The Journal for Transdisciplinary Research in Southern Africa
ISSN: (Online) 2415-2005, (Print) 1817-4434

Uncovering the strengths and weaknesses of outsourcing core business deliverables: the case of selected state-owned enterprises in South Africa

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Dates:
Received: 19 Sept. 2017
Accepted: 10 May 2018
Published: 26 July 2018

How to cite this article:
Magagula, M. & Zondo, R.W.D., 2018, 'Uncovering the strengths and weaknesses of outsourcing core business deliverables: the case of selected state-owned enterprises in South Africa', *The Journal for Transdisciplinary Research in Southern Africa* 14(1), a475. https://doi.org/10.4102/td.v14i1.475

Background: The outsourcing phenomenon is one of the extensive areas of business in the world. It is a practice among both private and public organisations and an important element in business strategy. Consequently, the execution of maintenance and repairs of equipment are core business deliverables of the power plant maintenance (PPM) department of the selected state-owned enterprise (SOE). Whilst internal employees normally perform such functions, the PPM department outsources them to external service providers.

Objective: This study explored the contributing factors influencing outsourcing of core business deliverables.

Method: The study was conducted in the PPM department of the selected SOE. Of the 152 individuals located across eight of the provinces in South Africa, identified for participation in the study, 135 participated. It was cross-sectional in nature and included participants from the management of the PPM department as well as its technical officials. Descriptive, correlation and regression analysis were used to test the three objectives, namely to assess the contributing factors influencing outsourcing of core business deliverables, to establish the effect of outsourcing core business deliverables on business performance and to examine the risks of outsourcing core business deliverables.

Results: Outsourcing core business deliverables provide flexibility to the PPM department by enabling it to meet unexpected demands. However, it results in the leaking of confidential information to external service providers.

Conclusion: Organisations that decide to outsource, must consider the benefits and risks carefully and take measures to mitigate the related risks.

Introduction

Outsourcing of core business deliverables has been proven to cut costs, reduce errors and improve productivity (Dhall 2013). On the contrary, Relph and Parker (2014) argue that focusing on controlling cost may result in losing sight of considerations and benefits such as network relationships or anticipating risks. The net result may be the opposite of what is intended, namely attracting additional costs associated with loss of agility and flexibility to meet market dynamics. According to Sani, Dezdar and Ainin (2013), outsourcing is the strategy where management utilises a special outsourcing supplier; thus establishing a strategic alliances in an attempt to reduce costs and risks as well as improve efficiency. Dinu (2015) explains that organisations that choose to outsource, should consider the benefits and risks very carefully. It should take measures to mitigate the related risks and communicate the benefits of outsourcing to their personnel. Outsourcing decisions were originally limited to production that had a modest technological content and was of marginal importance to the organisation (Michela & Carlotta 2011). However, these decisions are increasingly adopted for the deliverables that require core competencies. A growing number of organisations have outsourced production and manufacturing deliverables of all types to the external providers not only to reduce production costs, but to make their organisational structures more streamlined and flexible (Michela & Carlotta 2011). In the investment fraternity, for instance, discretionary fund managers (DFM) are contracted to provide the same expertise as internal financial advisors (FAs) (Lowe 2012). The risks may prevail and the business could be lost where the services provided are outsourced, as clients could opt to effectively cut them (the FAs) out to deal directly with the DFM.

Khatik and Khanooja (2013) state that outsourcing may result in the loss of control or the loss of core competence and a power shift to the supplier. Nonetheless, the purpose of outsourcing is to take advantage of service provider expertise in non-core activity with economies of scale to enable organisations to reduce their expenses and to provide better quality of services to their clients. Hence, this study assesses the contributing factors influencing outsourcing of core business deliverables in a selected state-owned enterprise (SOE) in South Africa. It examines the effect of outsourcing core business deliverables on business performance and establishes the risks associated with the outsourcing of core business deliverables.

Literature review

This section presents the challenges of managing core business deliverables, the effects of outsourcing on business performance as well as the risks of outsourcing.

