

## **Outsourcing in universities: A comparative analysis of in-house sourcing vs outsourcing (A case study of University of Ruhuna)**

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### **Abstract**

*Over the past decade, the private sector took the lead in restructuring, downsizing, and outsourcing of the functions, which have performed previously in-house. Many organizations have outsourced information processing, various personnel activities, and production of parts that can be performed better outside the company. The goals are to reduce cost, improve productivity, manage stress, enhance competitive advantage and respond to the fast-changing global environment that affects all organizations. Today the number of public sector organizations have also followed this strategy to reduce overhead costs because of limited budgetary allocations by the government, and to eliminate or at least reduce inefficiency in their service delivery. However, there is an insignificant amount of research to reveal whether the public sector organizations have the capacity in achieving the goals, by following the above strategies by the private sector. Therefore, the objective of this study is to ascertain how outsourcing could be best executed in achieving those most prominent goals. The exploratory research method was applied for this study and the University of Ruhuna was selected as the case site. The study selected two value chain activities namely, cleaning, and cafeteria services that have been outsourced by the University of Ruhuna. The main reasons that led the University of Ruhuna to take the decision of outsourcing are achieving cost effectiveness, improving the service quality, and help senior administrative people to concentrate higher demanding tasks. The findings confirmed that a level of performance of services which has been outsourced was satisfactory as compared with their previous standard.*

**Key Words:** Outsourcing, cost effectiveness, service quality, work stress

### **Introduction**

Over the last ten years, 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). A similar trend is evident in the public sector too. Increased competition, technological advancements, diminishing budgetary allocations, privatization threats, and several other economic problems have compelled government organizations to search for cost effective techniques. Consequently it is one of the newest buzzwords in the public sector organizations as well. Under severe budgetary constraints, the government of Sri Lanka in recent years, has made a desperate effort to limit capital outlays in the public sector non-profit and welfare-oriented organizations. Therefore most of the public sector organizations in Sri Lanka have to face the challenge of identifying and implementing cost effective strategies to perform their functions in an environment of limited budgetary allocations. Under the circumstances, most of the public sector organizations are trying to adopt the best practices of the private sector organizations in their own organizations, because the strategies employed in the private sector have proved to be more efficient and attractive. Restructuring, downsizing, and outsourcing are the most popular strategic concerns among them. For better implementation of the restructuring process, in the face of diminishing budgetary allocations “outsourcing” strategy is being practiced by the public sector organizations as it enables leaner organizations to become more cost effective (Shannon, 2000).

Facing the same difficulties of financial limitations, the Sri Lankan universities have also shifted their strategic concern towards outsourcing that has the capability of creating tremendous momentum to address the management issues such as reduction of cost, enhancing service quality, access to new knowledge and technology, operational flexibility and effectiveness, managing work stress, etc. Even though universities have entered into contractual agreements with outside agencies to provide services and programmes for many years. So far they have been confined to few types of services such as cafeteria services, cleaning, security, maintenance, and other supplementary services. In the recent years, the outsourcing in the university system has accelerated noticeably.

However, the effectiveness of outsourcing in achieving the desired objectives is not reviewed at the institutional level. The available research literature in Sri Lanka regarding this issue is also limited. Therefore, the present study is focused to explore the effectiveness of outsourcing strategy in the University of Ruhuna (hereafter UR) and to examine the services being outsourced, the reasons for outsourcing, the preferred service providers and the nature of the contractual relationship between them and the host organization, and how it supports the university to solve its important issues.

### **Statement of the Problem**

Rosenthal (2004) argued that outsourcing can be a good solution for the severe budget shortfalls exacerbated by continuous economic downturn. From a services standpoint, outsourcing allows governments to upgrade services that provide a better work environment for employees. That is a “big plus for government organizations” says the study. However, the UK experience regarding the accessibility in achieving the desired goals through outsourcing is doubtful. The argument was that a substantial proportion of outsourcing decisions have been taken out of the hands of public service managers and have been determined by a political process based on reasons other than what is of direct value to the organization (Kakabadse and Kakabadse, 2001). They further argued that most of the public service managers regard themselves as having less discretion to determine the purchase of outsourcing services than managers of the private sector. They also have to face difficulties in making outsourcing decisions which are difficult because of the reluctance of trade unions to accept outsourcing. So they were unable to achieve the outcomes as they expected. The political influence and intervention on any decision, and the nature of resistance to any change by union members are very common in the public sector organizations in Sri Lanka as well. Achieving the expected level of outcome may be difficult to the management.

