FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

An investigation of the effectiveness of outsourcing and its impact on organisational performance: Case of Unki Mines

BY

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In partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree

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I Kudzai Linnet Muchengeti declare that this research project is my own work and has not been copied or lifted from any source without the acknowledgement of the source.

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Dedication

I would like to dedicate this dissertation to my loving parents Mrs and Mrs Muchengeti and my dear brothers Wayne and Walter.

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May the Almighty Lord bless you all.

Abstract

The study is an investigation of the effectiveness of outsourcing and its impact on organisational performance. The problem was that the firm experienced decreases in profits while contractor costs increased from 2012-2015. Unki's reports indicated that it had also been experiencing adverse variance in its contractor's expenditure for the past three years this necessitated the research. Literature review was carried out in an attempt to explore on what authors said on outsourcing. The main sources of related literature were internet journals, accounting text books and websites. The researcher made use of descriptive research design where both qualitative and quantitative research design were made use of on questionnaires and interviews. A sample size of thirty one was carried out. Both primary and secondary data were analysed, presented and interpreted. Presentation was in form of tables, graphs and pie charts that was simplified through the use of the Likert Scaling model. Conclusion and recommendations were made to the organisation to minimise challenges and risks of outsourcing.

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Chapter 1

Introduction

1.0Introduction

This chapter gives an overview of the research problem and general background information surrounding the research, the objectives of the research significance of the study, limitations, delimitations, definition of terms and summary.

1.1 Background of study

Unki Mines' goal is to mine profitable platinum. To achieve this goal it focuses primarily on its core business activity and outsources most of its services. For the past years the company has been facing pressures from Anglo Platinum, its parent company, to cut its operational costs and increase its profits. However, contractor costs are rising rapidly while its profits continue to decline. The research is an investigation on the effectiveness of outsourcing and its implications on the performance of the organisation.

Unki Mines now outsources most of its services including machine maintenance, shaft sinking, communication system maintenance, conveyor extension, tyre repairs and maintenance, transport services, camp management, security, catering, cleaning and information technology and support services from various suppliers. The original motivators behind outsourcing these services is so they can be able to focus on mining platinum and improve quality of the PGM(Platinum Group Metals) concentrate and to cut down on costs by so doing improving performance of the organization but this has not turned out as expected.

Management have concerns on the services being offered by contractors and how they are affecting the performance of the organisation. In the 2015 end of year finance meeting held on the 12th of January 2016 the General Manager encouraged the finance team to renegotiate prices with suppliers as they had observed that the contractors were charging unreasonable prices.

An underground audit was organised by management in February 2016 with the aim of finding ways to minimise costs and improve on efficiency. Their reports showed many concerns on contractors. Finance manager was quoted during a finance meeting in February 2016 saying that, 'Contractors' machines are lying idle underground whilst they charge machine usage on an hourly basis.' He encouraged team leaders to keep an eye on machine operators.

A meeting was held in October 2015 to address employees' complaints on the camp services particularly the food they were having and the prices being charged as this was affecting employees' attitude towards work.

Table 1.1 Unki Mine Contractor cost analysis 2012-2015

Years	**2012**	**2013**	**2014**	**2015**
Budgeted contractor costs	$8 million	$8million	$12 million	$12 million
Contractor costs	$9.6 million	$11.1 million	$11.6 million	$13 million
Variance	$1.6million adverse	$3.1million adverse	$400thousand favorable	$1million adverse
Profit	$57 million	$53.8million	$48 million	$32.8million

Adopted from the Unki mine 2015 performance report

Table 1.1 shows the statistics of operational costs, revenue and profits. During the period of 2012-2015 profit is at its peak in 2012 at $57 million whilst contractor costs were at lower cost of $9.6 million. Profit was at its lowest in 2015 whilst contractor costs had increased by $3.4 million from 2012. Profit has decreased from $57 million to $32.8 million whilst contractor costs continue to increase every year, increasing by a total of $3.4 million from 2012 to 2015. The company is incurring millions of dollars on contractors every year and is having difficulties staying within the budgeted amounts; it spent an extra $3.1 million from the budgeted costs in 2013.

1.2 Statement of the Problem

Outsourcing is done with the aim of reducing overhead costs as well as to concentrate on the core business. However, outsourcing has its challenges and can affect the performance of an organisation. From the year 2012 to 2015 Unki Mines' profit has been decreasing yet contractor costs were increasing. The adverse variances show that the company is also having challenges staying within the budgeted amount of contractor costs. The study therefore investigates the effectiveness of outsourcing and its impact on the performance of the organisation.

1.3 Main Research Objective

The significance of this research is to identify the problems associated with outsourcing and their effect on the organisation's performance.

1.4 Sub Research Objectives

- To identify the reasons why Unki outsources its services.
- To identify the problems associated with outsourcing at Unki Mines.
- To discuss the relationship between outsourcing and organisational performance.
- To identify the characteristics of a feasible outsourcing strategy.
- To suggest how Unki Mines can overcome the challenges of outsourcing.

1.5Research Questions

- What are the reasons why Unki outsources its services?
- What are the problems associated with outsourcing at Unki Mines?
- How does outsourcing affect the performance of an organisation?
- What are the characteristics of a feasible outsourcing strategy?
- How can Unki Mines overcome challenges of outsourcing?

1.6 Significance of Study

To researcher

A research on outsourcing will allow the researcher to develop research skills and to have an in-depth knowledge on the effectiveness of outsourcing. It is also in the partial fulfilment of the requirements of the Bachelor of Commerce Accounting (Honours) degree at Midlands State University.

To Midlands State University

The research can assist other scholars interested in this area of study as resource material and for future referencing.

To the Organisation

An investigation on the effectiveness of outsourcing will make the organisation aware of the pros and cons of outsourcing and its impact on the organisation's performance.

1.7Delimitations

The study focuses on the effectiveness of outsourcing at Unki Mines (pvt) ltd and its impact on the organisation's performance. The research only focuses on Unki mine, a subsidiary of Anglo-American group located in Shurugwi .The study covers the period from 2012 to December 2015.

1.8Limitations of study

Confidentiality

Some of the organisations' data is confidential and in these cases the researcher has to convince management how the data is important to the study and that findings will be used for academic purposes only.

Time

The research will be done concurrently with other modules just as significant to the researcher and this will be done over a period of 3 months. The scholar has to work extra hard and find a balance between the two.

1.9Defination of terms

Outsourcing- is assigning an activity that can be done internally to another supplier, Kock (2010).

Contractor - a person or company that undertakes a contract to provide materials or labour to perform a service or do a job, Domberger (2011).

Operational cost- these are the expenses which are related to the daily operation of a business, Cullen (2011).

Effectiveness -the extent to which the organization attains its objectives, Wiley (2009).

Organizational performance- an organization's performance as compared to its goals and objectives it includes, financial performance, shareholder value performance, market performance and production capacity performance, Stanford(2010).

1.10Summary

This chapter has presented the background of study, identified the problem and introduced the research topic. It clearly outlined the research objectives and the research questions. It also looked at the significance of the study, limitations and delimitations of the study. It defined critical terms for easy understanding of the entire research. The next chapter reviews the various literature that has been done concerning outsourcing.

Chapter two

Literature review

2.0 Introduction

This chapter presents the reviewed literature on the concept of outsourcing, the reasons for outsourcing, and limitations of outsourcing. It also outlined the characteristics of a feasible outsourcing strategy and ways of minimising outsourcing challenges. http://library.concordia.ca (11April 2017 13:21), literature review is a written overview of major writings and other sources on a selected topic. Sources covered in the review may include scholarly journal articles, books and reports.

2.1Reasons why firms outsource

Due to globalisation and competition, many organisations are continuously trying to find management strategies that will reduce their production costs in order to maximise their profits, Stentoft et al (2015). For these reasons many firms since the beginning of the 21st century have been embracing outsourcing, in fact we are said to be in an outsourcing era. Beaumont (2013) divided the reasons of outsourcing into two categories which are financial or monetary reasons and non-financial or non-monetary reasons. The financial reason for outsourcing is improving the organisation's financial performance by cutting and controlling operational costs as a result increasing profitability. The non -financial reasons for outsourcing include focusing on core activity and flexibility.

2.1.1To reduce operational costs

According to Loch (2012) the main reason for outsourcing is rooted on the financial benefit which is to minimise production costs in order to maximise profitability. Hitka (2013) also pinpointed cost effectiveness as the main reasons as to why companies outsource. He highlighted that firms are able to cut on production costs by reducing cost of investing in expensive plant and equipment and by reducing cost of skilled labour. Schiederjans et al (2015) found that transferring non-core activities to an outside vendor specialising with that service will allow supplier to gain economies of scale from mass production and receive discounts from purchasing materials in bulk. The supplier then spreads costs over a number of customers and charge lower costs thus making outsourcing cheaper.

It is evident that available literature nominates cost reduction as the main driver for outsourcing but despite all this, there is no guarantee that costs will be saved as expected. Williams and Doune (2015) stated that many organisations have a tendency of understating transaction costs of outsourcing and overstating cost of production. Steenkamp (2013) stated that there are hidden costs of outsourcing that give rise to risks which make outsourcing more expensive than in –house production for example the costs of gathering information on suitable vendor and the cost of managing and supervising the selected vendor. Outsourcing can be more expensive than insourcing because it is easier to control costs internally than from an outside vendor.

2.1.2To focus on core activity

Alshamisi and Diabat (2015) found that the reasons for outsourcing are now shifting from financial reasons to strategic issues, such as core competence and flexibility. This was supported by Stentoft et al (2015). They cited that many organisations turn to outsourcing so that they can be able to focus on their core competence and put less effort on the development of in-house activities outside their core functions. The decision to outsource non -core activities puts an organisation in a position to realise its vision and mission. Young and Macinati (2012) stated that companies will be able to focus on the few manageable functions of the core activities thus improving on productivity and quality of main function which improves the performance of the organisation. Many scholars are of the view that outsourcing is a serious alternative to focus on the main business function.

However, Schiederjan et al (2015) had the view that some of these non-core activities might have impact on production and quality of core business activities. Outsourcing core competence often results in less productivity amongst remaining functions. Brown (2013) cited that organisations might lose their competitive advantage by mistaking core competences and non-core competences, which results in outsourcing wrong functions. Williams and Doune (2015) argued that because of this diversifying world what is not core today might be core tomorrow. This results in an organisation losing its core competence. Loch (2012) further cited that once competence is lost its difficult to rebuild it so organisations must be careful in determining their core activity.

2.1.3Flexibility

According to Sparrow (2012) organisations outsource in order to fully utilize specialised professional capabilities from different suppliers and innovations that would have been difficult to replicate. Goviden (2012) affirmed that there is greater capacity for flexibility when outsourcing because companies may switch to cheaper suppliers and suppliers of new technologies available .Sparrow (2012) further cited that an organisation can enjoy quality flexibility, operational flexibility, demand flexibility and resource flexibility when it outsources.

Grobler et al (2013) argued that outsourcing can restrict flexibility as an organisation might be forced to commit to a specific type of knowledge or technology because of the cost of switching to another supplier. Freytag (2012) is of the view that the desire for flexibility in outsourcing substitutes innovation. He says that flexibility leads to loss of research and development competiveness. Reduced ability to learn creates a gap in knowledge especially if a company outsources wrong functions, the gap might prevent the company from future opportunities and might compromise flexibility on other activities.

2.1.4To improve on quality

Loch (2012) stated that handing work to a third party or a specialised supplier will improve the quality of the final product. He argued that internal employees might be competent but may lack relevant skills and technology to deliver quality services. According to Weingarten (2013) outsourcing world class capabilities will improve the quality of the final product, the assumption under improving quality of the core competence is that, if the economic inputs are of high quality the end product will also be of high quality.

Other reasons behind outsourcing may include, to comply with Government's rules and regulations, to avoid large capital expenses, to access services that are seen as difficult to manage, to free management time and to share risks for example risk of obsolescence.

There are several cases in which organisations decided to outsource for different reasons. Musau (2016) cited the case of Xerox. It developed and manufactures document processing products. Rank Xerox made the decision to outsource some of its non-core services including security and cleaning with the aim of simplifying its company process. When the decision to outsource was made, Xerox and its outside service suppliers set a goal to reduce costs and improve quality. The outsourcing was a success and they managed to gain cost savings of up to 62%.

Another case was cited by Shi and Wei (2012). Nike was in the business of importing Japanese shoes to athletes. With time Nike developed its core competence which was in brand designing. The company decided to focus on its core activity and outsource other non- core activities. This decision led to a $700 million increase in sales.

2.2Problems associated with outsourcing

Although outsourcing has been embraced with a general favour, critics for outsourcing found that outsourcing is not the best pathway to the success of an organisation. According Tafti (2013) too many problems occur within an organisation that outsources some of its business functions. Issues that may arise because of outsourcing may be financial, legal, management and control issues. He explained that some vendors have low performance standards, some lack knowledge and some are non- responsive. These problems make it difficult for outsourcing to be successful. Nassimbeni et al (2012) stated that it appears there is an over emphasis on the short term benefits of outsourcing but there is no guaranteed ticket for their success. There various problems that arise because of outsourcing but the following problems seem to be common among many organisations.