Challenges of managing core business deliverables

The core business comprises the deliverables and services deemed fundamental to continued existence of an organisation (Broady-Preston & Swain 2012). According to Contractor et al. (2010), the characteristics of core deliverables include those elements that are of high strategic value to the organisation, are the sources of competitiveness and are impossible to separate from the value chain. Shaabani, Ahmadi and Yazdani (2012) explain that the ability of managers to identify and exploit core competencies of the organisation has an influence on excellence. By contrast, organisations have different types of resources that enable them to develop different strategies. They can have a distinctive advantage when they develop strategies that their competitors are unable to imitate. Lamminmaki (2011) suggests that managers should consciously develop their core competencies to strategically block competitors and avoid outsourcing these or giving suppliers access to the knowledge base or the skills critical to the core competencies. Maelah et al. (2010) propose that hotels, for instance, should only outsource deliverables such as cleaning, laundry and housekeeping that are not core, as this would ensure that they remain in control of their core business. In addition, Sani et al. (2013) explain that hotels engage in outsourcing of core as well as non-core business to cope with the competitive environment. However, there are concerns about losing control over the outsourced functions where the functions are totally transferred to external vendors. Consequently, Pouder, Cantrell and Daly (2011) suggest that, although attention has been on outsourcing as a means for an organisation to focus on its core competencies and are the most compelling reasons for strategically motivated outsourcing, empirical studies have not examined how it affects organisational performance.

Effects of outsourcing on business performance

Outsourcing is a known practice among both private and public organisations and is an important element in business strategy (Dinu 2015). When an organisation desires to focus its resources on fundamental capabilities, it takes the decision to outsource some of its services that are not core to the business. Bertrand (2011) provides a positive correlation between outsourcing and the overall business deliverables. He explains that outsourcing enables the organisations to become more flexible in adjusting production to fluctuations in market demand and to unforeseen changes. However, Elmuti, Grunewald and Abebe (2010) report that the outsourcing process usually results in the loss of productivity. Such productivity loss can exacerbate an already unacceptable performance level and inspire additional outsourcing. Michela and Carlotta (2011) claim that an outsourcing strategy has a number of advantages, including quality improvement, a greater focus on managing other core competencies, a greater flexibility and leverage regarding resources, along with the possibility of entering new markets, even ones that have a high rate of development. In addition, Callahan, Smith and Spencer (2013) explain that outsourcing improves an organisation’s responsiveness. This results to the availability of higher quality goods and services by creating competition among suppliers. It can expand the organisation’s capacities when it does not possess all the necessary resources and competencies.

Dorasamy et al. (2010) add that an organisation may be able to save resources for other purposes by outsourcing certain deliverables to third parties. This enables an organisation to build its resources and maximise revenue. The results of a study by Thakur (2010), which examined the movement of processes and outsourcing of core deliverables in the pharmaceutical industry, suggest that performance does improve with the outsourcing of core business deliverables. However, Dinu (2015) warns that organisations that decide to outsource, must consider the benefits and risks very carefully and take measures to mitigate the related risks. Hence, this study examines the risks associated with outsourcing of core business deliverables.

The risks of outsourcing

Given the benefits that an organisation can realise from its outsourcing engagements, Ravi and Ramachandran (2011) emphasise the importance of management in understanding the various risks the organisation is exposed to when engaging in outsourcing. Salanta, Lungescu and Pampa (2011) add that a serious threat does emerge in the long term where an organisation will not have the capacity to perform the functions they have been outsourcing for a long time. They explain that, over the course of time, it has been demonstrated that many organisations lose their valuable expertise because of outsourcing. This makes the outsourcing contract extremely challenging to terminate in case of either party being discontented. Salanta et al. (2011) identified five additional risks to outsourcing, namely staff pinching, shirking, opportunistic renegotiation, insufficient personnel and poaching. Dorasamy et al. (2010) also identified the perceived risk factors such as changes in supplier circumstances, the supplier failure and the loss of confidential information. They indicate that any sensitive information is more vulnerable and an organisation may become dependent on the outsourced providers. This could lead to problems if the outsourced providers back out of their contract unexpectedly. Furthermore, Maelah et al. (2010) are of the view that the decision to hand over functions to external vendors lead to risks, including the loss of managerial control as well as the risks regarding security (particularly, in areas concerning data confidentiality). They outline that it is more challenging to manage outside service providers than managing one's own employees, working possibly in the same building.

