E-ISSN: 1115 - 8530 P-ISSN: 3026-8958

MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT VOL. 08 NO. 7 – APRIL, 2025

EFFECT OF INNOVATION- DRIVEN STRATEGIC OUTSOURCING ON THE ORGANIZATIONAL PERFORMANCE OF MANUFACTURING COMPANIES IN NIGERIA

*Dr. SULE BELLO; & **YUSUF ZAKARI

*Department of Business Administration and Management, School of Management Sciences, Abubakar Tatari Ali Polytechnic Bauchi, Bauchi state, Nigeria. **Department of Business Administration and Management, School of Management Sciences, Abubakar Tatari Ali Polytechnic Bauchi, Bauchi state, Nigeria

Corresponding Author: bellosule1@gmail.com

DOI: https://doi.org/10.70382/mejfrbd.v8i7.041

Abstract

The emergence of globalization has made outsourcing to become one of the widely embraced business strategies for delivering outstanding services to consumers in the manufacturing sector. However, in spite of the increasing trend in outsourcing arrangements, there are inadequate literature underpinnings on how outsourcing activities affect organization performance in manufacturing sector. In order to bridge that gap this research sought to study the influence of innovation driven outsourcing strategy on organization performance of [redacted] manufacturing sector in Nigeria.. However, the highly competitive environment along with customers' demands for tailored products and services has forced manufacturing companies especially in Nigeria to experience slow growth The main objective of this study is to investigate the effect of innovation driven outsourcing strategy on organizational performance of manufacturing companies in Nigeria. The

Keywords: Innovation-Driven, Focus-Driven, organization performance, outsourcing

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

questionnaires were administered among the one hundred and twenty management staff of the sixty selected manufacturing companies in Nigeria through purposive sampling method, and this was done personally by the researcher. Descriptive and inferential statistics was used to analyzed and the data obtained. Speci. The study reveals that innovation-driven is a major strategy that help an organization in achieving its stated objectives in global competitive environment. Subsequently, the study recommends that management of manufacturing companies should adopt innovation driven strategic outsourcing partnerships in order to continuously reduce operating costs for growth.

Introduction

The manufacturing sector is the major determinant of the level of industrialization and the real growth of any economy because it provides intermediate inputs, finished goods, increasing foreign exchange earnings, positive spillover effects and employment opportunities. However, the highly competitive environment along with customers' demands for tailored products and services has forced manufacturing companies especially in Nigeria to experience slow growth. This is evidenced by Manufacturing Association of Nigeria (2016) that 30 percent of the manufacturing firms are moribund, 60 percent were classified as ailing while only 10 percent were classified as operating at a sustainable level. The National Bureau of Statistics (2017) also revealed that manufacturing sector's contribution to the economy has dropped from N8.97tn as of the end of December 2015 to N8.89tn as of the end of December 2016.

Outsourcing is a management strategy through which a company assigns some non-core functions to more specialized, more effective and more efficient service providers such that the organization can be left to perform and concentrate with the core business activities. Outsourcing activities have existed for centuries.

According to Maku and Iravo (2013), outsourcing focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns. A study by International Business Machine (IBM) (2010) also posits that outsourcing is a strategic business decision that is likely to boost a company's performance. Outsourcing is the replacing of in-house provided activities by subcontracting it out to external agents. Agburu, Anza and Iyortsuun (2017) observe that outsourcing avails organizations the opportunity to concentrate her core competencies on definable preeminence business area and provides a unique value for customers.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

In spite of the increasing trend in outsourcing arrangements, there are inadequate studies on how outsourcing activities affect organization performance in manufacturing sector in Nigeria. In order to bridge that gap, this research seeks to study the effect of strategic outsourcing on organization performance in manufacturing companies in Nigeria.

The specific objective;

i. To investigate the effect of innovation-driven outsourcing strategy on organizational performance of manufacturing sector in Nigeria..

Research Hypothesis

The following hypotheses was tested and formulated in a null form.

