1993) suggested that outsourcing, third-party logistics and contract logistics generally mean the same thing. Bradley (1994) pointed out that service providers must offer at least two services that are bundled and combined, with a single point of accountability using distinct information systems which is dedicated to and integral to the logistics process. This is contrary to the view of Lieb et al. (1993, p. 35) who note that outsourcing "may be narrow in scope" and can also be limited to only one type of service such as warehousing. After the initial dissension on the scope required justifying the use of the term "logistics outsourcing" more general definitions have been accepted. Lambert et al. (1999, p. 165) state that logistics outsourcing is "the use of a third-party provider for all or part of an organization's logistics operations" and add that its utilization by the firms is increasing. Rabinovich et al. (1999, p. 353) define logistics outsourcing relationships even more broadly as "long and short-term contracts or alliances between manufacturing and service firms and third party logistics providers". For this work, logistics

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

outsourcing will be understood in line with the definition provided by Lambert et al. (1999), while the focus will be on the contract logistics described by Rabinovich et al. (1999).

The outsourcing trend has been continuously growing over the last years. It has been following the changes that have also been inducing the four phases of logistical development as presented in this study. According to different authors such as Trunick (1992), Sheffi (1990) another important driving force behind this has been the increasing globalization of business. The continuously growing global markets and the accompanying sourcing of parts and materials from other countries has increased the demands on the logistics function (Cooper 1993) and led to more complex supply chains (Bradley 1994, p. 49). The lack of specific knowledge and suitable infrastructure in the targeted markets forced firms to turn to the competence of logistics service providers. In recent years, the outsourcing trend has gained even more momentum as the consensus in firms formed that the utilization of a logistics service provider generally can reduce the cost of logistics processes and can increase their quality (Lambert et al. 1996, pp. 2-5).

Logistics service providers (LSP) suitable for providing these services today exist in abundance, reacting to the ever increasing demands of the customers and the subsequently developing markets. Due to the fact that a number of firms do not view logistics as a core competency or even if they do, are willing to outsource them to a third party, outsourcing has become a relevant option. However, since the needs differ in every individual case, Wallenburg (2004, p. 46) argues that every firm must answer two important questions before actually outsourcing:

i. Which part of logistics shall be outsourced?

ii. Who shall provide the service?

Benefits and risks of logistics outsourcing

Essential for answering the question regarding the optimal outsourcing scope are the resources of the respective firm and alongside the trade-off between consequential advantages and disadvantages. This will vary according to the individual firms' perception of the benefits and risks associated with the particular outsourcing arrangement. Although they are inherently different, some aspects commonly associated with logistics outsourcing shall be presented in the following chapters.

Advantages of logistics outsourcing

The most frequently mentioned benefit of outsourcing is the reduction of the firm's logistics costs (Browne & Allen 2001, p. 259; Bardi & Tracey 1991, pp. 15-21). This can become manifest in several different ways: Bradley (1994) points out that logistics service providers can be more efficient than a manufacturer, because logistics is their core business. Hence, specialization effects and the proper utilization of core competencies lead to lower production costs. Furthermore, inefficiencies which have not become apparent as long as the service was produced in-house and therefore was not subject to competition are eliminated (Wallenburg 2004, p. 47).

Lower production costs can also be achieved through economies of scale and scope resulting from the larger volumes of similar or equal logistics services a LSP produces and through the

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

higher utilization ratio of the assets employed. Furthermore, logistics service providers can balance varying demand patterns better than a single manufacturing firm by diversifying their customer portfolios and reduce labor costs by benefiting from lower wage levels compared to those in manufacturing industries.

Logistics outsourcing also directly affects the cost position of a firm due to a reduced need for capital investments. Richardson (1990) points out that investments in facilities can be reduced while Sheffi (1990, pp. 27-39) states that costly information technology expenditures can be saved when outsourced to a logistics service provider. Beyond that, logistics outsourcing also allows for a decrease of the workforce and the associated investments.