According to Ravi and Ramachandran (2011), outsourcing is an inevitable and critical aspect of financial institutions' survival in a rapidly changing business environment. Hence, it is important that management understands the various risks of outsourcing. They also indicate that for the banking and financial services' organisations, outsourcing brings an additional set of risks related to regulatory violations and subsequent legal obligations, including the reputational risk. Subsequently, Salanta et al. (2011) outline the variety of risks in four major categories as shown in Box 1.

BOX 1: The risk categories of outsourcing.

Risk related to the provider's activity
Risk related to the relation with the provider
Risk related to the provider's capability
Risk related to the hidden costs

Source: Salanta et al. 2011

Resulting from the large number of challenges and threats that organisations must consider before and after an outsourcing decision Saltana et al. (2011) point out that the methods, of alleviating outsourcing-related risks must be explored. Hence, this study is designed along the following research questions:

- What are the contributing factors influencing outsourcing of core business deliverables in the selected SOE in South Africa?
- What effect does the outsourcing of core business deliverables have on business performance?
- What are the risks associated with the outsourcing of core business deliverables?

Methodology

The method used in this research will be discussed under the following headings, namely research design and approach, the target population, sample size, data collection as well as the measurement and analysis.

Research design and approach

This study was quantitative in nature. Bryman and Bell (2007) explain that the quantitative approach involves the use of statistical procedures to analyse the data collected. Consequently, after the measurements of the relevant variables, the scores were transformed using statistical methods. The study was also conclusive in design. Conclusive studies are meant to provide information that is useful in decision-making (Yin 2008).

Target population

The power plant maintenance (PPM) department of the selected SOE of South Africa participated in the study. The target population for this study comprised 152 permanent employees of the department. The study was cross-sectional in nature and comprised PPM employees ranging from top, middle to lower levels. Table 1 presents the distribution of respondents as per their job designation.

Table 1 shows that the senior technical officials are in the majority, followed by procurement senior advisors and the principal technical officials with 37 and 36 employees respectively. The lowest number of employees (as per job designation) was from the plant performance managers and finance practitioners with six and two employees respectively. The employees were located in eight different provinces of the selected SOE of South Africa. These include North West, Northern Cape, Western Cape, KwaZulu-Natal, Free State, Limpopo, Mpumalanga and Gauteng.

Sample size

Of the 152 permanent employees identified for participation, 135 participated in the study. This sample size was represented by individuals from the PPM department of the selected SOE across eight provinces of South Africa. Table 2 shows the sample size per job designation.

From Table 2, the senior technical officials, procurement advisors and principal technical officials had more representation with 26.6%, 25.9% and 23.7% respectively. The senior supervisors, plant performance managers and finance practitioners had the least representation with 5.2%, 4.4% and 1.6% respectively.

Data collection

The collection of data from the employees of the PPM department of the selected SOE in South Africa was achieved by sending the questionnaires through electronic mail.

TABLE 1: Distribution of respondents by job designation.

Job designation	Target population per job designation
Power plant maintenance managers	19
Plant performance managers	6
Procurement senior advisors	37
Principal technical officials	36
Senior technical officials	40
Senior supervisors	12
Finance practitioners	2
Total	**152**

TABLE 2: Sample size by job designation.

Job designation	Sample size per job designation of individuals who participated in the study	Percentage of the sample size as per job designation
Power plant maintenance managers	17	12.6
Plant performance managers	6	4.4
Procurement senior advisors	35	25.9
Principal technical officials	32	23.7
Senior technical officials	36	26.6
Senior supervisors	7	5.2
Finance practitioners	2	1.6
Total	**135**	**100**

Similarly, the completed questionnaires were returned to the researcher via electronic mail. One hundred and thirty-five questionnaires were returned which represent 88.8% response rate. It is considered high compared with the norm for survey responses (Baruch & Holtom 2008). Main reasons for this high response rate were the invitation letter sent to the participants and consistent follow-up of the questionnaires through telephone calls.