2.2.1Loss of control

Yang et al (2012; 93) stated that, "whilst cost saving is the main driver for outsourcing ,this erratic decision making results in loss of control." When an organisation outsources a business function it will also be signing over control and decision making of that function to its supplier. Clark and Monk (2013) found that organisations that become dependent on outside vendors for the performance of their activities might end up finding themselves locked into specific arrangements made with contractors. This often leads to the loss of internal abilities to execute some activities which are critical to competiveness. An outside vendor can decide to provide services at its own pace making it difficult for the outsourcing firm to meet its standards. Seather and Gotschalk (2015) argue that an organisation has the power to choose a service provider of choice, which can meet its own standards. They further cited that an organisation can negotiate prices up for better results.

According to Ikediash et al (2012) outsourcing can also lead to the loss of control over confidential information for example personal data, audit trails and confidential reports. This will not benefit the firm's competitive advantage. They further cited that expectation in handling information should be addressed in contracts.

2.2.2Fall in employee morale

According to Brewer et al (2013) outsourcing has a deteriorating impact on employees' morale. Organisations might face serious problems if close attention is not paid to the remaining in-house employees. Blakiston & Ishizaka (2012) cited that organisations that outsource for the reason of focusing on their core activity, their employees might begin to worry over which function might be declared to be non-core next and subsequently outsourced. This affects the employee morale and leads to high labour turnover. Bolo and Musengi (2014) supported this, they said that outsourcing creates negative feelings to internal employees; employees might end up suffering from job insecurity, decreased productivity and increased absenteeism. Williams and Doune (2015) also cited that outsourcing creates conflicts between contractors and in-house employees and this affects the performance of the organisation. However, this can be improved if affected areas are included in the initial decision to outsource, employees must be well aware of the decision to outsource.

2.2.3Low service quality

Simmonds and Gibson (2012) found that outsourcing organisations may end up suffering from low quality of output. This is due to the vendors who have little knowledge of the activities and objectives of organisation concerned. Some vendors might find it difficult to adapt to the outsourcers' rigorous process and might not keep up with customers' perception of high quality. Sparrow (2012) stated that as long as outsourcing is cheaper than in-house production firms will always turn to outsourcing but this affects quality of the final product. Outsourcing might even end up compromising the quality of customer care.

However, Moe et al (2012) argued that quality of service might not be an issue if the outsourcing contract clearly outlines the responsibility and performance criteria expected from supplier. The contract must also include the measures to be taken if agreements are violated. Hitka (2013) also argued that outsourcing can improve accountability because contractors will be well aware that they have to provide quality services in exchange for their payment.

2.2.4Loss of internal expertise and skills

Firms that outsource most of its services and rely entirely on outside vendors may not put emphasis on internal skills, Tafti (2013). This often leads to loss of critical and functional skills which may be necessary in future. According to Aral and Godes (2013) outsourcing organisations lose research and development competiveness, many organisations tend to stay behind break-throughs in technology when they outsource. Ali and Green (2014) cited that outsourcing firms are most likely to lose touch with the new technologies that might emerge and benefit product and process innovations. Yang et al (2012) found that outsourcing creates reduced ability to learn. This creates challenges when a company decides to rebuild its internal services.

2.2.5Hidden costs.

Fadil and Pieree (2016) found that outsourcing turns out to be more costly than expected. Most outsourcing firms are blinded by the short term benefits at the expense of hidden costs. Stentoft (2014) cited that outsourcing comes with transaction costs; these include the costs of redeployment and cost of managing outsourced labour. Vendor search costs, research interviews costs, site visits costs, evaluation cost and final selection costs negate expected cost. According Moe et al (2012) outsourcing nowadays is costly, vendors have increased their costs instead of lowering them because most firms are seeking to outsource. Organisations have to try their best to develop their own services before making the decision to outsource.

The case of Mattel shows evidence of failures in outsourcing, Bolo and Musengi (2013). Mattel which was one of the biggest toy manufactures outsourced its production to China. In 2007 the company experienced a huge quality problem. The toys contained a very high level of lead. Mattel had to recall 2 million toys in just a space of a week. The cost of repairing the damaged outweighed the costs they had saved from outsourcing. This shows that outsourcing does not always improve quality.

The case of Shwinn cited by Shoenmaker et al (2012) is another example of failures in outsourcing. Schwinn, a bicycle manufacture decided to outsource the manufacturing of bicycle frames from Taiwan supplier Giant. As a result of this decision Giant managed to absorb crucial knowledge from Schwinn and introduced the first caborn fibre bicycle. Nowadays Giant successfully produces its products under its own brand.

Another similar case is that of Samsang and GE, GE outsourced the production of microwave models to Samsung, today Samsung is one of the world's biggest appliance manufacturer.

2.3Relationship between outsourcing and organisational performance

Organisational performance is a major priority when making the decision to outsource. Carman and Sarker (2012) described performance as measuring, reviewing, auditing and improving the performance of an organisation and establishing how well the organisation is doing towards the attainment of these goals. Guistinano (2013) found that outsourcing has the power to affect the performance of an organization internal and external stakeholders put pressure on the outsourcing decision. Some scholars found that outsourcing improves the performance of an organization whilst some induced that outsourcing is a set back from an organization's performance other scholars say that it has no impact at all. According to Ali and Green (2014) organisational performance can be measured basing on three outcomes which are financial performance, shareholder value performance and market performance.

2.3.1Financial performance

Improving the organisation's performance or profitability seems to be the main reason why firms outsource. According to Chen et al (2013) firms will always outsource as long as the cost of outsourcing is lower than the cost of in-house production. This will improve the profitability of an organisation because of the reduction in operating costs. The question which arises is whether outsourcing is value enhancing, i.e. whether it results in higher profitability in particular. They further stated that there is a positive relationship between outsourcing and profitability in developing countries. They explained that outsourcing has a positive relationship with financial performance because of economises on operational cost which maximises profits.

Gandi et al (2012) differentiated the relationship for outsourcing services and non- services. They found that there is a negative relationship between profitability and outsourcing services in German manufacturing firms. They pointed that outsourcing materials is positively correlated with profitability. However, Chen et al (2013) found that firms will always outsource water and electricity and said that these add value, but organisations should try to provide all other services themselves before making the decision to outsource. In other words outsourcing does not always yield a positive relationship with financial performance. Lacity et al (2012) suggested that organisations must outsource the correct products or services at the least possible cost in order to attain a strong financial performance.

2.3.2Shareholder value

It is very necessary to understand the relationship between outsourcing and shareholder value as this goes far beyond short term stock price but long term stock price. The effects of shareholder value can be estimated by observing the behaviour of stock price. Zhaofang and Wang (2012) found that outsourcing reasons had substantially shifted from performing a single function efficiently to reconfiguring the whole process in a new way which can generate a greater shareholder value. Plugge and Bouwman (2013) found several components which contribute to shareholder value which include revenue, expenses, cash flow and return on assets. When outsourcing all these have to be in the right direction in order to improve shareholder value. They suggested that an organisation that makes a decision to outsource with the aim of reducing costs must do so without negatively affecting other components of shareholder value.

According to Larker and MacCall (2015) when outsourcing is done right it has a positive impact on income, cash flow and the return on assets in other words it increases shareholder value. Outsourcing has a positive effect on shareholder value, firms experience an increase when they start to outsource.

However, Rassens et al (2012) are of the view that outsourcing can either have a positive or a negative impact on shareholder value's performance; it just depends on how it is managed. Howcroft and Richardson (2014) suggested that managers should ask themselves how this will affect shareholder's value or how best they can manage the outsourcing relationship in order to maximise shareholder value.

2.3.3Market performance

According to Girth et al (2014) outsourcing does not only affect the financial performance of an organisation but also affects the marketing performance including brand quality, customer confidence, corporate reputation and product delivery. They are of view that organisations nowadays turn to outsourcing because they are now trying hard to exploit competitive advantage in order to increase market share and profits. In other words outsourcing is capable of expanding market share. According to Aral and Godes (2013) market share is a good indicator for market performance so outsourcing has a positive relationship with market performance. Zhaofang and Wang (2012) cited that in order for an organisation to acquire a large market share it must produce a product that is on demand and offer it at a price that allows them to compete. He asserted that outsourcing supports increased demand; a manufacturing company can supplement existing in-house manufacturing efforts and making it easier to meet new demands thus creating a positive relationship with market performance.

Clark and Monk (2013) found a negative relationship between outsourcing and market performance he suggested that some activities should never be outsourced as organisations may fail to meet customer demand. Kotabe et al (2012) supported this they stated that outsourcing can result in significant alteration in an organisation's boundaries, employing outsourcing without proper consideration of long term objectives can jeopardise a firm's competiveness.

There are several cases which are evident of the relationship of outsourcing and organisational performance. Cox (2014) during his research cited the case of IBM which is evident of the relationship of outsourcing and market performance. IBM launched its first PC in 1981 and had a huge market share of 41%. It made the decision to outsource some of its major components from Intel and Microsoft which are PC supply chain and PC operating system. Microsoft became its biggest competitor and IBM's market share decreased to only 7.3%. This showed that outsourcing can have a negative impact on market performance

In reality outsourcing can either have a positive or a negative relationship with organisational performance the issue depends on how well it is managed.

2.4Characteristics of a feasible outsourcing strategy

Scholars nowadays advocate that outsourcing must also be used as a strategic tool in order to deliver a huge impact on growth of the organisation and its financial stability. Manang (2012) is of the view that if outsourcing is done properly, it allows the firm to plan for optimal utilisation of resources and capabilities' in order to achieve best advantage. It also helps the organisation to attain its strategic goals. Mella and Pellicelil (2012) emphasised on the strategic concept of outsourcing. They gave an example of China which is known as a low cost country, its works clearly advocates a strategic approach in outsourcing in foreign countries. A feasible outsourcing strategy must be;

2.4.1Capable of reducing cost simultaneously with risk

Outsourcing when approached in a proper manner must be able to reduce cost of production as well as reduce risks. According to Maluma (2012) outsourcing must lead to the vital combination of reduced costs and risks because outside suppliers undertake the risks of investment and development which are avoided by the outsourcer. The outside vendor is able to share these risks among multiple customers and will lower costs for its clients due to the pooling effect of economies of scale. According to Smart et al (2014) lowering of risks has become one of the advantages of outsourcing. Todays' executives are now aware that outsourcing for short term advantages such as cutting costs does not yield as much as strategic benefits such as reducing costs together with risks. (Warner & Heftz, 2012) indicated that the choice of vendor or service provider is very crucial in order to achieve lowest possible costs and reduced risk.

2.4.2Improve efficiency but retain control

A feasible outsourcing strategy must lead to operation advantages such as increased efficiency as a result of activities being carried out by specialised companies, Bumberger et al (2014). The supplier however should not have the power to determine the level of activity as this may deviate from the organisation's goals. According to Baranov (2015) a good outsourcing strategy can increase efficiency ensuring maximum utilisation of the existing resources in a way that generates maximum value with least possible inputs. However, the supplier must never have the power to control quality of final product. The outsourcer must have the ability to direct the way a task or activity is going to be carried out.

2.4.3Ability to assemble expertise for innovation

Smart and Maull (2013) found that a viable outsourcing strategy must provide the outsourcer the ability to assemble highly diverse expertise for special projects. The outside vendor must not hinder the organisation's ability to be innovate instead it must keep up with the latest technologies. In addition outsourcing from outside professional firms must lead to better results in terms of innovation since these firms are generally designed to provide that specific service or product and has the relevant experts, Zalswalk et al (2014), organisations must be able to offer clients resources and information on a real time basis and outsourcing must assist them to do so. In fact organisations outsource in order to do so. Moreover, Lacity et al (2012) found that many organisations now outsource largely to take advantage of the greater innovation skills that external vendors are able to offer for example the computer industry and textile industry.

2.4.4Flexibility

A feasible outsourcing strategy must be characterised by flexibility in order to accommodate any changes that may arise. Campos and Heley (2014) stated that an organisation must be able to deal with constant changes in their environment by making some qualitative variations in their management style, strategy, organisational structure and culture. Outsourcing organisations must peruse flexibility and ability to compete for its competitive advantage and its competitive position compared to its competitors.

2.5How can organisations overcome challenges of outsourcing

As the outsourcing era continues experience enables outsourcing firms to understand the conditions required for outsourcing to be a success. The more experience the organisation has on outsourcing the better they get in doing it, Kotabe et al (2012). Outsourcing must be conducted in a professional manner for it to be successful. Gandi et al (2012) cited the measures that can be taken into account in order to minimise the risks of outsourcing and eliminate the challenges. The following are measures that can be taken in order to minimise risks and eliminate challenges

2.5.1Clarity on the need for outsourcing

One of the most crucial stages in outsourcing is identifying the reason why an organisation should start to outsource. Sparrow and Springer (2012) found that the reason why most firms do not enjoy the full benefits of outsourcing is because of the unclear reason as to why they started outsourcing. Dhar (2012) cited that an organisation must pay attention to management when they make the decision to outsource. They must carry out a SWOT analysis to clearly identify the strengths, weaknesses, opportunities and threats that might arise due to the decision of outsourcing a certain service before making the decision to outsource.

