

OPTIMIZATION OF PROFIT THROUGH OUTSOURCING TECHNIQUE

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ABSTRACT

This paper focuses on the optimization of profit through outstanding. Outsourcing is a technique of delegating non core operation to an external entity. Data was from primary source that is; by the used of questionnaires and was analyzed with chi-square (X^2) test. The study found out that outsourcing can maximized profit and utility better and cost is reduced.

Keyword. Optimization, Outsourcing, Profit, Utility.

INTRODUCTION

In every organization, especially profit making firms, the major aim is how to maximize profit through cost minimization. In the field of business cost tends to infinity if not controlled which leads to zero profit. This paper looked at the use of outsourcing as a cost minimization technique. Outsourcing (or contracting out) is defined as the delegation of non core operations or jobs from internal production within a business to an external entity (such as a sub contractor) that specialized in that operation.

Outsourcing is a business decision that is often made to lower costs or focus on competencies. It is related to international trade policy of cooperative advantage and division of lab our. The difference is that comparative advantage leaves out production to a better partner while outsourcing contracts out function to a better outsider as ways of arriving at the same position with less encumbrances on management.

Statement of Problem

Management of some big organizations is incurring greater expenses on functions that are not contributing much as expected to their organization. It is believed that the major motive is to minimize cost and maximize profit; these functions are better handled by outside specialist for improved performance.

Objectives of the Study

In view of the problems, the study sets to achieve the following objectives.

- To determine the relevance of outsourcing.
- To evaluate whether the outsourced functions have really maximized profit, productivity and utility.
- To find out the extent the employees in these outsourced functions have become under the tutelage of the outsourcing company.
- To find out the problems militating against full outsourcing of functions.

Research Questions

The following research questions are raised for the study

- What is the relevance of outsourcing as presently pursued by your firm?
- Have the outsourced functions really maximized both profit and utility?
- To what extent have employees in the outsourced functions become well off under the tutelage of the outsourcer?
- What are the problems militating against full outsourcing functions?

Research Hypothesis

The study undertakes the following hypothesis.

H₀: Outsourced functions have not maximized profit and utility better.

H₁: Outsourced functions have maximized profit and utility better.

H₀: Cost reduction is not the major outsourcing goal.

H₁: Cost reduction is the major outsourcing goal.

H₀: Employees in the outsourced function are not better off with the outsourcer.

H₁: Employees in the outsourcers function are better off with the outsourcer.

Significance of the Study

The study will be beneficial to the citizens of the state, government and nation at large because it will

- Aid the management of organizations in seeking ways of handling the issue of outsourcing.
- Reduce or possibly eliminate liquidation of industries.
- Encourage and bring more people into entrepreneurship there by reducing unemployment.
- Increase gross domestic product (GDP) of the country thereby improving the economy.

LITERATURE REVIEW

Ansah (2006), outsourcing is a practice used by different companies to reduce cost by transferring portions of work to outside suppliers rather than completing it internally, outsourcing is an effective cost –saving strategy when used properly.

According to Anwal (2005), outsourcing becomes a popular political issue during the 2004 United States presidential election. The political debate centered on outsourcing's consequences for the domestic work force. Kruman (2006) suggests that there are four distinct management rationales for outsourcing. They are capacity outsourcing, specialization subcontracting, cost reduction and market discipline. Rafiu (2005) discussed on some of the problems and disadvantages associated with outsourcing. These include coordination, cost quality and service issues, cost of transaction, cost of monitoring and control.

METHODOLOGY

Data for the research was collected through primary sources. Information was collected from staff and outsourced staff of a big factory in Aba with some branches in Nigeria using questionnaire. The questionnaire designed covers important information about outsource. A total of three hundred and ninety two (392) questionnaires comprising twenty two questions were distributed. The number was obtained with statistical technique for determining sample size.

i. e.
$$n = \frac{N}{1 + Ne^2}$$

Where;

N = The finite size of the population

n = Sample size

e = Sampling error

The sampling method that was used is the stratified sampling. The population was in heterogeneous state, but put into homogeneous state which found the relevant subgroups. The sub-groups are departmental managers, officers and production line supervisors and outsourced staff.