Based on these contradictory arguments, this study focuses at a crucial question whether outsourcing provide a good solution to the tremendous challenges faced by the Sri Lankan universities on working cost effectively, while improving the quality of services and reducing the work stress of the top management.

### **What is Outsourcing?**

Outsourcing can be defined as withdrawing from certain stages/activities in the **value – chain system** and relying on **outside vendors** to supply the needed products, support services, or functional activities. The decision between vertical integration and outsourcing hinges on which capabilities and value-chain activities truly need to be performed in –house and which can be better performed by outsiders. Outsourcing occurs when a company uses an outside firm to provide a necessary business function that might otherwise be done in-house (Muller, 2000). It is different from contracting, sub-contracting and hiring. Outsourcing originally covered contracts between corporations and functions is provided on going basis rather those special projects. In a subcontract or hiring situation, buyer controls more, but in outsourcing, the buyer dictates the desired achievement and the vendor controls how it is accomplished.

**Reasons for Outsourcing**

The reasons for outsourcing may vary with the industry concerned as well as the functions being outsourced. A survey conducted by David (1997) has identified the top ten reasons for outsourcing and they are: (i) to reduce and control operating costs; (ii) to improve company focus; (iii) to gain access to world-class capabilities; (iv) to free up resources for other purposes; (v) to obtain resources not available internally; (vi) to accelerate reengineering benefits; (vii) to free themselves of a function that is difficult to manage or out of control; (viii) to share risks; (ix) to make capital funds available; (x) to create a cash infusion (Outsourcing Institute, 1998).

Kakabadse and Kakabadse (2001) identified four main reasons for outsourcing in public sector organizations. They are: (i) to achieve the best practice; (ii) to improve the cost discipline skills of the managers; (iii) to improve the quality of the service; (iv) to help senior managers focus more clearly on the core competencies of the company.

**What Services and Functions are being Outsourced by Universities?**

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).

The National Association of College University Business Officers (NACUBO) has taken a serious interest in the issue of outsourcing. For example, a recent survey of colleges and universities by NACUBO revealed that out sourcing of services increased significantly over a two-year period from 2000 to 2002 (UNICCO, 2002). These data are based on surveys which covered representatives from 152 institutions in 2000 and 112 colleges and universities in 2002 who attended the NACUBO annual meetings. The data suggest 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.

Table 1 shows that food services and bookstore reached the top of the list of services outsourced in 2002; these functions were the only services outsourced by at least 50 percent of the schools surveyed. Wide arrays of services are outsourced, from endowment fund management to payroll to sports venues.

**Table 1. Services have been outsourced by universities**

Outsourced Service	Percentage	Outsourced Service	Percentage
Food service	61	Housekeeping/ Janitorial	25
Book store	52	Laundry	20
Legal service	28	Copy centre/ Rép	17
Security	17	Debit card	16
Payroll	15	Computer store	10
Energy management	09	Mechanical maintenance	09
Grounds	08	Information technology	04
Sports venues	04	Electrical	04
Residence Management	04	Mailroom	03
Endowment fund	41	Overall Facility Management	02

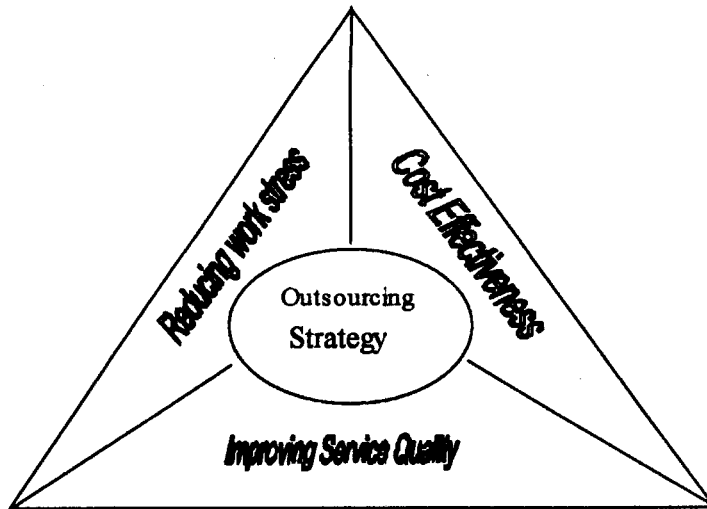
Source: UNICCO -2202

## Methodology

Exploratory research method was applied for the study and the University of Ruhuna was selected as the case site. Both primary and secondary data had been used for the analysis. To collect data several methods had been employed. They included questionnaires, discussions, observations and reflection of life experiences of authors as students and teacher of the university. For the questionnaire survey, students, non-academic staff members, and lecturers of each faculty were interviewed. In addition, interviews and discussions were held with senior administrative staff who participate in the outsourcing decision making process. In analyzing data qualitative as well as quantitative method was applied. For the purpose of comparative analysis, cost benefit analysis was utilized.

