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IMPACT OF OUTSOURCING STRATEGY ONMARKETPERFORMANCE: EVIDENCE FROM NIGERIAN GSM TELECOMMUNICATION INDUSTRY

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Abstract

This study attempts to assess the impact of outsourcing strategy on market performance in Nigerian GSM industry with special reference to two key players in Nigeria telecommunication industry namely MTN Communication Nigeria Limited and Etisalat Nigeria Limited. The survey research design was adopted. Data collected from the survey were analyzed using the Bionomial logistic regression method of analysis was used. The results obtained showed that there is a strong relationship between outsourcing strategy and market performance, cost saving, efficiency and quality services. The study therefore recommended that more industry should embrace the outsourcing strategy in order to achieve their corporate performance and targeted high market share.

Key words: *Telecoms industry, Outsourcing, Strategy, Market Share, Performance.*

Introduction

In today's world of ever increasing competition, organisations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Dean 2006). Strategic

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management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn 2002). Outsourcing is a management strategy by which an organisation delegates major, non-core functions to specialized and efficient service providers (Corbett, 2003). Outsourcing is nothing less than the wholesale restructuring the corporation around organisation core competencies and outside relationships. The traditional outsourcing emphasis on tactical benefits like cost reduction i.e, cheaper labour cost in low-cost countries, have more recently been replaced by market performance, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Judith, 2005).

The market for providers of outsourced services of all types is growing rapidly. In 1996, American firms spent over $100 billion in outsourced business activities (Casale & Overton 1997). Other estimates place the total U.S. market for outsourcing at more than $300 billion by the year 2001. Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services is expected to increase to $200 billion by the year 2020 (Dun and Bradstreet 2000). Marketing literature has equally indicated that two-thirds of companies world-wide already outsource at least one business process to an external third party. This practice appears to be most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought (Janet, 2001).

Successful implementation of an outsourcing strategy has been credited with helping to cut cost, increase and improves capacity, improve quality, increase market share which in turn result increase profitability and productivity and improve financial performance. It also helps to lower innovation costs, business risks and improve organisational competitiveness (Steensma & Corley 2000). However, outsourcing does generate some problems. First of all, outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure.

Companies that outsource should continue to monitor the contractor's activities and establish constant communication. Another big problem with outsourcing comes from the workers themselves as they fear loss of jobs and in a recent survey 55 percent of outsourcing relationships fail in the first five years. Out of many of these relationships that manage to stay together, 12 percent are unhappy with their arrangement and regret ever making the deal (Foster, 2005). This clearly shows organisation must carefully crafted implementation of their outsourcing strategy so as to be able to achieve the objective of embarking on it.

A core and non-core activity is central to the successful operation and serving of the needs of the potential customers. However dwindling resources and market competiveness have forced many organisations to scrutinize their method of operation in order to maximize economics and market returns. The strategy of outsourcing or competitive sourcing of vendor is one fundamental change made by private sector organisation to streamline business process in-order to bolster organisation competitive and market position. Therefore to focus more on area of core-competence many organisations have outsourced, human resource management function, like recruitment, training, logistic function and other area of non-core activity to cut cost and refocus resources. It is therefore against this backdrop that this study examines the impact of outsourcing strategy on market performance in two selected Nigerian GSM telecommunication companies as the case study.

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The main objective of this paper is to examine the impact of outsourcing strategy on market performance. The other specific objectives of this paper are to:

i. examine the relationship between outsourcing strategy and organisational market performance.
ii. examine the relationship between outsourcing strategy and cost savings.
iii. determine if outsourcing strategy can improve an organisation quality of services.

Literature Review

Concentrating on core business has been the order of day in many industries and this is becoming essential for competitive survival of many industries. Successful implementation of outsourcing strategy is now seen as an essential factor in market share objective of many organisations in this ever competitive business environment. There is no organisation that will be at rest in this dynamic and marketing changing setting. Virtually all organisations make high market share their paramount objective because it leads high profitability. Therefore those activities that are not core to the business have to be outsourced to specialise providers. To do this, companies must have to read along the lines of their strategic plans carefully, their long-term strategy must be a continuous and iterative process that provides some competitive advantage (Johnston and Clark, 2005).

