

OUTSOURCING AND ORGANIZATIONAL EFFICIENCY. A CASE STUDY OF
PHOENIX PETROLEUM UGANDA LIMITED

BY

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BSP/17790/92/DF

A RESEARCH DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF SUPPLIES AND
PROCUREMENT OF KAMPALA
INTERNATIONAL UNIVERSITY

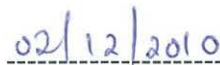
DECEMBER, 2010

Declaration

I declare that to the best of my knowledge, the work here is original. It has never been presented anywhere either partially or in total for any award. I would therefore like to present it for the award of the Degree of Bachelor of supplies and procurement of Kampala International University.

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Approval

This research report has been submitted for examination with my approval as a supervisor in the school Business and Management of Kampala International University:

SUPERVISOR

A handwritten signature in blue ink, appearing to read 'Michael Ruteganda', written over a horizontal dashed line.

Michael Ruteganda

A handwritten date '2/12/10' in blue ink, written over a horizontal dashed line.

Date

Dedication

I wish to dedicate this research to my parents; Mr. Duale Ahmed Hussein and my beloved mother; Fatuma Diis Dagane for their endless support and love.

Acknowledgements

I wish to acknowledge both my parents; Mr. Duale Ahmed Hussein and my beloved mother; Fatuma Diis Dagane for their endless support and love. I would also wish to acknowledge the love of all my brother; Ahmed Duale and sister; Khadijah Duale, sister in law; Khadijah Hajji Jama and my cousins. Finally, I wish to acknowledge the efforts of my supervisor Mr. Michael Ruteganda for his excellent guidance during this project.

I am deeply indebted to my entire family members who collectively have been significant during my entire course of the study, for their faithful financial and moral support and endurance during my trying moments. I say thank you very much and may Allah bless you.

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Abstract

Outsourcing is the strategic use of outside resources to perform activities that are usually handled by internal staff and resources. This study was designed to explore the relationships between outsourcing and organizational efficiency at Phoenix Petroleum Uganda Limited. The major objectives of this study therefore were to find out; Reasons for outsourcing in the organization, the impact of outsourcing on organizational effectiveness and the challenges to outsourcing at Phoenix Petroleum Uganda Limited. Twenty employees of all levels of the company were interviewed and the findings were analyzed.

The results show that the organization generally considered successful at outsourcing. The major reasons for outsourcing at the organization were; cost reduction, quality control, reducing risks; focus on core competencies, failure to have the required resources internally and the reduction of head counter employees in the organization. The major impact of outsourcing in the organization were; improved quality, cost reduction, improved reliability and delivery, productivity and shorted production cycle. Finally, the respondents identified the fear of change, including fear of job loss, long term contractual inflexibility, poor choice of outsourcing partners, poorly managed contracts and hidden costs and risks as the most the major challenges to outsourcing efforts. However, while the organization achieved significant improvement in organizational performance, it had not reached the magnitude of improvements ascribed to outsourcing.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

Outsourcing is an increasingly important initiative being pursued by organizations to improve efficiency (Vining and Globerman, 2000). To be able to survive and be profitable in current globalization era, companies tend to use outsourcing in larger extent (Brannemo, 2006). In today business environment, companies considered outsourcing to empower business focus, mitigate risks, build sustainable competitive advantage, extend technical capabilities and free resources for core business purposes (Bartell, 1998). Some companies outsource their core activities on the value chain extensively and other companies in contrast are extensively outsourcing their secondary activities of their value chains such as information technology, accounting systems and distribution (Johnson and Schneider, 1995; Lacity and Willcocks, 1998).

An organization is said to have outsourced their jobs when they delegate certain duties and functions to an external party. (Gilley et al, 2004) This is usually necessary in instances where a specific company has no skills for performing the task within the organization. Additionally, it can be done in order to minimize workload. Usually, the company that has provided the outsourcing service will be expected to look into matters surrounding the day to day administration of that work. For outsourcing of jobs to work for any company, there is a need for consistent communication between the parties

involved. Furthermore, companies need to establish long term relationships in order to maximize the benefits of this business approach.

Over the decade, outsourcing has received increasing research attention in response to the increased demand on outsourcing as means for organization to compete and be effective in today's market challenges. (McIvor, 2008).

Outsourcing is plausible for a range of business functions such as marketing, Information technology, distribution, manufacturing, recruitment etc. The world of business has evolved today and more entrepreneurs are looking for methods of maximizing profitability. The paper will examine how organizational effectiveness in these various functions can be improved or impeded through job outsourcing.

1.1 Statement of the Problem

Outsourcing is an increasingly important initiative being pursued by organizations to improve efficiency (Vining and Globerman, 2000). Outsourcing as a business strategy is growing internationally; organisations are now outsourcing a wider range of business functions than ever before. This trend is expected to continue as organisations look for ways to reduce costs and increase effectiveness. However, while accounts of successful outsourcing are common, other organizations report dissatisfaction with out sourcing experiences. This study therefore focuses on the question; what is the relationship between outsourcing and organizational efficiency? This question will therefore be answered by reviewing literature in this subject and surveying Phoenix Petroleum Uganda Limited.

1.2 Purpose of the study

The purpose of this study was to examine the relationship between outsourcing and organizational effectiveness at Phoenix Petroleum Uganda Limited.

1.3 Objectives of the study

These objectives are at the heart of the study;

- (i) To identify reasons for outsourcing in the organization
- (ii) To find out the impact of outsourcing on organizational effectiveness
- (iii) To find out how outsourcing can impede organizational effectiveness

1.4 Research questions

The study was designed to answer the following research questions:

- (i) What are the reasons for outsourcing in the organization?
- (ii) What is the impact of outsourcing on organizational effectiveness?
- (iii) How can outsourcing impede organizational effectiveness?

