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A Literature Review on Outsourcing of Services in Universities

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I. In-Housing

In-house refers to conducting an activity or operation within a company, instead of relying on outsourcing. A firm uses its own employees and time to keep a division or business activity, such as financing or brokering, in-house. An in-house operation is an activity performed within the same business, using the company's assets and employees to perform the necessary tasks, whereas outsourcing involves hiring outside assistance, often through another business, to perform those activities instead of using internal assets or employees. In-house Services is a unique solution for managing a highly efficient workforce with specific skill sets for which there is a fluctuating level of demand. It is aimed at improving clients' labor flexibility, retention, productivity and efficiency. (Randstad web portal, 2017)

1.1 According to Chan Khk(2015) cost of in-housing that incurred

1. Opportunity costs of staff time
2. Ongoing costs for additional full time equivalent employees
3. Unpredictable costs as overtime occurs and as employees spend varying amounts of time month-to month working on the project
4. Effectiveness costs if in-house resources are not sufficient or skilled enough for the project.

II. Outsourcing

Outsourcing is one of the fastest spreading forms of international trade in a globalization era. It is characterized by exponential growth in the rate of absorbing and mastering new technology and considered a catalyst to ignite worldwide economic welfare. Both small and large organizations have used this method to pursue growth in the hyper competitive business arena. Despite the benefit that organizations have derived from outsourcing, there are also some impacts risks that are associated with it. Currently, small businesses dominate the use of outsourcing, compared to large businesses. The literature suggests that a need exists to objectively determine the extent to which current functions/operations may be efficiently and effectively outsourced. In this regard, functional outsourcing means purchasing entire functions/operations (or major portions thereof) from outside suppliers/vendors (firms) operating under contract Properly analyzed, planned, and implemented, this form of privatization can reduce cost, improve delivery of services and increase stakeholder value.In theory, any function, service, or product can and should be considered for outsourcing. As follows food service, bookstore sales, and housekeeping/janitorial services have been outsourced successfully for years. Other candidates for outsourcing include human resource management, financial aid, billing and collection, legal services, endowment fund management, and payroll.

Outsourcing can be defined as turning over all or part of an organizational activity to an outside vendor (Baitheiemy, 2003).The term outsourcing covers many areas, manufacturing as well as services. It can involve the transfer of some activities to an outside party while some remain in-house. Outsourcing can also involve the transfer of both people and physical assets to the supplier. When the decision to outsource has been made a number of important issues have to be considered including supplier selection, contract negotiation and transitioning of assets to suppliers (McIvor, 2009). Moreover Outsourcing can be defined as withdrawing from certain stages/activities inthe value - chain system and relying on outside vendors to supply the needed products, support services, or functional activities (Wasantha and Laksiri, 2004).Any value chain that produces products for a customer can be seen as a bundle of activities. These activities are either performed internally or externally. For every individual activity a choice must be made (make or buy) and the sum of all the choices determines a firm's overall level of outsourcing, which will differ for every individual firm (Kotabe&Mol, 2009).According to Lyson and Farrington (2006) Outsourcing has been defined as a management strategy by which major non-core functions are transferred to specialist, efficient, external providers. It is strategic in the sense that it involves top management of an organization and is a long-term decision, which affects the whole organization over a considerable period of time.

Outsourcing occurs when an organization purchases products or services from an outside supplier, rather than performing the same work within its own facilities, in order to cut costs or achieve effectiveness. The decision to outsource is a major strategic one for most organizations, since it involves weighting the potential cost savings against the consequences of a loss in control over the product or service (Lynn and Louis, 1999).
According to Lynn and Louis, 1999 Successful outsourcing requires a strong understanding of the organization's capabilities and future direction. Decisions regarding outsourcing significant functions are among the most strategic that can be made by an organization; because they address the basic organizational choice of the functions for which internal expertise is developed and nurtured and those for which such expertise is purchased. These are basic decisions regarding organizational design.