Until the later part of the 20th century, most businesses decided for themselves which changes to make. If they had to expand their markets, they made careful studies on their strategies and did so. If they thought of reorganizing their business, they considered their customers, employees while maintaining their company balance. But today many industries have had to rethink the way they carry out business in order to have the competitive edge in their industry. Companies constantly face unexpected developments that have a serious impact on their market performance. The companies no longer themselves, but their environment these days dictates most of the changes to be made (Beulen *et al*, 2006). The current competitive business edge is driven by market and technological factors; the power balance has shifted from supply to demand push. Technological factors; especially developments in information technology or IT are as much a cause as an effect of the transformation to new ways of doing business in telecommunication Industry. As a result of these developments, traditional value chains are being unbundled. IT outsourcing is a major part of outsourcing decisions in Telecommunication Industry. It is fair to admit that, though, growing business maturity in the more advanced economies has moved from information system outsourcing to the next phase: business process outsourcing(BPO), it is still at the IT phase in Nigeria's telecommunication industry.

Concept of Outsourcing Strategy

In the early 20thcentury 'outsourcing' typically referred to the situation while organisations expanded their purchases of manufactured physical inputs, example are car companies that purchased window cranks and seat fabrics from outside the firm rather than making them inside. Nowadays, outsourcing took on a different meaning. Presently it refers to a specific segment of the growing international trade, this segment consists of arm's-length, or what is called long-distance, purchase of services abroad, principally, but not necessarily, via

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electronic mediums such as the telephone, fax and the Internet. (Bhagwati, *et al*. 2004).In an era of rapid technological change and short product life cycles, companies were trying to reduce cost and maintain quality at the same time which implied that companies would need to specialize in what they did best and de-emphasize management attention from business processes that did not directly impact the business. Outsourcing was a means to partner with service providers so they could handle specific business processes – better, faster and at a lower operating cost (Krishna, 2001). It was defined as the transferring one or more internal functions of an organisation to an external service providers. According to the analyst made by Dean (2006), outsourcing was growing about 20 percent to 25 percent per annum. Outsourcing has become an alternative which all major corporations must consider in order to remain competitive. It helped to increase efficiency, improve service quality, accountability, values, decreased headcounts and cash infusion and gain access to world class capability and sharing risk (The Outsourcing Institute, 2006).

One of the primary advantages of outsourcing arises quickly from the reduction of overheads. This might give rise to an immediate, and possibly one-off, advantage in terms of the avoidance of future or recurrent capital outlay, and the savings in office space and equipment provisions if these could be released during the outsourcing decision. There was clearly a staff cost reduction possible here, and this could be the predominant element in directly-attributable, ongoing cost savings. The spin-off from this might benefit the business support services department where the outsourcing was partial, and could be especially useful where the capital cost was high and recurrent, particularly if there was uncertainty about the future costs of maintaining effective and competitive business support. It was an investment risk transfer, in other words. Where outsourcing is total, the benefit was accrued directly by the core business - it translated to a capital injection to the customer's business. This was one of the major driving reasons of the outsourcing of IT provision in the early 1990s - generally agreed as having been led in 1989 by Kodak, which outsourced all of its IT operations to IBM (Jonathan Reuvid and John Hinks, 2001). This could also confer a great deal of flexibility on the company. For a centralized organisation which was providing a range of its support services from its own personnel and offices, the move to outsourcing could allow a downsizing of the property commitments. The transfer of a non-core service provision to a variable cost would allow economies of scale to be passed on from the supplier, and also would mean that incremental changes in the process capacity of the customer (upwards or downwards) could be covered at proportional rather than quantum cost changes. Where scope to vary the scale of the contracted supply was agreed, this has allowed the business organisation to make maximum use of its marginal capital for core process change rather than non-core process support change.

Outsourcing has existed in the USA for over 30 years particularly the business process outsourcing (BPO). The Bank of America, Best Buy, Delta Airlines, Goodyear, IBM, the Marriott, Motorola, PepsiCo, Procter & Gamble, and Sun Microsystems are all outsourcing HR functions. US federal and state governments also spend billions each year doing so also. HR functions are not just being outsourced, they are being sent offshore. The US companies have off-shored their manufacturing and their R&D facilities in their semiconductors, computing, chemicals and pharmaceuticals to the UK, Germany, France, Ireland and other developed countries (www.shrm.org).