The effects mentioned above stemming from the reduction of capital investments ideally allow a firm to source only the required logistics services and to thus convert the formerly fixed costs of the logistics capacities into variable costs. Besides all these different potentials of cost reduction, however, logistics outsourcing has some further benefits for the firm. Especially in recent years the realization has spread among firms that outsourcing logistics can also lead to improvements in logistics performance that in-house could not be achieved. Among these improvements are the following:

As a result of outsourcing, the expertise, technology, and infrastructure of the LSP can be utilized (Browne & Allen 2001, pp. 259-260). This can lead to a higher logistics performance in multiple dimensions. Lalonde and Maltz (1992, p. 3) identify higher quality, better service, optimized asset use, and increased flexibility. Multiple authors go into further detail, such as Richardson (1990) who mentions faster transit times, less damage, and improved on-time delivery. The increased flexibility is a major benefit for firms. It allows firms to become more responsive as the needs of the market or customers change, as the LSP contributes by supplying its know-how and existing resources (Browne & Allen 2001, pp. 259-260).

At the same time, the firm is enabled to concentrate on own core business and its core competencies. This is particularly significant with respect to the core competence debate suggesting that due to limited internal resources and a growing complexity of the market competitive advantage cannot be attained in all areas simultaneously and focusing is necessary. Outsourcing logistics to a service provider allows for this concentration on core competencies, reduces the complexity of the firms' business processes and consequently facilitates sustainable competitive advantage.

Furthermore, outsourcing reduces both the strategic and the operative risk of the firm. The strategic risk in the form of investment decisions in assets is outsourced, as well as operative risks, e.g. missed deadlines, unexpectedly surging costs or quality problems in the logistics processes, which all now have to be borne by the LSP.

Another factor whose importance varies according to the corporate context and the business environment is mentioned by Lynch (2000, pp. 9-11), who points out that labor considerations must not be neglected when making the outsourcing decision. Problems with the workforce, originating e.g. from a high rate of unionization (USA) or particular labor agreements concerning wages can be passed on to the LSP.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

Advanced Workplace's Andrew Mawson highlights the theoretical advantages and disadvantages of outsourcing as outlined below:

a) Focus upon core business — investment of management attention upon core business can detract from back office tasks or infrastructure management.

b) Cost and efficiency savings: the purchasing power of an outsourcer should provide cost benefits and efficiencies through their specialization in FM infrastructure.

c) Staffing flexibility: an outsourced contract can provide flexibility in applying the right level and skill mix of resource quickly and at less cost.

d) Reduced overheads: spreading the overheads of an internal operation over several accounts can enable the supplier to provide this management service at lower costs.

e) Continuity and risk management: outsourcing should aid continuity while reducing risk that a substandard level of operation would bring.

f) Developing internal staff: bringing in new skills from outside can develop your own staff.

Disadvantages of logistics outsourcing

After the initial outsourcing debate had a rather euphoric notion, realization came over the years that outsourcing is accompanied by some disadvantages and risks (Wentworth 2003, pp. 57-58; McIvor 2000, pp. 22-23).

One of the most commonly cited risks is the loss of control (Wentworth 2003, pp. 57-58; Bardi & Tracey 1991), paired with the dependence on an LSP of ten accompanying the relationship. The firm must rely on the LSP to fulfill the service as agreed upon in the contract, but then depends on the LSP as the very source for the data it needs for judging whether the levels of quality and service have been achieved or not (Wentworth 2003, p. 57). The same holds true for the LSP's truthful declaration of the costs incurred when rendering the logistics service, which frequently is the base for the price charged to the firm. This effect is aggravated in the case that a firm outsources the entire logistics function, thereby losing its internal logistics skills and hence its capabilities to judge the outsourcing performance. That can be the origin for opportunistic behavior on the side of the LSP. If the firm wants to limit the potential for opportunistic behavior, it must install control mechanisms. These will produce transaction costs such as bargaining and control costs, which must be added to the overall cost when making the outsourcing decision.

It has been pointed out in the previous chapter that outsourcing can reduce the complexity of business processes, enabling the firm to concentrate on its core business. It must be noted, however, that in the relationship with the LSP coordination efforts between the parties are necessary, adding some other form of complexity (Wallenburg 2004, p. 48), which, depending on the context of the relationship, could turn into a serious obstacle en route to successful outsourcing.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

Other authors point to the complexity of outsourcing projects as one immanent and significant disadvantage. According to McIvor (2000, pp. 24-26), the strategic dimension of outsourcing projects is often neglected, leading to sub-optimal results based on the short term reasons of cost reduction and capacity issues. He concludes that problems frequently occur because complex issues, such as a formal outsourcing process, an adequate cost analysis and a thorough definition of the own core business have not been paid sufficient attention.