"Outsourcing", also referred to as contracting, according to Domberger (1998), is the process of searching for and appointment of contractors for the provision of goods and services and the execution of the contractual relations needed to support such activities. In this regard, Outsourcing can be undertaken in varying degrees, ranging from total outsourcing to selective outsourcing. Total outsourcing may involve dismantling entire departments or divisions and transferring the employees, facilities, equipment, and complete responsibility for a product or function to an outside vendor. In contrast, selective outsourcing may target a single, time-consuming task within a department, such as preparing the payroll or manufacturing a minor component, which can be handled more efficiently by an outside specialist. The opposite of outsourcing is in sourcing, when a staff function within an organization markets its product or service to external as well as internal customers.Outsourcing has failed in some organizations because they rushed to outsource some activities as their competition is doing without carefully examining each department and why it is not performing. Baitheiemy (2003) in his article identified seven reasons as to why outsourcing had failed the first reason was managers outsourcing activities that should not be outsourced. These activities include core activities that give an organization competitive advantages listing the wrong supplier also led to the failure of outsourcing. Writing a poor contract is second reason identified for the failure of outsourcing. A contract is said to be poor if it doesn't contain objective performance measures, clear terms and conditions that dictate the relationship between the two parties, managers not taking time to negotiate the contract and it should be precise, it should clearly state the amount to be paid.Another reason is Outsourcing may fail due to overlooking personnel issues. Before an outsourcing decision is made, management should inform the other employees, an explanation as to what exactly might happen. Fourth reason is Outsourcing may fail due to managers losing control over the outsourced activity. Managers should be in constant communication with the supplier at all times and be actively involved in the entire process.

Another reason is overlooking hidden costs has also been identified as another failure of outsourcing. Sixth reason is Costs such as costs for drafting a contract and searching for a supplier can sometimes be higher than costs of the entire process of outsourcing but they are however, important so as to benefit the organization in the long run. The final reason of outsourcing is failing to plan an exit strategy. Managers should have an exit strategy in place that contains what ending a relationship with a vendor would entail.

2.1 Effective outsourcing

Effective outsourcing means clear definition of terms and conditions, understanding of obligation, and agreement on the specific business and performance objectives as the starting point (Trifkovic, 2005).

2.2 What not to outsource

Zua., 2014 mentioned that deciding what to outsource lies with those elements that distinguish the organizations, especially in value and quality. Any activities that bring competitive advantage, are thus critical to the organization should be kept in-house.On the other hand, organizations will outsource their expertise on those commodity-like and matured activities that have minimal or no impact on the competitive strategy (Sislan and Satir, 2000).
Moreover the researcher was explained the statement by Lyson and Farrington, 2006 some of services to be outsourced need careful consideration and they demonstrated some of those services as:

(i) Management of strategic planning
(ii) Management of finances
(iii) Management of management consultancy
(iv) Control of supplies
(v) Quality and environment management
(vi) Supervision of the meeting of regulatory requirement such as product liability, misleading advertising, quality environmental regulations, staff health and safety, public safety, product/service safety.

2.3 Patterns of outsourcing

Out sourcing has multiple patterns that is used based on conditions and organizational strategy. According to Iraj andAyaz., 2013 as follows

1. **Full outsourcing:**In full outsourcing generally transfer of over than %80 of expected activity is delegated to an external provider or vendor and is mainly task or competency outsourcing. This type of outsourcing is complicated and risky and due to high volume of work, it will be long term project and its advantages will result in long term. And it is better for those organizations with experience of outsourcing small projects.
2. **Within organization out sourcing:** In this type of outsourcing authority and responsibility of doing work is delegated to units and employees of within organization. This type is generally done in specialism fields and is defined as research or even executive projects and is delegated to an organizational unit or a team consisted of individuals in different units. Many organizations have organizational mechanisms such as participation groups, project teams and etc. (Nasr, 2009).
3. **Selective outsourcing:** This type of outsourcing is a substitution for full outsourcing and is used when organization delegated small parts of a function. Never the less, selective outsourcing is not the cure of all problems because it requires too much attention due to mutual dependencies of its control mechanism.In the other hand organization should have a systemic attitude toward expected activity and through which ensure that outsourced parts can rejoin organization without much cost and disorder.