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In view of developing countries, outsourcing takes place more recently to India and China. In 2003, 1.5 million service jobs were outsourced to the developing world and the number was projected to surge to 4.1 million by year 2008 (El'millian Chew Saint Fey, 2005). According to the Offshore Location Attractiveness Index published by Kearny (2004), Malaysia, an emerging south east-asian nation, was the third most desirable location for offshore outsourcing in the world, after India and china. In Malaysia, the demand for outsourcing was not only from global multi-national companies but also from local companies. The demand for outsourcing was driven by the fact that companies could access a more reliable infrastructure that could ensure smooth core business operations at lower costs and with greater flexibility. Outsourcing also encouraged the pooling of resources for a more efficient use of resources to reap the benefits that could be derived from economies of scale.

Core and Non-Core Activity and its Effect on Outsourcing

A core activity is central to the company successfully serving the needs of potential customers in each market. The activity is perceived by the customers as adding value and therefore being a major determinant of competitive advantage. Distinguishing between core activities and non-core activities is a complex task. Care must be taken to ensure the long-term strategic considerations and true benefits are assessed. Scholars adopting the strategic perspective and practitioners adopting conventional wisdom argue that in order to preserve firm's competency core activities should stay in-house, whilst non-core activities can be outsourced (Rothery and Robertson, 2005).

Defining what core competency for an organisation is fraught with many ambiguities. Dun and Bradstreet (2000) regard core activities as core competencies, namely those activities that the firm is continuously engaged. Core competencies are not products or 'those things we do relatively well'; they are those activities – usually intellectually based service activities or systems that the company performs better than any other enterprise. They are the sets of skills and systems that a company does at 'best in world' levels and through which a company creates uniquely high value for customers (Quinn, 2002).

How to create a best-in-world level? Quinn (2002) stated that it starts with an analysis of the company's value chain and identifies few critical activities which considered by the firm's executives and staff as the best to compete effectively. The most effective core competency strategies focus on a few (two to four) cross-functional, intellectually-based service activities or knowledge and skill sets critical to customers, where the company can build and maintain best-in-world capabilities and provide a flexible platform for future innovations. At least one of these competencies must connect directly to the customer needs and satisfaction. Once a company develops a true best-in-world core competency, it never outsources it. The company may even build defensive rings of essential competencies that customers insist it have or that protect its core (Figure 1). If a company is not best at an activity and continues to produce that activity in-house, the company gives away a competitive edge that it could have had. A non-core activity could be outsourced. Quinn (2002) notes that unless the company is best in world at an activity – whether within a function or inter-functionally – it is someone else's core competency, not its own. The company gives up competitive edge by not buying that skill from a best-in-world source. A best-in-world target forces the company (1) to think clearly and explicitly about strategic advantage and to look laterally at other enterprises not in its own industry when seeking performance comparisons and improvements.

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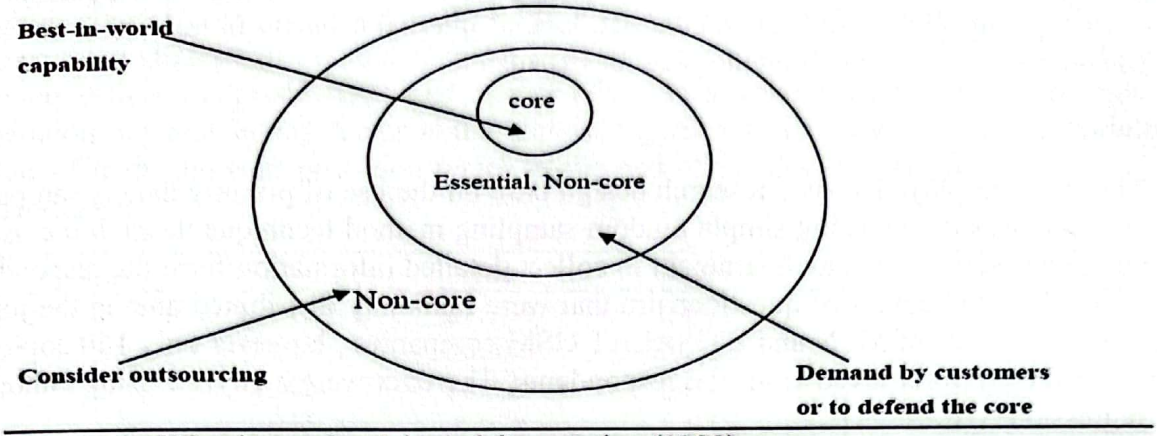


