



ASHESI UNIVERSITY COLLEGE

**A STUDY OF THE RELATIONSHIP BETWEEN COMPANY SIZE AND BUSINESS
PROCESS OUTSOURCING (BPO) IN MANUFACTURING COMPANIES IN GHANA**

By

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DECLARATION

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

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I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

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ABSTRACT

This paper focuses on studying the relationship between company size and Business Process Outsourcing (BPO) in manufacturing companies in Ghana. The study sought to establish the relationship between company size and the decision to outsource in manufacturing companies in Ghana and also to assess the extent to which manufacturing companies are outsourcing and which main functions are outsourced. By definition, Business Process Outsourcing (BPO) is a managerial practice which essentially involves the decision of choosing between performing certain business processes internally, or employing the services of an external firm to perform them on behalf of the company.

The study was carried out primarily through questionnaires, which were administered to 25 manufacturing companies located in Accra and Tema that practice BPO. Secondary data was obtained from journal articles, books and the Internet. 22 companies responded while 3 companies declined from participating.

Number of employees was selected as a proxy for company size in this study. The findings indicated that there is no direct relationship between company size and decision to outsource. This essentially means company size –measured by number of employees - has very little to do with the reason why companies outsource but more to do with cost management reasons thus emphasizing the transaction cost economic theory defined by (Heinzl, 2009). Also, the three main functions that are usually outsourced by manufacturing companies are HR, legal and supply chain services. This showed that manufacturing companies are inclined to outsource non-critical and more technical business functions. However, though outsourcing is practiced, the findings showed 81% of the manufacturing companies (large to small-sized companies) perform about 60 to 95% of their business functions in-house, leaving very little to be outsourced.

Keywords: Business Process Outsourcing, manufacturing companies, decision to outsource, business functions and company size.

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CHAPTER 1: INTRODUCTION

❖ Background

❖ Business Process Outsourcing

In the corporate world, many innovations occur from time to time due to the dynamic nature of the business environment. In order to reduce costs to ensure the efficient use of key resources, manufacturers are focusing on their core competencies. Many are outsourcing non-critical processes to gain greater overall efficiency with a lower cost base. Business Process Outsourcing (BPO) is fast growing especially within the manufacturing industry as companies come under increasing capital and investment pressures. In the world of work today, particularly in Ghana, BPO has gained vast recognition especially after the enactment of the Labour Act 651 in 2003. This law allows employers to employ in any way that suits the company, stressing on flexibility of labour as well as the freedom to do piecework among others. In this same law, section seven (7) brought into play the Private Employment Agencies Law, which authorised companies to supply labour to organisations (National Labour Commission, 2005). Today, BPO has been even more emphasised because the laws of employment allows private organizations to perform certain business functions on behalf of other organizations. Namely, hiring of labour.

“Business Process Outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions or processes to a third party service provider” (Ezigbo, 2012). Business Process Outsourcing is a managerial practice which essentially involves the decision of choosing between performing certain business processes internally, or employing the services of an external party to perform them on behalf of the company. According to Borman (2005), in Business Process Outsourcing (BPO), a supplier of a particular business process takes over one or more of an organization’s business processes. This has been the trend across the globe: the rapid emergence of the function of third party outsourcing in businesses. In Ghana however, it is comparatively still in its early stages. “Ghana plans to account

for one percent of the world's BPO market, which would provide over 37,000 jobs for the youth in 2011 and add USD \$750 million to its economy” (Sourcing Line, 2012).

According to Quinn (1994), Australian and U.S Nike shoe companies outsource 100 percent of their shoe production and concentrate on producing the technical components of the “Nike Air” brand. In Ghana, manufacturing companies such as Coca Cola (Ghana) Limited and GHACEM (GH) Limited, producers of Coca Cola drink and cement respectively, also outsource a large percentage of their recruitment and management of production staff to other companies. It is evident that outsourcing has become a catalyst for building the business, which is a key feature of corporate strategy in both developed and developing countries. Instead of companies carrying out certain business functions internally, it is known to be more beneficial to transfer those activities that can be performed better and cheaper to other companies. This way, a firm can concentrate all resources on certain core activities thereby improving core competencies through specialization. Very basic business functions are commonly outsourced. Organizations in industries such as manufacturing, telecommunications and the hospitality industry (restaurants and hotels) that concentrate on their core business functions resort to outsourcing on a need-to basis. Such organizations are likely to outsource functions such as their security functions to another firm that deals solely in providing labour for security. Other examples include cleaning, catering, human resources; IT and customer care (enquiries/call centers) among others. So long as it is not the core business function, business activities can be outsourced to a third party. As such, organizations tend to have some employees directly under their employment as core staff that perform their main functions and the rest of the employees are mainly contract/outsourced workers that are supplied from BPO firms.

❖ **The Business Process Outsourcing (BPO) Industry In Ghana**

Research suggests that Ghana is one of the upcoming developing nations for Business Process Outsourcing (BPO) today (Common Wealth Business Council, 2009). According to the Sourcing Line website, Ghana has an outsourcing index of 4.9 out of a total of 7.1. This index was a weighted combination based on three criteria: financial attractiveness, people skills availability, and

business environment (Verma, 2011). Ghana was also ranked 27 out of top 50 outsourcing countries in Africa due to its “language skills and education of its workforce (Verma, 2011), combined with a cost-effective and relatively transparent business environment”. Outsourcing contributes to the economic growth of a country since it helps developing countries like Ghana create jobs for the unemployed and contributes to total Gross Domestic Product (GDP).

In a developing country like Ghana, both private and state-owned corporations contribute substantially to economic growth. Businesses have in the past depended on their internal strength to carry out most of their business processes instead of outsourcing to third parties. The practice of Business Process Outsourcing (BPO) however, may be beneficial to organizations because BPO enforces a good organizational strategy where firms are able to cut down costs and grow the business by offering superior value to customers. At the same time, it broadens the companies’ external network and creates business alliances. Outsourcing therefore creates a ripple effect in the economy in that, it boosts businesses by creating more jobs and also enlarges the net worth of a company through the external alliances created. Apart from the fact that Business Process Outsourcing adds value to the business corporation by improving overall organizational performance, it essentially fosters the growth of businesses of other capable firms whose services are patronized to carry out outsourced activities on behalf of other firms. Therefore, it seems a valuable practice to invest in, not just for firms that outsource but those that carry out the outsourced functions.

Companies that perform these business functions on behalf of other firms are known as BPO firms. They influence the outsourcing decisions of organizations to some extent. They exist solely to perform those activities that are not core to the business of any entity. As such, their ability to help other companies to achieve value is dependent on their capacity and outsourcing capabilities. These firms can either make or break the business model of any organization that patronizes their services. Customers of third-party outsourcing seek to gain certain benefits from patronizing their services. If these benefits are meager, customers perceive the services as valueless and unsatisfactory (Power, 2007).

The function of outsourcing emphasizes and clearly differentiates the core functions and supporting functions of an organization. Ideally, most corporations will choose to perform those activities that are directly linked to their core business operations and transfer those activities that do not directly affect operations to external third parties to perform. For instance, a manufacturing company such as Coca Cola has its core business functions existing primarily in the production of soft drinks. On the contrary, the supporting functions are those that are crucial to the business but are not the sole purpose of the business. For instance, manufacturing firms like Coca Cola in Ghana outsource its Human Resource Function by recruiting their factory workers through an external HR firm (Ezigbo, 2012).

Third-party outsourcing should be beneficial to any business irrespective of their size. Most corporations in Ghana enjoy a high level of flexibility due to the economies of scale that they enjoy. This is important because in corporate Ghana, having strong business relations is beneficial to the net worth of the company. Also, the reputation that the firm gains by association to various third party outsourcing firms could potentially boost the brand or image of the company.

Private sector organizations have been known to contribute greatly to economic growth. Due to their level of flexibility and separation from public sector regulations, they are more likely to be involved in outsourcing. Subsequently, manufacturing industries within the private sector are most likely to have an exposure to outsourcing practices. "Ghana plans to account for one percent of the world's BPO market, which would provide over 37,000 jobs for the youth in 2011 and add USD \$750 million to its economy. Ghana also plans to build a Private Public Partnership model and improve the quality of its ICT education" (Sourcing Line, 2012).

❖ **Research Problem**

In spite of the benefits, BPO in Ghana is merely at its nascent stage. The attractiveness of the economy to other investors like an Indian technology firm is promising. "Spanco from India is said to be hiring 3,000 people to service its African operations this year, which is expected to increase to 50,000 by 2013" (Verma, 2011). Although Ghana was seen to have a favourable

business environment for BPO, other countries like South Africa are expanding faster due to the depth of their financial service sector and the size of its economy (Verma, 2011). It is therefore clear that industry attractiveness in terms of growth and size is a key factor that affects the occurrence of BPO in any economy. Though Ghana's economy holds more growth potential, it has not yet reached the point of full investment in BPO activities. As such, not enough provision is made for outsourcing in terms of budgeting and resource allocation. In addition, firms in the private sector of Ghana are not "achieving the desired benefits from outsourcing" due to certain challenges associated with third party outsourcing, making them unsuccessful with the practice (McIvor, 2000). These challenges include having the right basis for decision-making on outsourcing. "Outsourcing decisions are rarely taken within a thoroughly strategic perspective with many firms adopting a short-term perspective and being motivated primarily by the search for short-term cost reductions" (McIvor, 2000)

A major trend found in the literature insinuates that third party outsourcing was a common practice in larger corporations. This was attributable to their level of flexibility and intense competitive advantage over small firms. "The use of external networks as a core part of strategy of large firms has increased their flexibility thereby diminishing one of the major advantages that SMEs have had when competing against larger firms" (Narula, 2012). Though outsourcing is a cost-effective practice to invest in, the literature iterates that small corporations, such as start-ups and medium-sized enterprises lack the exposure and capacity.