Measurement and data analysis

In line with research framework, the study measured 18 variables using the questionnaire. It employed a Likert scale, ranging from one (strongly agree) to five (strongly disagree). Descriptive, correlation and regression analyses were used to test the following three objectives:

- Factors influencing outsourcing of core business deliverables: Five items are listed in the questionnaire as the factors influencing outsourcing of core business deliverables as discussed by Broady-Preston and Swain (2012); Shaabani et al. (2012); Lamminmaki (2011). These include the following: core deliverables of the department are functions that should not be executed by external service providers; internal employees conducting core deliverables do not give external service providers access to core competencies in the department; managers consciously develop their core competencies; keeping core business deliverables in-house is for the departments' competitive advantage; and outsourcing of core business deliverables is effective when given to a host service provider.
- The effect of outsourcing core business deliverables to business performance: These variables were also measured by six items and were based on the effects of outsourcing core deliverables to business performance (Bertrand 2011; Dinu 2015; Michela & Carlotta 2011; Thakur 2010). These include the following: the enhancing effect of outsourcing the repairs and maintenance of power plant equipment on the skills level of internal employees; outsourcing as practice that saves management time in decision-making; external service providers offer in-depth expertise that is not found in the department; the external providers' expertise helps the department to perform the deliverables more effectively than in-house; outsourcing provides flexibility to the department by enabling it to meet unexpected demand; and the outsourcing activity provides competencies for the department by utilising outside expertise.
- The risks of outsourcing core business deliverables: The variables were measured by seven items and were based on the risks of outsourcing core business deliverables (Dorasamy et al. 2010; Ravi & Ramachandran 2011; Salanta et al. 2011). These include the following: the fact that business suffers when external service providers are entrusted with the execution of core business deliverables; the department loses control when it outsources deliverables; it is more challenging to manage outside service providers than one's own employees working in the same building; the decisions on handing over the deliverables to the external service provider result in the loss of management control; the department is careful not to delegate work relating to core competencies when deciding to outsource; the loss of core deliverables is encountered when the department is involved in outsourcing; and the leak of confidential information is acceptable when external service providers execute core business deliverables.

The Statistical Package for the Social Sciences (SPSS) version 23.0 was used to analyse the data.

Results

Contributing factors influencing outsourcing of core business deliverables

This section presents the results on the contributing factors influencing outsourcing of core business deliverables.

The participants of the PPM department believe the institution has contributing factors influencing outsourcing of core business deliverables. Critical factors, as presented in Table 3, include the following: internal employees conducting core deliverables do not give external service providers access to core competencies in the department at 56.3%, and managers consciously develop their core competencies at 73.3%. These factors have a bigger percentage of above 50%. The next section determines whether the frequency of outsourcing core business deliverables per month influences the contributing factors for outsourcing.

Frequency of outsourcing core deliverables

The regression analysis was conducted to test the relationship between the frequency of outsourcing core business deliverables in the PPM department per month and the contributing factors of outsourcing. The analysis is defined as a set of statistical processes for estimating the relationships among variables (Silbiger 2005). It helps to understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

The regression test result in Table 4 shows a *p*-value of 0.898 which is above the critical value of 0.05. The result reveals that there is no statistically significant relationship between

TABLE 3: Contributing factors influencing outsourcing of core business deliverables.

Contributing factors influencing outsourcing of core business deliverables	Percentage response accepting this perception
Core deliverables of the department are functions that should not be executed by external service providers.	45.9
Internal employees conducting core deliverables do not give external service providers access to core competencies in the department.	56.3
Managers consciously develop their core competencies.	73.3
Keeping core business deliverables in-house is for the department's competitive advantage.	47.4
Outsourcing of core business deliverables is effective when given to a host service provider.	42.2

TABLE 4: Frequency of outsourcing core business deliverables in the power plant maintenance department per month.