## Conceptual framework

Figure 1 depicts the conceptual framework of the study i.e. how outsourcing contributed in achieving the most prominent goals expected by the higher level administrative staff in the UR.



**Fig. 1: Conceptual framework**

### Cost Effectiveness

Cost effectiveness is defined as “doing things cheaply” or “relatively at a low cost”. The cost effectiveness is the major stimulating factor for the outsourcing decision. Comparing with the in-house sourcing decision, percentage of net cost savings was calculated to justify the acceptability of outsourcing decisions.

### Service Quality

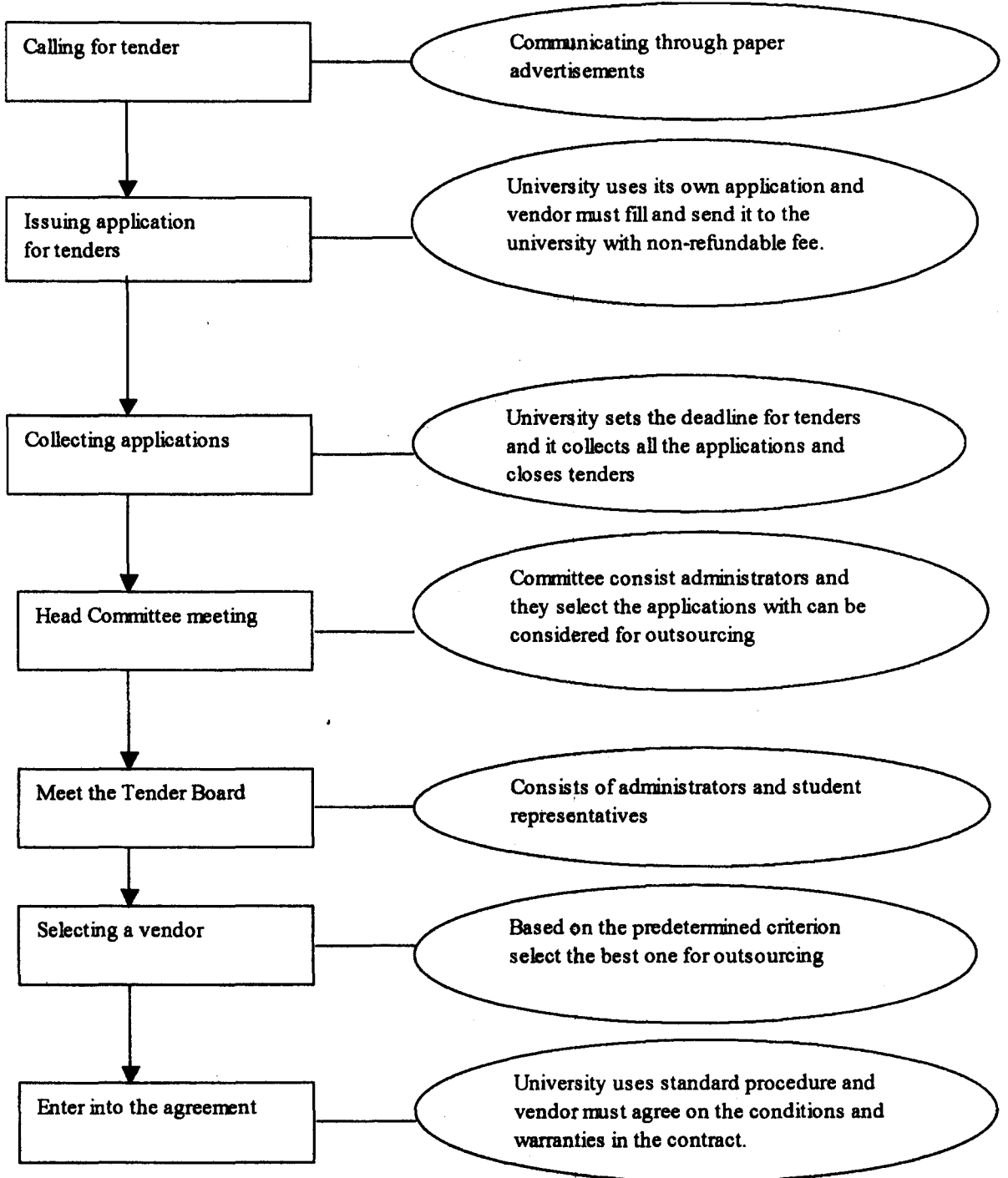
Service quality is defined as “doing things right” or “relatively in efficient manner”. Relative comparison on service quality had been done to determine the acceptability of the outsourcing decision. Number of customer complains, degree of satisfaction of students, staff, and administrative body on services had been used to determine the degree of the service quality.