2.5.2Choosing the right vendor

According to Weingarten et al (2013) many organisations end up terminating their outsourcing contracts and move back to in-house production because of the lack of service quality from outside vendors. Sadgrove (2015) suggested that in order to eliminate outsourcing risk of poor quality vendors must meet requirements in terms of qualification, skills and knowledge on how to provide a certain service. He further clarified that an organisation must first access the potential vendor’s knowledge and capacity before making the decision to sign or extend a contract agreement.

The outsourcing firm can achieve this by giving the vendor a trial period or request for a demonstration. There should not be any favouritism when choosing supplier. In a nutshell selected vendor must have first-hand knowledge on how to provide the service to be outsourced. Roper et al (2013) suggested that Mines can successfully address problems of outsourcing and improve competitive edge if it works with first class service providers which specialise in the mining industry. The success of outsourcing in the mining industry depends on choice of vendor.

2.5.3Pay attention to contract

Tho (2012) cited that the lack of detail in the binding contract between organisation and external supplier makes the supplier unable to meet its business requirements, time frames and leads to poor service quality. These challenges are all faced if specific and clear contracts are not created. Fadil and Pierre (2016) states that organisations must not only focus on payment agreements but also pay attention to their expectation of services provided by outside supplier in order to avoid conflicts. Lee et al (2012) highlighted that most service providers tend to complete tasks that appear in the service agreement. They suggested that everything must be clearly outlined in the contract and nothing must be assumed taking note of specific tasks and service conditions. Management must properly monitor the services rendered by the outside vendor in order to ensure that the standards set in the service agreement are met.

2.5.4Create an effective communication strategy

Communication is also a major aspect in the outsourcing relationship for it to be successful, Bumberger et al (2014)An organisation must consider how the outsourcing decision will affect the employees and communicate these issues with affected employees in order to get their full support and cooperation. All stakeholders must be involved in the initial decision of outsourcing non-core activities. Brown (2013) suggested that there must be a relationship between management employees and outside vendor because management has to have enough information in order to foresee future challenges.

2.5.5Insourcing

In order to avoid all those risks associated with outsourcing a company can turn to in-house production i.e. insourcing. A company can provide itself with the activities, products or services it requires in order to attain its objectives. Mella Pellicelli (2012) described insourcing as when a company uses its own resources to produce goods and services. It involves a company acquiring its own resources to produce goods and services or using already existing resources. Steenkamp (2013) is of the view that insourcing has a positive impact on an organisation’s performance because an organisation will be able to control its operational costs as well as to build a team of skilled employees.

However Lee et al (2012) found that, the mining industry must avoid unnecessary large capital spending it must outsource the activities that depend on fixed investments and not to buy expensive trucks that may not be used frequently. But critical activities like drilling and hauling should not be outsourced.

Roper et al (2013) cited that the mining industry is also moving greatly towards integrated processes, accessible information and more automation. For example the blasting process is now automated. These technology advances reduces the complexity of mining projects and are safer to use. Some mines are already adopting these new technologies but they may be very expensive and complex. An organisation can make the decision to outsource such services in order to improve competitive advantage.

2.6Summary

The chapter dealt with the review of literature concerning outsourcing related issues using published books, e- journals and internet. Chapter 3 will focus on the research methodology used to gather information for the research.

Chapter 3

Methodology

3.0 Introduction

This chapter describes the methodology that was used in the actual study. It explains the process through which data was collected, analysed and processed in order to attain the objectives of the research. It lays down the sources of data, data collection tools, population under investigation, sampling and sampling procedures and data analysis procedures. This chapter also justifies the research methods used to conduct this research. It also gives the summary of this chapter.

3.1Research design

According to Yin (2013) a research design is a strategy that is used to acquire solutions to a certain problem. Thornhill (2012) defined research design as a blueprint used to collect, measure and analyse data. He stipulated that it is a plan of an investigation prepared to assist in getting answers of a research. In other words a research design is there in order to plan for the research. The descriptive research design was used in order to assist in investigating the effectiveness of outsourcing and its impact on organisational performance.

3.1.2 Descriptive research

A descriptive research design according to Merriam and Tisdell (2015) requires the researcher to collect, present and interpret data to characterise a concept for the purpose of clarification. Maxwell (2012) highlighted that a descriptive research involves an assessment of variables associated with a subject population. Its drive is to obtain a correct explanation for example who, what, when and how questions of any topic produced.

A descriptive research is an effective way of testing hypothesis or answering questions concerning the participants of study, Yin (2013). This research design enables the researcher to use both the qualitative and quantitative methods of gathering information or even to use a combination of the two methods.

3.1.3 Case Study

A case study is an account of an activity, event or problem that contains a real or hypothetical situation. https://student.unsw.edu.au/case-study (12 April 2017 21:45). It is an approach used to research on a single or few examples of a particular object or objects. Collins et al (2014) stated that the goal of a case study is to provide an accurate and complete description of the case. A case study reduces scale of research by focusing on a smaller number of units. A single case in particular allows for comprehensive examination which is not possible in a wide cross-sectional survey. Denscombe (2012) asserted that unlike other methods, the use of a case study allows both quantitative and qualitative details to be gathered in a research. However, a case study due to its narrow focus, has limited representatives which makes generalisation difficult.

3.2 Population and sampling design

3.2.1 Population

Population refers to a well-defined set of individuals or objects that have some common characters that are being investigated, Eke (2012).

3.2.2Target population

This refers to members of a set of people or objects to which the study generalises results of research. The target population of this research is Unki Mines employees.

3.2.3 Sample

Gerrton et al (2012) defined a sample as a subset of population selected through sampling techniques which represent characteristics of the population. It is a collection of observations represented by a group that can be used to describe the whole group.

3.2.4Sample size

This refers to the actual number of respondents that represent the population under study i.e. the total number of opinions that represent the whole population study.

Table 3.1 Sample Size

Department	Population	Sample	% ge	Questionnaires	interviews
Finance	10	10	100%	8	2
Procurement	9	8	89%	7	1
Mining	10	9	90%	8	1
I.T	8	8	100%	7	1
Total	**37**	**35**	**87%**	**30**	**5**

3.2.5 Sampling technique

This is a statistical method of selecting the sample units that would offer the requisite estimates or opinion, Patel et al (2013).

3.2.6Sampling methods

3.2.7Convenience sampling

This is a sampling technique where the sample is chosen because of availability accessibility and proximity. Convenience sampling is a simple and easy way of gathering data without complications. Landers and Behrend (2015) cited that this technique also allows the user to gain basic data and information trend. This sampling technique however may not represent the entire population and there may be bias in selecting respondents as there is no factual basis for selection.

3.3Data sources

According to Saundler et al (2012) data is raw facts for a research analysis or reference. Scholars divided the sources of data into primary sources and secondary sources.

3.3.1Primary Data

Collis and Hussey (2013) defined primary data as first hand data collected during the period a research is conducted. It can be collected through interviews, observations, questionnaires and from observing primary sources such as speeches memos and email. Creswell (2012) divided primary data collection methods into qualitative and quantitative.

Qualitative -collecting and interpreting data expressing it in words rather than numbers.

Quantitative – collecting and aggregating and analysing numerical data that can be expressed in numerical form.

The benefit of using primary data is that it is directly applicable as it is collected for the purpose of the research, primary data is also valid, reliable and relevant. The disadvantage of using primary data is that it requires a lot of time to gather and it can be costly since it is first hand raw data, Grosso et al (2013).

3.3.2Secondary data

According to Collins et al (2014) these are interpretations of events of that research period based on primary sources. It is a reanalysis of present data that has been previously collected by other scholars. Secondary data can be collected from internal and external sources. Internal sources are written documents, internal financial statements, audit reports and budgets. Examples of external sources are newspapers.

The advantage of using secondary data is that it is readily available which makes it cheaper and easier to gather. The disadvantage is that it might be irrelevant and not applicable to research under study, it might not cover aspects relating to the research.

3.4Research instruments

These are primary methods used in collecting data.

3.4.1 Interviews

Brinkman (2014) described an interview as a formal conversation where the researcher seeks to find out direct information about a certain subject. It is done in order to explore views and experiences and to get explanations of a certain subject. An interview can be done over the phone, electronically or face to face. In this case an interview guide was used to conduct the interviews face to face.

Advantages of performing interviews

According to Denscombe (2014) an interview can assist in obtaining personal data, perceptions and attitude. Another benefit of interviews is that respondents are able to expand areas of interest through interviews which enables the researcher to obtain clear answers. Interviews also allow the researcher to see the non- verbal communication when performing face to face interviews for example facial expressions.

Disadvantages of interviews

Cole and Bird (2013) asserts that interviews can make the respondents feel intimidated which leads to respondents withholding valuable data which might be useful to the researcher. Interviews can also be time consuming.

3.4.2Questionnaires

According to Collins and Hussey (2013) a questionnaire is an instrument for data collection in which a selected number of participants are required to complete a set of questions to find out what they think or how they intend to act. Clarke et al (2015) stipulated that questionnaire sets out the question to be asked and possible answers, order in which questions must be asked and conditions under which questions have to be asked. A questionnaire must be structured in a way that is simple and clear and must avoid leading questions.

Benefits of using questionnaires

Yin (2013) highlighted that the biggest advantage of using a questionnaire is that answers are guided so it makes it easier for people to respond. Questionnaires also enable data to be collected from a large diverse sample. They also ease administration and can lead to speedy and cheap deliveries if emails are used.

Limitations

Questionnaires can be unclear and vague, McGurk and Neil (2016). Researcher might not be able to ask for clarity leading to collection of wrong data. They can be costly if questionnaires are printed and are time consuming to analyse.

Types of questions

Open ended questions

These are questions that stimulate verbal exchanges; they are limitless and have many possible answers.

The benefit of using open ended questions according Baskerville (2016) is that there is no limit to standard answers as a result wide information can be collected. The limitation of open ended questions is that they are difficult to analyze statistically because to do so the qualitative information has to be reduced to coding thus answers tend to lose their original meaning.

Close ended questions

Creswell (2012) cited that close ended questions are questions that require a yes or a no response; they are an involuntary selection among two or more requests. The respondent must choose an answer from a fixed list provided by the researcher.

According to Maxwell (2012) it is easy to answer and keep control of the conversation when using close ended questions. It is also easy to analyse as answers can be grouped and interpreted. It takes less time to gather data using close ended questions. However, close ended questions are difficult to design and respondents might feel that there is no suitable answer for them. The Likert Scale is usually used for close ended questions.

3.5Likert scale

This is a psychometric scale used in questionnaires. Likert developed this idea of measuring responses by asking people the extent which they agree or disagree to a question.

Table 3.2. The Likert Scale

Item	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Points	5	4	3	2	1

The main advantage of using a Likert scale according to Theofilou (2012) is that it simplifies the process of quantifying responses and statistically analysing findings making it easier for the respondent to draw conclusions.

3.6Data gathering procedures

3.6.1Data validity

Baskerville and Harper (2016) described data validity as the degree of relevance and reliability of collecting data. Valid data must be appropriate to the research. There are a number of techniques that were employed to make sure that data collected was relevant to the research. The questionnaires and interview questions were examined to access their relevance and clarity before collecting the actual data.

3.6.2Data presentation

The research obtained both qualitative and quantitative data, graphs pie charts and tables were used to present this data. These techniques allowed the researcher to present findings in different ways and are used to review trends mere clearly. According to Maxwell (2012) these techniques make it easy for one to understand and analyse data.

3.6.3Data analysis

According to Denscombe (2012) these are methods that are used to describe trends and patterns in order to develop explanations and conclusions. The descriptive analysis was used to describe range of responses to each variable examples are mean median and mode.

3.7Summary

This chapter outlined the research methodologies and justified reasons for using these methods. The next chapter is the presentation of data analysis and discussion of research findings.

Chapter 4

Data presentation and analysis

4.0Introduction

This chapter presents, interprets, and analysis the data collected through questionnaires and interviews focusing specifically on the objectives of this research. Data in this chapter was presented using pie charts, tables and graphs. This chapter ends with a summary.