2.4 Reasons for Outsourcing

As competition increases and finances diminish organizations are increasingly turning to outsourcing to add value beyond lowering costs. There are many reasons as to why organizations decide to outsource.

1. **Reduce costs**: One of the reasons why organizations choose outsource is to reduce costs. Every organization's primary goal is to lower costs. Outsourcing provides a more efficient way in controlling costs. Additional costs per employee such as salary, overhead, training and other costs. Outsourcing eliminates costs such as future training of employees, current training, recruitment, payroll and benefits.According to Baily et al, (2005), David (1997) and Lyson and Farrington, (2006) Reduction in operation costs, most organisation turn to outsourcing with the view of reducing the costs associated with the service being provided.According to Altekar, (2006) the primary reason for outsourcing by enterprises is the cost factor that is significantly less than in sourcing what with the managing of the personnel, infrastructure and the technology.
2. **Administrative task:** Outsourcing has been acknowledged as one of the ways to free up a company from routine administration tasks.The organization can focus on its core competencies.This allows them to dedicate their time and strengths to the benefit of the organization. Outsourcing involves bringing in specialists who can do the job faster.
3. **Core competence:**Departments that are uncontrolled or poorly managed are prime motivators for outsourcing (Bucki, 2013). This will also help organizations to focus on core competencies and invest the money in other areas. Outsourcing tends to promote competition among suppliers thereby ensuring high quality products and services (Kotabe, 1990).
4. **Technology:**An organization may choose to outsource because they may not be able to keep up pace with the ever changing technology. (Quinn, 1999).
5. **Specialization:**Another reason may be that the organization is not very good at performing a particular task. Rather than attempting to improve on their performance the organization decides to outsource (Quinn, 1999). According to Baily et al, 2005 and Lyson and Farrington, (2006),External supplier has better capability, many organization do outsourcing for the purpose of increasing quality service because the external provider perform better than the internal.
6. **Resources management:**The resources like financial material human physical become free and available for other important activities.And External suppliers have greater or more appropriate capacity than internal supplier particularly in financial resources and therefore do the job easier and deliver on time. Outsourcings do play in freeing the resource for other purpose. It entails an organization to stop allocating resources to a certain activity and entrusting that activity to third party (Baily et al, (2005) and Lyson and Farrington, (2006).
7. **Risk management:**According to Baily et al, (2005) and Lyson and Farrington, (2006) Reducing, or spreading, an approach to risk management for some types of risks to partner with an outsourcer who is better able to provide the mitigation.
8. **Lack of internal resource**: According to Baily et al, (2005) and Lyson and Farrington, (2006) the organization may seek for outsourcing because of lack internal resources like human and financial resources.
9. **Desire to focus more tightly on core business:** the idea goes back to the basic idea of division of labor and specialization in that organization can do better if it can concentrates on only few activities (Baily et al, (2005) and Lyson and Farrington, (2006).

10. **Economies of scale**: the organization may enjoy from economies of scale through reduction in the costs of making and selling products that are made possible because a business in very large (Baily et al, (2005) and Lyson and Farrington, (2006).
11. **Cooperation**: Cooperation between companies can lead to conflict. In order to avoid such conflict, those activities that are produced by both organizations should be subject to total outsourcing (Baily et al, (2005) and Lyson and Farrington, (2006).
12. **Drive organizational change:**According to Baily et al, (2005) and Lyson and Farrington, (2006) an organization can use an outsourcing agreement as a catalyst for major step change that cannot be achieved alone. The outsourcer becomes a Change agent in the process.
13. **Enhance capacity for innovation:**According to Baily et al, (2005) and Lyson and Farrington, (2006) Companies increasingly use external knowledge service providers to supplement limited in-house capacity for product innovation.

