

**THE IMPACT OF
OUTSOURCING ON PERFORMANCE
IN SRI LANKAN
APPARAL INDUSTRY**

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INDEX NO: 5266FM2009024

A research submitted to the University of Sri Jayewardenepura in partial fulfillment of the requirements for the Degree of Master of Business Administration (Accountancy) on 30th September 2011

DECLARATION

I certified that the work described in this research was carried out by me under the supervision of Mr. Dayananda Ambalangodage, Senior Lecturer Department of Accountancy – University of Sri Jayawardenepura and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/Diploma.

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APPROVAL OF SUPERVISOR

I certify that the above statement made by the candidate is true and that this research is suitable for submission to the university for the purpose of evaluation.





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ACKNOWLEDGEMENT

I would like to convey my heartfelt gratitude my research supervisor Mr. Dayananda Ambalangodage of Department of Accounting, University of Sri Jayawardenapura for the guidance, enthusiasm and courage provided throughout this endeavor. My sincere gratitude goes out to Dr. P.D.Nimal, Co-ordinator of MBA program and the staff of the MBA Unit of University of Sri Jayawardenapura for the support provided in every aspect.

My sincere thank goes to Mrs. Oranee Jansz, the editor of this study. I make this opportunity to thank the participants of the research survey without whom this endeavor could not have been a reality. I am much thankful for support provided by family and friends who supported me in numerous ways.

ABSTRACT

During the past decade organizations have experienced dramatic changes like innovations and high competition in business environments. Thereby organizations need to understand their source of competitive advantage for survival in this dynamic market environment. Then organizations have to focus on the improvement of their key functions or processes which can give them additional competitive advantages in their competitive marketplace. Outsourcing is one of the strategies that could be undertaken improve key functions. Then outsourcing leads to greater competitiveness and greater contribution to organizational performance. This study selected the apparel industry in Sri Lanka to test the relationship between outsourcing and performance of these organizations.

The Sri Lankan apparel industry has gone through turbulent times and is now facing new challenges due to the high competition in the global market. This has had a great impact on the Sri Lankan economy, because the apparel sector is the largest foreign exchange earner and a key generator of employment in Sri Lanka. Most organizations in the apparel sector have already undertaken outsourcing strategies as a solution to overcome the existing challenges.

This study was designed to explore types of activities apparel organizations normally outsourced, the reasons for outsourcing and to identify problems that may be encountered during the period of outsourcing. In addition, this study examines the relationships between outsourcing of production related activities and organizational performance. Further it seeks the impact of production related activities on performance of organizations in the Sri Lanka apparel industry. This study selected the western

province as the population and 37 apparel organizations have been taken as a sample. It attempts to carry out, based on the perceived results rather than financial measures and quantifies the subjective evidences of organizational performance and outsourcing.

There were five research hypotheses which were tested by using the deductive approach. They examined the relationship between outsourced production related activities and productivity, cost efficiency, quality, lead time and profitability. All these hypotheses were accepted with success in this study. Correlation analysis and multiple regression analyses were used in testing hypothesis and attaining the objectives of this study. The major findings show that, that is, there is a positive relationship between outsourcing of production related activities and productivity, cost efficiency, quality, lead time and profitability of organizations. Accordingly there is a positive relationship between outsourcing of production related activities and performance of organizations. Therefore it can be recommended that the outsourcing of production related activities be undertaken to improve the performance of organizations in the apparel industry.

The most significant limitation of this study is considering only the relationship between outsourcing of production related activities and organizational performance. As well as, this study did not test the variance of performance due to outsourcing. A future study can empirically examine the relationship between outsourcing non production related activities and organizational performance and test the variance in performances of organizations due to outsourcing in the apparel industry.

Chapter One

Introduction

1.1 Background of the study

Industrialization and competitive market environments have contributed to the development of strategic management accounting as a branch of accounting. Strategic management accounting involves the process of analysis of management accounting data about a business and its competitors for use in developing business strategy.

Therefore Strategic management accounting developed for the collection of competitor information to attempts to match management accounting systems with an organization's strategic position. Within this networked global economy, companies need to understand their source of competitive advantage (Horngren, Datar, Foster, Rajan, and Ittner, 2008).

During the past decade organizations both manufacturing and service organizations have faced dramatic changes in their business environments. This business changes are mainly driven by innovation and competition. In order to be successful in a highly competitive environment, companies are focusing to improve their key functions or processes which can give them additional competitive advantage in their competitive marketplace. Therefore organizations have been developing various kinds of strategies in order to gain this competitive advantage. These strategies specify how organizations match their own capabilities with the opportunities in the marketplace to achieve their

objectives. In other words, strategy describes how an organization will compete and use the opportunities. Thereby strategic management accounting provides the information to formulate strategies to win the competition.

As a result there are a number of strategies, which can be used to improve the competitiveness and responsiveness of market demands. Outsourcing is a one of these strategies to respond to demands for more efficient ways and to address organizational competitiveness. Outsourcing means transfer or delegation of the operations to an external service provider. When a firm is going to outsource the functions, it should consider the cost minimization and the value maximization of organizations. Accordingly, only the functions which generate added value and represent the firm's competitive advantage must be performed internally; the rest of the functions are outsourced.

Then outsourcing is a strategic management tool which can significantly assist organizations to control their skills and resources to achieve greater competitiveness and by which making a great contribution to organizational performance. Therefore organizations trend to outsource some of their activities to get benefits but there are a number of potential problems associated with outsourcing. Any way it is a popular strategy as increasing the competitiveness of an organization.

In the Sri Lankan context, garment manufacturers are facing a number of challenges due to the reasons of expiry of the Multi Fiber Arrangements, withdrawals of GSP plus, high production cost of garments, lower demands of customers and strong competitors etc.