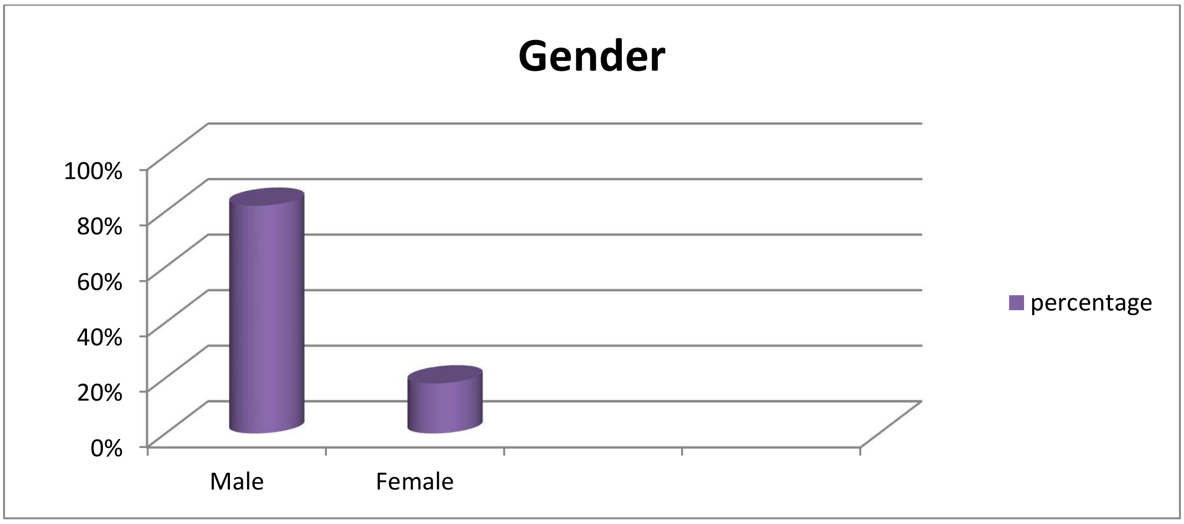
Table 4.1: Questionnaire response rate analysis

Department	Total Questionnaires	Questionnaires returned	Response rate percentage
Finance	10	10	100%
Procurement	7	7	100%
Mining	7	6	85.7%
IT	6	5	83.3%
Total	30	28	93.3%

Table 4.1 shows that 30 questionnaires were administered to Unki mines employees but only 28 were returned giving a total response rate of 93.3 %. 2 out of 30 (6.7%) did not return the questionnaires. However the researcher managed to collect data because a significant number of employees responded.

4.1Questionnaires

Fig 4.1 Gender analysis

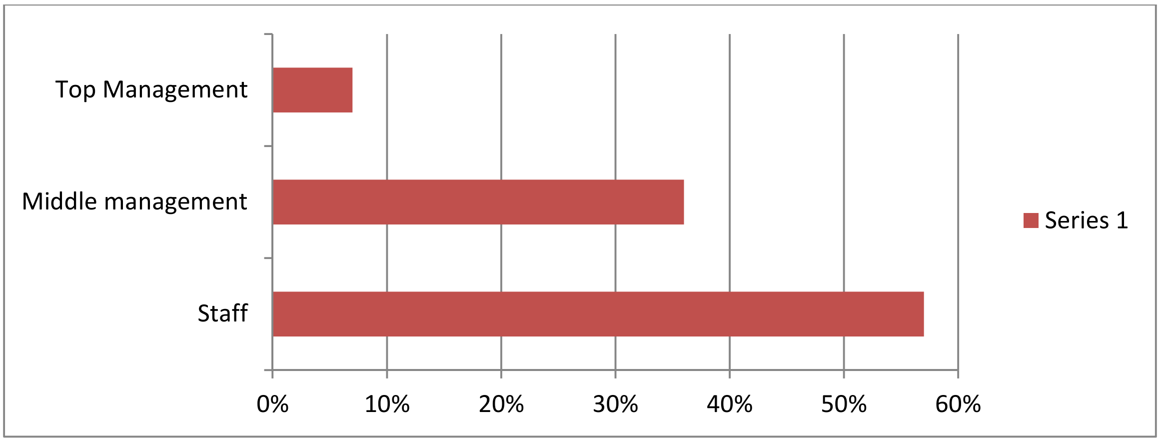


Part A

The first question required the respondents to indicate their gender; questionnaires were administered to both male and female employees. 23 out of 28 respondents were male giving a percentage of 82% whilst only 5 of them were female giving a percentage of 18%.

Position at Unki Mines

Fig 4.2 Level of management



The table above shows that 7% of the respondents were top managers whilst 36 % were middle managers and 57% where Staff at Unki Mines.

Part B

Question 1

Unki Mines Outsources some of its services

Table 4.2 Responses to whether Unki outsources services

Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
28	Nil	Nil	Nil	Nil	28
100%	0%	0%	0%	0%	100%

The table above shows that 100% of the respondents agreed that Unki mines outsources some of its services.

Question2: Unki Mines heavily relies on contractors for its production

Table 4.3 Response rate to reliability on contractors

Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
28	Nil	Nil	Nil	Nil	28
100%	0%	0%	0%	0%	100%

The responses given by the table above show that 100% of the respondents agreed that Unki Mines relies on contractors for its production. 0% agreed, 0% were uncertain, 0% disagreed, and 0%strongly disagreed. The results show that Unki Mines is dependent on its contractors for production. This is in agreement with what Clark and Monk (2013) cited in their research, they stated that organisations that outsource often become dependent on contractors for the performance of their activities. These organisations however might end up finding themselves locked into specific arrangements made with contractors.

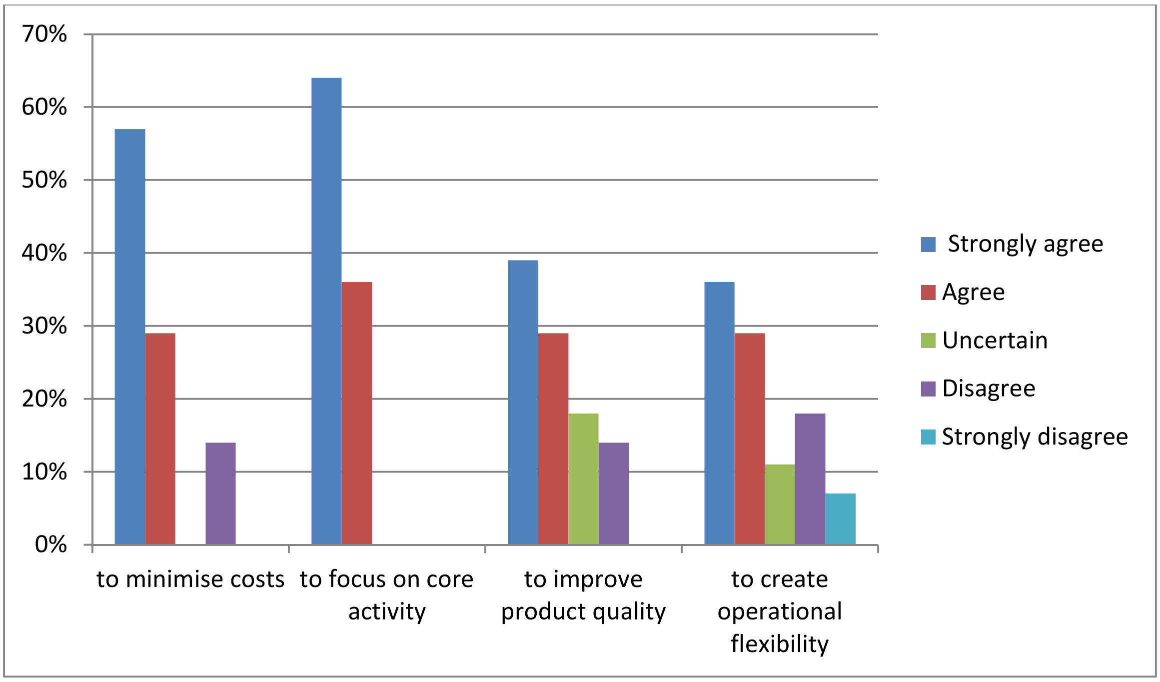
Question 3 Reasons why Unki outsources some of its services are

Table 4.4 Reasons for outsourcing

	Statement	**Strongly agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly Disagree**	**Total**

i.	To minimise the organisation's production costs	16	8	4	Nil	Nil	28
ii.	To free the organisation's resources so as to focus on its core activity	18	10	Nil	Nil	Nil	28
iii.	To take advantage of specialists so as to improve the organisation's product quality	11	8	5	4	Nil	28
iv.	To create operational flexibility in the organisation	10	8	3	5	2	28

Fig 4.3 Response rate to reasons for outsourcing



To minimise production costs

The graph above shows the results of the respondents' responses to the reasons why Unki mines outsources some of its services. 57% of the respondents strongly agreed that Unki outsources some of its services for the reason of minimising its operational costs and 29% agree which means that a total of 86% of the respondents agree that Unki outsources its services in order to reduce production costs.

Loch (2012) pinpointed cost saving as the main reason for outsourcing, he stated that the main reason for outsourcing is routed on the financial benefit which is to minimise production costs in order to maximise profitability. Many mines outsource for the reason of minimising production costs. Hitka (2013) stated that firms are able to cut on production costs by reducing cost of investing in expensive plant and equipment and by reducing cost of skilled labour. According to Chen et al (2013) as long as outsourcing is cheaper than in-house production organisations will always turn to outsourcing.

The graph shows that 0% of the respondents were uncertain and 14% disagreed and 0% strongly disagreed that Unki outsources in order to minimise costs. This agrees with what Steenkamp (2013) said, he stated that outsourcing can be more expensive than in-house production because of hidden costs. Organisations will still outsource for other reasons.

To focus on core activity

As show by the graph 64% of the respondents strongly agreed that Unki Mines outsources its service in order to focus on its core activity 36% agree to this reason 0% were uncertain, 0% disagreed and 0% strongly disagreed. This means that 100% of the respondents strongly affirm that the main reason why Unki outsources its services is so it can focus on its core activity. This supports what Alshamisi and Diabat (2015) cited, they found that the reasons for outsourcing are now shifting from financial reasons to strategic issues, such as core competence and flexibility.

Young and Macinati (2012) stated that the decision to outsource non -core activities puts an organisation in a position to realise its vision and mission. Firms that outsource focus on the few manageable functions of the core activities which improve productivity and quality of main function. The interviews conducted also reflected that Unki Mines outsources its services in order to focus on its core activity which is to mine profitable platinum.

An example is Nike which made a decision to focus on its core activity of brand designing and started to outsource its non- core functions, this decision was successful as it managed to improve Nike's performance.

To improve product quality

Fig 4.3 shows that 39 % of the respondents strongly agreed, 29% agreed, 18% were uncertain and 14% disagreed to the reason of improving product quality. This agrees with available literature, according to Weingarten (2013) outsourcing world class capabilities will improve the quality of the final product, the assumption under improving quality of the core competence is that, if the economic inputs are of high quality the end product will also be of high quality. The results show that 68% of the respondents agree that Unki Mines takes advantage of specialists in order to improve the quality of the Platinum group metals.

However 14% of the respondents disagreed, some feel that outsourcing doesn't always improve product quality so firms should not outsource for this reason. The case of Mattel provides evidence to this. Mattel had to recall 20 million toys because its contractor had put too much lead in the product which compromised the quality of toys.

To create operational flexibility

The highest frequency in this question is the 36% which strongly agreed that operational flexibility is another reason why Unki mines outsources its services,29% agreed,11% were uncertain,18% disagreed and7% strongly disagreed to this reason. The results show that a total of 68% agreed, this supports Goviden (2012)'s view that there is greater capacity for flexibility when outsourcing because companies may switch to capable suppliers, cheaper suppliers and suppliers of new technologies available.

However, 25% disagreed to this reason. This supports Grobler et al (2013), they argued that outsourcing can restrict flexibility as an organisation might be forced to commit to a specific type of knowledge, level of activity or technology because of the cost of switching to another supplier.

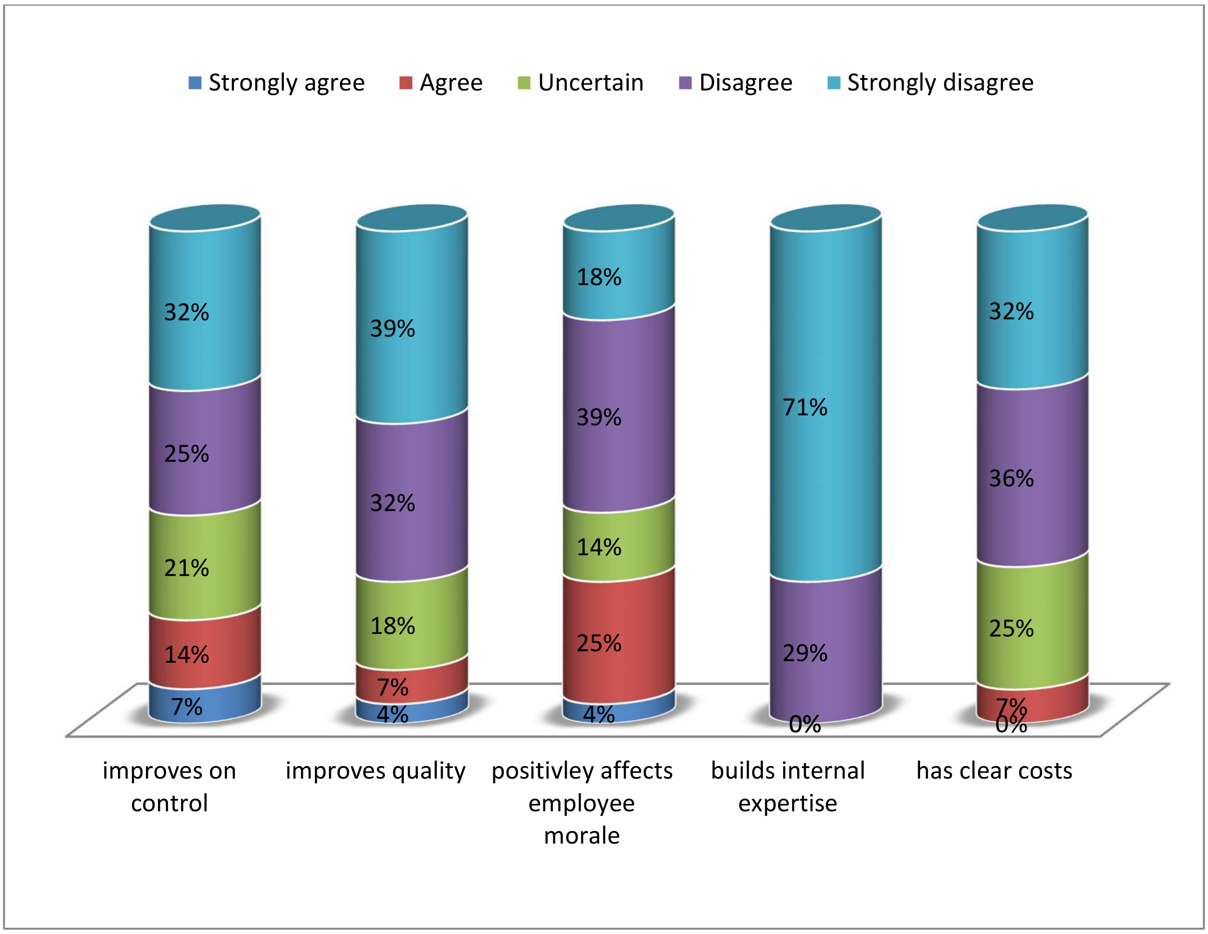
Question 4: Problems associated with outsourcing at Unki