2.5 Benefits of outsourcing

1. **Cost Saving:**This is the lowering of the overall cost of the service to the business. This involves the score defining quality levels, repulsing, renegotiations, cost restructuring, access to lower cost economies through off showing cold laborarbitrage (Zua., 2014). Organizations outsource noncore activities to avoid certain types of costs. Costs such as high energy costs, taxes, and costs associated with benefits in labor unions and avoidance of regulations motivates management to outsource (Caroline, 2011).
2. **Reduces bureaucratic complexity:**Outsourcing potentially reduces bureaucratic complexity.Administrative demands of organizing transactions and excessive bureaucratic costs associated with governance oversight reduce firm performance. In turn, these demands distract managerial attention from important sources of innovation and growth and add to the costs of internalization. Thus outsourcing helps firms align competing priorities, focus management attention on growth and innovation opportunities, and target resources to those tasks firms do best (Holcomb &Hitt, 2007).
3. **Capital exchange:**Caroline, 2011 mentioned that capital exchanged for internal factors of production (e.g. facilities, equipment, management and production personnel, etc.) when assets are transferred or sold to firms in markets; with outsourcing, firms can reduce or eliminate longer-term capital outlays to fund future investments related to the outsourced function.
4. **Specialization:**Lysons and Gillingham, (2003) say that, outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise.
5. **Production economies:** Outsourcing improves production economies (Holcomb &Hitt, 2007; Bryce &Useem, 1998) Because decisions about price and production are made before actual demand is observed, as transaction volumes vary, firms may find it difficult to make optimal use of available capacity or may ration production when existing production scale limits activity. Moreover Outsourcing allows firms to avoid or reduce rationing and meet production requirements by relying on intermediate markets as demand varies over time; it also provides a mechanism for firms to reduce uncertainty, transfer risk, and share scale economies with specialized firms from these markets.
6. **labor wage:** According to Caroline, 2011, researcher was statedOne of the biggest expenses that organizations have is labor, expenses such as bonuses, office space, support personnel, computers and software licenses, internet access, training , recruiting and retaining employees and drinks that a salaried employee gets add to the overhead costs. Organizations are turning to outsourcing rather than adding their headcount (Strauss, 2004) Apart from actual cost savings, the organization can achieve a leaner balance sheet by divesting assets that would have otherwise been required in-house. This can have a favorable impact on the financial stability of the company and its return on assets ratio.
7. **Access to Innovation:**Zua. 2014 mentioned in his research there are opportunities to have access to capabilities of suppliers into products and services of the customer organization rather than attempt to replicate the capabilities of a supply network (www.pwc.com).

2.6 Drawbacks of outsourcing

Lynn and Louis, 1999 has mentioned in the research according to the Warren.Edelson andParker. 1997 Possible drawbacks to outsourcing are

1. Loss of control,
2. High exit barriers,
3. Conversion costs,
4. Increased executive management involvement,
5. Dependence on vendor reliability,
6. Concerns with long-term flexibility,
7. Ability to meet changing needs,

8. service-level contract agreements with outsourcer

III. Outsourcing in Universities

Over the past decade, outsourcing has become the most prominent strategic change in the private sector organizations in Sri Lanka, even though this concept has thirty-six years history (Palm, 2001).As observed earlier, outsourcing in higher educational institutions is a relatively new practice in srilanka. It is therefore imperative to adopt a theory that seeks to explain how these institutions make the decision to go the outsourcing way. Virtually all of the literature regarding outsourcing in higher education has been written during the last decade. In fact, most has been written since the year 2000. Universities and business world have comparable issues and concerns related to outsourcing. Thus, it has also gained marvelous drive in the university system. Universities attempt to reduce costs and improve the quality of the service. They have demonstrated increased interest in outsourcing over the last decade (Mercer, 1995). Food services cleaning, security, alumni operations, maintenance, health services, technology and many other supplementary services are being outsourced (palm, 2001).In other studies university management did not take time to really examine functions and how things can be done or tried to improve on them internally. They rushed to outsource failing functions and hence outsourcing was seen as a failed project (Van der Werf, 2000). They also failed to come up with clear strategies for how they would go about involving staff unions, (The Harvard workers, 2001). Quinn (1999) recommends for management to involve their staff before they decide to outsource they should also be informed well in advance as well as prepare them before they decide to outsource.