Advanced Workplace's Andrew Mawson highlights the theoretical disadvantages of outsourcing as:

a) Loss of management control: client and provider business objectives are different and this can lead to different management control objectives.

b) Hidden costs: there are costs incurred in procurement and selection of outsourcing suppliers and in the mobilisation of the contracts.

c) Threat to security and confidentiality: make sure your data is protected and the contract has a penalty clause if an incident occurs. Issues such as intellectual property rights need protection.

d) Being tied to financial strength of another company — providers operate in different marketplaces to your core business. Your services are in their hands and this risk needs to be carefully evaluated.

e) Bad publicity — outsourcing can lead to ill will and poor morale in the rest of your organisation.

f) Different cultural approaches — businesses inevitably have different approaches so partnerships can be difficult.

How outsourcing can fail to contribute to organizational performance

A number of scholars like Dean (2012); Kathawala, Zhang, Shao (2005) among others have discussed a number of issues pertaining to the how outsourcing can be misused and fail to attain the desired performance. The issues outlined by various scholars may include but not limited to:

a) Lack of clear goals. Often, the overarching vision is not shared with the vendor. A shared vision along with an understanding of who is empowered to make things happen is key to success.

b) Lack of clear definitions. A lack of clear definitions around responsibility, management support, measurable commitments, escalation procedures, project management, scheduled oversight, and communication protocol spell certain disaster for outsourcing arrangements

c) Focus on cost reduction. When the pressure to reduce costs is the motivating principle, organizations often find that business objectives are not met through outsourcing arrangements.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

d) Inability to adopt cultural changes. Cultural change is necessary for successful outsourcing arrangements. Without it, organizations find it difficult to assess how changed processes are impacting business objectives. For instance, many organizations evaluate their operational effectiveness by evaluating the person performing a task; with out- sourcing , organizations must shift this assessment to consider what is being done, how it is being done, and how effectively it is being done

e) Lack of details. A lack of details (i.e., metrics) regarding the currently delivered baseline service levels makes it nearly impossible for organizations to measure a change or consistency in service levels going forward.

Problems associated with outsourcing

Outsourcing does generate some problems. Dean (2003) notes that outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure. Another big problem with outsourcing comes from the workers themselves as they fear loss of jobs (Malhorta 1997) as quoted by Dean (2003).

Common activities outsourced

Organizations were asked to identify the types of activities that they outsourced or were attempting to outsource. The top activities or functions identified were: information technology (such as application development, contract programming, data entry and simple processing), management services, manufacturing of components for the final product or the whole product, product design, engineering projects, distribution, and sales of products or services. According to Melinda (2013), small business owners need to think about regular activities that can be outsourced or subcontracted out. She adds that great leaders know it is more productive to outsource work that is not revenue generating, but essential to business operations. Common activities that are outsourced by firms are summarized below:

Table 3: Common Activities outsourced.

Item Category	**Which party?**	**Break down of results to monitor**
Marketing Efforts	consultant or public relations specialist	sales results downloadable content for your website email marketing campaigns handle direct inquiries develop media pitches creation of TV and radio advertisements is the most commonly outsourced marketing activity by small businesses
Payroll	hire an outsourcing company to do your payroll	deductions for withholding social security unemployment worker's compensation
Social Media Marketing	Solo-preneur marketing consultants and social media marketing agencies	developing your social media strategy content development social promotion website development

Bookkeeping	outsourcing basic accounting services to a seasoned bookkeeper	updated financial information Accuracy Affordability
Administrative Support	Utilizing virtual assistants	maintaining your personal schedule, database, preparing mailings, email newsletters, copy editing, blog maintenance, booking travel arrangements, invoicing, collections and voicemail and email management
Information Technology		maintenance/repair training applications development consulting and reengineering mainframe data centers

N.B some of the results were recently confirmed during the recent survey by Ayaz Nanji (2013)

Supervision of outsourced functions in organisations

Mamdoub(2012) asserts that that the supervision of the delivery of the outsourced function is usually kept with the outsourcing organization. Representatives of the outsourcing organization always work hand in hand with the service providers to ensure maximum value for money in terms of quality, cost, delivery and performance specifications. In one of the interview Mamdoub (2012) conducted in the airlines industry, he reports that the General Manager noted that "…..people forget that the contractors need to be managed".