Table 4.5 response to problems associated with outsourcing

	Statement	**Strongly Agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly Disagree**	**Total**
i.	Outsourcing makes it easier for management to control the organisation's activities	2	4	6	7	9	28
ii.	Outsourcing always improves the quality of services outsourced by the organisation	1	2	5	9	11	28
iii.	Outsourcing has a positive effect on the morale of the organisation's internal employees	1	7	4	11	5	28
iv.	Outsourcing builds the internal expertise of the organisation	Nil	Nil	Nil	8	20	28

v.	Outsourcing costs are clear, there are no hidden cost that may arise	Nil	2	7	10	9	28

Fig 4.4 Response to problems of outsourcing



Control

Fig 4.4 shows that 7% strongly agreed that an outsourcing helps the organisation to control all its activities, 14% agreed, 21% were uncertain, 25% Disagree and 32% strongly disagree to the statement. A total of 57% disagreed that outsourcing improves control. The results show that a greater percentage of the respondents are against the statement. This means that outsourcing hinders control. Yang et al (2012) cited that when an organisation outsources a business function it will also be signing over control and decision making of that function to its supplier. This agrees to the results of the interviews, respondents reflected that it is difficult to control activities in the organisation because of the large number of contractors.

Quality

The respondents were asked to respond to the statement that, outsourcing always improves the quality of service being outsourced, graph shows that only 4% strongly agreed 7% agreed, 18% were uncertain, 32% disagreed and 39% strongly disagreed. This gives a total of 71% respondents which disagreed that outsourcing always improves quality in other words outsourcing can result in low service quality.

The responses supports Simmonds and Gibson (2013) they found that outsourcing organisations may end up suffering from low quality of output. Some vendors might find it difficult to adapt to the outsourcers' processes and might not keep up with customers' perception of high quality. However, 11% agree that outsourcing improves quality; this supports Moe et al (2012). They argued that quality of service might not be an issue if the outsourcing contract clearly outlines the responsibility and performance criteria expected from supplier

Employee morale

Respondents were asked if outsourcing had a positive impact on employee morale and as shown in the graph above only 4% strongly agreed, 25% agreed, 14% were uncertain, 39% disagreed and 18% strongly disagreed. A larger portion did not agree to this, this shows that outsourcing has a negative impact on employee morale. Bolo and Musengi (2014) supported this, they said that outsourcing creates negative feelings to internal employees. Employees might end up suffering from job insecurity.

The 29% which agree support Pensigon (2014), who cited that employee morale can be improved if affected areas are included in the initial decision to outsource, employees must be well aware of the decision to outsource

Internal Expertise

A greater percentage of the respondents strongly disagreed that outsourcing builds internal expertise, 71% strongly disagreed and 29% disagreed whilst 0% were uncertain, 0% agreed and 0% strongly agreed. This shows that outsourcing leads to loss of internal skills and expertise. According to Aral and Godes (2013) outsourcing organisations lose research and development competiveness, many organisations tend to stay behind break-throughs in technology when they outsource. Yang et al (2012) also found that outsourcing creates reduced ability to learn, this creates challenges when a company decides to rebuild its internal services.

Hidden Costs

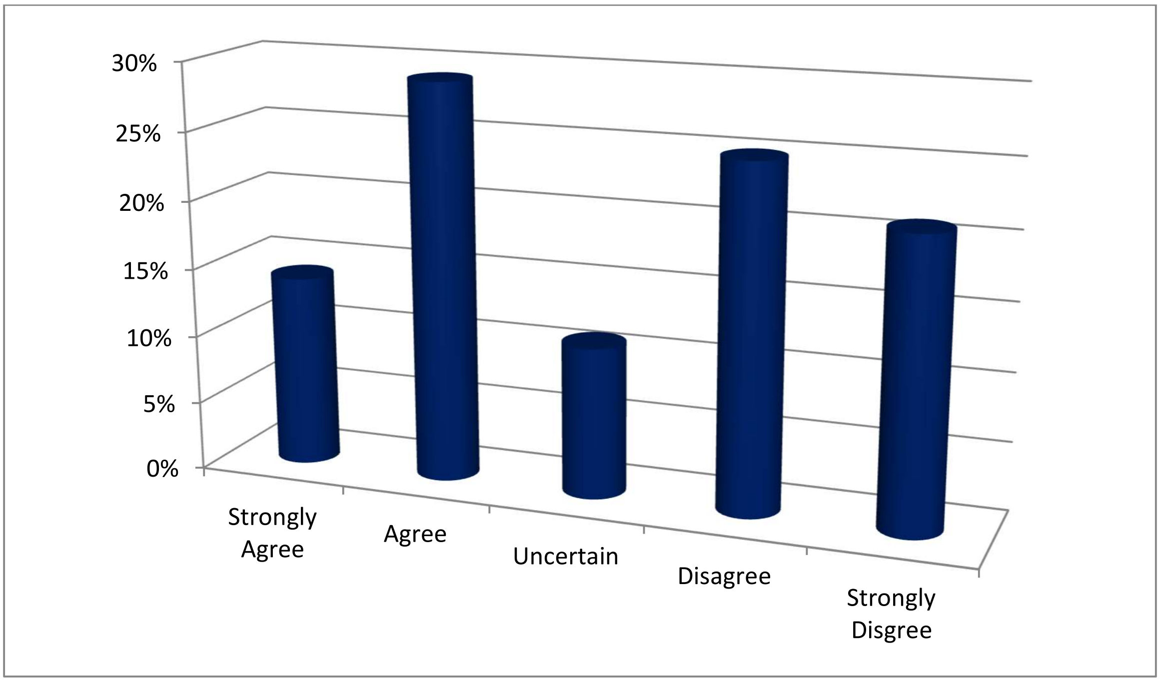
Fig 4.4 also shows that 0% strongly agreed, 7% agreed, 25% were uncertain, 36% disagreed and 32 % strongly disagreed that outsourcing does not have hidden costs. This shows that outsourcing actually comes with some hidden costs. Fadil and Pieree (2016) found that outsourcing turns out to be more costly than expected, most outsourcing firms are blinded by the short term benefits at the expense of hidden costs. Vendor search costs, research interviews costs, site visits costs, evaluation cost and final selection costs are other hidden costs that may arise and negate expected costs

Question 5 Outsourcing and organisational performance

Table 4.6 Response to outsourcing and organisational performance

	Statement	**Strongly Agree**	**Agree**	**Uncertain**	**Disagree**	**Strongly Disagree**	**Total**
i.	Outsourcing improves the organisation's financial performance	4	8	3	7	6	28
ii.	Outsourcing improves the organisation's market performance	4	12	4	5	3	28
iii.	Outsourcing has generated a great shareholder value	2	4	16	5	1	28

Fig 4.5 Response to outsourcing and financial perfomance



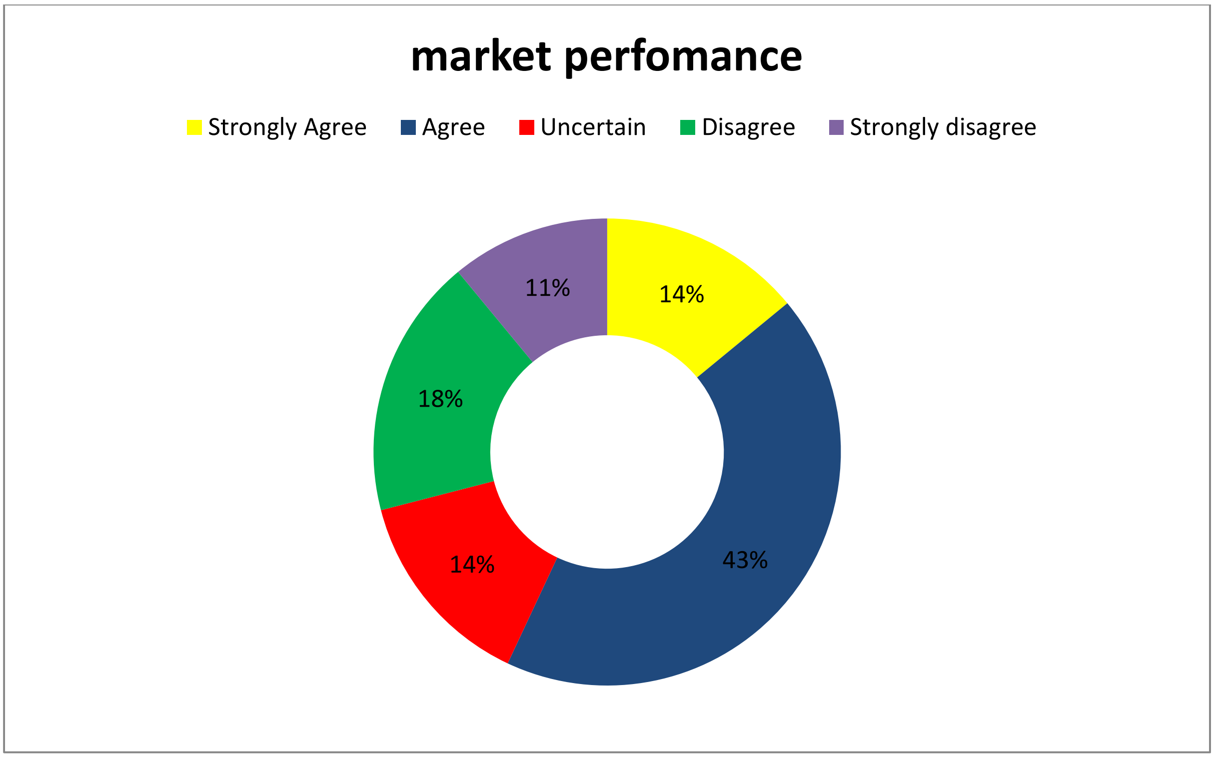
Outsourcing and Financial Performance

Respondents were required to respond if outsourcing improves the organisation's financial performance. 14% of the respondents strongly agreed that outsourcing improves financial performance, 29% agree 11% are uncertain, 25% Disagree and 21% strongly disagree. As in the case of rank Xerox and, it shows that outsourcing can have a positive impact on an organisation's financial performance. When Rank Xerox made the decision to outsource it saved 62% of its usual production costs as a result improving its financial performance.

The results however show that outsourcing has not improved the financial performance of Unki mines because a total of 46% disagreed. The interviews also reflected that contractor costs increase every year whilst profits decrease. Outsourcing can either have a positive or a negative relationship with organisational performance the issue depends on how well it is managed. Outsourcing does not always yield a positive relationship with financial performance. Lacity et al (2012) suggested that organisations must outsource the correct products or services at the least possible cost in order to attain a strong financial performance.