1.5 Scope of the study

1.5.1 Content scope

The study focuses on assessing the relationship between outsourcing and organizational effectiveness.

1.5.2 Geographical scope

The study was conducted from at Phoenix Petroleum Uganda Limited.

1.5.3 Time scope

The study was limited to the period from July 2008 to December 2010

1.6 Significance of the Study

- i) The results of this study will provide insight and information for administrators, practitioners, and researchers about outsourcing in relation to organizational effectiveness. Once the level of organizational efficiency is measured, administrators can develop and implement change strategies that would actually improve the concept of outsourcing in their organization, thereby potentially increasing the overall effectiveness of the organisations, and possibly decreasing costs.
- ii) This research provides an opportunity to consider procurement development towards outsourcing and incorporates a perspective on the application of organizational management techniques.

1.7 Limitations to the study

- This research has scale limitations in that the sample of one organisations is small. It was also possible to interview only twenty people with additional analyses of documentation and archives used to aid triangulation. The size and potential bias of the sample also limits the ability to generalize from the research. Because of the time consuming nature of the data collections methods and the size of the research dissertation it was not possible to expand beyond the scope of this dissertation.

- While limitations are acknowledged, this approach has enabled the blending of procurement and strategic business outsourcing experiences, the identification of recommendations for improvement and development of a model framework for possible use in procurement outsourcing projects. It has also identified the potential for more development and in depth analysis in the future; further research could include a wider sample with a larger number of respondents from participating organizations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature on the relationship between outsourcing and organizational effectiveness. The presentation follows the order of the objectives, which are; to identify the reasons for outsourcing, to find out the impact of outsourcing on organizational effectiveness and to find out how outsourcing can impede organizational effectiveness.

2.1 Definition and History of Outsourcing

Definitions of outsourcing vary but follow a consistent theme. Greaver (1999) describes outsourcing as “the act of transferring some of a company’s recurring internal activities and decision rights to outside providers as set forth in a contract” (p.3). The definition is expanded with the view that outsourcing serves and extends an organisation’s existing procurement infrastructure, managing the process and spending categories that the organisation feels it has opportunities to improve but lacks the internal expertise to manage effectively (Hazra, 2004).

The simplest and perhaps clearest definition may well be that contained in a standard dictionary, “Outsource: to contract out” (Oxford Concise Dictionary, 1999).

Outsourcing has been used throughout recorded history, as long ago as the 4th century the defence of the Roman Empire was outsourced to Barbarian mercenaries; the poor performance of this outsourcing arrangement is considered to be one of the elements which led to the downfall of the Roman Empire (Halvey & Melby, 2000). An example of successful outsourcing (Domberger, 1998), was the awarding of contracts by the British Royal Navy for the transportation of convicts from Ireland to Australia in the 18th century. This practice was a success in that it guaranteed supply of services, logistics arrangements and costs for the Royal Navy as well as the outsourcing merchant shipping companies. Domberger suggests the only people the arrangement did not suit were the convicts themselves, since the contract system guaranteed their miseries and often their deaths.

Halvey and Melby (2000) discuss how the outsourcing concept gained popularity during the mid twentieth century led by the heavy engineering and automobile industry search for partners to provide subassemblies to increase manufacturing outputs. From the 1950's as industrial growth accelerated, traditional organisations preferred to adopt a vertically integrated approach where they believed they should own each stage in the design to delivery process thereby controlling the supply chain (Farney et al., 2004).

Greaver (1999) identified how the term "outsourcing" was first used in the late 1980's by the Information Systems trade press to describe the trend of large companies transferring their information systems to specialist providers. Large high profile organisations such as Kodak and DuPont were at the forefront of this evolution by outsourcing information

technology management. Davenport (2005) describes how this evolved from the outsourcing of products to the outsourcing of business processes as companies like BP and Procter & Gamble outsourced major pieces of their finance functions, while Nike and Hewlett-Packard outsourced much of their manufacturing, often sending it overseas. In the early 1990's successful outsourcing in the US private sector led to significant public sector outsourcing of non-core business functions. Those involved and affected have mixed views on procurement outsourcing, from those who see it as a threat to their jobs and familiar processes (Govpro, 2005), to those who see it as an alternative procurement tool and important business strategy (Heffes & Marshall, 2004).

2.2 Reasons for outsourcing

Reasons organisations choose outsourcing are linked to business performance and improvement. Initial decisions to outsource were based almost entirely on expected financial benefits (Greaver, 1999), with any other business improvement benefits seen as secondary (Halvey & Melby, 2000). An internet survey by the Outsourcing Institute of global business executives identified the following 10 reasons for procurement outsourcing; (The Outsourcing Institute, 2005b).

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits

7. Function difficult to manage/out of control
8. Make capital funds available, (from outsource provider)
9. Share risks
10. Cash infusion, (when internal investments are constrained)

Whilst most authors agree with these reasons for outsourcing, Hanson and Olson (2005) prefer to focus on just three key benefits, “lower costs, increased focus on core competencies and improved operating performance” (p.18). Halvey and Melby (2000) go further and include the following additional reasons;

- o Enhancing and improving methodologies and processes
- o Benefiting from industry knowledge or experience
- o Streamlining and standardising processes across an organisation
- o Sharing resources or technologies
- o Committing less upfront investment to new methodologies

Greaver acknowledged that this list is not exhaustive and that it will vary depending on the industry, most authors quote similar reasons. Gay and Essinger (2000) include; To deal with a function that is difficult to manage or possibly out of control and to accelerate reengineering benefits. It may be more useful to initially consider the outsourcing reasons at the highest level to help develop a business perspective rather than drilling into specific detail. In a recent interview at The Outsourcing Institute, Dr James Quinn, (a professor of management at Dartmore University specialising in the study of outsourcing), gave one very simple but profound argument for organisations to consider outsourcing, “If you are

not best in the world in doing something and are doing it in-house, you are giving up competitive edge. You could outsource to the best in the world, up the value and lower the cost” (The Outsourcing Institute, 2005).