The data was analyzed with chi –square (X^2) test of independent This Test is used to examine the extend to which the frequencies that are actually observed in the study differ from the frequencies that are expected. The chi –square (X^2) test statistic is given by

$$X^2 = \sum_{i=1}^r \sum_{j=1}^c \left(\frac{O_{ij} - E_{ij}}{E_{ij}} \right)^2$$

Where;

- O_{ij} = The actual observed frequency of the ijth cell
- E_{ij} = The calculated expected frequencies of the ijth cell.

The expected frequency of any cell in *r* × *C* contingency take is given by

$$R_{ij} = \frac{R_i \times C_j}{n}$$

DATA PRESENTATION

Data collected from respondents during the research survey were used in the analysis. Some of the questionnaire was not returned. The responses for the different hypothesis are shown below.

Table 1: Extent to Which Outsourcing Has Maximized Profit/Utility

Respondents	Much	Average	Very Small	Total
Manager	40	10	0	50
Officers /Supervisors	70	30	0	100
Others	150	0	20	170
Total	260	40	20	320

Source. Field Survey

Table 2: Cost Reduction as a Major Goal for Outsourcing

Respondents	Great	Average	Little	None	Total
Managers	69	11	10	0	90
Officers / Supervisors	170	5	10	5	190
Others	55	3	8	4	70
Total	294	19	28	9	350

Source. Field Survey

Table 3. Employees in the Outsourced Functions Are Better Off with the Outsourcer

Respondents	Average	Little	None	Total
Managers	1	5	14	20
Officers/ Supervisors	2	9	65	76
Others	6	17	203	226
Total	9	31	282	322

Source: Field Survey.

DATA ANALYSIS

To Test That Outsourced Functions Maximized Profit/Utility Better Hypothesis

H_0 : Outsourced functions have not maximized profit/ utility better.

H_1 : Outsourced functions have maximized profit/ utility better.

Test Statistic

From the data in table 1 analysed with SPSS the $F\text{-cal} = 68.24$.

Critical Value

From the F-table, the tabulated value at 5% of significance is 9.49.

Conclusion: Since $68.24 > 9.49$ we reject H_0 and conclude that outsourced functions have maximized profit utility better.

To Test That Cost Reduction is a Major Outsourcing Goal

Hypothesis

H_0 : Cost reduction is not the major outsourcing goal.

H_1 : Cost reduction is the major outsourcing goal.

Test Statistic

From the data in table 2 analyzed the $F\text{-cal} = 20.96$.

Critical Value: The tabulated value at 5 % level of significance is 12.59.

Conclusion: Since $20.96 > 12.59$, we reject H_0 and conclude the cost reduction is the major outsourcing goal.

To Test That Employees in the Outsourced Functions Are Better Off With the Outsourcer

H₀: Employees in the outsourced function are not better off with the outsourcer.

H₁: Employees in the outsourced functions are better off with the outsourcer.

Test Statistic

From the data in table 3 analyzed the F-cal = 7.58.

Critical Value: The tabulated value at 5% level is 9.49.

Conclusion: Since $7.58 < 9.49$ we accept H₀ and conclude that employees in the outsourced functions are better off with the outsourcer.

RESULTS

From the analysis it was discovered that

- Outsourcing has maximized profit / utility in organization.
- The major goal of outsourcing is cost reduction.
- Employees in the outsourced function are not better off with the outsourcer.
- Outsourcing helps management achieve the objective of an organization by enabling it look every where a function is better fulfilled.

CONCLUSION

From the analysis, we conclude that outsourcing is a type of technique which organizations can use to maximize profit as the major aim is cost reduction.

Outsourcing is a recent policy of achieving objectivity. It tries to look outside the organization, comparing quality services, rendered by similar organization. It seeks to get the best from any place to improve the functions of the organization.

RECOMMENDATIONS

The researcher recommended the following

- Organizations should not enter into any outsourcing arrangement without a good quantitative analysis.
- Organizations should tap the resources of outside experts.

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