Outsourcing and Market Performance

Fig 4.6 response to outsourcing and market performance



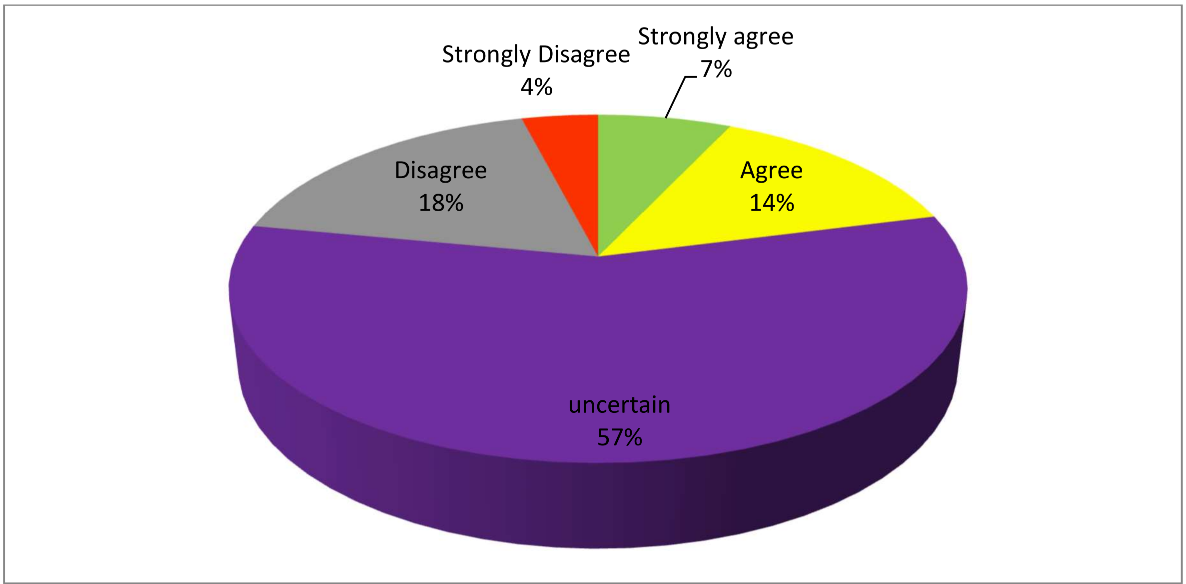
Respondents were asked to respond if outsourcing improves the competitive advantage of the organisation which As the doughnut shows 14% strongly agreed 43% agreed 14% were uncertain 18% disagree and 11% strongly disagreed. Aral et al (2013) view that organisations nowadays turn to outsourcing because they are now trying hard to exploit competitive advantage in order to increase market share and profits. In other words outsourcing is capable of expanding market share.

Mol et al (2012) supported this he stated that outsourcing can result in significant alteration in an organisation's boundaries, employing outsourcing without proper consideration of long term objectives can jeopardise a firm's competiveness.

However the results show that 39% did not agree that outsourcing improves organisational performance. Cox (2014) an example is the case of IBM which is evident of the relationship of outsourcing and market performance. IBM launched its first PC in 1981 and had a huge market share of 41%. It made the decision to outsource some of it major components from Intel and Microsoft which are PC supply chain and PC operating system. Microsoft became its biggest competitor and IBM's market share decreased to only 7.3%. This showed that outsourcing can have a negative impact on market performance.

Outsourcing and Shareholder value

Fig 4.7 Response to outsourcing and shareholder value



Respondents were asked if outsourcing generates a great shareholder value.7% strongly agreed that outsourcing generates a great shareholder value. 14% agreed, 18% disagreed and 4 % strongly disagreed. A great percentage of 57% were uncertain. The results provide evidence that Unki does not closely monitor outsourcing in relation to share holder performance. Zhao et al (2014) found that outsourcing reasons had substantially shifted from performing a single function efficiently to reconfiguring the whole process in a new way which can generate a greater shareholder value.

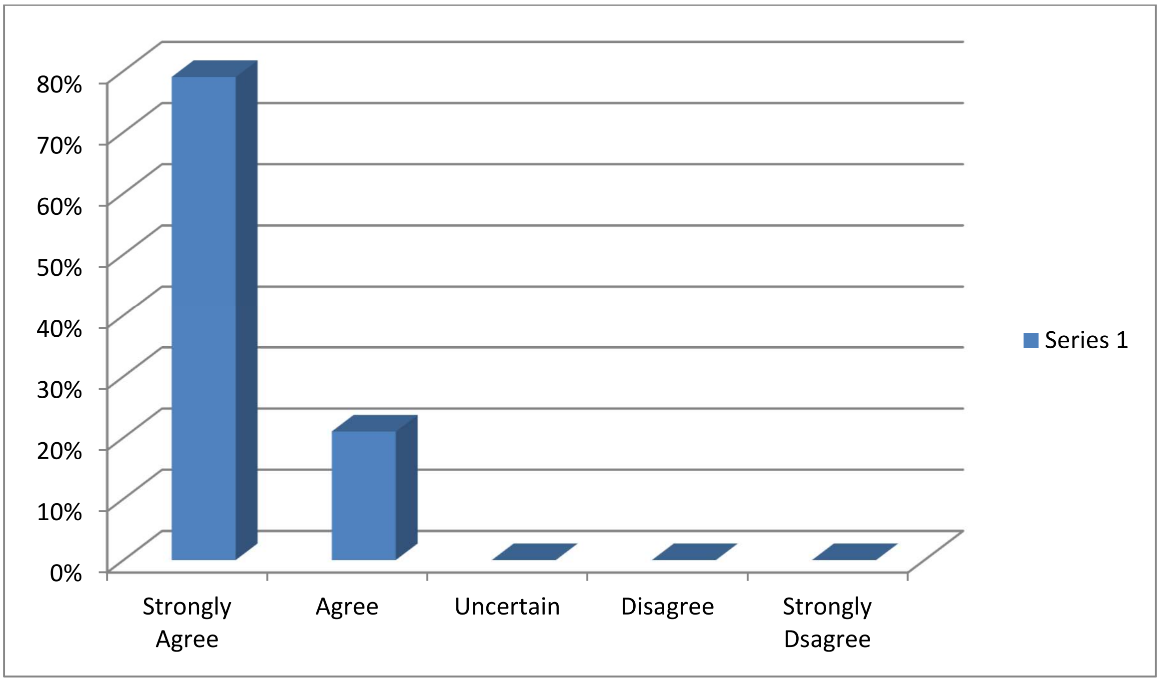
According to Larker and MacCall (2015) when outsourcing is done right, it has a positive impact on income, cash flow and the return on assets. These have a positive effect on shareholder value. Rassens et al (2012) are of the view that outsourcing can either have a positive or a negative impact on shareholder value's performance. When outsourcing income, cash flow and return on assets have to be in the right direction in order to improve shareholder value.

Question 6: Characteristics of a feasible outsourcing method

Table 4.7 response to the characteristics of a feasible outsourcing strategy

	Statement	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
i.	Outsourcing must be able to lower the organisation's risks associated with in-house production	22	6	Nil	Nil	Nil	28
ii.	Outsourcing improves the organisation's efficiency	19	4	5	Nil	Nil	28
iii.	Outsourcing must improves the organisation's ability to innovate	8	11	4	3	2	28
iv	Outsourcing accommodates changes in production that arise within the organisation	7	16	2	3	Nil	28

Fig 4.8 Response to low risks

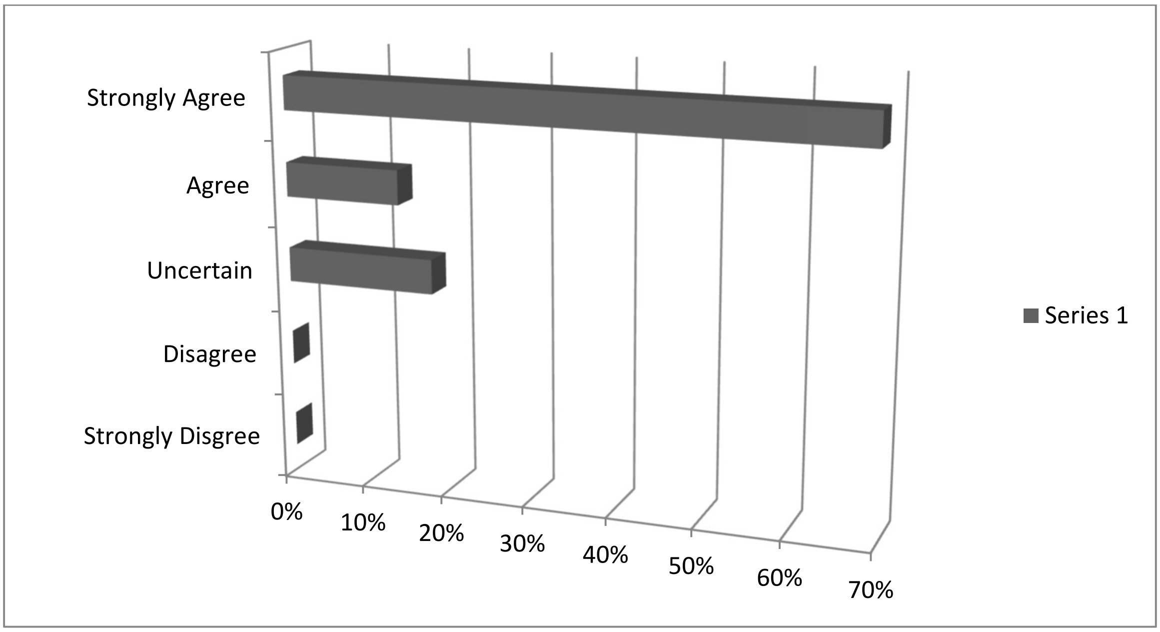


Lower risk of in-house production

The graph above shows that 71% strongly agreed while 29 % agreed that a feasible outsourcing strategy should reduce risks of inhouse producion. According to Maluma (2012) outsourcing must lead to the vital combination of reduced costs and risks because outside suppliers undertake the risks of investment and development which are avoided by the outsourcer. Outsourcing for short term advantages such as cutting costs doesn't yield as much as strategic benefits such as reducing costs together with risks.

The results show that 100% of the respondents agree that a feasible outsourcing strategy must lower risk associated with in-house production. This can be achieved by doing the SWOT (strength, weaknesses, opportunities and threats) analysis in order to weigh the threats that a sourcing method may carry.

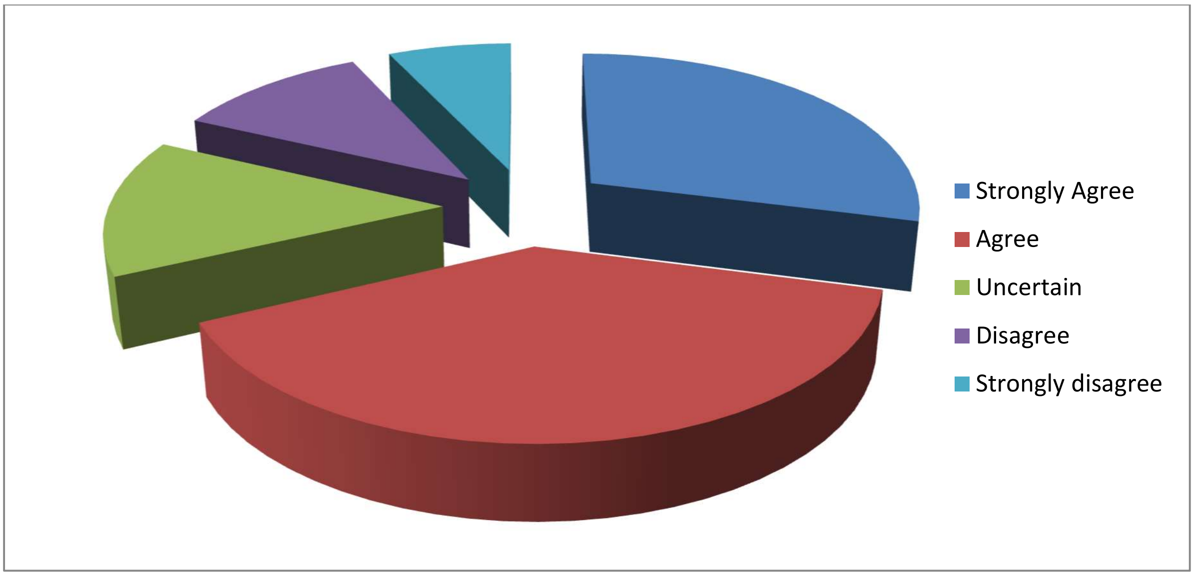
Fig 4.9 Response to effeciency as a characteristic of a good outsourcing method



Efficiency

Most respondents strongly agreed that efficiency is a characteristic of a good outsourcing strategy, 69% strongly agreed,14% agreed and 18% were uncertain. According to Baranov (2015) a good outsourcing strategy can increase efficiency ensuring maximum utilisation of the existing resources in a way that generates maximum value with least possible inputs. The outsourcer must have the ability to direct the way a task or activity is going to be carried out and have it done without any limitations from the contractor.