Research shows that close to seventy percent of businesses in the country have embraced outsourcing as a viable business option. Consequently, it would be necessary to look at some of the reason behind this rush. The first and most prominent reason for choosing outsourcing is to minimize business costs. Research has shown that companies can save as much as sixty percent of their business costs when they choose outsourcing. This is possible because those companies that supply outsourcing services have adequate resources, personnel etc needed to conduct that business function under consideration. Additionally, such companies may be located in other regions or countries that supply input at a lower price than in the country of normal operation. For instance, some Asian countries giving call care services charge very little for their services owing to the fact that labor supply in these countries is cheap and they can then trickle down these low costs to respective consumers in the Western world. (Littler & Benson, 2002).

Outsourcing one's business functions can improve one's competitive advantage. The reason behind this is that outsourcing reduces business costs. Consequently, the extra amount that would have been passed to the consumer in the form of higher prices for the commodity now becomes irrelevant as consumers pay less for their commodities. This allows businesses to compete on the basis of price thus giving them a competitive advantage.

Many businesses that do everything on their own may be exposed to greater levels of risk than those who outsource. Usually, the former mentioned companies may have problems trying to balance between choosing the right alternatives, training their employees in that area of interest, increasing reliability and maximizing efficiency. Consequently, by doing everything on its own, a company may have a difficult time trying to eliminate risks. Besides this, companies usually run the risk of spending too much on infrastructural capital. Consequently, this eats into their profitability and also reduces their chances of growing their firm. However, through outsourcing, companies can minimize their risks with regard to huge infrastructural expenditure and the overall result of this issue is that more investors will be attracted to such companies.

Outsourcing is crucial to those businesses with minimal expertise in a given field. Companies that supply outsourcing services usually have a long history of performing the services offered. This means that they can add the following qualities to their respective enterprises; expertise, economies of scale and efficiency. It should be noted that outsourcing is the platform that allows small companies to compete with big ones because the latter mentioned qualities (bulleted list) are usually available in companies that engage in outsourcing their business functions. Companies can access these advantages easily without having to train the members of their organization in this area. Additionally, they need spend too much time and resources on hiring personnel who have a lot of experience in that field of expertise. Usually, getting such professionals to work for an organization can be detrimental to their finances.

Outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the core business functions of a company. Companies can therefore concentrate on aspects of business that they encircle their business objectives and this eventually improves their business functions. (Kakabadse,N., & Kakabadse, 2003)

Outsourcing also gives companies the opportunity of expanding. Since a company is concentrating on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. The overall effect of such an approach is that many persons may now have the opportunity to improve their business values. This then gives them a platform for improving their business sizes.

Outsourcing is also chosen by many enterprises because through this business approach, it is possible to save on valuable time. Usually, companies that outsource can make faster deliveries to their respective consumers. The overall result is that consumers' needs are satisfied. All clients consider prompt delivery as a positive business attribute and this may keep them coming back to that respective business. In close relation to the latter argument is the fact that outsourcing heightens consumer satisfaction. This is because outsourcing produces better quality and also improves the nature of one's business practices. This eventually makes that respective company more competitive and also attracts greater levels of business management. Through such approaches, it is then possible to establish a relationship with one's clients and this makes them keep coming back to the business.

Through outsourcing, businesses can benefit from the differences in time zones between the outsourcing company and the company buying the services if they come from different countries. Many companies that outsource their business functions to Asian countries or other countries with different time zones can get the chance of business continuity. In other words, they can still be running on a twenty four hour basis even without subjecting their employees to hectic shift programs. This is because an outsourcing partner can be doing certain tasks during the night and have it completed when the company under consideration comes back in the morning. The two partners can complement one another because of the differences between their time zones. When one country is asleep, the other can be busy working on a particular assignment. Eventually companies exceed their expectations and consumers will always be satisfied with their efficiency. (Woolson & Speckhals, 2001)

Outsourcing can also contribute to the overall effectiveness of a particular country. For instance, numerous companies have managed to grow their economies by outsourcing their business functions. Taking the example of the United States, during the late nineties, there was an outsourcing boom and most of the companies that took up this approach began recording increases in profitability. The overall effect was that the country's economy began going up. In fact, more jobs were created and national wage went up. This well performing economy was a platform for further reinvestment and this created a favorable climate for more investment thus better performance again. Similarly, other countries and regions have also recorded such positive benefits and these include; Australia, United Kingdom Etc

The common perception has been that most outsourcing jobs shift jobs to the receiving countries and hence drain the economy. However, an analysis of the latter countries has shown that most of these companies have created higher standards of living for their populace owing to the fact that new lines of work were be created. For instance, when one analyzes a country such as the US; the country began outsourcing most of its manufacturing jobs to the Asian continent. Many people thought that this would drain their economy but that was not the case. Instead, the financial services sector began growing and this eventually filled the void created by outsourcing manufacturing jobs. (Freeman et al, 2001)