Frequency of outsourcing core business deliverables in the PPM department per month					
Model	Unstandardised coefficients		Standardised coefficients	*T*	Significant
	Beta	Std. error	Beta		
Constant	0.987	0.452		2.185	0.031
Factors of outsourcing	0.002	0.014	0.011	0.129	0.898

PPM, power plant maintenance; *T*, Coefficient divided by the standard error.

the frequency of outsourcing core business deliverables in the department per month and the contributing factors influencing outsourcing. These two variables are independent of each other.

Effects of outsourcing core business deliverables

This section presents the results of participants' perceptions about the effects of outsourcing core business deliverables on business performance.

Results in Table 5 shows that the majority of participants do not believe that outsourcing core business deliverables have an effect on business performance. The only factor that has a bigger percentage of above 50% indicates that outsourcing provides flexibility to the department by enabling it to meet unexpected demands.

Risk of outsourcing core business deliverables

Table 6 presents the results of participants' perceptions about the risk of outsourcing core business deliverables.

Participants believe that there are risks associated with outsourcing core business deliverables. Critical factors include issues relating to the challenges of managing outside service providers rather than internal employees, the leak of confidential information when the external service providers execute core business deliverables, the department being careful not to delegate work relating to core competencies when deciding to outsource and the loss of core deliverables being encountered when the department is involved in outsourcing. These factors have bigger percentages of above 50%. They range from 53.3% to 60.8%.

Exploring the factors, effects and risks of outsourcing core business deliverables

This section presents the results of the bivariate Pearson's correlation analysis. The analysis examined the strength of the identified association between variables (Dawson 2009). It can reveal the significance of the correlation; if significant, whether it is positive or negative (i.e. the direction of the correlation) as well as the strength of the correlation. For this study, the correlation analyses have to determine any significant relationship between the following variables:

- factors influencing outsourcing of core business deliverables;

TABLE 5: Effects of outsourcing core business deliverables on business performance.

Effects of outsourcing core business deliverables on business performance	Percentage response accepting this perception
Outsourcing the repairs and maintenance of power plant equipment has an enhancing effect on the skills level of internal employees.	34.1
Outsourcing saves management time in decision-making.	37.0
External service providers offer in-depth expertise that is not found in the department.	37.0
The external service providers' expertise helps the department to perform the deliverables more effectively than internal employees.	28.1
Outsourcing provides flexibility to the department by enabling it to meet unexpected demands.	52.3
The outsourcing activity provides competencies by utilising outside expertise.	33.3

Source: Calculated from survey results

TABLE 6: Risk of outsourcing core business deliverables.

Risk of outsourcing core business deliverables	Percentage response accepting this perception
Business suffers when external service providers are entrusted with the execution of core business deliverables.	46.6
The department loses control when it outsources deliverables.	43.0
It is more challenging to manage outside service providers than internal employees.	53.3
The department is careful not to delegate work relating to core competencies when deciding to outsource.	57.8
The loss of core deliverables is encountered when the department is involved in outsourcing.	60.8
The leak of confidential information is experiencing when external service providers execute core business deliverables.	54.8

Source: Calculated from survey results

- the effects of outsourcing core business deliverables on business performance;
- the risk of outsourcing core business deliverables.

Table 7 presents the results of the bivariate Pearson's correlation analysis on the factors, the effects and the risks of outsourcing core business deliverables.

The following is a brief interpretation of the correlation results as presented in Table 7:

- The variables relating to the risks of outsourcing core business deliverables and the effects of outsourcing on business performance have a p-value of 0.003 which is $p < 0.05$. They have a statistically significant correlation between them. The negative sign of the correlation coefficient in -0.264 indicates that the risk of outsourcing can be reduced by the effectiveness of outsourcing deliverables on business performance.
- The variables relating to the risks of outsourcing core business deliverables and the contributing factors influencing outsourcing of core business deliverables, have a p-value of 0.001 which is $p < 0.05$. They have a statistically significant correlation between them. The positive sign of the correlation coefficient in 0.038 indicates that the risk of outsourcing core business deliverables can increase (or decrease) in relation with the corresponding degree of the contributing factors influencing outsourcing.