Any research that is conducted eventually serves as a source of reference to other prospective researchers. As such, the inadequacy thereof, of existing literature on the general practice of BPO in Ghana, has posed as a problem for this research. Existing literature found on BPO reveals more on outsourcing information technology and information systems than other forms of outsourcing (Ezigbo, 2012). In a study conducted by Borman (2005), reference was made to the fact that there is scanty information on BPO and as such, most inferences will be made based on IT outsourcing in order to make an informed conclusion on BPO in general. "Given the relative paucity of BPO specific to research much of the theoretical underpinnings of the proposed framework will draw from, and synthesize, work conducted in the IT outsourcing realm, and seek to apply it to the

context of BPO” (Borman, 2005). IT outsourcing is therefore more common in foreign countries and also in Ghana. However, BPO goes beyond IT and Information Systems outsourcing.

This dissertation aimed at investigating the relationship between company size¹ and outsourcing among a select group of manufacturing companies operating in Accra and Tema, Ghana. In essence, it studied whether or not company size serves as a basis for business outsourcing decision-making in organizations. By finding out whether company size serves as a basis for decision making in organizations, this thesis explored the fact of whether or not this new innovation is limited to a certain select group of companies by virtue of their size. In doing so, it also addressed the issue of limited literature on BPO in Ghana by serving as ready and available source of information on the subject matter. Outsourcing has become the innovative way through which companies are managing change (Ezigbo, 2012).

❖ **Research Objectives**

The objectives of this dissertation were:

1. To investigate the relationship between the size of a company and the decision to outsource in manufacturing companies in Ghana.
2. To assess the extent to which manufacturing companies outsource and the key business functions that they outsource.

In order to achieve these objectives, research was conducted to compare manufacturing companies of different sizes and company demographics in Ghana. This helped to establish whether size of a company has any correlation with the decision to outsource. In the course of the research, other variables were studied to investigate the factors that truly determine a company’s decision to outsource or not.

¹ The proxy variables for company size in this study were the number of employees and annual turnover.

❖ Research Questions

Every research has an underlying objective. Therefore, by the end of this study, this research aimed to seek and obtain answers to two (2) key questions:

1. What is the relationship between company size and the decision to outsource in manufacturing companies in Ghana?
2. What are the 3 business functions that are most often outsourced in these companies?

❖ Relevance Of The Study

In order for organizations to be able to make important outsourcing decisions and on the right basis, organizations must know the extent to which their core business function affects their business model (Ezigbo, 2012). This will eventually help them to make an informed decision about whether or not to outsource certain business functions to third parties. This study aimed mainly to provide a theoretical background for companies that have the need to outsource certain business functions. This will help them make an informed decision to outsource.

In addition, it was evident from the literature examined in the above sections that BPO is relatively new and that it has come to stay in business models of various organizations worldwide. As a globalized nation, Ghana needs to take advantage of its rousing opportunities and make available resources and information to both private and public sector organizations to engage in this practice of outsourcing. "The recent global economic turndown has significantly accelerated and intensified market competition pressure, causing many organizations to seek innovative ways to deal with the changed economic landscape. In the process, an increasing number of organizations have turned to business process outsourcing" (Ezigbo, 2012). Therefore, this research was relevant because it served as ready and available source of information on the subject matter (BPO) while simultaneously, provided insight to the prevailing question of company demographics such as company size affecting outsourcing practices in Ghana on which little research has been conducted. By so doing organizations will be rightly informed on the various contributing factors for making business outsourcing decisions.

❖ **Outline Of Dissertation**

❖ **Chapter One: Introduction**

This section provided a background to the concept of Business Process Outsourcing (BPO) and its importance to business entities. It also highlighted the main variable, company size, being measured in relation to the decision to outsource in business entities in Ghana. The research objective and question, data collection and relevance of the study were included in this chapter.

❖ **Chapter Two: Literature Review**

This section included a review of similar work that was done by other researchers on the subject matter. The literature used was related to topics like: Business Process Outsourcing, company demographics like size being a measure of internal company growth and a theoretical framework.

❖ **Chapter Three: Methodology**

In this section, the details of research design were outlined. This basically included the research tools and instruments used, selected sample size and method of analysis.

❖ **Chapter Four: Presentation Of Data**

The data obtained from research findings was presented in this section. Statistical research, analytical tools like charts and graphs were included to give a visual representation of the data collected.

❖ **Chapter Five: Discussion, Recommendations And Conclusion**

Based on the research findings, conclusions and final recommendations were given in this section.

CHAPTER 2: LITERATURE REVIEW

❖ Introduction

Business Process Outsourcing (BPO), as it is popularly called, is a known business strategy that allows the company to be innovative and enjoy growth in profitability and customer base. BPO allows an organization to focus on their core competence by outsourcing certain non-critical functions to external vendors known as the BPO firms. Extensive research was done on outsourcing of business processes in organizations in countries such as India, US and UK. This research related to the area of Information Technology (IT). From the literature, it was observed that known businesses get involved in third party outsourcing for various reasons. What was lacking in most research was whether these businesses that make the decision to outsource do so on the basis of company size, which is a measure of internal growth of the company.

From the literature, the establishment of any existing relationship between company profitability, size or growth rate and outsourcing was implied in various forms. Company size can be measured in various ways. An organization may choose to measure size either by the number of its employees, annual turnover or revenue, asset acquisition, length of operations or amount of coverage in the country or number of branches. In this study, size was represented by certain select variables that were informed by the literature. By so doing, the specific criterion for company size was discussed in this chapter and the effects of these variables on outsourcing decision making in manufacturing companies were highlighted.

❖ Company Size And Other Demographics

Though very little literature exists on company size having a relationship with decision to outsource, literature goes on to iterate that resource could refer to the company's internal capacity, input and assets. The size of a company ideally shows the internal strength or growth of the organization. Size of any company is denoted by the employee strength or capacity. Human capital and labour skills are business inputs among other capital sources. Some of these resources include both physical and non-physical assets. As such the employees contribute to resources for

competitive advantage in any company. According to (Thompson, 1998) common types of valuable resources and competitive capabilities include human assets and intellectual capital. This means that the number of employees of a company shows not only the strength in size of the company but also its competitive resource and capabilities against other firms. This study uses number of employees in the company as proxies used to measure internal strength and growth. It is important to note that some businesses may thrive on small staff strengths. However, since this study focuses more on manufacturing companies, this cannot be the case in this situation. Any kind of mass production will require more staff in manufacturing companies; thus the use of staff strength in this study.

This study will however, allow for the study of other demographic factors that may appear to have a relationship with the decision to outsource. For instance, after collating the data, it could be found that size may have little to do with the decision to outsource whatsoever. However some other factor could have a direct relationship and will therefore be included.

In reviewing literature, Amin (2008) studied store size as a variable for determining the level of competition. He initially used variables such as floor area of the shop to measure store size. However, Amin (2008) explains “Our results do not change much if we use labor employment or annual store sales as measures of store- size” (Amin, 2008). By so doing, in studying whether store-size has an effect on competition, variables like the number of retail employees and annual store sales were used to arrive at a conclusion. Similar to this thesis, number of employees and annual turnover were used as proxy variables for company size for manufacturing companies in Ghana. (Ghana Investment Promotions Center, 2012)

❖ **Business Process Outsourcing (BPO)**

BPO generates a lot of advantages to firms that practice it. Among the numerous advantages include value-added outsourcing. This basically means that functions that are outsourced can eventually add value to the organizations business processes, products and services in cost effective way. A study by Power, Sharafali and Bhakoo (2007) was conducted in Australia to assess

the impact of third-party logistics on value-adding activities to their customers businesses. Though they initially set out to assess how value is added through third-party logistics, they later found evidence that it allows them - that is, customers third-party logistics, to improve their level of flexibility while simultaneously having better management of their costs.

Finally, there is flexibility in terms of all business processes since employers are able to outsource functions that put less strain on internal resources. For example, contracting external parties means that less permanent labour will be employed for core operations and also the employer controls piecework (how the employees are going to be paid either monthly, weekly, or hourly). Flexibility in terms of speed of processes is also realized as an advantage of BPO. “Supply chain management with the effective use of supply chain partners and business process outsourcing increases the speed of several business processes, such as the throughput in the case of a manufacturing company” (Ezigbo, 2012). As an overall advantage, the firm is able to grow the business faster since there is less capital expenditure on employees and equipment.

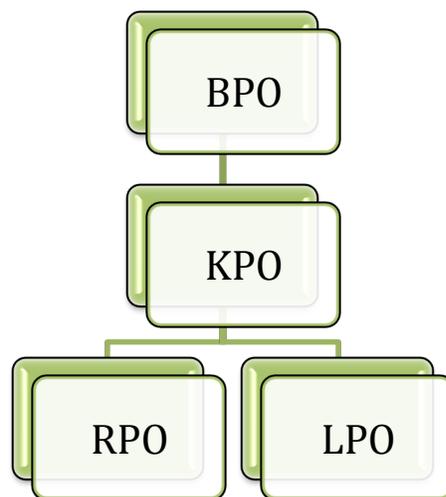


Figure 1: Types Of BPO. Source: Author's own

Other aspects of BPO include Knowledge Process Outsourcing (KPO), which includes two main types known as Recruitment Process Outsourcing (RPO) and Legal Process outsourcing (LPO); each concerned with outsourcing of specific business functions such as recruitment and legal services respectively. Knowledge Process Outsourcing (KPO) is “the outsourcing of firm activities that directly involve the production of knowledge and innovation, and that involve some degree of

firm-specific capabilities” (Tallman, 2010). Due to the nature of this type of outsourcing, there is some perceived level of risk involved and uncertain outcomes. As a result, a certain level of specific and unique capabilities and resources are needed in order to achieve superior performance.

Recruitment Process Outsourcing (RPO) is simply a part of BPO where the employer outsources its recruitment function to an external provider. “The Recruitment Process Outsourcing Association defines RPO as when a provider acts as a company’s internal recruitment function for a portion or all of its jobs” (Ezigbo, 2012). A good RPO provider holds numerous advantages for the firm such as reducing the company’s time to hire, increasing the quality of the candidate’s pool provided, reduce costs and improvement in governmental compliance on hiring labour. An example of a company that practices RPO includes telecommunications firms like MTN and Airtel. They outsource the hiring of frontline workers to a Human Resource firm in Ghana, L’AINE Services Ltd. This is done on a large scale such that this external recruitment firm employs all factory workers and has these employees on their payroll.