The National Association of College University Business Officers (NACUBO) has taken a serious interest in the issue of outsourcing. And found that outsourcing is not an unfamiliar phenomenon in American higher education institutions. In 2000, 82 percent of the surveyed colleges and universities outsourced at least one service; that percentage increased to 91 percent in 2002.65 percent of the institutions in 2002 outsourced two to five services and almost one in seven outsourced more than five services.

Ender and Mooney,(1994) sees outsourcing as a form of privatization that refers to a university's decision to contract with an external organization to provide a traditional campus function or service. The contractor then either takes over the employees of the university in the outsourced section and pays the group according to its standards, or replaces the university employees with its own staff. Moreover the James, 2010 was mentioned that the phenomenon of outsourcing can be described in kenya asinits "infancy" Whereas instances of Business Process Outsourcing, for instance in the banking sector (Barako and Gatere, 2008) can be said to have taken root, public universities are still experimenting with the 'fancy' idea of outsourcing. Because it has often been emphasized by higher education policy makers and analysts that universities should concentrate on their "core business", namely teaching and research.Jefferies (1996) observes that the growing use of outsourcing in higher education reflects a general acceptance by campus administrators that it will reduce costs while continuing to provide essential university service. He adds that the need to remain competitive and to improve service delivery in the face of declining resources has forced higher educational institutions to turn to several popular management approaches, including outsourcing. According to Kanthi and Fazeela , 2016an important consideration of outsourcing in higher education is to recognize services and functions that can be carried out independently from the core activities of the university. Core activities are what make the college/university unique or are most important to achieve its missions and goals. The distinction between core activities and support services should clearly be recognized, as some universities are outsourcing certain education programs too. Also, many consider student residence hall as a core service but George Mason University decided to outsource the management of a student residence hall (Mercer, 1995). Some universities have outsourced their library services and information technology instruction.James, 2010 stated that 'outsourcing' is used to describe a situation where someone who is not on the University payroll manages the whole or part of a specific university function, such as catering, in the sense of: fulfilling all the operations of that function; employing staff (whether these staff were formerly the university's staff or their own) and using assets (whether the university's or their own) to provide services in the designated function.

In the past, higher education institutions have outsourced the operation of bookstores, dining services and grounds and maintenance services to private vendors. At present, however, many other support services such as mail services, health services, residence halls, computing and information technology, teaching hospitals, ventilating and air conditioning maintenance, building and grounds management, childcare, fundraising, laundry services, printing, security, and car parking are also being contracted out (Kanthi and Fazeela , 2016) .

It is important to note that the services outsourced by many institutions are support services of higher education and they do not relate directly to providing instruction —the "core competency" of the institution. The recent financial pressures have led many colleges and universities to outsource additional services and functions such as facility management, administrative services such as payroll, transportation, healthcare, and many more (Wood, 2000).

IV. Limitations of Outsourcing in Higher Education

Like any other approach to management, outsourcing is not without its limitations.Critics of outsourcing point out that private business practices are different from the established higher education traditions of shared governance and the academic profession, which requires substantial professional autonomy, peer rather than hierarchical authority, and a less materialistic culture (Johnstone).

Lost loyalty and disappointment with the reduced remuneration may result in poor performance by employees. Reduced service facilities by the contractor may result in poor teaching and learning environments (Kanthi and Fazeela , 2016) .Another major limitation of outsourcing is its human resource consequences including lost jobs and reduced loyalty to the college/university. Jobs may be shifted from the college or university to the contractor performing the outsourced service or function, which may result in decreased salaries or benefits (Gilmer, 1997).