2.3 The impact of outsourcing on organizational effectiveness

Outsourcing can occur in a number of ways. For instance, some companies may choose to transfer all the activities and functions conducted by their employees to an external party. The overall effect of this is that a mother company may not have the need for these former employees and may be forced to release them. In other instances, outsourcing can occur by separating a certain department within a company from its mother company. Usually, the department that used to be part of the company is now the outsourcing partner and through this, a number of resources will also be transferred to the new outsourcing company. In other situations, companies may choose to outsource by taking all the resources and their employees to certain outsourcing providers. While all these methods are possible within a business environment, the most common method is the first one as mentioned above. It is essential to understand the form of outsourcing applicable to a certain company because that then determines the kind of problems that might arise

in terms of organizational effectiveness. However, in order to apply the assertions in this paper to all business institutions, it is necessary to look at outsourcing in general rather than in under each of these forms.

Outsourcing can improve organizational effectiveness when applied as an organizational strategy. Usually, companies may choose to outsource with certain business objectives in mind. The first objective amongst this is the need to improve on financial performance. Usually, such companies are aware that outsourcing companies may offer them an opportunity to work cheaply through efficient technology and economies of scale. This is the reason behind the high cost saving strategies that US companies have enjoyed. By minimizing costs, companies can achieve their economic related goals and this enhances their organizational effectiveness.

The second objective is that companies get a chance of improving their operational flexibility. Usually, when a company controls all its business functions, then chances are that it may not respond to certain business conditions e.g. infrastructural changes. However, when a business has outsourced its functions, then it can always request for reductions or increases in these business functions. The overall result of this is that companies gain operational flexibility and can therefore enhance their organizational effectiveness.

Outsourcing is also good for business because there are certain situations that can be avoided through it. For example, companies that perform all their business functions may have to spend huge amounts on replacing obsolete technology. However, when that business function is outsourced, then companies will not even feel the pinch. This

means that companies can dedicate their resources to productive activities alone and thus enhance their effectiveness. (Hellriegel et al, 2002)

Outsourcing may be beneficial to specific employees in certain lines of work. For instance, research conducted among IT firms found that those who choose to separate a departmental function with the rest of the organization may have greater opportunities to climb up the ladder of corporate success. Usually, if a member of the IT department in a larger organization moves to a specialized company that outsources to the mother company then chances are that that individual will earn more than what he did in the mother company. Additionally, such an employee may be exposed to greater career opportunities through such an approach.

2.4 How outsourcing can impede organizational effectiveness

Sometimes, outsourcing may be more of curse than a blessing when organizations go for it for the wrong reasons. For instance, in countries with outsourcing booms, it has become common to find certain companies taking up outsourcing just because their competitors are doing the same. Such companies may want to convince their consumers that they are keeping-up-with-the-times. In the end, they may not be sure of which business functions really need outsourcing and which ones will result in maximum profitability if they do so. Consequently, such firms will perform poorly and their organizational effectiveness may be impeded. (Kathawala & Elmuti,2000)

Strategically, there are certain risks that come with the option of outsourcing as a method for conducting business. The first one is the fact that a business may loose property

rights. This means that they may not have the ability to control the strategic direction which a certain business function is taking. There is always a danger of failing to meet one's organizational strategies when one cannot effectively control all parts of their business.

Outsourcing can also be very problematic to a business because certain instances arise when outsourcing partners become dependent on one another. This usually occurs when the business function to be outsourced is quite complicated and may require a lot of time before an outsourcing provider familiarizes himself/herself with the intricacies of the business. This places the mother company in a vulnerable position because they may not be satisfied with services offered but may have to stick there just because they have become dependent on the service provider. The overall effect of this dependency is that companies may not get a chance of aligning their business functions with their strategic objectives. This makes them less effective.

Outsourcing can also impede organizational effectiveness because its institution may meet resistance from pre-existing employees. Many books have depicted outsourcing as a scenario in which both the recipient and the supplier can benefit. However, there are many pre-requisites to this success and one of them is the cooperation of members in an organization. When employees within a certain company realize that part of their business functions will be outsourced, some of them may not accept this easily. For instance, they may not be sure about the future of the jobs and even though they will be retained within the company, some of them may be uncertain about their future. Additionally, these employees may worry about the career opportunities available to

them once certain business functions have been outsourced. Furthermore, it may be a problem in terms of the amount of pay which these employees receive after outsourcing. All these could demoralize the existing workforce and thus impede organizational effectiveness. (Gilley et al, 2004)

Closely related to this fact is that certain employees may just have a negative attitude towards outsourcing regardless of assurances from their employers. This means that such employees will always undermine activities or work conducted by other companies. This is usually depicted by a high level of mistrust between employees within the outsourcing company and the mother company. Such a negative attitude only serves to hinder business advances and organizational effectiveness. Furthermore, certain employees may not be committed to outsourcing as a viable business approach. This means that no matter what the outsourcing suppliers do, employees within the mother company may not meet their end of the bargain and this leads to failure. (Kessler & Shapiro, 2002)

Sometimes some employees may perceive outsourcing as mechanisms which their employers are using to breach their contracts. There are several repercussions to this psychological premise. First of all, employees may be demoralized from doing their jobs. Most of them may imagine that they no longer hold the important position that they did before introducing outsourcing and this eventually undermines organizational effectiveness. Besides the latter, it is also possible for employees to worry about the conditions of their workplace. For instance, issues such as commuting may change upon instituting outsourcing. Consequently, those employees that would have been very

productive in the past eventually begin performing poorly and may eventually undermine organizational output.