Legal Process Outsourcing (LPO) on the other hand, is an aspect of Knowledge process Outsourcing (KPO). It basically deals with outsourcing legal functions to a legal service provider such as a law firm or paralegal. Like KPO, LPO deals with the outsourcing of core functions that are specialized and knowledge based. It may or may not give cost benefit to the parent company but surely helps in value addition. Some of these functions may include but is not limited to research and development, capital and insurance market services, legal services, biotechnology, animation and design. Even businesses outsourcing their services to KPOs do a more extensive research before giving a contract to a particular KPO, since a good KPO can be the differentiating factor between a good market offering and a bad one.

❖ **Nature Of BPO Firms**

In developing countries like India, BPO is vastly practiced and a large number of citizens are employed in the BPO industry. Therefore BPO is an economic driver in that it provides jobs for the vast Indian population and contributes greatly to Gross Domestic Product (GDP). Adding to this,

India is mostly known for its IT outsourcing. This has gradually created opportunities for other aspects of BPO to be explored in the Indian BPO industry. The IT outsourcing sector in India has developed capacity and has vertically integrated into a strong BPO player. Some of the services offered by these firms include from low-level call center services to high-level knowledge processing, IT consulting, design and R&D services (Subramanian, 2005). According to Kapur and Ramamurthy (2001), “more than 800 firms, located in Indian cities like Bangalore, Hyderabad, Pune, Chennai, and New Delhi that provided a range of software services, mostly targeted at foreign customers” (Subramanian, 2005). This growth in the Indian BPO industry is expected to continue over the years to a point of about \$200 billion (Subramanian, 2005).

The companies responsible for carrying out the business processes on behalf of other firms are known as BPO firms. These companies are important to their clients because the success of their business depends on how well these BPO firms carry out their business processes. The decision of a firm to select one BPO firm over another may arise from a number of reasons. The ability of an external vendor or third party firm to carry out certain business processes will rely on factors such as but not limited to their capacities, capabilities, transaction costs, reputation and experience.

❖ **Functions Often Outsourced**

From the literature; (Coward, 2003) (Power, 2007) (Ezigbo, 2012), the main functions that were usually outsourced included: major support functions like marketing, information technology (IT), legal services, research and development, logistics/supply chain and finance/accounting among others. “IT outsourcing has been popular for a long time. In the mid 1960’s, for example, computer services bureaus ran a variety of programs, whose applications focused heavily on financial and operations support arrears” (McKenney, 1996). Information Systems and technology outsourcing has since long been the majorly outsourced function. This was due to the lack of skill or inadequacy thereof in the field. Subsequently, companies found it more efficient to outsource IT services to

companies that have acquired expertise in the field and are more likely to perform better than internal departments.

❖ **Reasons For Outsourcing**

Duhamel et al (2003) conducted a study on large European manufacturing firms on their motives for outsourcing and the perceived risks associated with strategic outsourcing. In their findings, the four main issues that were addressed were “preoccupations about core businesses and reduction of cost of capital are linked; access to external expertise and quality improvements are specific expectations for outsourcing firms; operational cost savings, still a predominant concern, must be balanced with the cost of monitoring suppliers; the ‘increased flexibility’ objective emerges as a distinct issue” (Duhamel, 2003).

A study by Coward (2003) also revealed factors that shape the global outsourcing decisions in small and medium sized companies in America. Coward (2003) found that the main factors that influenced the decision to outsource were fourteen (14). They include, but are not limited to cost savings, personal connection to the US and critical mass of skilled technical professionals and project management skills (Coward, 2003). He also found that small and medium scale enterprises are increasingly looking for offshore labour to fulfill their IT needs. However, cost savings is the primary catalyst driving the outsourcing decisions of these SMEs, just as it is with large firms (Coward, 2003). In effect, regardless of the component of size, organizations do outsource certain business functions and are faced with outsourcing decisions at one point of the business cycle or other.

A study by Power et al (2007) was conducted in Australia to assess the impact of third-party logistics on value-adding activities to their customers businesses. Their customers are those that patronize their logistics services. In doing so, Power et al (2007) studied how customers perceived their third-party logistics services and in terms of the benefits that they seek to derive from business outsourcing. In their research, one important finding by Power et al (2007) was that customers of third party logistics perceived “service based solutions as providing a set of benefits beyond mere

cost control” (Power, 2007). The aim was to study the effect of cost control on the customers’ perception and was found that customers viewed their focus on providing service-based solutions more than the former (Power, 2007).

Third-party logistics (3PLS) in this regard can be compared to third-party outsourcing or Business Process Outsourcing in general. Power et al (2007) set out to establish that outsourcing does add some form of value to business processes through customer-improved perceptions. Though they initially set out to assess how value is added through third-party logistics, they later found evidence that it allows them, (that is customers of third-party logistics), to improve their level of flexibility while simultaneously having better management of their costs. This study provides evidence from customers of logistics service providers indicating that 3PLs provides them with a means for competing through greater flexibility, at the same time as enabling better-cost management. Evidently, they concluded that, “in this sense, customers see 3PLs as providing them with a potential pathway to more innovative business models” (Power, 2007).

The nature of the business that is run is important to any outsourcing decision. The type of business model used in an organization can affect the mode of outsourcing used. “Rappa (2003) defines a business model as “the method of doing business by which a company can sustain itself” and notes that the business model is clear about how a company generates revenues and where it has positioned itself in the value chain” (Weill, 2005). Rappa et al (2003) propose a business model in an e-business framework with four pillars: the products and services a firm offers, the infrastructure and network of partners, the customer relationship capital, and the financial aspects (Weill, 2005). The innovation of these activities to generating profits as well as the value proposition offered to customers helps to strengthen an organization’s business model.

Quinn and Hilmer (1994) present two strategies through which companies can leverage their resources with others. One of which is the process of strategic outsourcing of activities. According to them the activities that should be outsourced should be those that are traditionally considered integral to the company but for which the company has no strategic need or special capabilities (Hilmer, 1994). The benefits of this are numerous. The most crucial advantage that is useful to this

study is that it allows the firm to enjoy “full utilization of external suppliers’ investments, innovations and specialized professional capabilities that would prohibitively be expensive or even impossible to duplicate internally” (Hilmer, 1994). The main idea is for a company to focus on its core competencies and outsource those business functions that are not directly linked to the main business objective. Hilmer (1994) showed in his research that unlike outsourcing, strategies like diversification and vertical integration have in the past failed to yield high returns. This is why Business Process Outsourcing is beneficial to the growth and profitability of Ghanaian business entities.

In his research, Ezigbo (2012) provided extensive literature on the relationship between outsourcing and other relating variables. The literature focused on establishing a relationship between competitive advantage and outsourcing in public sector organizations. In addition, its secondary objectives included evaluating the extent to which public sector organizations outsource and identify the areas in which public sector organizations outsource. Similarly, this dissertation aims at establishing a relationship between company size and outsourcing among a select group of private organizations in Ghana. Like the research done by Ezigbo (2012), this thesis aims to investigate other factors that could influence a company’s decision to outsource. Outsourcing has become the innovative way through which companies are managing change Ezigbo (2012). This dissertation also aims to bring out the possibility or otherwise of this innovation being limited to certain select group of companies by virtue of some economies of scale that they enjoy.

Ezigbo (2012) found that there is a significant relationship between outsourcing and competitive advantage. Public sector organizations do always outsource for procurement of sophisticated equipment, recruitment of skilled employees: chartered accountants, auditors and contractors. He also recommended that organizations should outsource but should have a strategic vision and a plan; there should be clearly defined vendor scope, roles, responsibilities and service level agreement (Ezigbo, 2012). This study is basically iterating the importance of making strategic decisions on outsourcing and similar to the study done by Ezigbo (2012), the importance of outsourcing decision-making is clearly stated.

In the past, there were basic drivers for outsourcing decision making in the businesses. “Until 1960, the major drivers of outsourcing were primarily cost-effective access to specialized or occasionally needed system development skills, avoidance of building in-house IT skills and access to special functional capabilities” (McKenney, 1996). Since then however, various other theories besides the latter have been coined that support the decision-making framework of outsourcing business functions. These frameworks serve as theoretical background for making decisions on outsourcing. These decisions could vary from cost basis to internal growth. The next section highlights the theoretical background of this thesis.

❖ Theoretical Framework

A theory explains the past, describes the present and predicts the future; as such every research conducted should be grounded in theory. Some research has developed a theoretical framework from which outsourcing decisions can be made. These include transaction cost economic, resource-based and resource dependency theory (Heinzl, 2009). A study conducted by Heinzl (2009) on decision-making for outsourcing Information Systems (IS) in some select Indian firms served as a theoretical framework for this dissertation. These theories helped to determine the objective or motivation for deciding to practice BPO. The two main theories included *transaction cost economic* and *resource-based* theory. “Both theories are similar in that they attribute rationality to management, which focuses on gaining profits or pursuing economic benefits” (Heinzl, 2009). Borman (2005) also came up with a third theory of decision-making basis for Information system (IS) outsourcing - the *resource-dependency theory*. Each theory talks about the rationale behind the decision to outsource business functions. “Not all IS outsourcing decisions, however, may result from a strictly rational decision process” (Heinzl, 2009). These frameworks are suitable for this study because similar to both studies conducted by Borman (2005) and Heinzl (2009) respectively, this thesis is studying what functions companies outsource and what informs their decision to do so. As such these theories will be used to understand what drives organizations to make an outsourcing decision. Not all outsourcing decisions will follow these theories as stated.

❖ **Transactions Cost Theory**

The first theory, which is the transactions cost theory states that external or internal provision is decided on the basis of a cost comparison with regards to the sum of transaction and production costs. Transaction costs in the paper was defined as all costs of planning, adapting, and monitoring task completion within the individual IS functions under alternative governance modes. “Companies assume they will save money when they decide to outsource to a foreign provider. Moreover, the cost savings must be significant” (Coward, 2003). In other words, the decision to embark on outsourcing a particular business function should stem from the comparatively lower costs that will be incurred if an external vendor is consulted. In relation to the study, company size is the independent variable being measured to ascertain its impact on outsourcing decision-making in manufacturing companies. Ability to bear cost of production can be used to determine the size of a company. Depending on the findings of the field data that will be collected, the study will conclude on whether or not transaction cost economic theory will be the main focus of this study.