TABLE 7: Pearson's correlation on the factors, the effects and the risks of outsourcing.

Pearson's correlation on the factors, the effects and the risks of outsourcing			
Variables		Effects of outsourcing on business performance	Risks of outsourcing core deliverables
The effects of outsourcing on business performance	Correlation coefficient	1.000	-0.264
	Sig. (2-tailed)		0.003
	N	132	129
The risks of outsourcing core deliverables	Correlation coefficient	-0.264	1.000
	Sig. (2-tailed)	0.003	
	N	129	132
Contributing factors influencing outsourcing of core business deliverables	Correlation coefficient	-0.184	0.418
	Sig. (2-tailed)	0.038	0.001
	N	128	128

Source: Calculated from survey results
Sig., Significant; *N*, Number of respondents.

- The variables relating to the effects of outsourcing on business performance and the contributing factors, influencing outsourcing core business deliverables, have a *p*-value of 0.038 which is $p < 0.05$. They have a statistically significant correlation between them. The negative sign of the correlation coefficient in -0.184 indicates that the effectiveness of outsourcing is increased with the minimal contributing factors influencing outsourcing of core business deliverables.

Discussion

The study investigated the contributing factors influencing outsourcing of core business deliverables in the PPM department of a selected SOE in South Africa. This was achieved by conducting a cross-sectional study involving 135 participants from different levels of the PPM department. Results indicate that the SOE managers should consciously develop their core competencies before they decide to outsource. However, Salanta et al. (2011) indicate that outsourcing has serious threats that emerge in the long term where an organisation will not have the capacity to perform the functions they have been outsourcing for a long time. In this case, the company lose control over the outsourced functions where the functions are totally transferred to external vendors. Although the results indicate that there are contributing factors for outsourcing core business deliverables, Relph and Parker (2014) argue that there is a need for commercial caution when evaluating the benefits of outsourcing. Organisations should determine the total cost function of outsourcing. On the contrary, the results indicate that outsourcing the maintenance and repairs of equipment in the PPM department has a positive effect on the performance of the business. It provides flexibility by enabling the department to meet the unexpected demands. Consequently, Michela and Carlotta (2011) explain that an outsourcing strategy has a number of advantages including quality improvement, a greater focus on managing other core competencies, a greater flexibility and leverage regarding resources, along with the possibility of entering new markets. However, the results indicate that there are significant risks in outsourcing core deliverables. This includes the loss of core deliverables to external providers as well as the risk of disclosing confidential information. Hence, Dinu (2015) warns that organisations that decide to outsource must consider the benefits and risks very carefully and take measures to mitigate the related risks.

Implications of results for policy and practice

During the course of the study, many issues relating to the contributing factors, influencing outsourcing of core business deliverables, were presented. Hence, the following recommendations can be made:

- Organisations that decide to outsource must consider the benefits and risks carefully and take measures to mitigate the related risks.
- Outsourcing can expand the organisation's capacities when it does not possess all the necessary resources and competencies.
- Managers should consciously develop core competencies and utilise the internal employee skills that are critical for their business's competitive advantage.

Study limitations

The study was limited to the PPM department of the selected SOE in South Africa. Hence, the results can be applied to similar activities in other SOEs in South Africa.

Conclusion

There are minimal effects on the performance of business as a result of outsourcing the maintenance and repairs of the power plant equipment. It provides flexibility to the department by enabling it to meet unexpected demands. However, the business loses valuable expertise because of outsourcing. Therefore, factors such as the loss of core deliverables and the leak of confidential information are the risks that managers should take into account when deciding to outsource.

Future research required

Based on the results of this study, further research should focus on the impact of outsourcing on internal employee motivation in the PPM department.

Acknowledgements

Competing interests

The authors declare that they have no financial or personal relationships which may have inappropriately influenced them in writing this article.

Authors' contributions

R.W.D.Z. was the project leader. M.M. initiated the project, collected theoretical and raw data and analysed the data. R.W.D.Z. prepared and compiled the manuscript to an acceptable level.

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