4.1 According to Kanthi and Fazeela (2016).

1. **Poor contract management:** Institutions often lack the expertise to properly structure or monitor contracts. For example, an institution may lack the expertise to ensure that a food service vendor is complying with the nutritional requirements specified by the contract.
2. **Lower service quality:** Vendors may not understand the culture and mission of a campus, resulting in a different or lower standard of service quality.
3. **Reduced collaboration**: Service providers may lack the interest necessary to participate in programming that is considered secondary to their mission. For example, food service providers may not be willing partners with the institution in providing late night hours or incorporating student programming if it affects their profit or cost control.
4. **Loss of in-house expertise:** The ability of the institution to provide services in the future is diminished, as in-house expertise is lost.
5. **Future cost increases:** The profit factor inherent with private enterprises often increases the cost of providing a service over time.
6. **Loss of continuity:** Continuity of service may be jeopardized because of the transition between contractors, higher employee turnover, or contractor bankruptcies.

V. Dimensions of Outsourcing

5.1 Cost effectiveness of outsourcing

Costs: Costs to be considered include both measurable monetary costs, as well as intangible costs. Not all costs will be capable of exact quantification, but it is imperative to obtain the best estimate possible. Categories of costs that should be included in the decision are direct and indirect, tangible and intangible, and discretionary and nondiscretionary. While the direct costs may be relatively simple to identify, it is the other categories of costs that can be difficult to determine.

These costs include such items as administrative expenses, coordination costs with internal and external parties, training expenses, and information resources. The effect of outsourcing may also have cost effects on other parts of the organization. These costs should be considered as well (Harris, 1995).

According to Ronald and Jamie 2005, that cost is important in today's environment, but not exclusively. Some suggested that they would not consider outsourcing if cost savings were not a part of it. Most qualified that statement by insisting that service improvement also is expected, but they were anxious about how a provider can pay the people less and get them to perform better. Many indicated that service improvement can stand alone as a reason for outsourcing, but cost would generally need to be at least equal to current cost. For some, cost savings make it much easier to sell an outsourcing program internally. Others talked about "soft savings" such as the relief for management that outsource assumes.

Values/savings from in-house to outsource this is also achieved through the provider being a specialist in the area of financial management. For example, a specialist facility management company is coming to the end of a large contract with a client and has underutilized resources (people). It also has two other very large clients that it services. It is therefore able to supply this underutilized resource at a very competitive price to any potential client organization (Schniederjans, 2005).

According to Chan Khk, 2015 cost of outsourcing that incurred

1. Contract management costs to the organization
2. Effectiveness costs from lack of understanding of project objectives
3. Higher project costs as organizations may experience greater overall project costs in order to access necessary skills and expertise that are unavailable internally
4. Higher costs from inadequately defined requirements

5.2 According to Muweesi. 2011 Effect of Outsourcing on Cost Efficiency

Cost reduction: Some of authors have been found that the main motivation for outsourcing is found to be cost reduction (Altinkemer et al. 1994, Gilley & Rasheed, 2000).This is because paying for outsourcing generally costs less than maintaining equivalent services in-house.

Successful implementation of an outsourcing strategy has been credited with helping to cut cost .According to Malhotra (1995), factors that affect outsourcing decisions are reduction in operating costs, cost predictability due to fixed contract, sharing risk on technology investments, access to specialized expertise, and perception of efficiency. The literature articulates numerous reasons for outsourcing: reduced costs, higher quality, increased capacity, etc…In the sense of labour cost, According to Abraham and Taylor (1996), outsourcing may provide a viable strategy if firms aim to save on labor costs. In support also emphasized that outsourcing can be used to economize on production cost, in particular by substituting in-house production with buying-in of components. They also argued that companies that do everything themselves have much higher research, development, marketing and distribution expenses, all of which must be passed on to customers. An outside provider's cost structure and economy of scale can give a firm an opportunity to be more efficient.