The issue of quality has received mixed reactions especially in the airlines industry where it was perceived that once you outsource customer service, quality standards may drop. Mamdoub (2012) reports that in this particular sector, quality levels on outsourced customer services received a 100% negative response, where several airlines companies reported declining standards in customer service levels, and preferred insourcing such services.

Outsourcing In A National Context: The Case Of Mukwano Industries (Uganda) Ltd

Outsourcing of freight forwarding services in Uganda in general and Mukwano Industries in particular does not seem to be delivering the highly publicized efficiency gains. Mukwano industries, like many manufacturing entities in Uganda is realizing that on entering the outsourcing engagement, they are still grappling with rising costs in port storage and demurrage charges (TradeMark S.Africa, 2011), unrelenting cargo delays, unprecedented loss of cargo to Kenya Revenue Authority auctions (Africa Financial Markets, 13th Jan, 2009) and poor service delivery characterized by cargo congestion in Mombasa port (8,000 and 800,000 containers in 2006 and 2012 respectively) (Africa Business Pages, 2012; Business Daily, 13th December 2012). Mukwano Industries in particular was faced by a pile up of more than 150 containers in Mombasa in 2007, stuck for more than 60 days (Africa Business Pages, 2007), which resulted in huge demurrage costs and port storage charges.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

It is on this basis that this study sought to examine the influence of freight forwarding outsourcing on supply chain efficiency in Mukwano Industries.

Case description

Outsourcing of the freight forwarding function has taken centre stage in realizing cost savings for organizations; the Freight Forwarder's transportation role has been recognized as a critical strategic element within the supply chain (Stank, 2010). Makumbi (2013) quotes Wilding and Juriado (2004) as having said that about 40% of global logistics functions, including freight forwarding, are outsourced.

Cost reduction has emerged as the topmost motivation for 48-76% of organizations seeking to outsource worldwide (Power et al, 2006; Aberdeen Group, 2008; Delloite, 2008; PWC, 2008). In Uganda's case, freight transport accounts for up to 75% of the value of exports (Institute of Trade Development, 2011) and 30-40% of the CIF value of imports (Trademark East Africa, 2011); outsourcing the freight forwarding function in Uganda from a this perspective would be seen to yield major significant cost savings. However, research developments indicate that over focusing on cost-reduction in outsourcing decisions does not deliver full value (Aberdeen Group, 2008; C.H Robinson, 2011; Xoriant Corp, 2011; Shaun, 2012) and many firms have not realized the savings envisaged at the time of entering the outsourcing engagement (Ikeda, 2004; Shaun 2012). Particularly, Shaun (2012) contends that outsourcing initiatives that are driven by the desire for cost saving without considering technical and strategic factors do not succeed.

This study being an academic research was conducted in a space of not more than 6 months. The study was completed by the 30th of September 2013.

METHODOLOGY

The study used a self-administered questionnaire and an interview guide. These two research instruments provided valuable information upon which the findings of the study are based and discussed

Main findings from the study

The level of importance of these outsourcing decision factors is varied, with diminishing importance values being registered in two technical factors- the human resource factor and the Health, Safety & Environment factor. The diminishing values in these two factors are an indication that there could be a human resource problem, which could have negatively influenced organizational efficiency, accounting for the negative regression coefficient (β), much as the impact is statistically insignificant

The second objective of the study was to analyse the extent to which freight forwarding outsourcing planning influences Supply chain efficiency. The findings of the study revealed that freight forwarding outsourcing planning a highly significant positive influence on Supply chain efficiency in Mukwano Industries Ltd. These findings indicate that outsourcing planning positively influences the Supply chain efficiency of the organisation.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

The third objective of the study was to examine the extent to which freight forwarding outsourcing administration influences Supply chain efficiency. The findings of the study revealed that there is a highly positive significant relationship between freight forwarding outsourcing administration and Supply chain efficiency of the organization. The results from the study show that outsourcing administration registered a significantly high average index, a significantly positive correlation coefficient and a significantly positive regression coefficient, implying that freight forwarding outsourcing administration has a significantly(dominant) positive influence on overall efficiency in relation to decision-making and planning.