H_{01}: innovation driven outsourcing has no significant effect on organizational performance of manufacturing sector in Nigeria..

Justification of the study

This study is justify the needs for detail to enable the management of Nigerian manufacturing sector to understand how the innovation driven outsourcing strategy would influence the performance of the company, and further shed more light on how they can optimize on it to gain and retain competitive advantage in today's turbulent business environment. The study would also contribute to the existing literature in the field of strategic management for the manufacturing industry in Nigeria. It should also act as a stimulus for further research to refine and extend the present study especially in Nigeria

Literature Review

Concept of Strategic Outsourcing

The concept of strategic outsourcing is not new especially in developed countries. According toKaram, Fariba, and Arash (2014), strategic outsourcing originated way back in the 1960s and 1970 and is deeply rooted in the history of the growth of modern business enterprise. Strategic outsourcing has led many enterprises to review the core activities and concentrate on their core competence. Lacey andBlumberg (2005)defined outsourcing as "reliance onexternal sources for manufacturing components andother value adding activities". Some focus oninternational sourcing of components, sub-systems and completed products (Kamuri, 2010). Outsourcing involves performing a function or process such as manufacturing operation and other value-additions activities with reliance on external sources, a third-party or supplier,

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

so as to attain business level benefits (Lei &Hitt, 1995). Strategic outsourcing includes "make-or-buy" (Chanzu, 2002) decision which produces the company's product internally or subcontract to other service providers. Some researchers focus on international sourcing of components, sub-systems and completed products (Feenstra& Hanson, 1996).

According to Sako (2006), outsourcing can be defined as the act of one company contracting with another company to provide services that might otherwise be performed by in-house employees. It was further described as a contract service agreement in which an organization hires out all or part of its operations to an external company. The major characteristics of outsourcing are; the activities initially performed in-house are transferred to an external party, the assets, knowledge and in some cases, people; there will be an external relationship between the parties involved over a long period of time, that in transferring the activity to the external party the buyer is exposed to a cost and a risk profile, both of which are new to the companies involved (Maku&Iravo, 2013).

Concept of Organizational Performance

According to Pitt and Tucker (2008), organizational performance is defined as "a vital sign of the organization, showing how well activities within a process or the outputs of a process achieve a specific goal". It is also defined as "a process of assessing progress towards achieving pre-determined goals, including information on the efficiency by which resources are transformed into goods and services, the quality of these outputs and outcomes, and the effectiveness of organizational objectives" (Amartunga&Baldry, 2003). Rosenzweig (2007) also describe organizational performance as the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Pierre, Timothy, George, and Gerry (2009), however define organizational performance as the ability of an organization to fulfil its mission through sound management, strong governance and a persistent rededication to achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable.

An organisations performance can be measured through organisational financial results however, there are other measures that can be used. These measures include customer satisfaction/dissatisfaction, customer retention/behaviour, product and service quality, waste, flexibility, organisational capabilities and yield/ productivity. These measures however have to be in tandem with the organisation's mission and goals.

Theoretical Framework

This study anchors on Core competency theory. Core competency theory explains how to coordinate diverse production skills and integrate multiple streams of technologies for organizations in order to have competitive advantage in global competitive environment. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. Non-core activities should be considered for outsourcing to the best suited service providers who are experts in that field.

However some few non-core activities which have a big impact on competitive advantage should be retained in house (Chandra & Kumar, 2000). According to Akinbola, Ogunnaike andOjo (2013), core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best human resource management (HRM), good market coverage etc. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies refer to the collective knowledge of the production system concerned in particular knowledge of procedures and how to best integrate and optimize them (Simchi-Levi, Keminisky&Simchi-Levi, 2004).

Innovation-driven Outsourcing and Organizational Performance

According to Buchanan (2014), innovation is defined as something that changes a market. Companies are said to be innovative when they develop something better for their customers. This can be done by improving or developing not only the products but also their materials and means of production. More recently, businesses are choosing to innovate intensively around the processes. Proponents of this strategy argue that, competitors will find it harder to copy your product if they must also copy the processes and systems that are used to make that product.