❖ **Resource Based Theory**

“Resource-based theory (Barney, 1991; Peteraf, 1993) emphasizes the value of leveraging scarce firm-specific resources through business relationships.” In a study conducted by (Tallman, 2010) on Knowledge Process Outsourcing (KPO), it was established that managers decide specifically to outsource knowledge related business functions for resource-based reasons. He bases this claim on the resource-based theory of the outsourcing decisions framework. “Why do firms look beyond their boundaries for the resources and capabilities needed to run important activities in efficient and effective fashion? Resource-based theory (RBT) as applied to the use of alliances offers an internally consistent, comprehensive theoretical explanation for this decision” (Madhok and Tallman, 1998). As such, resource-based theory can also be used to explain the decision to move from in-house knowledge sourcing to a KPO alliance.

According to Heinzl (2009), “the resource-based theory provides reference points for when resources are to be kept and expanded within the firm for strategic reasons and when they should be brought in from an external provider” (Heinzl, 2009). In this theory, the writer is stating that a firm will

not use external competency as long as it can generate the same capabilities using internal resources. In other words, it applies to making a decision as to whether unique resources (tangible or intangible assets) should be kept and expanded within the firm for strategic reasons or whether they should be brought in from an external provider. If deficits in resources and capabilities are problematic, an alternative for the purpose of filling these gaps will be external vendors (Heinzl, 2009).

Resource based theory argues that, “an organization’s bundle of resources, which include tangible and intangible assets, knowledge and skills are the primary predictors of superior financial performance” (Vandenbulcke et al, 2006). Vandenbulcke et all (2006) use a framework of Peppard and Ward (2004), which consists of three levels: the resource level, the organizing level and the enterprise level. Focusing on the research level, it makes up the company’s business and technical skills, knowledge and experience coupled with the behaviour of the company (Vandenbulcke et al, 2006). According to Peppard and Ward (2004), resources are stocks owned and controlled by the company. They cite examples of such resources as information, systems, techonology, skills and knowledge. They therefore explain that if an organization has any available competencies, they are those that the organization uses to mobilize its internal resources effectively.

Therefore, if an organization uses such resources to make outsourcing decisions, such company is adopting the resource-based theory of the outsourcing decision making framework. The use of number of employees and annual turnover as a proxies presupposes that this study hopes to use the resource based theory as a framework. The focus is on the factors that allow the company to generate income by the use of its internal resources or capacities whether tangible or intangible.

❖ **Resource-Dependency Theory**

The resource-dependency theory refers to how organizations depend on their external environment to make choices on managing their dependency on these environmental factors. Organizations depend on their external environment to make choices on managing their dependency on these environmental factors. Dependency is determined by factors like the importance of the

resource, the number of potential suppliers available and the cost of switching suppliers. Borman (2005) iterated that most research, done by (Quinn and Hilmer, 1994; Quinn, 1999; Linder, 2004) all considered the purposes of outsourcing and ways of doing it. “Furthermore, those papers – both historic and contemporary – that have considered the “why” and “what” of outsourcing have often considered the issues in quite generic terms. Objectives cited have traditionally revolved around flexibility, reduced costs and access to economies of scale or new capabilities” (Borman, 2005).

The main purpose of the research conducted by Borman (2005) aimed at finding out what affects the decisions of firms to undertake IT outsourcing. Most organizations screen the BPO firms before they select them to be the company’s sole outsourcing provider. For a company to depend on one firm to be a sole provider of their outsourcing needs, they look at certain resources that the external firm has that shows their capabilities to perform as an outsourcing firm. Responses from the customers of BPO firms showed that these customers hired their BPO firms based on these firms having certain resources such as physical infrastructure, technical infrastructure, project management skills and quality certification and critical mass of skilled technical professionals (Coward, 2003). All these factors are external resources that companies depend on to make outsourcing decisions. This emphasizes the resource-dependency theory in the theoretical framework. Literature reiterates that studies have proven that indeed some companies decide to outsource by looking at external factors that affects the firm. These factors include the BPO firm that may be hired as explained by (Coward, 2003). The resource dependency theory basically shows how organizations manage their dependency on environmental factors by focusing their outsourcing choices on the external environment. Since it is evident that certain companies decide to outsource with an external focus, this study is including external dependency to the questions in the research instrument.

The above theories encompass a framework for making outsourcing decisions. These theories were initially developed as a decision-making framework for outsourcing Information System functions. However, it can apply to this study on outsourcing in manufacturing companies. This means that if a firm is to embark on outsourcing of a business function, the decision-making criteria

is likely to build from either transaction cost economic, resource-based or resource dependency theory.

However, since the main aim of this research is to establish whether or not company size is used by organizations to make an informed decision on whether to outsource, focus will be on resource-based theory. A company's internal competitive capability stems from its inputs and resources. Some of these resources include both physical and non-physical assets. According to (Thompson, 1998) common types of valuable resources and competitive capabilities include human assets and intellectual capital. Since this study was based on the theoretical framework that companies decide to outsource using resourced-based decisions for the purposes of this study, the main focus will be on the resource-based theory since it throws more light on the main aim of the research.

CHAPTER 3: METHODOLOGY

❖ Operationalization Of Variables

❖ Company Size

Company size is a measure of internal capacity. Therefore, the size of a company in this thesis referred to the main company demographics that indicate growth and have a direct implication on size. The variables that served as a proxy for company size in this study were measured to assess their relationship with decisions to outsource in manufacturing companies. The proxy variables were number of employees and annual turnover. These were selected because they are useful in the categorization of companies in the sample. The categories include: small businesses, medium-sized businesses and large-sized businesses. A small business is one that has fewer than 50 employees and is managed by its owner. A medium-sized company is one that is in its start-up or growth phase and has fewer than 250 employees. Large-sized businesses however have over 250 employees and more, and are most likely to have a group of companies that has emerged from the initial set up. Multinationals emerge from companies that have reached this stage of company size or growth.

❖ Business Process Outsourcing (BPO)

In the case of BPO, emphasis was made on those business functions that fall outside the core business of the organization under analysis. In other words, Business Process Outsourcing refers to “A subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions or processes to a third party service provider” (Ezigbo, 2012).

❖ Business Functions

A business function is an internal activity that is performed by a company in order to fulfill its core business objective. These are major support functions that combine to provide the value that the company aims to offer to its consumers and other stakeholders in the firm such as employees and shareholders. Examples of business functions include finance, marketing, human resource, production, research and development and general administration among others.

❖ **Decision to Outsource**

Outsourcing is a managerial process for which management must take strategic decisions before embarking on. Decision to outsource is basically choosing between performing certain non-critical business functions internally and sourcing it to an external third party or vendor. “Deciding which business functions to source to outside vendors and which to perform in-house is a critical part of corporate strategy, as companies seek to become more efficient and competitive or address changes in demand for outputs or supply of inputs” (Brown, 2008). This decision can be fuelled by various organizational and strategic reasons, which include cost savings on operations, generating a more innovative business model, increasing core competencies and the lack of the needed internal resources among others (Lewandowski, 2010).

❖ **Manufacturing Companies**

Manufacturing companies are those that have the core competence of factory production. To reduce costs and optimally use key resources, manufacturers are re-focusing on their core competencies. Many are outsourcing non-critical processes to gain greater overall efficiency with a lower cost base.

❖ **Research Design**

This thesis focused on studying the relationship between company size and its influence on the decision to outsource in manufacturing companies in Ghana. A focus was on the manufacturing firms in the private sector of Ghana since they are known to focus most of their resources on executing their core business function and are more likely to outsource their supporting and non-critical business processes.

Due to the nature of the topic and from the literature that has been reviewed, the study was mainly investigative. It was so because it sought to study company demographics, besides company size, that may affect or influence a company’s decision to outsource certain business processes. Therefore, this exploratory research aided in establishing a hypothesis on the subject matter and aided in operationalizing the key variables in the research topic. “Exploratory research is often the

initial step in a series of studies designed to supply information for decision making or answering a question” (Zikmund, 2003). Therefore this type of research is not an end in itself since it does not provide conclusive evidence. However subsequent research may be conducted in order to gain additional information to make a comprehensive conclusion. In addition, an exploratory approach is appropriate for studies for which there exists very little research on the topic or for which there is little information to make reference to (Sarantakos, Social Research, 2005). These operationalized variables were analyzed in relation to outsourcing to find if there exists some form of correlation to make a befitting conclusion on making outsourcing decisions.

❖ **Sampling Strategy**

❖ **Description Of Sample**

The purpose of this study was to find out whether manufacturing companies that outsourced certain business functions, did so based on their size. Therefore in gathering primary data, the sample is going to include manufacturing companies that are based in Accra and Tema. These companies were selected from the list of manufacturing companies on the Ghana Business Directory database. The unit of analysis therefore comprises of the manufacturing companies. These manufacturing companies were chosen because of proximity and easy access to information. In order to curb certain research problems like sampling bias and a sample that is not a good representation of the entire population of the research, sampling must be done effectively.

❖ **Sampling Method**

The study aims at establishing whether there exists a relationship between company size and the decision to outsource. As such, the unit of analysis, which is the manufacturing company, was based on whether or not they outsource some of their business functions. In this regard, purposive sampling method was chosen since it enables the researcher to “choose subjects who, in their opinion are relevant to the project” (Sarantakos, Social Research, 2005). In studying the relationship between company size and the decision to outsource, the manufacturing industry was chosen since it can provide adequate and useful information on outsourcing practices that takes place in their

organization, which will be useful for this study. Manufacturing companies are more likely to focus on their core business functions and will be easier to distinguish which functions are critical to the business process and those that are not.