Current challenges

The study revealed that after outsourcing the freight forwarding function, Mukwano Industries Ltd is paying more than it used to pay for the same service, and is yet receiving a lower level of service than it was getting when the freight forwarding function was performed in-house. According to the findings, the freight forwarding service provider has not been able to manage the intervening (extraneous) factors like the non-tariff barriers, resulting in extra costs and delays for Mukwano Industries Ltd. The study also revealed that freight forwarding outsourcing has encountered administrative and technical challenges that have greatly impacted on Supply chain efficiency; and the organization is thinking of back-sourcing the function to mitigate the risks.

The descriptive results indicated that the human resource factor from the supplier's side was not considered as important in freight forwarding outsourcing decision-making, and may have had a significantly negative influence. Sometimes the non-compliance of the freight forwarder with regulatory bodies, as highlighted in the results from the interviews, has indirectly affected the company in terms of delays in release of cargo, storage and demurrage charges and stock-outs.

Solutions and recommendations

In the event that the company decides to sign a 5-year outsourcing deal with a freight forwarder, the researcher recommended that the company undertakes a thorough audit of the service provider to ensure that the organization has the necessary skilled human resource to handle the freight forwarding function, and understands the business needs of the client. In an effort to close the human resource gap and create synergy, the researcher recommends that the company institutes cross-posting of staff, on-site training of service provider's staff and knowledge transfer.

The researcher also recommended having one service provider for freight forwarding, inventory management and distribution under one roof, so that the client concentrates on other core activities. This would ensure supply chain visibility, and promote Supply chain efficiency. However, this function should be managed jointly to ensure synergy and control, by performing an inter-organisational mapping to include qualities that not only compliment the processes and objectives, but also help create cohesion and synergy.

In the event that Mukwano Industries Ltd decides to back source the freight forwarding function, a lot of caution needs to be taken to ensure that the current human resource in Mukwano Industries Ltd is well trained and have the necessary skills, remuneration and job security to manage the freight forwarding function well and to avoid loss of morale usually

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

associated with back sourcing. Proper planning needs to be done to ensure that the transition is as seamless and painless as possible.

In reference to this case therefore, the above study has revealed that, contrary to popular opinion of the media and academia, outsourcing does not necessarily enhance cost efficiency, unless it is carefully decided, planned for and effectively administered with a strategic dimension to foster mutual benefit and synergy.

CONCLUSION

The final debate of whether to insource or outsource is finally settled. The key drivers of large-scale outsourcing are cost reduction, efficiency and the expertise, knowledge and support gained from a specialist provider (Kevin, http://www.fmlink.com). Outsourcing therefore gives access to the skills and knowledge that will help reduce expenditure while improving service quality," says Tony Sanders, managing director, commercial, at Inter-serve Facilities Management. This has therefore created a growing trend as companies find that outsourcing and offshoring lead to greater efficiency and cost savings as they don't have to pay salaries and benefits to employees, and instead pay contract fees for completion of duties. Cutting costs is an obvious reason for outsourcing but it could also be for flexibility or the usage of expert knowledge. It is possible to save a lot of money but there are many obstacles for the companies to overcome before they can be successful in outsourcing.

REFERENCES

Aberdeen Group (2007). Through the Looking Glass of Procurement Outsourcing Benefits, Research Brief, *Aberdeen Group Inc, Harte Hanks Company, 2007.pp12-13*

Aberdeen Group (2008). "The Changing Role of Logistics Service Providers in Today's Supply Chains-New ways to Work Successfully with Freight Forwarders, *Third Party Warehouses and Freight Brokers, March 2008. Pp8*

African Business Pages (2013). "Mombasa Port: New Problems-Exporters lose out as Mombasa Port congestion intensifies in recent months", www.africa-business.com/features/mombasa-africa-trade.html downloaded 28th March, 2013.