The past few decades have witnessed a boom of outsourcing in which firms transfer their non-core business activities to third-party service providers. Functions that have seen substantial outsourcing include information technology management, support services, manufacturing, logistics, and customer support. The biggest motivation for such outsourcing has been to maintain a competitive edge by reducing costs and focusing on core competencies (Zhao, Xue & Zhang, 2014).

Today, outsourcing has become a strategic lever in the global economy and it is widely expected that this trend will continue in the near future. Kenyon and Meixell (2011) found out that outsourcing works better for international markets where labor and

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

cost of doing business is lower. However, as Insinga and Werle (2000) point out, outsourcing at the operational level can easily lead to the development of dependencies that create unforeseen strategic vulnerabilities.

The fact that outsourcing can be strategic is in no doubt. However, the most important thing is a foremost recognition of the strategic value that outsourcing can generate to any organization if handled correctly. As Insinga and Werle (2000) note, the real risk is in losing the strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's operations. "At this level," they point out, "the dominant success metric of outsourcing becomes lower cost, period." (p. 58). They further argue that in order to avoid losing sight of the strategic intent, firms must institutionalize a robust decision making process to govern the outsourcing relationship in such a way that hard-wires the operations to the strategic.

Mella and Pellicelli (2012) emphasized on the strategic concept of outsourcing and the growing demand for offshore outsourcing and contract manufacturing in lower cost countries such as India and China, fueled by these countries' comparative advantage. Their work clearly advocates for a strategic approach to outsourcing in foreign countries.

Empirical Review

Previous studies revealed that innovation driven outsourcing strategy offers numerous advantages and the potential benefits include cost savings, efficiency gains, improved flexibility, access to world-class expertise and focus on core competencies. However, outsourcing also poses numerous risks that must be managed in order for outsourcing to be successful.For example,Kamanga and Ismail (2016) study the effects of outsourcing on organization performance in manufacturing sector in Kenyan firms. The study targeted a population of 42 management staff from three major departments namely: Production, Transport and Agriculture, Engineering. Data was collected from primary sources through survey method by use of questionnaires. The data was quantitatively analyzed based on research objectives. Both correlation and regression analysis were done and the results reviewed that: innovation driven is correlated with organization performance. There is a significant and positive relationship between innovation driven and organizational performance

Jirawuttinunt (2015) also verify the relationships among human resource outsourcing of four activities such as recruitment activities, training administration, payroll management, and human resource information system and organizational performance through HR cost efficiency, effective human resource development and

human resource flexibility. The model is tested by using data collected from mail survey questionnaires of 165 multinational firms and using a questionnaire as the instrument. The results of OLS regression analysis show that outsourcing has a significant impact on organizational performance both direct and indirect via cost efficiency, effective HR development and HR flexibility.Vivian and Christopher (2015) also examine the effect of Information Technology Outsourcing (ITO) practices on the performance of banking sector in Kenyan. Balance Scorecard was used to measure performance as it considers both financial and non-financial aspects. The study took the form of a descriptive survey design with a target population of 14 commercial banks operating in Kenya. Primary data was collected from structured questionnaires and secondary data was collected from the banks past financial records. Results revealed that Connectivity and Help desk support were the most outsourced IT functions in the commercial banks. The study also revealed the two main drivers for ITO were strategic focus and cost reduction. The main challenge the commercial banks faced during the ITO process was lack of a proper cost benefit analysis and loss of control. The study further revealed that ITO has a positive and significant effect on financial performance, learning and growth, customer satisfaction and internal processes.