The focus is to establish what makes a company, decide to outsource. A company need not be small or large to fit into the sample. It is merely required that they state whether their internal growth, or otherwise, as a company contributed to their reason for deciding to outsource. If a large company outsources, they can therefore state that they decided to outsource because they were growing larger internally. On the other hand, if a small company outsources they can state that they probably decided to outsource due to lack of internal capacity. However, size will not be the determining factor in the selection of the sample. Manufacturing companies do not outsource will not be suitable in this study. However, information as to why they may or may not outsource can be relevant for analysis. Unit of analysis will not be selected based on small or large sizes since that is not the focus of the study but those that specifically outsource. Therefore, by purposely choosing a sample of manufacturing companies that outsource as a focus for this research, their knowledge and expertise provide relevant information needed to fulfill the objectives of this study.

❖ **Sample Size**

The total sample size was 26 manufacturing companies selected from both Accra and Tema. These companies were selected using the Ghana Business Directory online as a database. This size was representative of the entire sample population of manufacturing firms in Accra and Tema that practice BPO. From the nature of the study, the unit of analysis is the manufacturing companies under review. The information needed came from the organization as a whole.

❖ **Data Collection Method**

❖ **Primary Data**

The general information needed for this study is to establish whether or not there is a relationship between the size of a company and their decision to outsource. The nature of the information that was gathered from this research is mostly qualitative. As a source of primary data,

questionnaires were used to collect data on outsourcing practices of the selected manufacturing firms along with other questions that will enable the objectives of this study to be fulfilled.

The type of data needed for analysis includes the number of employees, start of operations and the functions that are outsourced. This information will be collated from a representative of the entire organization who holds a managerial position and has the qualification and ability to answer questions that pertain to the industry and the company. The human resource manager, general manager, head of administration, head of operations and the chief executive officer are examples of the respondents of the questionnaires that were administered.

❖ **Secondary Data**

Secondary sources such as academic journal articles were used to support the data obtained from primary sources. Some of these include literature on offshoring, theoretical framework on BPO, BPO and its subsets like knowledge process outsourcing and legal process outsourcing. Information from company websites, newspaper publications and studies done by others in relation to the subject matter are included as well.

❖ **Data Analysis**

Both quantitative and qualitative analyses were used in analysing the data by exploring issues, understanding phenomena and providing answers to the prevailing research questions. The necessary deductions and conclusions were made based on the information gathered. The information gathered from questionnaires was organized into quantitative information. This was analyzed with Microsoft excel. This helped to determine frequencies such as occurrence of outsourcing in the company and the correlation between variables. This use of quantitative analysis for qualitative data enables the researcher to properly organize the qualitative data gotten from questionnaires in order to make the information easier to analyze and arrive at a correct conclusion.

❖ **Data Collection Procedure**

The following steps indicate the procedure for collecting data:

Step 1: Determined the type of information needed to help decide on the best data collection tool and method to be used.

Step 2: Decided on sampling method, sampling size and unit of analysis

❖ Sampling method: Purposive Sampling

❖ Sampling size: 30 manufacturing companies in Accra and Tema that do BPO from a list of companies in the Ghana Business Directory database.²

❖ Unit of analysis: The Organization

Step 3: Prepared survey questions (questionnaires) to suit the selected sample units, get contact information of the organization and call advance of the arrival of the questionnaire.

Step 4: Sent out questionnaires to respondents in order to retrieve the needed information.

❖ The respondent includes either the Human Resource Manager or Chief Executive Officer.

Step 5: Data analysis: Data was analyzed using Microsoft excel.

² <http://www.ghanayp.com/>

CHAPTER 4: DATA ANALYSIS AND FINDINGS

❖ Chapter Summary

This thesis essentially aimed to find out if the size of a company is a determinant for which an organization will outsource certain business functions. This chapter highlighted the demographic information of the units of analysis, summary statistics, and findings from the field data collected from various manufacturing organizations. The analysis of the field data obtained was also highlighted and evidence of the information gathered was displayed in the form of charts and graphs. All the above served as evidence and assisted the researcher in achieving objectives and to convince readers about the outcome.

❖ Summary Statistics Of Manufacturing Companies

The sampling procedure used was purposive. Purposive sampling allows for careful and intentional selection of respondents or subjects who according to the researchers are extremely relevant to the project (Sarantakos, 2005). In researching the practice of BPO in manufacturing companies, relevant information needed for the study was obtained from experts on the subject matter. Manufacturing companies that are known to practice some level of BPO were chosen as part of the sample for this study. Further, in order to narrow down on numerous manufacturing companies in Ghana, the focus was on companies only in Accra and Tema that practice BPO.

TABLE OF SUMMARY STATISTICS FOR RESPONDENTS

Number Of Companies Contacted

Number of Respondents

Number of Non-respondents

Table 1: Summary Statistics

❖ Demographic Profile Of Sample

The unit of analysis for this study was the entire organization. The focus was on companies in the manufacturing industry that, from prior knowledge, practice Business Process Outsourcing (BPO) in Accra and Tema specifically. The sample consisted of a mixture of both local and multinational manufacturing companies. These companies were selected because they are experts in BPO and are known to outsource its functions for which reliable answers to the survey questions can be provided. The companies were selected based on geographical location and accessibility. Although information received represented the whole organization, a company representative was required to fill the questionnaire on behalf of the entire company. The representative was, preferably, a person in the position of a Human Resource Manager or the Head of Corporate Affairs who has been in the organization for a considerable amount of time. This is because; in view of the nature of the questions being asked the expertise of one in charge of Human Resource Management was needed. However, whoever was in the right position to give the correct information was required to step in when needed.

In certain instances, the Human Resource Manager was a new hire and as such had not been in the organization long enough to answer certain specific information about their BPO practices. A more suitable respondent was made to step in and complete the questionnaire as required. Respondents were however asked to state the individual responsible for making outsourcing decisions in the company. This was necessary to know who had not only the expertise but also the authority and final say to the decision to outsource certain functions. From the table below, it is evident that most respondents state that the company CEO makes the final decision to outsource business functions.

❖ Demographic Data On Respondents

Attribute	Category	No. Of participant Companies	%
Type of Industry	Manufacturing/Processing	22	100%
Number of employees (Company size)	Small	4	18%
	Medium	9	41%
	Large	9	41%
Location/Region	Accra-Tema	22	100%
	Local	10	45
	Multinational	12	55

Table 2: Demographic Information

Number of Companies	Industry	Type	Location
7	Manufacturing	Food and Drinks	Local
1	Manufacturing	Aluminum	Local
1	Manufacturing	Tiles	Local
1	Manufacturing	Building Materials	Local
1	Manufacturing	Oil and Gas	Local
1	Manufacturing	Hair Products	Multinational
1	Manufacturing	Bottle covers and Labels	Multinational
1	Manufacturing	Plastics	Multinational
1	Manufacturing	Cartons	Multinational
2	Manufacturing	Soap Products	Multinational
1	Manufacturing	Roofing Sheets	Multinational
7	Manufacturing	Food and Drinks	Multinational

Table 3: Demographic Information: Location, Type and Industry

❖ Research Objectives And Survey Questions

The objectives of this study were to investigate the relationship between the size of a company and the decision to outsource in manufacturing companies in Ghana. As a secondary objective, the study also assessed the extent to which these manufacturing companies outsource and the key business functions that they usually outsourced. Survey questions were therefore structured to derive answers that will achieve these objectives.

❖ Questionnaire Analysis

In order to establish whether or not company size affected an organization's decision to outsource business functions, certain proxies were used to measure company size. It must

emphasized however that company size, by the definition of this study, stands for the measure of internal growth of the company. In order to effectively measure internal company growth, the number of employees in each company and annual turnover were used as proxy variables. Therefore, in order to know what the relationship was between company size and the decision to outsource in an organization - data was required on number of employees, how long they have been practicing BPO, what informs their decision to outsource and years of operation among others.

A total of twenty-five organizations were listed as part of the sample size. However, due to certain issues such as company confidentiality regarding certain information that was being asked in the questionnaire, three companies declined from participating. This research therefore made use of twenty-two respondents in total. Companies in the sample size ranged from companies that had varying levels of employee strength. Out of a total of 22 manufacturing companies, 9 of them are large and medium-size each and 4 are small size.

❖ **Main Research Objective**

The main objective of this study was: To investigate the relationship between the size of a company and the decision to outsource in manufacturing companies in Ghana. The questions that were asked in order to achieve this objective included the following:

- ❖ How long has your organization been operating, how many employees does the company have?
- ❖ How long has your company been outsourcing its functions?
- ❖ What informs the company's decision to outsource?
- ❖ Who makes the decision to outsource?

These questions were carefully structured in order to obtain the needed information from the respondent manufacturing companies.

❖ **Secondary Research Objective**

After ascertaining the relationship between the two variables, the secondary objective of the study was: To assess the extent to which manufacturing companies outsource and the key business

functions that they outsource. The questions that were asked in order to achieve this objective included the following: What functions are usually outsourced in your company, what percentage of core business functions is performed internally?

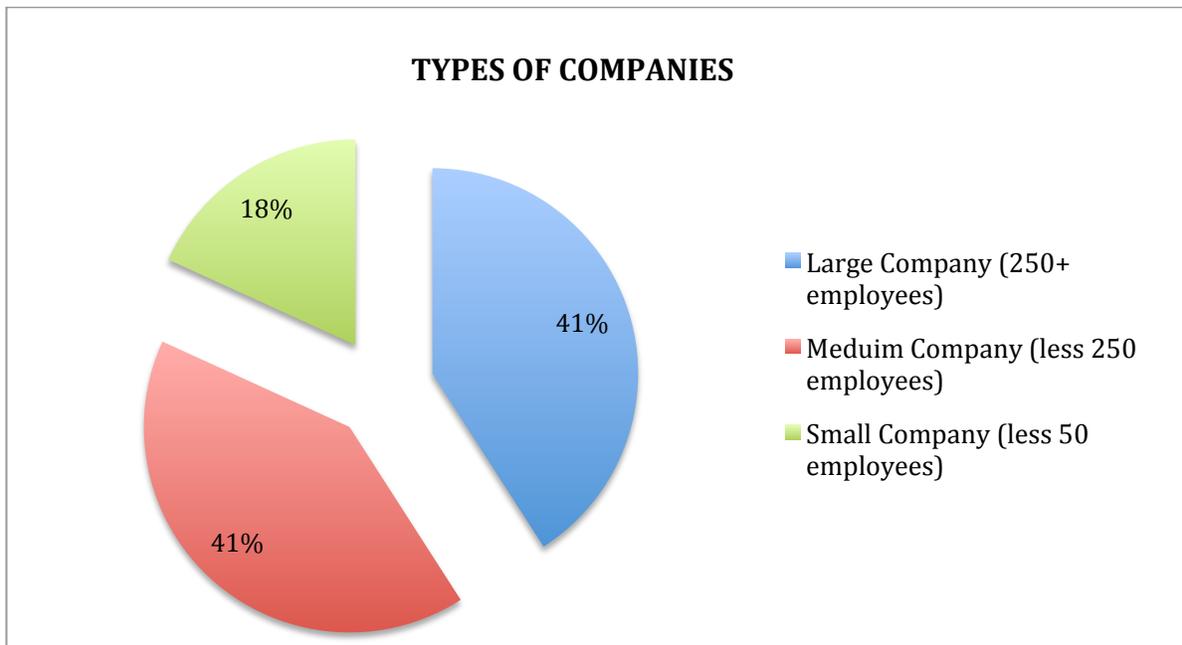


Fig. 1: Number of employees

In order to obtain the research objective of this study, a relationship between company size and the decision to outsource, if any, had to be identified. The first step was to determine the number of employees in each company in order to determine the size. As found in the literature, companies are usually divided into the various company types by virtue of their size. The number of employees, however, determines this size. Companies that have employees above 250 are usually large sized. Those that have less than 250 and less than 50 employees are medium and small-sized companies respectively.