Figure 1. What is core? – Adopted from Quinn (1999)

Factors Influencing Outsourcing Strategy Decision

Outsourcing strategy decisions are those strategic decisions that change the operations strategy of an organisation both in manufacturing and services. The most important step in any outsourcing decision is to clearly define the scope of the operations that are being considered for outsourcing. (Cook, & Gildner, 2008) Human resource professionals throughout the world are being asked to do more or less, to enhance productivity while controlling costs and to find out new ways to increase profitability. (Uddin, Gazi, M. 2005). In the competitive environment of telecommunication Industry and evolving technology era, to enhance efficiency and productivity, cost remains a challenge to all manufacturing industry to compete with rivals in providing the best total lower cost to end customers and to secure the market share in order to add value to the shareholders. Having to invest heavily in capital investment such as machineries, buildings and land to expand space in supporting the production operation is a burden to most companies if the return of investment is not profitably. Most of the companies that were struggling to expand the capacity to support the ramp up demand at times were disappointed when there was a drastic downturn of demand cut. As a result, the sudden downturn would affect the resources and investment that were put into supporting the end customers' demand. Pool of human resources and machineries that consumed production space and being idled would increase the overhead and fixed cost, thus affecting the companies badly in their financial statements. In addition, training and development to up skill internal resource skills set in terms of running the operation effectively, bringing up technical content expert, specialist ability to perform research and development to add value, effective management and maintaining the operation would require significant investment in human resources (David Mackey and Kaye, 2003). Thus, most of the companies started to explore opportunities to reduce cost and to improve profit margin in order to maintain competitive edge in the market. One of the identified opportunities was to outsource non-core business functions to external service providers at a lower operating cost.

According to the Outsourcing Institute Executive Survey (2006), the top ten reasons why companies would outsource are as follows: Reduce and control operating cost, Improve company focus, Gain access to world class capability, Free resources for other purposes, Resources are not available internally, Accelerate re-engineering benefits, Non-core function that is too complex to manage, Make capital funds available, Share risks, and Cash Infusion. There were also reasons

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companies outsource due to lack of technology capability, strategic advantage to the companies, better service quality vendor and sound contract, lack of internal capacity in meeting production ramp demand and also possible limited space for expansion.

Methodology

The study employed survey research design base on the use of primary data.A sample of 200 respondents was drawn using simple random sampling method technique through the use of well structure questionnaire as an instrument to collect detailed information from the respondent. Out of the total of 200 copies of questionnaire that were randomly distributed among the junior ,middle and senior staff of MTN and ETISALAT GSM companies , however only 150 copies of the questionnaire were retrieved from the respondents. The data were analyzed using Binomial logistic regression

Results and Discussion of Findings

The Binomial (Binary) Logistic Regression was used for this study. It is a form of regression which is used when the dependent variable is dichotomy in nature and the independent variable is of any type.

The method applies maximum likelihood estimation after transforming the dependent into a logit variable that is the natural log of the odds of the dependent occurring or not.

$$\text{Logit } (p) = \beta o + \beta_{1X1} + \beta_{2X2}\beta + \beta_{3X3} + \beta_{4X4} + U_1.$$

The primary objective of this section was to analyze the data that were obtained through the use of the primary method of data collection gotten through questionnaire.

Table 1 shows that a total 40 respondents representing about 26percent of the total respondents were of the believe that cost saving is the one of the success factor to the use of out sourcing strategy. 53 respondents representing 35 percent of the total respondents were of the opinion that to gain high market share influenced their choice on outsourcing some of operation. Also 32 respondents representing 21 percent of the total respondents were of the opinion that the company tend to gain more efficiency by embarking on outsourcing strategy. While the remaining 25 respondents representing 16 percent of the total respondents were of the opinion that quality service on the part of the organisation to their customers were among the success factor that makes Mtn and Etisalat embracing outsourcing strategy.