Akinbola, Ogunnaike and Ojo (2013) also examine the effect of enterprise outsourcing strategies on marketing performance of fast food industry in Lagos State, Nigeria. Copies of questionnaire were distributed purposively to ten fast food outlets in Lagos, Nigeria. Two hypotheses were developed and were subjected to descriptive and regression analysis. Results reveal that outsourcing contributed to increase in marketing performance.Dapper (2013) carries out to study personnel outsourcing and corporate performance. In carrying out this study,the researcher used AGIP Oil Company in Port Harcourt as a case study. A total number of fifty one (51) questionnaires were administered to employees in the personnel department of the company. The Yaro Yemen'sformula was adopted during the determination of the sample size. Hypotheses were also formulated and testedusing the chi-square statistical/mathematical technique. The researcher uncovered that there is a significant effectof personnel outsourcing on corporate performance. Kenyon and Meixell (2011) find out that outsourcing works better for international markets where labor and cost of doing business is lower. Nordin (2008) also asserts that outsourcing of some value chain activities can generate operational efficiency by reducing capital investment and commitment as well as ensuring maximum utilization of the existing resources in a way that generates maximum value from the least possible inputs

However, as Insinga and Werle (2000) point out, outsourcing at the operational level can easily lead to the development of dependencies that create unforeseen strategic vulnerabilities. In the same vein, Yeboah (2013) examines the relationship between outsourcing and organizational performance in the services sector. The population of the study is made up of 50 firms operating in the banking and insurance sectors of theeconomy of Ghana. The paper used purposive sampling for the selection of the respondents. Questionnaires were distributed to the respondents for statistical analysis. The study utilized Statistical Package for the Social Sciences (SPSS) to analyze the data collected. The study revealed there is no statistically significant correlation between outsourcing and organizational productivity.

Methodology

Research Design: The study adopted a descriptive research design. Descriptive research design was employed because is an efficient way of gathering data to help address a research questions and one can collect unbiased data and develop sensible decision based on analyzed results (Van de van, 2007).

Sampling Method and Sample Size: Purposive random sampling technique was used to select two management staff each from the sixty (60) selected manufacturing companies in Nigeria totaling one hundred and twenty (120) respondents as a sample size for the study.

Data Collection Instruments: A structured questionnaire was used to collect relevant information from the study's participants.

Data analysis

Data analysis is the process of data to make meaningful information (Saunders, Lewis & Thornhill, 2009) defined data as mechanism for reducing and organizing data to produce findings that require interpretation by researcher. According to Hyndman (2008) data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure. Data collected was analysed by editing, coding and categorizing through the use of statistical package for social sciences (SPSS) version 20.0 computer software.

Validity and Reliability of Research Instruments: Regression Analysis was used to test the hypotheses. The scales were subjected to further item analysis as to determine their psychometric soundness as indicated in Table1 below:

Table 1: Summary of Results of the Measurement Instruments Validation

Scale	No of Items	Meaning Bartlett	KMO	Eigenvalue of the principal Component	% of the variance	α of Cronbach
Innovation-Driven Outsourcing Questionnaire	7	p = .000 (significant)	0.810	3.679	75.49%	0.81

Source: Field Report, 2019

From Table 1 above, factor loads of all the indicators are higher than 0.5 which shows that the questions highly explain the variance of their variables so we can say that the measurement model has high factor validity.

Method of Data Analysis: Mean was used to analyse data and criterion mean of 3 was used for interpretation of mean. Criterion mean of 3 was generated by adding the total assigned values of the responses and dividing by the total number of responses (5+4 + 3 + 2 + 1 = 15/5 = 3). Thus any mean score up to 3 and above was interpreted as acceptable by respondents while 2.99 and below is adjudged rejected by the respondents. Regression Analysis was used to test the hypotheses.

Regression Model

$OP = \alpha + \beta 1_{x1} + \mu$

Where the variables are express as

OP- Organizational Performance

X_1 - innovation driven outsourcing

μ - Error term.