A company's internal competitive capability stems from its inputs and resources. Some of these resources include both physical and non-physical assets. According to (Thompson, 1998) common types of valuable resources and competitive capabilities include human assets and intellectual capital. This means that the number of employees of a company shows not only the strength in size of the company but also its competitive resource and capabilities against other firms.

This study was based on the theoretical framework that companies decide to outsource using resourced-based decisions. The literature goes on to iterate that resource in this sense could refer to the company's internal capacity, input and assets.

Another step to achieving the main objective of this study was assessing the extent to which these companies outsource their internal functions. Companies were asked to select which percentage of their business functions was performed internally as such the graph below highlights this fact. The questionnaire inquired what percentage of their internal business functions was outsourced to external parties. By establishing the percentage of functions performed internally, the research was essentially able to establish the extent to which they outsource. This enabled the research to establish which company outsourced a lot of its functions and vice versa. This question was also an important variable to measure in order to achieve the secondary objective

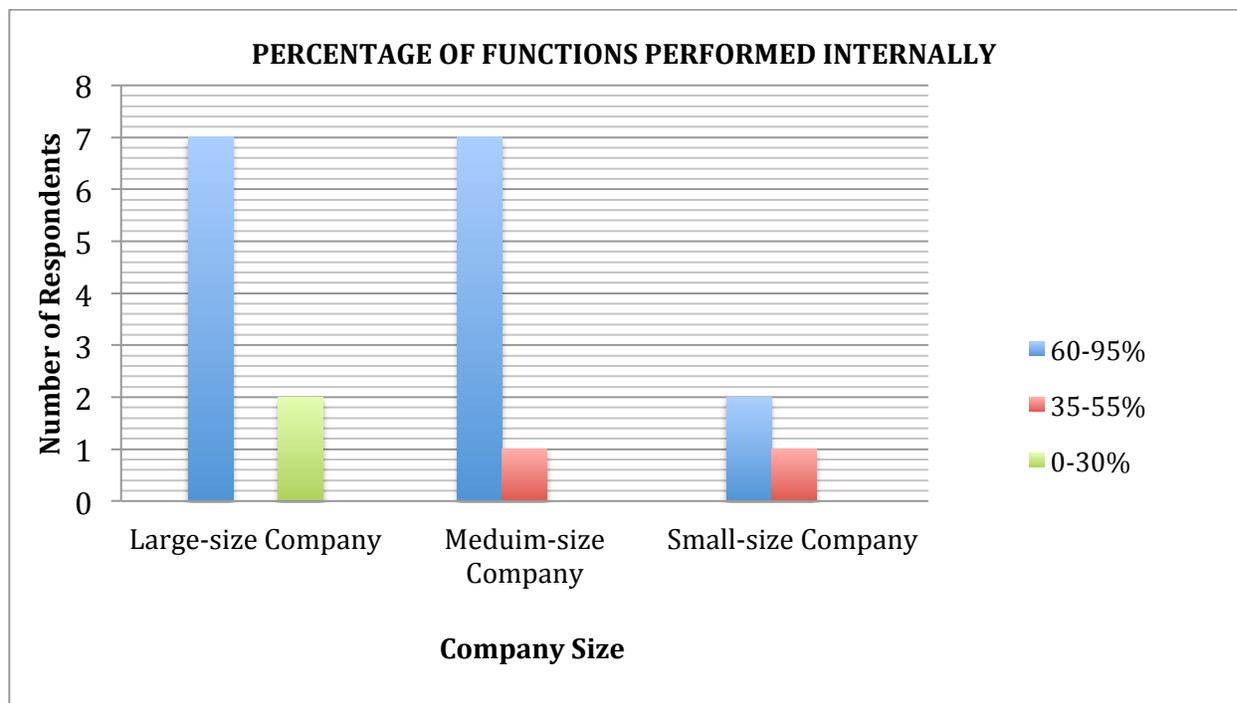


Figure 2: Percentage of internal functions outsourced

From the graph above, most large and medium sized companies perform 60-95% of their functions internally leaving just a small percentage for outsourcing. This means that about close to 5-40% of functions are outsourced by these large and medium sized company respondents. It means

therefore that large sized manufacturing companies in this research sample prefer to do most of their businesses in-house as against outsourcing them. For large sized companies this could be either advantageous or problematic depending. In some cases, it is preferable for a large company to perform most of its functions in-house because they are past the maturity stage and are known to have the capability and flexibility. However, in other cases, large companies outsource so as to focus on their core competencies.

Large sized companies are known to have achieved a greater level of economies of scale, production advantages, large revenue streams and flexibility in operations. As a result, they are known to outsource most of their functions so they can focus on their core competencies. A major trend found in the literature insinuates that third party outsourcing was a common practice in larger corporations. This was attributable to their level of flexibility and intense competitive advantage over smaller firms. "The use of external networks as a core part of strategy of large firms has increased their flexibility thereby diminishing one of the major advantages that SMEs have had when competing against larger firms" (Narula, 2012). Though outsourcing is a cost-effective practice to invest in, the literature iterates that small corporations, such as start-ups and medium-sized enterprises lack the exposure and capacity. However, findings from the field data are proving otherwise. It is found that a huge proportion of large and medium size manufacturing companies prefer to outsource very few of their functions. This could be attributable to the fact that they are not properly exposed to the practice of BPO or lack of adequate knowledge on its importance. It would be in their interest to outsource more functions so as to focus on the core competence of factory work and manufacturing of products. It could also be that the large companies are outsourcing less because they have gained the expertise and capabilities to perform the functions themselves.

Another reason why most of the large and medium sized companies are found to be outsourcing fewer of their functions is because the sample consists mostly of multinational companies than local companies. Multinational companies that have set-up shop in Ghana, may not want to make use of local external providers in their business process. Since the company is already established and internationalized, there are certain standards and criteria that must be met in order

to be a supplier for the company. Some Ghanaian BPO firms may not meet these standards and as such, these multinational manufacturing companies do not outsource. They would prefer to do everything in-house as against entrusting a huge portion of their business process to local external providers. In short, large and medium sized companies do outsource some of their business functions but to a very low extent. Relatively, though, the large companies are outsourcing more than the medium sized companies and the medium sized companies more than the small companies.

Further, few small sized company respondents perform between 35-95% of their functions internally. This means that their outsourcing capacity is moderately high. This finding is interesting because from the literature (Narula, 2012), small sized firms are known not practice outsourcing moderately. Secondly, the majority of the small sized manufacturing companies outsource very few of their business functions which is evident by the 60-95% performance of internal functions. This could be attributed to the fact that since they are small in size and have not yet reached maturity; they prefer to perform all or most of their functions in-house as against outsourcing them. This is not recommendable because, most start-ups tend to lack the expertise, labour and technology to carry out business processes. This makes economic sense to outsource a huge percentage of internal functions to external firms thereby eliminating the burden of most operations from the start-up company. However, the results of the findings state that small firms are outsourcing very little of their internal functions which could be detrimental to the potential growth of the company.

A part of achieving the secondary objective required establishing the main functions that these manufacturing companies are found to be outsourcing and identifying what were the three most outsourced business functions in these manufacturing companies. In relation to the below graph it was found that companies outsource various functions ranging from human resource to research and development. Most of the large manufacturing companies were found to outsource a lot of their human resource functions followed closely by medium sized companies. The small companies do not outsource some functions like research and development, supply chain and marketing. Also, the small companies are not outsourcing their human resource function at all. This is interesting because most small companies will prefer to transfer all labour and human resource related issues to an

external provider than to perform them in-house. On the other hand, most large companies that have achieved economies of scale and the level of growth and expertise over their years of operation outsourced the HR function to external providers. It was therefore found that majority of the companies outsource Human Resource, Legal, Audits and Accounting, IT, Supply Chain, Marketing and R&D. The figure below represents a graph of the various business functions that are common in BPO according to the reviewed literature as against the responses from the questionnaire.