In other instances, employees may feel that outsourcing is a demonstration of their employer's discontentment with their skills and talents. Consequently, such employees may assume that the outsourcing firms have been hired to make up for the deficiencies in their talents or skills. Usually, staff members that develop such tendencies may decide to quit the place of employment and may not adopt other alternatives in the end. As if this is not enough, some employees may lose their place within the organization. They tend to lose their sense of identity because the tasks that they used to do have now been taken over by other persons. (Gilley et al, 2004)

It should be noted that all the latter human resource issues are rarely accounted into the costs of outsourcing. Most organizations may merely focus on tangible expenses but these psychological consequences among their employees may add hidden costs to their business expenses (when employees under-exploit their potential). This eventually reduces their organizational effectiveness.

Research has shown that a large number of employees in firms that outsource their business activities may have similar problems to those employees that have undergone downsizing. Usually, employees who remain behind after a company has outsourced its business functions may think of themselves as survivors. In other words, they may assume that their respective organizations are not doing very well and that they may be next on the line. Usually, such employees have fears about available career opportunities. It is in fact true that some career opportunities may be limited to individuals who adopt

such mechanisms for doing business. Additionally, it may also be problematic for these respective individuals when the affected company has no method for ascertaining better career opportunities in the future. (Kathawala & Elmuti,2000)

Outsourcings can also be a problem in the future when there are no mechanisms for ensuring its success. This is especially in relation to organizational change. A number of books have been written about how to handle organizational change. Most of them usually focus on adjusting organizational structures but few of them may deal with human resource issues and this is the area that may bring in the greatest amount of problems. The following issues are related to both organizational change and outsourcing and if left unchecked may cause great impediments to organizational effectiveness

- A change in organizational culture
- A change in the workplace
- A change in the work contract
- A change in methods of working
- Some transitions in job content
- Cases of forced termination

It should however be noted that organizations that do poorly in this area are those ones that failed to identify the most favorable methods for effecting change within the organization. For instance, when management fails to perform its functions, then chances are that outsourcing can fail miserably. For instance, in certain scenarios, some managers may not give a direction to their employees on the way forward after outsourcing. Additionally, certain managers may fail to clearly lay out the benefits of outsourcing to

their employees and this leaves them with half knowledge about the business approach. Furthermore, managers are likely to get minimal support from their employees when they fail to align their business processes with new organizational challenges after outsourcing. Similarly, some leaders may record poor performance after outsourcing when they fail to realize the opportunities that employees can utilize to improve their knowledge.

When employers fail to deal with these issues, then organizations may not realize the benefits of outsourcing and as matter of fact, they may begin registering organizational ineffectiveness

2.5 Literature Conclusion.

Whilst the evidence certainly points towards an increasing trend in outsourcing procurement, there are real concerns with the performance of outsourcing to date. The high dissatisfaction rates reported by Heffes and Marshall (2004) and Mears (2005) link to the continued focus on refining how organisations identify outsourcing needs, standardise business processes, evaluate outsourcing opportunities and develop specific arrangements for managing each outsourcing project (Greaver, 1999).

Whilst the available literature helps illuminate key issues and trends with outsourcing internationally, current practices and intentions for outsourcing in Uganda are unclear. The lack of knowledge in this area reinforces the focus of this research project, which is to investigate the future potential for Ugandan companies to outsource.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter gives a description of the study area and the methods that were used to collect data from the field. It gives a summary of the research design, sample population and size, data collection methods and the problems faced during the process of data collection and analysis

3.2 Research design

The research was based on both the qualitative and quantitative research designs. The qualitative research design was descriptive in nature and this enable to meet the objectives of the study. Statements were used to assign variables that were not adequately measured using numbers and statistics. The quantitative research design used in form of mathematical numbers and statistics assigned to variables that would not be easily measured using statements or theme. Also exploratory research design was used to explain the relationship between outsourcing and organizational effectiveness.

3.3 Area of study

The study was carried out at Phoenix Petroleum Uganda Limited. Phoenix Petroleum Uganda Limited is a privately owned company with its head offices located in Makindye, one of the suburbs of Kampala, the capital city of Uganda. The study area was preferred by the researcher because the company is one of the most efficient run petroleum companies in Uganda.

3.4 Study Population and sample size

Because of the time consuming nature of these data collection methods the sample was limited to only one organization from across industry sectors. This approach was preferred as interviews typically achieve far higher completion rates and have proven to be more effective when researching complicated subjects (Babbie, 1998). The population of the study was all the employees and management of Phoenix Petroleum Uganda Limited. Considering time, the researcher used a sample size of twenty (20) respondents.

3.5 Sample selection

In selecting the sample, the researcher used stratified random sampling. The study was divided into two strata and these were composed of managers and subordinate employees of Phoenix Petroleum Uganda Limited. Given the nature of the information needed, the researcher selected respondents basing on expertise. These included: top management, middle management and lower management such as supervisors who provided relevant information on the performance of the organisation. The study covered all employees irrespective of their sex, religion, age and tribe.

3.6 Methods of data collection

The above research incorporated the use of various methods in the process of data collection in a bid to come up with sound, concrete and credible research findings. The researcher therefore amalgamated the use of questionnaire based interviews and observation in the process of collecting primary data.

Questionnaires

Questionnaires titled “Outsourcing and organizational efficiency” were used in the process of collecting data. The researcher administered questionnaires to selected employees and management officials of Phoenix Petroleum Uganda Limited. The relevance of this is that the questionnaires were convenient and less time consuming. The respondents were grouped into two different strata of management and employees. With management staff who did not have time for an appointment, an email of the questionnaire was sent to them which was easily filled.