Results and Discussion

Effect **of Innovation-Driven Outsourcing on Organizational Performance**

Table 2: Distribution of respondents by effect of innovation-driven outsourcing on organizational performance

Statement	Mean	Rank
The company is keen on new product development	**4.01**	**Accepted**
Sometimes Innovation can be difficult due to lack of funds or in-house capacity	**3.98**	**Accepted**
We need to deliver newer products and services to maintain our competitiveness	**3.76**	**Accepted**
We outsource some innovation to other companies that can do it better and faster	**3.65**	**Accepted**
Outsourcing has helped us to create and deliver value faster than our competitors	**4.12**	**Accepted**
Outsourcing is one way the company has innovated and remained competitive	**4.15**	**Accepted**
Innovativeness is a major contributor to improved performance	**4.09**	**Accepted**
Grand mean	**3.96**	

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

In Table 2, the grand mean of 3.96 which is above the criterion mean of 3 shows that respondents agreed that innovation-driven outsourcing has significant effect on organizational performance. Results also indicate that on average; the respondents agreed that outsourcing is one way the company has innovated and remained competitive, outsourcing had enabled the organization to develop new products quickly enough for the market, innovativeness is a major contributor to improved performance, the company is keen on new product development and Sometimes Innovation can be difficult due to lack of funds or in-house capacity with mean values of 4.15, 4.12, 4.09, 4.01 and 3.98 respectively. This implies that innovation-driven outsourcing is an alternative paradigm to an organizational performance in a global competitive environment.

Table 3: Effect of Innovation-driven outsourcing **on Organizational Performance**

Model	R	R^2	Adjusted R^2	Std error of the estimate
1	0.761	0.579	0.490	1.602

Explanatory variable	**B**	**Std error**	**t – value**	**p-value**	**Remarks**
Constant	21.450	0.875	28.510	0.000	
Innovation-driven outsourcing	0.232	2.074	1.786	0.011	S

Table 2 revealed that innovation –driven outsourcing (β = 0.26; t = 0.233 P<.05)has positive and significant effect on organizational performance. Result also indicated that innovation –driven outsourcinghas 57.9% decisive influence on organizational performance. This implies that the higher the innovation the higher the organizational performance. The study is consistent with Vivian and Christopher(2015) andAkinbola, OgunnaikeandOjo(2013) that innovation –driven outsourcing is a strong predictor of organizational performance.

Therefore, the null hypothesis which states that innovation – driven outsourcing has no impact on organizational performance is rejected, while the alternative is accepted.

Conclusion and Recommendation

This study examines the effect of innovation driven outsourcing strategy on organizational performance. The study reveals that innovation-driven outsourcing is

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

one of the major strategy that help an organization in achieving its stated objectives in global competitive environment.. Subsequently, the study recommends that management of manufacturing companies should adopt innovation driven strategic outsourcing partnerships in order to continuously reduce operating costs for growth.

References

Agburu, J. I., Anza, N. C. and Iyortsuun, A. S., (2017), "Effect of outsourcing strategies on the performance of small and medium scale enterprises (SMEs)", Journal of Global Entrepreneurship Research, 7(26), DOI 10.1186/s40497-017-0084-0.

Akinbola, O.A., Ogunnaike, O.O., &Ojo, O.A. (2013). Enterprise outsourcing strategies and marketing performance of fast food industry in Lagos state, Nigeria. Global Journal of Business, Management and Accounting, Vol. 3(1) 22-33 .

Amaratunga, D., &Baldry, D. (2003), A conceptual framework to measure facilities management performance, *Property Management,* 21(2), 171-189.

Buchanan, L. (2014, February). Built to last forever. Inc. Magazine, pp. 48–53 and 104– 105.

Chandra, C. and Kumar, S. (2000), "Supply chain management in theory and practice: a passing fad or a fundamental change?" *Industrial Management & Data Systems*, Vol. 100 No. 3, pp.100- 13.

Chanzu, M. (2002). *A survey of business outsourcing practices amongst private manufacturing companies in Nairobi*. Unpublished MBA Research Paper University of Nairobi.

Dapper, E. M. (2013). Personnel Outsourcing and Corporate Performance. European Journal of Business and Management, Vol. 5, No. 26, pp. 150-155.