Likewise in the concern of converting fixed costs into variable costs. Kotabe (1989) argued that cost-cutting may not be the only reason to outsource, but it is certainly a major factor. Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business, and allows you to avoid large expenditures in the early stages of your business. Outsourcing can also make your firm more attractive to investors, since you are able to pump more capital directly into revenue-producing activities.

In the concern cost efficiency on focusing human recourses Linder (2004) argued that most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency, and expertise that large companies enjoy. According to Bettis, Bradley, and Hamel (1992), hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don't always live up to your expectations. Outsourcing lets you focus your human resources where you need them most.

Cost effective meant by Muweesi., 2011 , senior management often finds outside firms to be more cost-effective. While middle managers often claim, they can hire a person to do it cheaper, upper management looks at things differently.Making or buying intermediate inputs essentially outsourcing addresses the issue as to whether a firm should make or buy intermediate inputs; an issue that has a long tradition in economics, dating back to the seminal work by Coase (1937) on the boundaries of a firm. The cost of outsourcing is not only determined by the price of the bought-in components, but also by transaction costs due to transport and incomplete contracting costs, and the possible implications of asset specificity for supplier and/or customer.

Cost efficiency: Firms should consider outsourcing when it is believed that certain support functions can be completed faster, cheaper, or better by an outside organization (Barthelemy&Adsit, 2003). Cost efficiency remains the primary explanation for the development of outsourcing. Firms evaluate outsourcing to determine if current operation costs can be reduced and if saved resources can be reinvested in processes that are more competitive. Some researchers contend that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver, all of which in turn will serve to boost the Organizational performance (Bin, 2004).

5.2Organizational system and Operational efficiency

Most companies outsource benefits administration to gain service efficiencies, vendor commitments and innovations not easily found in-house. But a poorly planned or executed outsourcing strategy can result in more problems than it solves. Administration functions can be partially or fully outsourced. Partial outsourcing is the most common engagement, with the client co-managing activities with the vendor. Few companies completely outsource admin and management services, which transfers full responsibility to the vendor. Top functions that are commonly outsourced include background checks, employee assistance, employee administration, flexible spending account admin, healthcare benefits admin, temporary staffing, pension, retirement and benefits admin, employee relocation, executive development and coaching, risk and performance management, training and development, and recruitment and staffing of executive and non-executive personnel.

Contract Administration is concerned with the mechanics of the relationship between the customer and the service provider, the implementation of procedures defining the interface between them, and the smooth operation of routine administrative and clerical functions. The importance of contract administration to the success of the contract, and to the relationship between customer and provider, should not be underestimated.

According to the Zua. (2014)Outsourcing objective is that companies get chances of improving their operational flexibility. Usually, when a company controls all its business functions, then chances are that it may not respond to certain business conditions e.g infrastructural changes. However when a business has outsourced its functions, then it can always request reductions or increases in these business functions. The overall result of this is that companies gain operational flexibility and therefore enhance their organizational effectiveness.

5.3 Strategic and Organizational effectiveness

Strategy relates to an organization's mission, philosophy, goals, and objectives. It determines the type of business, hierarchical structure, and its commitment to customers, employees, and shareholders (Argenti, 1998). Understanding the organization's strategic vision and plan, and the organization's and objectives, will provide considerable insight as to whether the organization is receptive to outsourcing ("Survey of Current and Potential Outsourcing End Users," 1999). TIllngs to consider include how critical the function or activity is to the corporate strategy and the level of organization support that will be received from the vendor (Phillips, 1998). Another issue to be reviewed is the internal systems of the organization and whether outsourcing will hinder the current internal systems information flow.However, organizations have always seeking for ways to achieve a competitive edge over their potential competitors, however, with contemporary highly competitive environment in which today’s businesses operate acts as a strong stimulus for organizations to outsource. The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities (McIvor, 2008). One avenue that organizations have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage to these organizations (Monczka and Trent, 1991; Quinn and Hilmer, 1994). In addition, economic of globalization and liberalization facilitate the process of searching for opportunities on the open global market to outsource some of organization’s activities instead of performing them internally. Because of diverse nature of business processes an organization has to manage today, it is nearly impossible for an organization to manage all of its processes by solely depending on its own expertise. Even if it is feasible, the organization may lose its focus and efficiency. Outsourcing some or all of noncore business processes can enable an organization to focus on core competencies, rather than services that fall outside of expertise. It will not only enhance function effectiveness and flexibility by accessinga support network with highly qualified and specialized workforce, but also help organizations control their costs and business risk by transforming high fixed costs to predictable expenditures.