African Financial Markets (2013), "Taxman Collects Sh760 Million From Port Auction", 13th January, 2009, http://www.africanfinancialmarkets.com/front-news-detail.php?NewsID=30757 downloaded 28th March, 2013.

Alan L (2013) .Cutting costs or maximising resources: the future of outsourcing, *from* http://outsourcemagazine.co.uk/cutting-costs-or-maximising-resources-the-future-of-outsourcing/

Arnett, K.P.; Jones, M.C. (1994). Firms that choose outsourcing: A profile. Information and Management Journal, from http://www.sciencedirect.com/science/article/pii/0378720694900914

Ayaz Nanji (2013): What Marketing Activities Do Small Businesses Outsource?, *from* http://www.marketingprofs.com/charts/2013/11670/what-marketing-activities-do-small-businesses-outsource

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)

BACOMPT ( ): Shelf tag printing — comparing the benefits of insourcing vs. outsourcing, a white paper, 12742 Hamilton Crossing Blvd; Carmel, IN 46032-5422, 800-533-7109, www.bacompt.com

Bloomberg business week (2006): The future of outsourcing, Business week magazine, *from* http://www.businessweek.com/stories/2006-01-29/the-future-of-outsourcing

C.H Robinson Worldwide Inc: Collaborative Outsourcing- Powerful new Ideas for Freight Management, 2011, available from http://www.logisticsmgmt.com/article/collaborative_outsourcing_-_powerful_new_ideas_for_freight_management/airfreight

Cummins, R (1994). Laying the Foundation for a Career in Consulting." Journal of AHIMA 65, no. 11 (1994): 39.

Dave Griffins, The Theory and Practice of Outsourcing; Information Consultant, Kudos Information Ltd, Emerson Court, Alderley Road, Wilmslow, Cheshire, SK91NX, England; *from* http://www.inkoopportal.com/inkoopportal/download/common/theory_and_parctice_of_outsourcing.pdf

Dean Elmuti (2003): The Perceived Impact of Outsourcing on Organizational Performance, American Journal of business, Vol 18, No. 2; Eastern Illinois University

Debendra M & Biswajit S (2011): Prioritization of outsourcing in Hotel Industry: A fuzzy AHP Multi Criteria Decision making Approach, SAJTH, July 2011, Vol 4 no. 2

Deloitte & Touche (2008). Strategic Outsourcing for success, Summary results of the 2008 outsourcing report, 2008.

Dougherty, Michelle(2000), "How to Grow a Business." In Long Term Care Handbook: Resources for the Health Information Manager. Chicago.

Homan, Cheryl (2008), "Transitioning into a Consulting Career." Advance for Health Information Professionals.

Ikeda Karen: "Dispelling Myths around outsourcing: Making sense of all the outsourcing hype", *website* http://www.faotoday.com/content/1077/dispelling-myths-around-outsourcing downloaded 28th February, 2013.

Institute of Trade Development: Final Draft Report to develop a Logistics Performance Survey Index (LPI) for Kenya Shipper's Council, Ref KSC/KM/01, 2011. Jeffery Pfeffer & Richard Salancik, "The External Control of Organisations", 1978, website, www.ssr1.uchicago.edu/NEWPRE/Org2/Pfeffer2.html downloaded 17th April, 2013.

Jesper Momme (2001): Outsourcing manufacturing to suppliers, A conceptual framework, Department of production, Aalborg university, Sweden.

Kathawala, Zhang, Shao (2005): Global outsourcing and its impact on organisations: Problems and issues; International Journal of Services Operations Management, Vol 1 No. 2, 2005

Kevin Stanley(…): Outsourcing versus Insourcing in a Cost-Cutting Climate; To have or to hold; http://www.fmlink.com/article.cgi?type=Magazine&pub=FM%20World&id=30988&mode=source

Knowles, Brenda E. "How to Start a Business." In Long Term Care Handbook: Resources for the Health Information Manager . Chicago, IL: AHIMA, 1999.

Kotabe, Masaaki, Mol, Michael J., Murray, Janet Y. and Parente, Ronaldo. (2012) Outsourcing and its implications for market success: negative curvilinearity, firm resources, and competition. *Academy of Marketing Science. Journal*, Vol.40 (No.2). pp. 329-346. ISSN 0092-0703

Laith Tseganoff (2011), "A general guideline of professional conduct for management consultants/trainers", *New York: Cambridge University Press*.