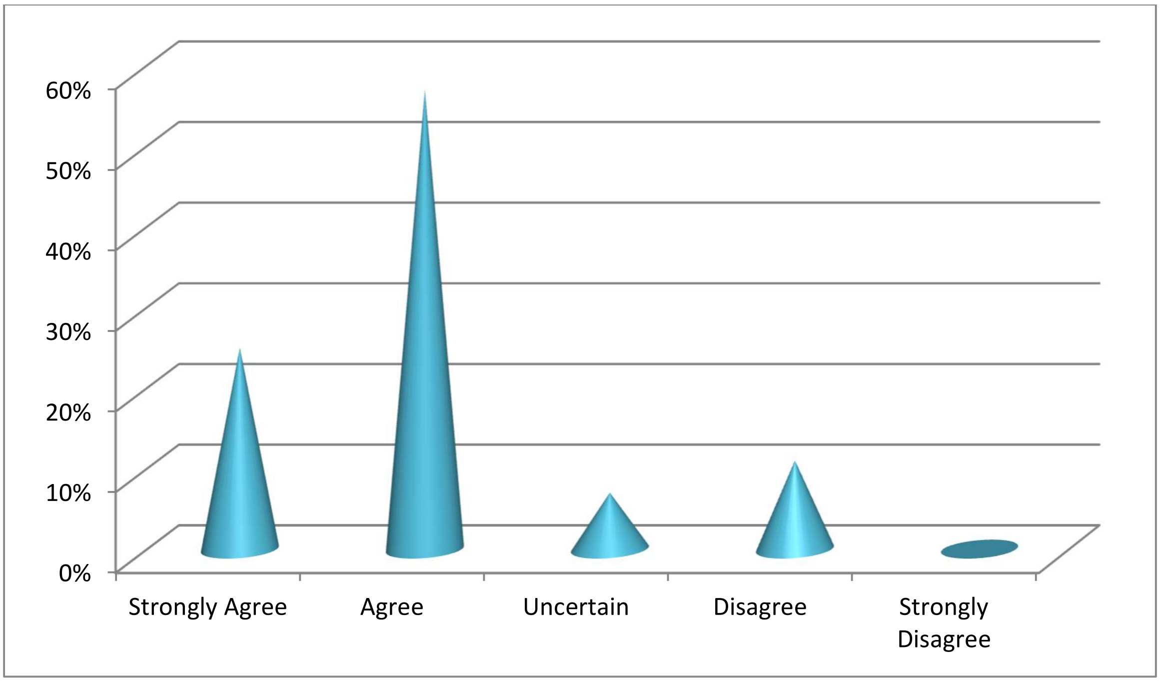
Fig 4.10 Response to ability to innovate



Part iii of questionnaire number 6 required respondents to respond if a good outsourcing strategy improves the organisation's ability to innovate. The pie chart shows that 29% strongly agreed, 39% agreed,14% were uncertain 11% disagreed and 7% strongly disagreed. A larger percentage of 68% agree. Smart and Maull (2013) found that a viable outsourcing strategy must provide the outsourcer the ability to assemble highly diverse expertise for special projects. The outside vendor must not hinder the organisation's ability to be innovate instead it must keep up with latest the technologies to assist the organisation to innovate.

The results show that respondents agreed that outsourcing from outside professional firms must lead to better results in terms of innovation. This means that a good outsourcing strategy must improve the organisation's ability to innovate.

Fig 4.11 Response to flexibility



Flexibility

The results show that 25% of the respondents strongly agreed, 57%agreed, 7% were uncertain and only 11% are disagreed that a good outsourcing strategy should be characterised by flexibility. Campos and Heley (2014) stated that an organisation must be able to deal with constant changes in their environment by making some qualitative variations in their management style, strategy, organisational structure and culture. Outsourcing organisations must peruse flexibility and ability to compete for its competitive advantage and its competitive position compared to its competitors. Management must have the ability to alter scope of work required.

However, 11% disagreed that flexibility is a characteristic of an outsourcing method. They agree with Clarke (2012) who cited that the desire for flexibility in outsourcing substitute innovation.

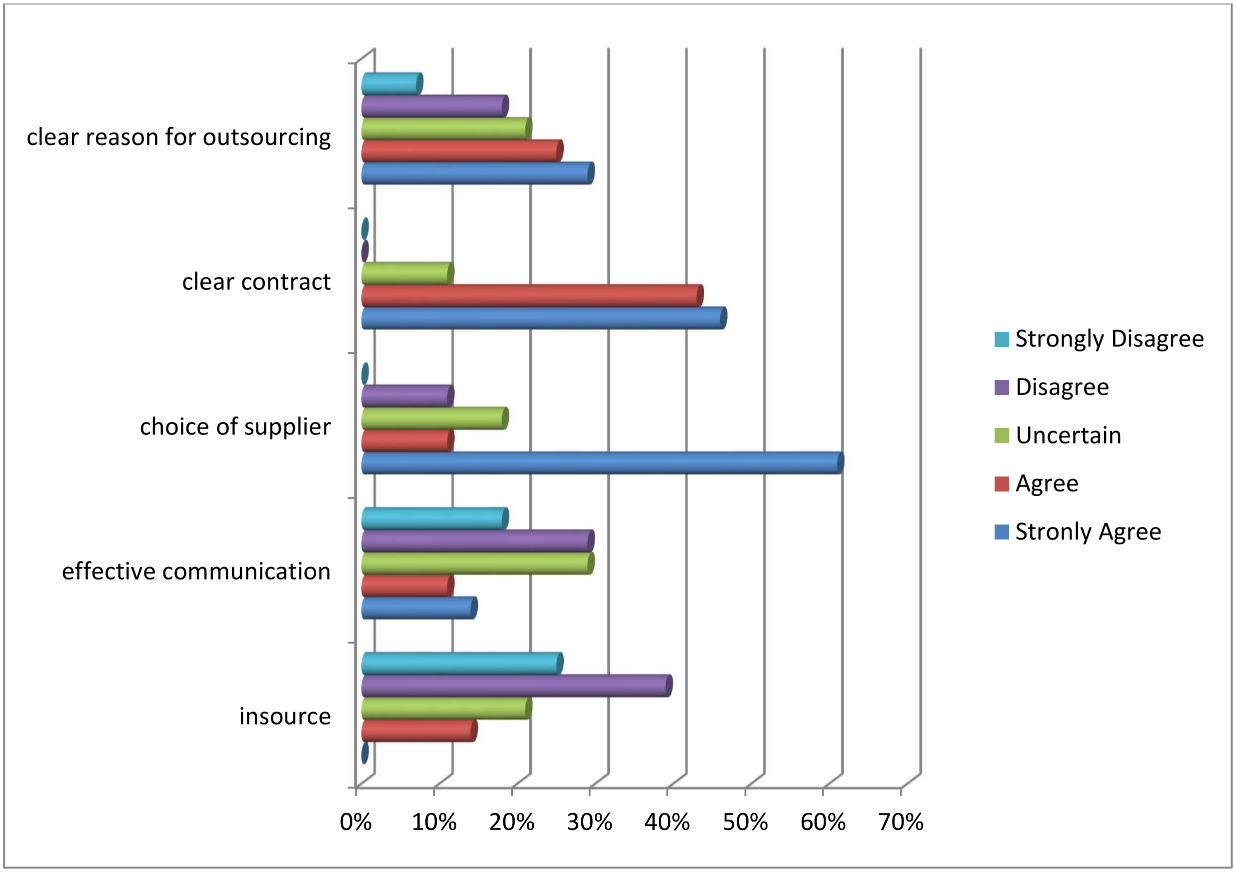
The above response indicate that the majority of employees agree that the existence of flexibility makes a sourcing method more appealing therefore flexibility is an essential characteristic of a feasible outsourcing strategy.

Question 7: Ways of minimising risks and challenges of outsourcing at Unki mine

Table 4.8 Response to ways of minimising outsourcing risks and challanges

	Statement	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
i.	Management clearly identifies the reasons why Unki should outsource a certain service	8	7	6	5	2	28
ii.	The service agreement clearly sets out the duties and responsibilities of contractors	13	12	3	Nil	Nil	28
iii.	The organisation chooses its contractors basing on knowledge and capacity	17	3	5	3	Nil	28
iv.	Unki maintains effective communication between contractors and management	4	3	8	8	5	28
v	The organisation provides its own non-core services internally were possible	Nil	4	6	11	7	28

Fig 4.12 Response rate to ways of minimising outsourcing challenges



Clear reason for outsourcing

The results show that 29% strongly agreed that Unki mines clearly outlines the reason why it outsources some of its services. 25% agreed, 21% were uncertain18% disagreed and 7% strongly disagreed. This shows that Unki identifies reasons for outsourcing but some employees disagree to this because reason might not be fully known by every employee. Sparrow and Springer (2014) found that the reason why most firms don't enjoy the full benefits of outsourcing is because of the unclear reason as to why they started outsourcing. Before making the decision to outsource, an organisation must clearly identify the reason why it should start outsourcing, if there is no clear reason then there might be no need for outsourcing.

Clear contract

As shown in fig 4.11 above 46% strongly agreed that the outsourcing contract should be clear, 43% agreed and11% were uncertain. Fadil and Pierre (2016) stated that organisations must not only focus on payment agreements but also pay attention to their expectation of services provided by outside supplier in order to avoid conflicts. Lee et al (2013) most service providers tend to complete tasks that appear in the service agreement.

Every duty and responsibility of the contractor must be clearly outlined in the contract, nothing must be assumed .The results show that Unki mines clearly outlines the responsibilities of contractor in their service agreement.

Choice of vendor

As shown in fig 4.12 61% strongly disagreed, 11% disagreed and18% are uncertain,11% disagree and 0% strongly disagreed that careful selection of vendor helps to reduce the challenges of outsourcing. Sadgrove (2015) suggested that in order to eliminate outsourcing risk of poor quality vendors must meet requirements in terms of qualification, skills and knowledge on how to provide a certain service. He further clarified that an organisation must first access the potential vendor's knowledge and capacity before making the decision to sign or extend a contract agreement. Steenkamp and Linken (2014) believed that they key to successful outsourcing in the mining industry depends in the choice of the vendor.

Effective communication

The graph shows that 14% agreed that Unki Mines maintains effective communication between its contractors and management. 11% agreed 29% are uncertain, 29% disagree and 18% strongly disagree. The results show that communication between contractors and Unki management is not very effective.

Bumberger et al (2014) suggested that there must be a relationship between management employees and outside vendor because management has to have enough information in order to foresee future challenges. He stated that outsourcing relationships should be treated as partnership in order to create a good relationship with the supplier. The employees interviewed also acknowledged the importance of communication. They highlighted that communication could be improved at the mine so that mangers will be kept updated.

Insourcing

Fig 4.12 shows that 25% of the respondents strongly disagreed, 39% disagreed 21% were unsure and only14% agreed that Unki provides its services internally were possible. In order to avoid all those risks associated with outsourcing a company can turn to in house production i.e. insourcing. A company can provide itself with the activities, products or services it requires in order to attain its objectives.

Mella Pellicelli (2012) described insourcing as when a company uses its own resources to produce goods and services. It involves a company acquiring its own resources to produce goods and services or using already existing resources. According to the response rate given above it is evident that Unki Mines does not internally produce most of its non -core activities.

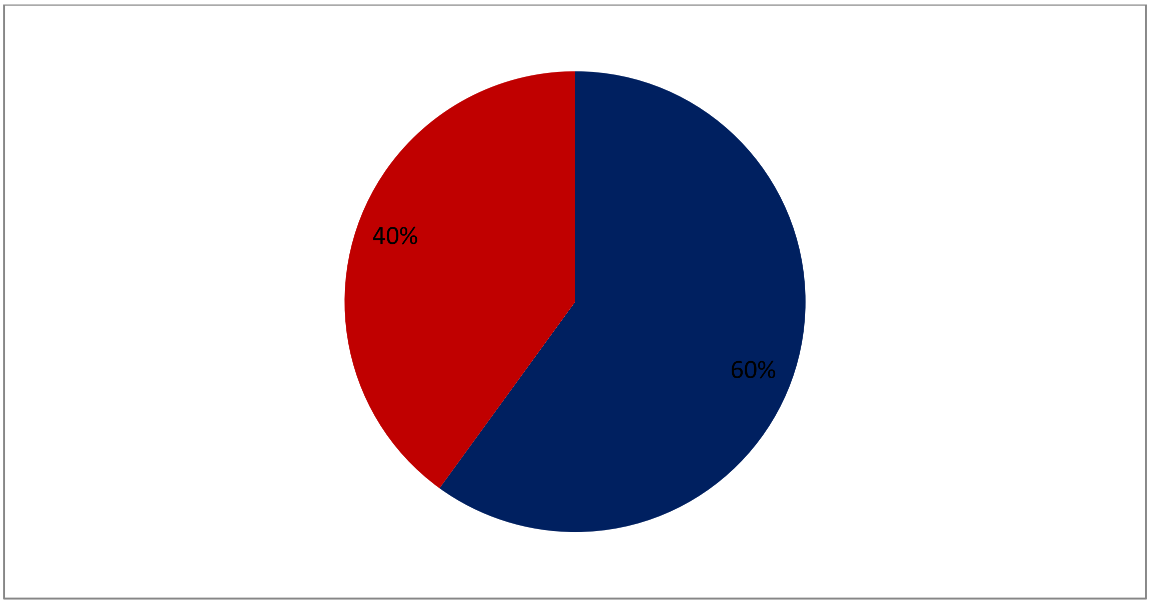
Styles and Goddard (2014) highlighted that some risks of outsourcing will never be fully controlled even if some systems are put in place to monitor so organisations must try to provide services internally For example Mattel compromised its quality even if it had inspection systems put in place.

Interview analysis

Table 4.9 interview response rate

Interviews	Total	Percentage
Successful Interviews	3	60%
Unsuccessful Interviews	2	40%
Total	5	100%

Fig 4.13Interview response rate analysis



Only 3 interviews were conducted out of the 5 that were scheduled. This gives response rate of 60% shown by the chart above. The interviews were conducted on 3 managers, the management accountant, mining accountant and finance controller.

What are the reasons why Unki outsources some of its services?

The respondents agreed that Unki Mines outsources some of its services in order to focus on the core activity which is to mine profitable platinum. Some other reasons like to reduce operational costs; to improve quality of Platinum group metals (Unki's final product) were also mentioned. It is evident from the questionnaires' response that cost reduction is not the main reason why Unki Mines outsources it services. Unki mine outsources of its non- core activities even when it has the capacity to provide them internally. Their main reason for outsourcing is to focus on core activity; it outsources some critical services in mining like drilling services and machine maintenance. This agrees with what Alshamisi and Diabat (2015) cited, they found that the reasons for outsourcing are now shifting from financial reasons to strategic issues, such as core competence and flexibility.