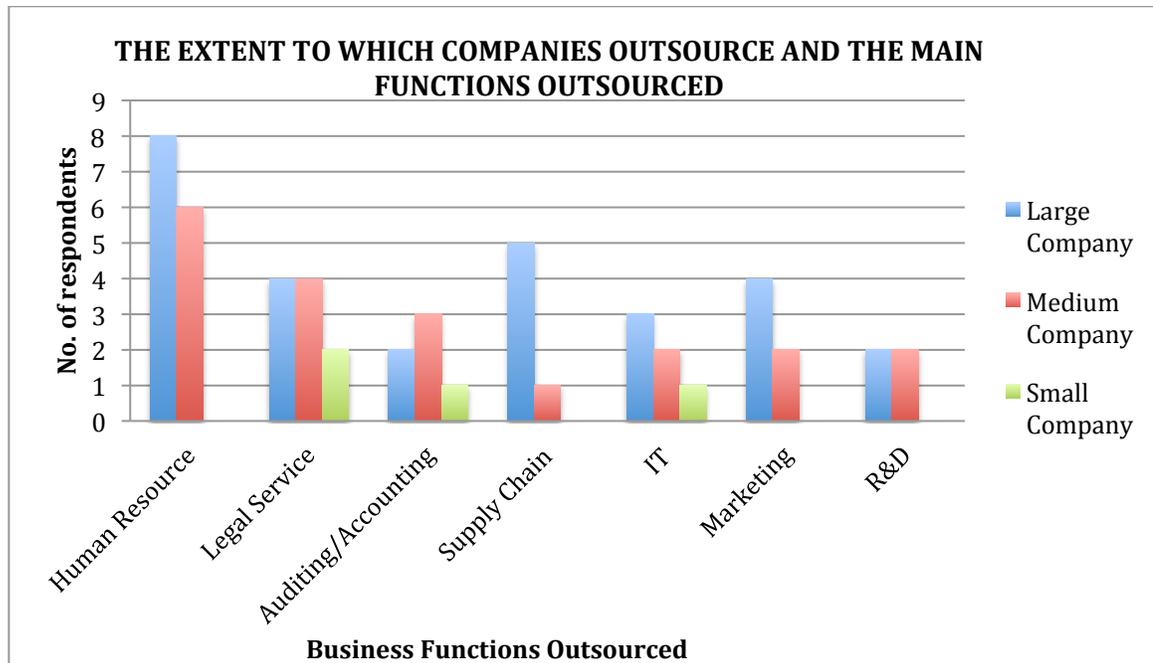


Fig 3: Functions outsourced

The reason why the manufacturing companies decided to outsource in the first place was also discussed. From the findings of the questionnaire it is clear that most of the respondents are more inclined to outsource certain functions based on the issue of cost management. Others decide to outsource for value added reasons and others to reduce capital expenditure. However, internal growth is not much of a reason for most of these organizations. This establishes that internal growth, when limited to the number of employees, is not a deciding factor for manufacturing companies when they consider whether or not to outsource their functions. From the graph below, it is evident that most respondents chose cost management as a reason to outsource business functions. The second most desired option is adding value to activities.

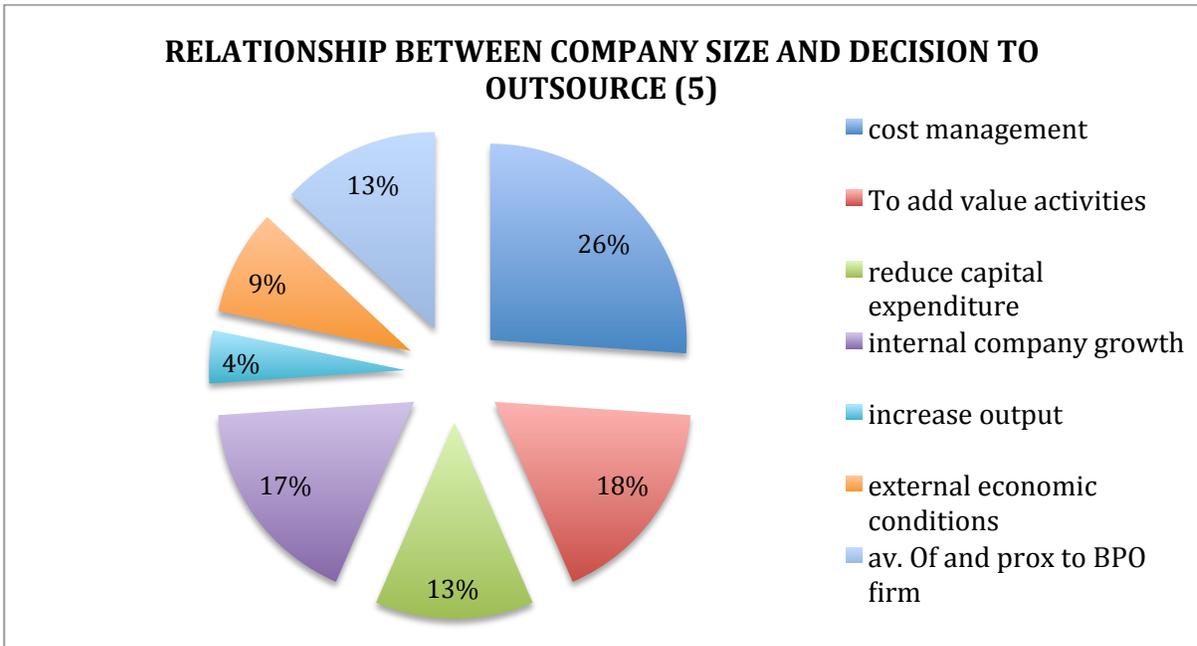


Figure 4: Reasons for outsourcing

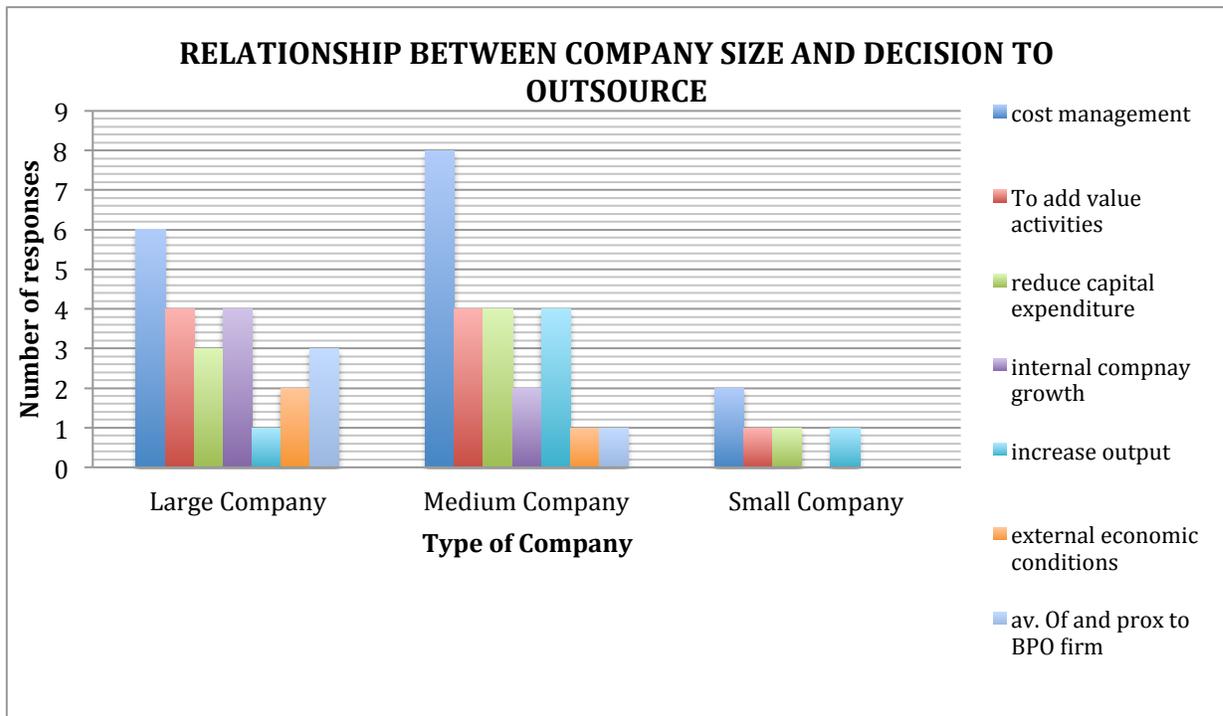


Figure 5: Relationship between company size and decision to outsource

From figure 5 above, it was evident that most large and medium sized companies outsource for cost management reasons. In fact, medium sized companies recorded the highest number of responses for cost management reasons. Another interesting observation is that the small sized

companies were not really concerned with cutting down costs as much. Small sized companies were not interested in outsourcing for internal company growth reasons as much as large and medium sized companies. This analysis could mean they are merely start-ups, are not yet incurring as many costs as the large and medium sized companies. As per the findings, it was clear that the theory of transaction cost from the theoretical framework is relevant.

Transactions cost theory states that external or internal provision is decided on the basis of a cost comparison with regards to the sum of transaction and production costs. Transaction costs in this study may include all costs of transportation; legal costs, planning, hiring, adapting and monitoring task completion. “Companies assume they will save money when they decide to outsource to a foreign provider. Moreover, the cost savings must be significant” (Coward, 2003). In other words, the decision to embark on outsourcing a particular business function could stem from the comparatively lower costs that will be incurred if an external vendor is consulted. From the questionnaire responses, most Human Resource Managers preferred to outsource based on transactional cost reasons and not based on internal resource strength.

For reasons such as adding value to activities, reducing capital expenditure and internal company growth, the large companies are very much inclined to outsource. On the other hand medium and small companies do not care much for internal growth since the lowest number of responses was recorded for each company type.

❖ **Comparing Findings To Literature**

According to the study conducted by Ezigbo (2012), there are many reasons why a company may decide to outsource certain jobs to external firms. In his view, “most managers have the end-result in mind that they are going to save time and/ or money” (Ezigbo, 2012). However, there are other managers that may decide to outsource based on other strategic business reasons. Some of which include: resource shortages relieved by outsourcing, outsourcing provides the ability to concentrate on the core business, outsourcing yields cost savings, outsourcing provides flexibility, reduce overhead costs through outsourcing, improve quality, operational expertise, capacity

management, catalyst for change, enhance capacity for innovation and risk management (Ezigbo, 2012). From the field data collected, it is evident that most of these reasons given by the respondents are consistent with that of those listed in the literature. However, by introducing another possible strategic reason to outsource, which could aid in the achievement of the research objectives, it was evident that some managers may be inclined to outsource for internal reasons such as company size. Nonetheless, few of the respondents selected this reason. Most of the manufacturing companies selected cost management as a reason for outsourcing.