Makumbi Grace (2013): Influence of freight forwarding outsourcing on supply chain efficiency in Mukwano Industries Ltd, *Kyambogo University, Kampala*

Mamdoub Taber Tayeb (2012):The determinants of outsourcing on airline's performance; Operations Management Division, University of Nottingham Business School

McIvor, R., 2000b, "A practical framework for understanding the outsourcing process", Supply Chain Management: An International Journal, 5, 1, 22-36

McIvor,R (2005).A practical Framework for understanding the outsourcing process. Supply Chain Management, An international Journal, 5(1), 22-36

Melinda Emerson (2013): Best Activities to Outsource in Your Small Business, http://www.huffingtonpost.com/melinda-emerson/small-business-outsourcing_b_3874954.html

Milberg, W. and Winkler, D. (forthcoming) Outsourcing Economics: Global Value Chains and Capitalist Development, New York: Cambridge University Press.

Musubika Narigisi (…):impact of outsourcing on organizational performance: The case of Century Bottling Company Limited, *Makerere University*

Nilakshi W.K Galahitiyawe & Ghazali Musa (2011): The Measuring Framework of Outsourcing Success: A Social Exchange Persipective , Annual Summit on Business and Entrepreneurial Studies (ASBES 2011) Proceeding

Pore, Anand, Shah, Grishma & Sterrett, Jack (….):Do Managerial Motives Influence The Mode Of Offshoring…?, Journal of Interdisciplinary Business Studies; Pore, Anand Emporia State University ; Shah, Grishma ,Manhattan College & Sterrett, Jack ,*Emporia State University*

Power J, Kevin C & Carlo (2006). "The Outsourcing Handbook: How to implement a successful Outsourcing Process", *Kogan Page Ltd, 2006.*

Price Waterhouse Coopers: "Outsourcing comes of Age: the rise to collaborative partnering", 2008.

Rich Rafdahl (2014): 6 Reasons Why Businesses Should Consider Procurement Outsourcing, http://www.linkedlocalnetwork.com/?s=Why+Businesses+Should+Consider+&submit=Search&goback=%2Egde_771367_member_5836909852642799619

Rick Mullin, (1996) "Managing the Outsourced Entreprise", *Journal of Business Strategy*, Vol. 17 Iss: 4, pp.28 – 36

Robert Handfield (2006): A Brief History of Outsourcing, Directorate of SCRC, *Bank of America University*

Shaun Snapp: Oversimplified Rules of when to Outsource, Supply Chain Management Focus, 11th April 2012, Website http://www.scmfocu.com/outsourcemyscp/2012/04/11/oversimplified-rules-of-when-to-outsource, downloaded 27th February 2013.

Stank Theodore (2010): 'Transportation Decision Making in an Integrated Supply Chain, Supply Chain Management Review, 08th October, 2010.

Stephen Edem Hiamey (2012): Challenges of hotel outsourcing in Ghana: A transaction cost perspective; *African Journal of Hospitality, Tourism and Leisure* Vol. 2 (2) - (2012) ISSN: 2223-814X

Syntel (….): The Keys to Successful Service Level Agreements; Effectively Meeting Enterprise Demands

Vol.4, No.3, pp.59-86, June 2016

Published by European Centre for Research Training and Development UK (www.eajournals.org)

The Outsourcing Institute Membership (1998): Survey of Current and Potential Outsourcing End-Users

Tomas Lööf (2010): Agile outsourcing; A Case Study; *University of Gothenburg; Department of Applied Information Technology, Göteborg, Sweden*

Trademark East Africa: "International Traders Cant Interpret trade terms", 2011, Website: http;//www.trademarkea.com/international-traders-cant-interpret-trade-terms, Downloaded 27th February, 2013.

Xoriant Corporation: "Product Engineering Outsourcing- Looking beyond cost savings", 2011.

Zoran Perunović & Jørgen Lindgaard Pedersen (2007): The outsourcing process and theories; *POMS 18th Annual Conference, Dallas, Texas*, U.S.A, May 4 to May 7, 2007.

ISSN 2054-0930 (Print), ISSN 2054-0949 (Online)