3.7 Data processing and analysis

After collecting all the necessary data, these data was coded and edited, analyzed and rephrased to eliminate errors and ensure consistency. It involved categorizing, discussing, classifying and summarizing of the responses to each question in coding frames, basing on the various responses. This was intended to ease the tabulation work. It also helped to remove unwanted responses which are considered insignificant. Answers given in the questionnaires were classified into meaningful categories. This enabled the researcher to bring out essential patterns from the data that would organize the presentation. Some data was tabulated from which the final research report was drafted. Data analysis was done with the use of SPSS.

Table 1 show that the majorities, 35% of the respondents were in the age bracket of (20-30) and (30-40) years respectively; 15% of the respondents were in both age brackets of below 20 years and above 40 years respectively. This implies that majority of the respondents were youth who are responsible long serving staff.

4.1.2 Sex of respondents

Table 2: Sex of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	13	65.0	65.0	65.0
Female	7	35.0	35.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

The table above indicates that, 65% of the respondents were males while 35% of the respondents were females. The reasons for this were as a result of the nature of the activities of the organization that implied the use of more men than women.

4.1.3 Title of Respondents

Table 3: Title of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Sales Persons	8	40.0	40.0	40.0
Manager	3	15.0	15.0	55.0
Accountant	1	5.0	5.0	60.0
Directors	2	10.0	10.0	70.0
Supervisor	3	15.0	15.0	85.0
Drivers	3	15.0	15.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

Figure 1 shows that 40% of the respondents were sales persons in the organization sampled. On the other hand, 15% were managers at different stations of the company, 5% were accountants and procurement officers, 10% were directors of the company, while 15% consisted of both supervisors and drivers of the company.

4.1.4 Number of Years worked in the organization

Table 4: Years worked in the organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 2	4	20.0	20.0	20.0
2-4 years	10	50.0	50.0	70.0
Above 4 years	6	30.0	30.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

According to table 4, 50% of the respondents had spent between 2-4 years in the service of the organization, 30% of the respondents had spent in the organization more than 4 years while 20% of the respondents had been with organization for less than 2 years. The findings imply that majority of the respondents had spent some considerable period of time with the organization and hence their responses could be relied upon.

4.1.5 Level of Education of Respondents

Table 5: Level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Primary level	2	10.0	10.0	10.0
Secondary Level	9	45.0	45.0	55.0
Tertiary level	9	45.0	45.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

Regarding the level of education of respondents, 10% of the respondents were primary leavers; 50% of the respondents were secondary leavers and 50% of the respondents were graduates from tertiary institutions and universities. This implies that Phoenix petroleum employed a cross section of people with the majority literate.

4.2 Research Question 1: Reasons for Outsourcing

This section addresses the reasons for outsourcing some of the core business activities of the in terms of various issues raised by the researcher to the respondents. In addressing this question respondents were asked about the business activities being outsourced, the level at which the outsourcing decision is taken and the main reasons for outsourcing. Below are the findings:

4.2.1 Are there organizational activities being outsourced?

All participants had experience of outsourcing and while they signaled intentions to continue outsourcing, they are likely to pursue opportunities to outsource in the foreseeable future. The respondents were further asked to name the core organizational activities that were currently or had ever been outsourced in the organization.

This question was designed to measure outsourcing strategy familiarity and duration of existing outsourcing programs among the surveyed respondents. About 95 percent of the respondents reported that they were familiar with outsourcing strategy

Table 6: Business activities outsourced

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Transportation	6	30.0	30.0	30.0
Meals	3	15.0	15.0	45.0
Auditing Services	3	15.0	15.0	60.0
Cleaning Services	2	10.0	10.0	70.0
Marketing Services	1	5.0	5.0	75.0
Office Deliveries	1	5.0	5.0	80.0
Equipment Repair	4	20.0	20.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

Table 6 above shows the main business activities outsourced at Phoenix Petroleum Uganda Limited. 30% of the respondents noted that the organization out sources the transportation of fuel from Mombasa to Uganda and even around Uganda to different fuel stations of the company. This was followed by 20% who revealed that the repair of company equipment like pumps, office equipment like computers among others, 15% of the respondents revealed that the company out sources the provision of meals like breakfast and lunch, and auditing services respectively. The respondents revealed that the organization often hires external auditors to audit the company accounts at both the head offices and the respective company fuel stations around the country.

It was further revealed by 10% that Phoenix petroleum outsources form cleaning agencies to clean the company premises. Other respondents revealed that in the recent times the company has hired external marketing agencies to market the company products and services. Finally, 5% revealed that the company the company out sourced

the delivery of company products and documents around and outside Uganda. Among the important documents delivered include; credit notes, bank statements and debit notes.

Respondents 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 repair of computers), management services (auditing, manufacturing of components for the final product or the whole product, product design, marketing, distribution, and sales of products or services). These findings support recent studies on outsourcing activities (Youngblood, and Gary 1999).

4.2.2 At what level was the outsourcing decision made?

At the time the survey was conducted several business activities were also considered outsourced or for outsourcing. Whilst outsourcing was not stated as part of the recorded business plan, it appears this strategy was promoted widely by senior management; as a result some activities were outsourced and some retained in-house where the business risk was perceived to be high. The following quote from the respondent summarises how decisions to outsourcing were often taken;

“A Small number of people involved, senior executive decision, put up a paper to the board, based on proposed saving and in some cases it was very compelling. e.g. with catering, it meant instead of running internally, we pay another company to allow them to run it and took away the headaches”.