Feenstra, R. & Hanson, G. (1996) 'Globalisation, Outsourcing, And Wage Inequality'. *NBER Working Paper Series*, pp. 1-11.

Insinga, R., C. and Werle, M., J. (2000). "Linking outsourcing to business strategy." Academy of Management Executive 14(4): 58-70.

Jirawuttinunt, S. (2015).The effect of HRM outsourcing on performance of multinational firms inThailand.*Journal of Business and Retail Management Research*, 116-126.

Kamuri, N. (2010). *The Challenges Facing the Implementation of Outsourcing Strategy at the Kenyatta National Hospital*. Unpublished MBA Project, University of Nairobi.

Karam, K., Fariba, A., and Arash, A. (2014). Investigating the relationship between outsourcing and performance based on Balanced Score Card. *Journal of Data Envelopment Analysis and Decision Science, 2(1)* 1-11

Kenyon, G.N.N., Meixell, M.J.J., & Westfall, P.H.H. (2016). Production Economics Production outsourcing and operational performance : An empirical study using secondary data. *International Journal of Production Economics*, 171, 336-349.

Lacey, K. & Blumberg, D. (2005). Improving Business Performance with Outsourcing, Journal of Medical Marketing, 5(1), 15-18.

Lei, D., &Hitt, M. (1995). Strategic restructuring and outsourcing: The effect of mergers and acquisitions and LBOs on building firm skills and capabilities .*Journal of Management , 21* (5), 835-859.

Lyons., L. B. (2014). A Typology and Meta-Analysis of Outsourcing Relationship Frameworks. Strategic Outsourcing. *An International Journal*, 7 (2), 135-172.

Maku, J. K., and Iravo, M. A. (2013). Effects of Outsourcing on Organizational Performance at Delmonte Kenya limited. *International Journal of Social Sciences and Entrepreneurship*, 104-117.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Manufacturing Association of Nigeria (MAN) (2016). Manufacturing sector groans under recession weight. Available at https://www.vanguardngr.com/2017/01/2016-review-manufacturing-sector-groans-recession-weight/

National Bureau of Statistics (2017). Revenue: Manufacturers Suffer N30bn Decline In 3Months available at https://economicconfidential.com/financial/revenue-manufacturers-suffer-n30bn-decline-3months/

Nordin, F. (2008). Linkages between service sourcing decisions and competitive advantage: a review, propositions, and illustrating cases. *International Journal of Production Economics*(114(1)), 40-55.

Nyangau, K., Mburu, K andOgollah, K. (2014). Effects of outsourcing strategy on procurement performance among universities in Kenya; *International Journal of Economics, Commerce and Management United Kingdom Vol. II, Issue 11*.

Pitt, M. & Tucker, M. (2008) Performance measurement in facilities management: driving innovation? *Property Management,* 26, 241-254.

Pierre J. R, Timothy M. D, George S. Y., and Gerry, J (2009). **Measuring Organizational Performance: Towards Methodological Best Practice.** Journal of Management, Vol. 35 No. 3, 718-804

Rosenzweig, P. (2007). Misunderstanding the nature of company performance: The halo effect and other businessdelusions*. California Management Review*, 49: 6-20.

Sako, M. (2006). Outsourcing and Offshoring: Implications for Productivity of Business Services, Oxford Review of Economic Policy, Vol. 22 (4), 499-512.

Simchi-Levi, D., Ph. Kaminsky, & E. Simchi-Levi, (2004), *Managing the Supply Chain: The Definitive Guide for the Business Professional,* New York: McGraw-Hill.

Vivian, W.M and Christopher, M. (2015). Effect of Information Technology Outsourcing on the Performance of Banks in Kenya: Application of the Balanced Scorecard. *Journal of Business and Management. Volume 17, Issue 3.Ver. II (Mar. 2015), PP 83-89.*

Yeboah, A. (2013).The relationship between outsourcing and organizational performance. European Journal of Business and Management, 5(2), 1-13.