Factors	**Frequency**	**Percentages**
Cost saving	**40**	**26.67**
High market Share	**53**	**35.33**
Efficiency	**32**	**21.33**
Quality Services	**25**	**16.67**
TOTAL	**150**	**100.0**

Source: Field Survey 2016

Table 2 shows the result of the empirical analyzes which reveals that the Nagel Kerke (R^2) is 0.905. This implies that about 90.5 percent of these factors highlighted below explain the impact of outsourcing strategy to Mtn and Etisalat communication limited. However cost saving

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with a significant value of 0.000 produced the most remarkable impact. This remarkable contribution of cost saving make it one of the major reason why Mtn and Etisalat embraced outsourcing strategy in the management of their operation. Although all the other three factors namely efficiency, productivity and quality of services equally contribute significantly to MTN operation but cost saving factor is the highest significant factors when it comes to outsourcing some of their non-core operation which at the end of the day impact positively to organisation performance.

	B	S.E	Wald	Df	Sig	Exp(B)
X_1	0.542	21.754	0.001	1	0.895	0.076
X_2	0.001	00.589	20.589	1	0.000	1.0002
X_3	0.945	10.325	0.045	1	0.756	0.545
X_4	1.045	8.978	0.085	1	0.978	0.665
Constant	20.748	273.540	0.030	1	0.945	1.9E+10

Source: SPSS Analysis 2016

Logit (p)=$\beta o + \beta_{1X1} + \beta_{2X2} + \beta_{3X3} + \beta_{4X4} + U_1$

Whereβo = Constant term β_1 - β_4

Regression Coefficients X_1= Cost Saving, X_2 =High Market Share, X_3= Efficiency, X_4=Quality Service

Log (P) = $20.75 + 0.542X_1 + 0.001X_2 + 0.945\ X_3 + 1.045\ X_4 + U_1$

S.E (273.540) (21.745) (00.000) (10.32) (8.978)

Nagel Kerke R^2= 0.905

It was observed that MTN Communication Nigeria Limited has outsource non-core operations services such as marketing function, human resources function and distribution function to specialized service providers more compared to Etisalat Nigeria Limited. Again MTN and Etisalat underlying objective of outsourcing non-core operations is hinged on reducing cost, provide quality service and improve customer service. The study also observed that both MTN and Etisalat workers tried to discourage the management outsourcing their non-core services for fear of loss of jobs. It was discovered that both firms engagement in outsourcing strategy has impacted positively on organisational performance

The major finding of this study reveals that organisational market performance has increased as a result of outsourcing of non-core areas to specialized service provided. This finding agrees with Steensma & Corley (2000) view that successful implementation of an outsourcing strategy has been credited with helping to improve organisational performance, improve quality increase profitability and productivity, improve financial performance, lower innovation costs and risks and improve organisational competitiveness (Steensma & Corley 2000).

The study also was able to establish a significant relationship between outsourcing of some services and cost reduction in their respective core operations. This finding was in agreement with Krishna Polineni (2001) assertion that outsourcing was a means to partner with

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service providers so they could handle specific business processes – better, faster and at a lower operating cost. This finding support Outsourcing Institute executive survey (2006) of the top ten reasons why companies would outsource are as follows: Reduce and control operating cost, Improve company focus, outsource due to lack of technology capability, strategic advantage to the companies, better service quality vendor and sound contract, lack of internal capacity in meeting production ramp demand and also possible limited space for expansion.

Conclusion and Recommendations

This paper explores the impact of outsourcing strategy on market performance in Nigeria telecommunication industry. Therefore every organisation whether in a competitive or non-competitive industry always strive to maximize its corporate and all marketing objective. On the bases of above discussion the following conclusions are drawn

i. That there is a relationship between outsourcing strategy and cost savings in Nigeria Telecommunication Industry,
ii. That there is a relationship between outsourcing strategy and quality of service and market performance.

It is therefore recommended that:

Organisations generally not limited to the telecoms industry should exploit the relationship that exist between outsourcing strategy and cost saving and expected market performance by not onlygiven out areas of non – core competency to specialized services provider but also monitoring competitor strategy in area of negotiation, communication, project management and ability to understand the terms and conditions of the contracts and service level agreements and, above all, the willingness to be flexible as business needs change in order to maximize the full benefit of the strategy .

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