Table7: Level of outsourcing decision

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Top Management level	10	50.0	50.0	50.0
Middle management level	7	35.0	35.0	85.0
Lower employee level	3	15.0	15.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

According to the findings in table 7 above, 50% of the respondents revealed that the decision to is often taken by the top management of the company. This is because this decision always involves changing the company policies and strategies. 35% revealed that sometimes the decision to outsource can be taken by middle level managers. An example was an accountant taking some decisions while branch managers given some authorities to outsource. Finally, 15% of the respondents revealed than on some occasions lower level employees can decide to outsource though on a very small scale.

4.2.3 Reasons for outsourcing some business activities at Phoenix Petroleum

Table 8: Reasons for outsourcing

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Cost reduction	6	30.0	30.0	30.0
No available internal resources	2	10.0	10.0	40.0
Reduction of head counter employees	2	10.0	10.0	50.0
Reduction of Risks	1	5.0	5.0	55.0
Improve Quality	4	20.0	20.0	75.0
Focus on core competencies	5	25.0	25.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

The reasons for outsourcing can be condensed into the categories that affect organizational performance. According to 30% the respondents, one reason is cost (another firm can do the activity for less). 20% said quality (another firm can do the activity better). 5% revealed that outsourcing is done because of reducing risk (another firm is better able to assume the risk of doing the activity). 25% revealed focus (another firm should do this activity because it is time consuming and diverts focus). Finally, 10% revealed that there are available internal resources to carry out the work and the reduction of head counter employees respectively.

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

4.3 Research Question 2: The impact of outsourcing on organizational effectiveness

This section addresses the impact of outsourcing on organizational effectiveness in terms of various issues raised by the researcher to the respondents. In addressing this question respondents were asked if outsourcing has been effective and finally asked to reveal the real impact. Below are the findings:

4.3.1 Has outsourcing been effective at Phoenix petroleum Limited?

To examine the effectiveness of the strategy, respondents were asked of their opinions concerning the degree of usefulness of outsourcing strategies by the company.

Table 9: Has outsourcing been effective?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	17	85.0	85.0	85.0
	No	3	15.0	15.0	100.0
	Total	20	100.0	100.0	

Source: Survey Data

According to the study findings, 85% of the respondents revealed that the strategy had been successful while only 15% all lower level employees were in agreement with the strategy especially in fear of their jobs.

4.3.2 Impact of outsourcing on organizational efficiency

Further evaluation of the impact of outsourcing strategies on organizational efficiency, was accomplished by the study to evaluate the dependence of measures of organizational performance on outsourcing strategy dimensions. This analysis determines the proportion of variance in organizational efficiency scores explained by outsourcing program.

Table 10: Impact of outsourcing on organizational effectiveness

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Improved quality	4	20.0	20.0	20.0
Cost minimization	6	30.0	30.0	50.0
Firm focuses on key skills	3	15.0	15.0	65.0
Cycle time	2	10.0	10.0	75.0
Productivity	3	15.0	15.0	90.0
Improved delivery and reliability	2	10.0	10.0	100.0
Total	20	100.0	100.0	

Source: Survey Data

According to the findings, 30% of the respondents revealed that outsourcing had led to minimizing costs, the company has achieved its economic related goals and this enhances their organizational effectiveness. 20% revealed that the company had improved the quality of service delivery. Due to control of a few of its business functions, then the company respond to certain business conditions e.g. infrastructural changes. Also, the respondents in this table indicated that 15% of the responses in cycle time, 31% of the variance in productivity and, 10 percent of the variance in improved delivery and reliability.

Outsourcing is also good for business because there are certain situations that can be avoided through it. For example, companies that perform all their business functions may increase productivity and efficiency. These findings complement previous studies (Casale 1996; Jennings 1996; Quinn 1999; Lau and Hurley 1997; Steensma, Kevin and Corley 2000) that found a positive relationship between outsourcing activities and performance.

Furthermore, respondents reported that the outsourcing strategies in their organizations were making a huge contribution to overall organizational efficiency. They indicated that the savings and indirect benefits generated by the outsourcing programs were greater than the costs of developing the required resources and capabilities through internal development. Outsourcing strategies were believed to help improve performance, increase access to international markets and leading edge technologies, enhance responsiveness to customer needs, and contribute to organizational goals of increased productivity, efficiency, reduced costs, reduced cycle time, and improved quality of the goods and services in their organizations.

4.4 Research Question 3: Challenges to outsourcing at Phoenix Petroleum Uganda limited

To examine challenges to outsourcing, respondents were asked to identify the seriousness of risks facing outsourcing. The respondents identified the fear of change, including fear of job loss, long term contractual inflexibility as the most serious problem facing their sourcing efforts.

Table 11: Challenges to outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Long term contractual inflexibility	2	10.0	10.0	10.0
	Resistance from existing employees	7	35.0	35.0	45.0
	Reduction in house expertise	5	25.0	25.0	70.0
	Poorly managed outsourcing contacts	3	15.0	15.0	85.0
	Poor choice of outsourcing partners	2	10.0	10.0	95.0
	Hidden costs and risks	1	5.0	5.0	100.0
	Total	20	100.0	100.0	

Source: Survey Data

From the study findings, 35% of the respondents revealed that the biggest challenge to outsourcing is the resistance from employees who fear the loss of their job and feel that the organization's management has little trust in them. 25% revealed that outsourcing leads to a reduction in house talents if some of the core business activities are outsourced other than developing them internally, 15% revealed that some outsourcing activities are sometimes poorly managed while 10% reported that outsourcing leads to long term contractual inflexibilities and there are poor choices of contracting partners sometimes. Finally, 10% of the respondents revealed that sometimes outsourcing comes with hidden costs and risks.