According to Ezigbo (2012) on the study "*Justification of Outsourcing for Organization's Competitive Advantage*" the results of the findings proved that there is a significant relationship between outsourcing and competitive advantage. His aim was to justify that there was significant relationship between those two variables, outsourcing and competitive advantage while at the same time trying to ascertain the extent to which private organizations outsource their functions. By using a quantitative data analysis approach the researcher was able to justify his research objectives. Similar to this study, the two variables being compared were the decision to outsource and company size. In the above analysis, the trend showed that there was no direct relationship between company size and the decision to outsource. Companies have their reasons for outsourcing yet not many of them do so by virtue of their size whether large, medium or small. However, in this study, the findings may or may not be comprehensive because there is no one reason for which a company decides to outsource. It was found that besides company size, other company demographics and internal factors could attribute to the reason for outsourcing.

According to (Thompson, 1998) a competence is "an activity that a company performs well." On the other hand a core competence is "a competitively important activity that a company performs better than other internal activities." This means that manufacturing companies have the core competence of factory-manufactured good and products, which they can do better than any other business process. Therefore, it is possible that the expertise or competence of carrying out certain business functions may not come easily to manufacturing companies. It is sensible for them to outsource their non-critical business processes to those firms that have the core competence for

such services. The fact that the findings from the field data proves otherwise reaffirms a few issues highlighted in this study:

❖ **Fulfillment Of Research Objective**

The study had the objectives of investigating the relationship between the size of a company and the decision to outsource in manufacturing companies in Ghana and to assess the extent to which manufacturing companies outsource and the key business functions that they outsource. The graph in figure 6 and the table 3 below aided in the direct fulfillment of the research objectives of this study. From this graph, the relationship between the various company sizes and the reasons for outsourcing can be established. Additionally in fulfillment of the secondary research objective, the three main functions that are outsourced include: HR, supply chain management and legal services. From the field data gathered from the manufacturing companies and the extensive questionnaire analysis the relevant findings include:

- ❖ Company size has very little to do with the reason why companies outsource but more to do with cost management reasons. As a result of this Transaction cost economic theory seems to be the most relevant and applicable theory in this study. This is because most of the managers in manufacturing companies are more concerned about reducing transaction cost of business and as such will outsource some business functions in order to reduce or manage cost (Figure 5).
- ❖ The type of company is closely connected with the decision to outsource. For example most multinationals were found not to be outsourcing as much. This could stem from the fact that multinationals have an internationally recognized standard of operations, which may restrict them from employing local BPO firms.
- ❖ Large, medium and small firms are all outsourcing a small percentage of their internal business processes. (Figure 2)
- ❖ The three main functions that were found to be outsourced among these companies included: Human Resource, Supply Chain and Legal Service. (Figure 3)

- ❖ Interestingly, small companies were found not to be outsourcing their HR function. However, more technical business functions like legal services, IT and Accounting and Auditing were outsourced. This could probably be attributed to the fact that HR is not really required for small firms because they do not need a large pool of labour. However, for the more technical functions, expertise is required which is why they are outsourcing more of such functions. (Figure 3)
- ❖ Manufacturing companies in Ghana have very little exposure to BPO and as such may not be making the right outsourcing decisions.
- ❖ Large companies are inclined to outsource for external reasons such as availability and proximity to BPO firm. This presupposes that they look at the prowess of the BPO firm and its fit with the company's strategy before hiring them. On the other hand, small companies do not seem to consider external factors. The resource dependency theory is the least relevant theory applicable based on the responses. (Figure 5)

Type of company	Reasons for Outsourcing	No of Responses	Theoretical Framework Applicable	Translation
Large (250+)	1. Cost management	6	Transaction cost economic	High –Relevant to study
	2. Adding value	4	N/A	N/A
	3. Reduce capital expenditure	3	N/A	N/A
	4. Internal company growth	4	Resource-Based	Moderate
	5. Increase Output	1	N/A	N/A
	6. External economic conditior	2	Resource-Dependency	Low
	7. Availability of & proximity to BPO firm	3	Resource-Dependency	Low
Medium (Less 250)	1. Cost management	8	Transaction cost	High - Relevant to study
	2. Adding value	4	N/A	N/A
	3. Reduce capital expenditure	4	N/A	N/A
	4. Internal company growth	2	Resource-Based	Low
	5. Increase Output	4	N/A	N/A
	6. External economic conditior	1	Resource-Dependency	Low
	7 Availability of & proximity to BPO firm	1	Resource-Dependency	Low
Small (Less 50)	1. Cost management	2	Transaction cost	High - Relevant to study
	2. Adding value	1	N/A	N/A
	3. Reduce capital expenditure	1	N/A	N/A
	4. Internal company growth	0	Resource-Based	Low
	5. Increase Output	1	N/A	N/A
	6. External economic conditior	0	Resource-Dependency	Low
	7. Availability of & proximity to BPO firm.	0	Resource-Dependency	Low

Table 4: Summary of findings

CHAPTER 5: LIMITATIONS, RECOMMENDATIONS AND CONCLUSIONS

❖ Recommendations

It is recommended that companies give attention to the long-term benefits of outsourcing such as competitive advantage (Ezigbo, 2012) and core competence (Hilmer, 1994) as informed by literature and not just cost management reasons. This will enable companies to achieved the fully desired benefits of outsourcing and reap the long-term benefits thereof.

Additionally, small companies or start-ups are recommended to outsource more. From the findings, it was evident that like large companies, small firms are outsourcing a very small percentage of their business processes whereas making use of outsourcing during the nascent stages of production might enable them focus on building the business faster and yield growth advantages such as economies of scale. BPO firms who have the needed skills, labour, expertise and machinery to carry out these business functions can be contracted as third-party service providers. In essence, outsourcing to a specialist supplier to whom certain functions are core may offer superior performance to a company as against performing all non-critical functions in-house.

Lastly, manufacturing companies can also patronize BPO firms by outsourcing a lot more functions to boost the BPO industry in Ghana as in the case of India (Subramanian, 2005).

❖ Research Limitations

❖ Limited Empirical Research On BPO In Manufacturing Companies In Ghana

Literature on BPO practices is limited in the sense that there was not enough empirical information available about outsourcing in Ghana. Due to this limitation, there was not sufficient information, which was verifiable by observation or experience as against than theory or logic.

❖ Delay In Respondents

Most of the respondent companies delayed in completing the questionnaires. This caused problems with the study since it left very little time for data collection and thus shortening the time

allotted for doing data analysis. Others claimed to have delayed due to their lack of proper understanding of some of the questions asked in the questionnaire.

❖ **Withheld Information And Incomplete Questionnaires**

Most of the manufacturing companies declined from giving certain information that was perceived as confidential during the data collection process. Some of such information included the company's annual revenue. As a result the second proxy variable, annual revenue, which was used to measure company size was eliminated from the study. Other companies declined from participating entirely because the processes involved in getting approval for completing the forms were tedious.

❖ **Conclusion**

In conclusion, outsourcing is a major practice of manufacturing companies in Ghana but it does not depend on the size of the company. Hence there's no direct relationship between company size of manufacturing companies as measured by number of employees - and decision to outsource. In addition, though outsourcing is practiced, the findings showed 81% of the manufacturing companies perform about 60 to 95% of their business functions in-house. Also, the findings from the questionnaire suggested that cost is the most important and manufacturing companies all perform most functions in-house and outsource, regardless of size.

Companies may decide to outsource their functions for specific strategic reasons. Others may do so based on other demographic reasons such as location or even size. However, there is no predetermined structure for the extent to which manufacturing companies outsource based on their size. In the study small size companies were found to be outsourcing less as well as large sized companies. However, even though otherwise recommended, from the findings, size does not matter or play a crucial role in making a decision to outsource.

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❖ Appendix I

❖ Questionnaire



ASHESI UNIVERSITY COLLEGE: SURVEY ON BUSINESS PROCESS OUTSOURCING

Business Process Outsourcing (BPO) allows companies to focus on their more critical/core business functions by employing the services of an external provider known as a BPO firm. To simplify the collection of information, a representative is chosen to fill this questionnaire on behalf of the entire company. The questions below ask about your company's general practice of BPO and which business functions are mostly outsourced.

1. What is the nature of your business? If other, please specify.
 - Manufacturing
 - Processing
 - other.....
2. How long has your organization been operating? If other please specify.
 - Less than a year
 - 2-5 years
 - 5-10 years
 - Over 10 years
 - other.....
3. How many employees does the company have?
 - Less than 50
 - Less than 250
 - 250+.....
4. In what range does your company's annual turnover fall? If other, please specify.
 - GHC 3,000 – 5000
 - GHC 10,000 - 15,000
 - GHC 20,000 - 30,000
 - GHC 50,000 - 100,000
 - GHC 100,000-150,000
 - other.....
5. Does your company outsource some business functions?
 - Yes
 - No.....
6. If your answer to the previous question was "no", please state the reason.
.....
.....
.....

7. If your answer to the previous question was “yes”, what functions are usually outsourced in your company? If other, please specify.
- Human Resource/Recruitment
 - Legal Services
 - Auditing/Accounting Services
 - IT
 - Supply Chain Management/Logistics
 - Marketing
 - Research & Design
 - other
-
-

8. What percentage of core business functions is performed internally? If other, please specify.
- 0-30%
 - 35-55%
 - 60-95%
 - other
-
-

9. How long has your company been outsourcing its functions? If other, please specify.
- 3 months
 - 6 months
 - 1 year
 - 2 years
 - 3 years
 - More than 4 years
 - other
-
-

10. What informs the company’s decision to outsource? If other, please specify.
- Availability of and proximity to BPO firm
 - Cost management
 - Internal company growth
 - External economic conditions
 - To add value to activities
 - Reduce capital expenditure
 - Increase output
 - other
-
-

11. Please rate the importance of these functions to your company’s core business with 1 being of least importance and 5 being of most importance.

Human Resource Management						
Legal Service						
Auditing/Accounting Service						

Supply Chain/Logistics						
Marketing						
Research & Design						

12. Which BPO firm(s) does the company employ, if any?

.....
.....
.....
.....
.....

13. Who makes the decision to outsource, if any? If other, please specify.

- The Human Resource Manager
- The Chief Executive Officer
- The General Manager
- A Board of Directors
- other

.....
.....