5.4 Human resources and organizational culture

The improvement that high organizational performance provides is becoming more critical in today’s increasing conditions of competition. The effects of human resource functions and organizational culture to perform a significant organizational efficiency attracts both theoreticians’ and practitioners’ interest much more. When outsourcing is considered as one of the methods that organizations utilize for strengthening their core competencies to allocate their resources efficiently, the question of the degree to which human resource functions could be outsourced brings in mind the effect of organizational culture enabling outsourcing on organizational performance. Besides performing the administrative services such as catering, cleaning, employee transportation, and security as outsourcing, operations of some human resource practices like training and payroll via outsourcing contribute the desired performance positively by means of only true strategy and organizational culture shaping the strategy. The performance of human resource management and the viewpoints of employees about outsourcing have critical importance to improve a convenient strategy.Human resources refer to the employees of the organization and can be at any level or in any department or function of the organization. It is the people. The reaction of employees to an outsourcing decision will determine the smoothness of the transition. A decision to outsource can have monumental effects on employee morale, especially if it results in a layoff. The only way these problems may be minimized is through effective communication from top management (Lonsdale and Cox, 1997). Another area of the human resource area to be considered is training and retraining costs involved if a decision is made to outsource. If displaced employees can be relocated elsewhere in the organization, their current level of knowledge, skills, and experience must be evaluated, as well as the retraining cost (Fredericks, 1994). Other related costs that should be considered include classified advertising, overhead, administrative costs of hiring and terminating, taxes, and benefits (Tibbens, 1999). In addition, whether or not the organization is operating in a unionized industry or environment will have to be considered. The impact of the decision on the unionized group and their possible reaction(s) should be evaluated.

An outsourcing strategy will lead to changes in policies, cultural values. In fact, outsourcing can lead to the disintegration of an organization’s culture. (Corby, 1998). The redrawing of the boundaries of the organization will impact upon the prevailing values and norms of employees. The culture of the organization must be considered in the formulation and implementation of the outsourcing strategies. (Mclvor, 2005). The existing organizational culture is disturbed when an external outsourcing agent enters the organization (Hemmington and King, 2000). Thus it will affect collaboration between the organization and the agent when the respective cultures are not compatible to achieving their objectives. An outsourcing relationship can be conceptualized as an extension of the client company's (the dominant group) culture (Kshetri, 2007). Culture of transparency is one of the foundations for outsourcing partnership. Establishing the culture of transparency and trust are significant elements in the communication framework (Schoker, 2008). Hendry (1995) highlighted the corporate culture enabling communication in all unit for the hidden cost of outsourcing in his study.

5.5Quality of outsourcing

Quality: The term quality refers to totality or characteristics of goods and materials that satisfy the intended need at the lowest cost. It is fitness, merit and excellence. (Doubler, 1996). Providing high-quality service is a major concern for nearly any business. Quality of service can be a major factor when customers decide which business to use to solve their needs. Customers have certain expectations about the level of satisfaction they'll get from businesses they are participating and it's difficult to improve your quality of service if you don't have any input from your customers about how to improve. Thus, gathering customer feedback and using it to measure service quality should be a significant part of nearly any business's game plan. According to D'Aveni and Ravenscraft (1994), every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly. According to Muweesi, (2011) Successful implementation of an outsourcing strategy has been credited with helping to increase capacity, improve capacity, and improve quality. Personnel expenses were the primary reason behind outsourcing; however, it also improves operating efficiency.

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