From the study findings, dealing with these fears through communication and honesty is important to managing these challenges (Jones 1997; Quinn 2000). A poor choice of sourcing partners was the second most serious problem facing unsuccessful

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The attitudinal results presented in this study provide support for the claims of outsourcing proponents that outsourcing allows organizational efficiency in form of; enhanced expertise, improved service quality, reduced staff, streamlined process, lowered costs and reduced administrative burden and saved time. Outsourcing in this sense, is beneficial to organizational efficiency.

In addition, this study identified current outsourcing strategy trends and practices. One of the important contributions of this study is the revelation that organizations generally consider themselves successful at outsourcing. However, while they achieved significant improvement in organizational performance, they have not reached the magnitude of improvements ascribed to outsourcing strategies.

A number of organizational strategies were also identified as key contributors to outsourcing success. These included strategies with clear objectives, right outsourcing partners, adequate skills, adequate planning, effective communication, and cooperation and collaboration throughout the organization. These strategies are thought to improve quality, deliver, and performance.

5.2 Concluding Recommendations.

The following recommendations were identified as a result of this research.

More should be done to communicate the value proposition of outsourcing in organisations. Senior executives should improve their understanding of outsourcing relevance and procurement officers could emphasise strategic procurement value while simplifying tendering and purchasing processes which are sometimes seen as narrowly focused and overly bureaucratic. This should include promotion in terms of strategy development and management structure representation which could also help identify future outsourcing possibilities. It may also help avoid potential conflict of interests in outsourcing situations when business functions which could potentially be impacted are responsible for initiation and investigation of outsourcing evaluations.

The organisation in this research had some positive outsourcing experiences but had not explicitly mentioned outsourcing in their strategic or business plans. Organisations should include consideration of outsourcing strategies during long term planning cycles.

Without alignment of organisational culture, senior management philosophy and core business activities; outsourcing investigations, evaluations and subsequent contracts are unlikely to succeed. As scope and expectations of outsourcing projects are clarified, formal commitment to the project objectives and process should be obtained from senior management and key organisational stakeholders.

When a business process improvement role is taken on as part of an outsourcing project there are often problems associated with process commitment and buy-in to changes from throughout the organisation, even though this role may be valued at a senior level. It is important to clarify and confirm the mandate for these involvements, as well as the interdependencies with other activities and commitment from key internal stakeholders at the initiation of each project and at key stages during the project life cycle.

A model for outsourcing of in Uganda should be accessible and scalable with emphasis on the Ugandan market. It should be easily adaptable for industry sectors or business activities and include identification and analysis of existing and planned outsourcing categories. It should also draw on project management principles and to develop clarity of objectives, support for related changes and transparency of delivery processes.

5.3 Limitations and areas of further research

This exploratory empirical investigation into outsourcing provides tentative avenues for increasing the probability of success of outsourcing projects and raises many issues for further study of the outsourcing phenomenon. This study is limited by its small sample. In addition, a survey methodology was also used, which is susceptible to both misinterpretation and common method variance.

Despite these limitations the research contributes to developing an understanding of outsourcing in identifying areas that need further research. First, the study indicates that in many cases, one of the primary risks to firms is the effect of outsourcing on employee

morale and performance. However, more must be learned about the specific changes made to human resources, how these were successfully implemented, and how they contributed to the outsourcing effort. Second, the study found that organizations with different levels of success at outsourcing identified different factors as problems in the outsourcing project. These factors need to be explored in more depth to identify those that must be managed to ensure the highest level of success of an outsourcing project.

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APPENDIX I: QUESTIONNAIRE

Dear Respondent,

This consent form will help me get information for a research project looking at outsourcing and organizational efficiency. This study has been approved by Kampala International university department of business and Management. Any issues you raise will be treated with confidence and used only for academic purposes, and you will be informed of the outcome.

Background

A) Name of your organisation

.....

B) Please describe what your organisation does?

.....

C) Approximately how many permanent staff does your organisation employ?

.....

D) Briefly provide some individual information;

Name.....

Title.....

Responsibility.....

Reporting to.....

Length of time employed by this organisation.....

Business Strategy

A) Does your organisation have a written strategic plan?

.....

B) How does outsourcing relate to your strategic plan?

.....

C) Is outsourcing or procurement explicitly mentioned in your strategic plan?

.....

Outsourcing

A) What business activities are considered to be “core” in your organisation?

.....

B) What business functions are outsourced?

.....

C) Were any of these outsourced functions ever considered to be “core business activities”?

.....

Outsourcing Drivers

A) What were the key drivers behind your organisation’s decision to outsource?

.....

B) At what level in the organisation was the decision to outsource made?

.....

D) How did you determine what activities should be outsourced? E) Why did you decide to keep your organisation’s other activities in-house?

.....

Outsourcing Performance

A) Does your organisation currently have any agreements with external procurement service providers?

.....
If Yes, Please provide brief summary.

.....
If No, Have you considered outsourcing some or all procurement activities?

.....
C) Were your organisation's outsourcing objectives met?

.....
D) To what extent have procurement activities been successfully outsourced by you organisation, please indicate (circle) the general perception of success for this outsourcing.

.....
Challenges

What do you believe to be the biggest challenges for outsourcing arrangements?

.....
What plans do you have for outsourcing activities in the future ?

.....
What plans do you have for outsourcing other business processes?

.....
THANK YOU FOR TAKING THE TIME TO COMPLETE THIS SURVEY