What are the problems associated with outsourcing services at Unki Mines

Respondents agreed that outsourcing brings up some challenges. The major problem was the issue of loss of control. It is difficult to coordinate all contractors. According Tafti (2013) too many problems occur within an organisation that outsources some of its business functions. Issues that may arise because of outsourcing may be financial, legal, management and control issues. Since Unki Mines relies on contractors for its production, flexibility is another issue, sometimes Unki fails to meet the level of production they desires because some contractors take time to adjust to a different level of activity.

The results of the questionnaires reflected that outsourcing costs are not clear. Respondents of the interview also stated that outsourcing is costly, the contractors charge unreasonable prices. This shows that outsourcing has other hidden costs; the amount paid to contractors is not the only cost that is incurred when outsourcing yet people use this to measure the cost effectiveness. Another limitation is that contractors have to be closely monitored to make sure that they are performing their duties.

Relationship between outsourcing and organisational performance

Guistinano (2013) found that outsourcing has the power to affect the performance of an organization internal and external stakeholders put pressure on the outsourcing decision.The questionnaires' response shows that there has been a negative relationship between outsourcing and financial performance at Unki, the organisation is finding it difficult to stay in line with budgeted contractor costs. Outsourcing boosts the market performance. The organisation is able to provide required platinum as it is one of the leading platinum producers in the country. However, it is clear that Unki Mines does not closely monitor the behaviour of shareholder performance in relation to outsourcing. The questionnaires showed that a larger percentage were unsure about this relationship.

What are the characteristics of a feasible outsourcing strategy?

All three respondents agreed that a good outsourcing method should improve the organisation's performance, it should be characterised by low operating costs, efficiency and flexibility. However 2 of the respondents indicated that there is no analysis that is done of a good outsourcing method at Unki Mines. Some of the outsourcing decisions are carried out by Unki mines' parent company, Anglo platinum. This brings about many challenges as Anglo Platinum's other subsidiaries are based in South Africa; these operate in a totally different environment from that of Unki Mines.

How can Unki mines overcome challenges of outsourcing?

The respondents strongly affirmed that Unki Mines has to come up with strategies that can help to minimise the risks of outsourcing. . Manang (2012) is of the view that if outsourcing is done properly, it allows the firm to plan for optimal utilisation of resources and capabilities' in order to achieve best advantage. He emphasised on the concept of strategic outsourcing.It also helps the organisation to attain its strategic goals. Management agreed with what the questionnaires reflected, respondents agreed that Unki Mines clearly outlines the duties and responsibilities of contractors in their service agreement in order to avoid any conflicts. The respondents also highlighted the importance of choice of supplier. However sometimes there are challenges as some of these decisions are done by the parent company.

Summary

This chapter summed up the research findings. The next chapter will focus on conclusion recommendations and summary.

Chapter 5

5.0Introduction

This chapter outlines the chapter summaries, recommendations and conclusions based on the findings of the previous chapter. Areas of additional studies are also highlighted in this chapter.

5.1Chapter Summaries

Chapter One gave the background of the research giving statistical evidence of Unki mines contractor costs rising from2012 to 2015. It introduced the problem Unki Mines is facing which is the negative relationship that exists between contractor costs and the company's profits. The chapter also included the research objectives and research questions, the study's limitations and delimitations were also outlined.

Chapter Two focused on the review of literature related to this research. It gave a detailed analysis of the research objectives. The scholar outlined the existing thoughts on the reasons for outsourcing and the problems that may arise due to outsourcing. It also discussed the relationship that may exist between outsourcing and organisational performance. The research reviewed solutions that organisations can implement in order to eliminate risks associated with outsourcing.

Chapter Three provided a background of the research methodology, the research design used, which is the descriptive approach. A sample of 35 employees from different departments was chosen. The convenience sampling method was used in coming up with the sample. The scholar used questionnaires and interviews to collect data.

Chapter Four presented the data collected through questionnaires and interviews using tables, graphs and pie charts using figures and percentages. The analysis of data collected from different respondents was done using the mode to come up with conclusions.

5.2Major findings

What are the reasons why Unki outsources some of its services

The researcher found that that the main reason why Unki Mines outsources its services is so it can focus on its core activity. Many firms outsource for the reason of saving costs but Unki Mines outsources for the reason of focusing on core activity which is to mine profitable platinum. This decision however ends up compromising quality of other services provided. The focus on core activity as main driver tends to ignore the concept of cost as it is evident from the findings that contractor costs having been increasing whilst the profits are decreasing, this has affected Unki's financial performance.

What are the problems associated with outsourcing services at Unki Mines

The researcher found that Unki Mines outsources most of its non -core activities and this makes it highly dependent on contractors for production. This has also given rise to a major control problem. Since it outsources most services, Unki Mines has a lot of contractors this makes it difficult for management to control and coordinate every activity.

The researcher also found that development of internal skills and expertise has also been huge problem in the mining industry. Outsourcing worsens this problem so training must be provided for internal employees.

Relationship between outsourcing and organisational performance

The researcher found that there has been a negative relationship between outsourcing and financial performance at Unki. The organisation is finding it difficult to stay in line with budgeted contractor costs and also to reduce these costs so that it can improve the organisation's financial performance. The scholar found that Unki Mines does not closely monitor the behaviour of shareholder performance in relation to outsourcing.

What are the characteristics of a feasible outsourcing strategy?

The researcher found that. A good outsourcing strategy should enable the organisation to enjoy low costs so as to achieve favourable performance. The employees agreed that outsourcing should be strategic in order to achieve best advantage and also to help the organisation to attain its strategic goals. But the findings show that there is no clear and well informed analysis that is done of a good outsourcing method at Unki Mines.

How can Unki mines overcome challenges of outsourcing?

The scholar found that most of the outsourcing decisions are carried out by Unki Mines' parent company Anglo Platinum, this brings up some challenges as Unki operates in a different environment from Anglo's other subsidiaries. This means that the decision to outsource is not communicated effectively across the organisation. The choice of supplier is mostly done by parent company. The researcher also found that insourcing helps eliminate challenges of insourcing, but very few services are provided internally at Unki Mines even if it may have the capacity to do so.

5.3Conclusion

It can be concluded that the objectives of the research were met. The research was a success because the challenges of outsourcing were identified and recommendations that Unki can adopt to eliminate those challenges and improve the organisation's performance were given.

5.4Recommendations

Unki has to consider some other factors like costs not just to outsource in order to concentrate on core activity as this might compromise the organisation's financial performance. According to Loch (2012) the main reason for outsourcing is rooted on the financial benefit which is to minimise production costs in order to maximise profitability.

The outsourcing decision has to be communicated. Anglo Platinum must always engage Unki mines in making outsourcing decisions so that they can make them together. Anglo Platinum must not make these decisions just because it worked for its other subsidiaries. Literature has provided evidence that there are many factors that affect outsourcing and companies operate in different environments. According to Steenkamp (2012) there other factors that influence outsourcing decision. Other reasons behind outsourcing may include complying with Government's rules and regulations. What may work for another company may not work on another.

The researcher recommends that Unki Mines should have a well-documented policy on outsourcing. This should be available to employees, giving the guidelines on how to source effectively, how to manage outsourcing relationships and how to minimise the challenges of outsourcing

Even if Unki has many contractors, it has to create a relationship with every contractor in order to allow communication to flow effectively. Maku (2013) asserted that in order for an organisation to create good communication and honesty with its contractors throughout the whole process, it has to treat them as partners. The organisation also has to communicate changes in policies and working practices to its contractors.

Unki Mines must consider bringing back some services it outsources to be produced internally in order for it to enjoy the benefits of outsourcing. Styles and Goddard (2014) highlighted that some risks of outsourcing will never be fully controlled even if some systems are put in place to monitor so organisations must try to provide services internally

5.5Suggestions for further research

This research was carried out basing on the responses of the organisation's employees. Other stakeholders were not involved for example customers and contractors. The research is also limited to the organisation under study which is privately controlled. Findings might differ with those of public entities.

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Appendix 3

Midlands State University
Established 2000
Our Hands, Our Minds, Our Destiny

Midlands State University

P. Bag 9055

Gweru

08 March 2016

Unki Platinum Mine

47 Broadlands Road

Emerald hill

Harare

Dear Sir/Madam

RE: REQUEST TO CARRY OUT RESEARCH

I am kindly requesting for authority to conduct research at Unki Mines through questionnaires and interviews. I am a final year student at the Midlands State University studying towards a Bachelor of Commerce (Honours) degree in Accounting. I am carrying out a research entitled: **An investigation of the effectiveness of outsourcing and its impact on organizational performance: Case study of Unki Mine (pvt) ltd**

All data is to remain confidential and will be used specifically for academic purposes by the researcher.

Yours faithfully

Kudzai Linnet Muchengeti (R133953N)

0773009252 kudzymuchengeti@gmail.com

Midlands State University
Established 2000
Our Hands, Our Minds, Our Destiny

Midlands State University

P. Bag 9055

Gweru

08 March 2016

Unki Platinum Mine

47 Broadlands Road

Emerald hill

Harare

Dear Sir/Madam

RE: QUESTIONNAIRE TO MANAGEMENT AND STAFF

My name is Kudzai Linnet Muchengeti, a final year student at Midlands State University (MSU). I am currently undertaking a research on the topic: **An investigation on the effectiveness of outsourcing and its impact on organizational performance: Case study of Unki Mine (pvt) ltd.**

This is being done in partial fulfilment of the Bachelor of Commerce (Honours) Degree in Accounting and any data provided will be treated as confidential and used for academic purposes only.

Your views and contributions would be greatly appreciated.

Yours faithfully

Kudzai Muchengeti

(R133953N)

0773009252 kudzymuchengeti@gmail.com

Appendix 2

QUESTIONNAIRE: UNKI MINES STAFF

PART A: DEMOGRAPHIC CHARACTERISTICS

Instructions

Please do not write your name on this questionnaire.

Answer all questions on the spaces provided, please tick in box to indicate your response.

1. Gender

Male	
Female	

2. Indicate your age category

Below 21 years	
21-30	
31-40	
41-50	
51-60	
61 and above	

3. Indicate your highest level of qualification

O level	
A level	
Diploma	
Degree	
Masters and above	

4. Position at Unki Mines

Top Management	
Middle Management	
Staff	

5. How long have you been at Unki Mines?

Below 5 years	
6-10 years	
More than 10 years	

Part B: Please respond to the following statement by indicating to which extent you agree or disagree.

Key

5	**Strongly agree**
4	**Agree**
3	**Uncertain**
2	**Disagree**
1	**Strongly disagree**

1. Unki Mines outsources some of its services.

☐ Strongly Agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ Strongly Disagree

2. Unki Mines heavily relies on contractors for its production

☐ Strongly Agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ Strongly Disagree

3. Reasons why Unki outsources some of its services are

	Statement	**5**	**4**	**3**	**2**	**1**
i.	To minimise the organisation's production costs					
ii.	To free the organisation's resources so as to focus on its core activity					
iii.	To take advantage of specialists so as to improve the organisation's product quality					
iv.	To create operational flexibility in the organisation					

4. Problems associated with outsourcing services at Unki Mines

	Statement	5	4	3	2	1
i.	Outsourcing enables the organisation to control all its activities					
ii.	Outsourcing always improves the quality of services outsourced by the organisation					
iii.	Outsourcing has a positive effect on the morale of the organisation's internal employees					
iv.	Outsourcing builds the internal expertise of the organisation					
v	Outsourcing costs are clear, there are no hidden cost that					

5. Outsourcing and organisational performance

	Statement	5	4	3	2	1
i.	Outsourcing improves the organisation's financial performance					
ii.	Outsourcing enables the organisation to have a competitive advantage					
iii.	Outsourcing has generated a great shareholder value					

6. Characteristics of a feasible outsourcing method

	Statement	5	4	3	2	1
i.	Outsourcing lowers the organisation's risks associated with in-house production					
ii.	Outsourcing improves the organisation's efficiency					
iii.	Outsourcing improves the organisation's ability to innovate					

iv	Outsourcing accommodates changes in production that might arise within the organisation					

7. Ways of minimising risks and challenges of outsourcing at Unki mine

	Statement	**5**	**4**	**3**	**2**	**1**
i.	Management clearly identifies the reasons why Unki should outsource a certain service					
ii.	The service agreement clearly sets out the duties and responsibilities of contractors					
iii.	The organisation chooses its contractors basing on knowledge and capacity in order to choose the right supplier					
iv.	Unki maintains effective communication between its contractors and management					
v	The organisation provides its own non-core services internally where possible					

Any other comments

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Thank You

Appendix 3

Interview Guide

Questions

1. What are the reasons why Unki outsources its services?
2. What are the problems associated with outsourcing at Unki Mines?

3. How does outsourcing affect the performance of the organisation?
4. What are the characteristics of a feasible outsourcing strategy?
5. How can Unki Mines minimise risks and overcome challenges of outsourcing?