### Work Stress

Work stress is defined in this study as the lack of time to devote or concentrate on higher demanding tasks of the organization. A comparative analysis based on the perception of the management staff at higher level on timesavings for other important tasks had been utilized to determine the acceptance of the outsourcing decision.

**How outsourcing is processed in the University of Ruhuna**

In selecting the vendors for running the outsourced functions, the University has followed the policies, procedures and by-laws approved by the UGC and the government. In addition, a similar set of criteria, as followed by the government-funded Sri Lankan Universities, has been applied by UR. They include reputation of the vendor and past experience with the UR, bid of the contract, the capacity of the vendor and so on. The procedure practiced by UR in selecting a vendor is illustrated in Figure 2.



Source: Survey data- 2004

**Fig. 2: Vendor selection process**

## Level of Performance in Outsourcing Decisions in UR

Several supportive activities in the value chain of UR have been outsourced, namely, cleaning and cafeteria services, a part of hostel facilities, part of the Motor pool, and Photocopy services. For the purpose of this study, two activities, namely, cafeteria service and cleaning service were been selected.

### Outsourcing of Cafeteria Services

Cafeteria services in UR have been outsourced from the inception itself. At present the University of Ruhuna has 12 students' cafeterias, all of which are outsourced. University provides the infrastructure facilities including water, electricity, essential equipments and LP gas subsidy for them. All the cafeteria service centers are located at university premises and they are providing services more than twelve hours per day and six days per week. 50 workers have been employed in those cafeterias. Often students and even staff members complain on poor quality of food, long waiting time for customers, and over charging. The vendors' response to issues is that with a large number of students (more than 1500), they are unable to improve the quality of their services without the mutual support of the university administration and the students. They expect the disciplined behaviour from the part of students and discuss the issues from time to time with the committee including the vendors, university administration and representatives of Student Councils. But the cost benefit analysis that compared the in-house vs outsourcing decision (see Table 2) showed outsourcing is the best decision because it saved cost by 89.5% to the University.

**Table 2. Cost benefit analysis for cafeteria services**

Description	Notes	Cost in Rupees	
		In-house sourcing	Outsourcing
Annual Payment (subsidy)		-	240,000
Cost for supporting services	01	-	-
Cost for supplying equipments		-	100,000
Salary: 30 x 8,000 x 12 Minor workers	02	2,780,000	-
University Provident Fund Contribution 18%		478,400	-
Material cost	03	-	-
Total cost to university		3,258,000	340,000
Net cost savings		2,918,400	-
Percentage of net cost savings		89.5%	-

Source: Survey -2004

University authorities have to spend significant amount of time dealing with the activities (from selection of vendor to termination of the contract) connected to cafeteria service. Supervision is needed under both outsourcing and in-house sourcing. Regarding cafeteria services vendor has less power to bargain because the university has the power to take a decision to continue or not the same vendor.

### Outsourcing of Cleaning Services

The cleaning service which was previously performed by in- house has been outsourced to Abans Co. (Pvt.) Limited. Both students and staff are satisfied with the quality of cleaning services. The cost effectiveness is also high. Abans Co. (Pvt.) Ltd. has employed 2 management level personnel and 68 minor grade employees. Cost benefit analysis in Table 3 signifies cost effectiveness of outsourcing strategy. It showed that the net cost savings to the university is 85%. Thus, it is clear that by outsourcing the cleaning service, the university is capable of achieving a strong position in terms of cost effectiveness as well as service quality and hence reduces work stress to the higher level people than functioning in-house.

**Overall Performance of the Outsourcing Decision**

Figure 3 shows the level of performance in achieving the desired goals through outsourcing strategy. Among those goals of outsourcing, the 1<sup>st</sup> preference has been given to the cost effectiveness. According to the Tables 2 and 3, and the Figure 3, cost effectiveness breached the excellent level regarding both services. Both outsourced services support to reduce work stress to the management at higher level. The cleaning function achieves the good position regarding service quality. But the service quality in cafeteria services is not in good position.

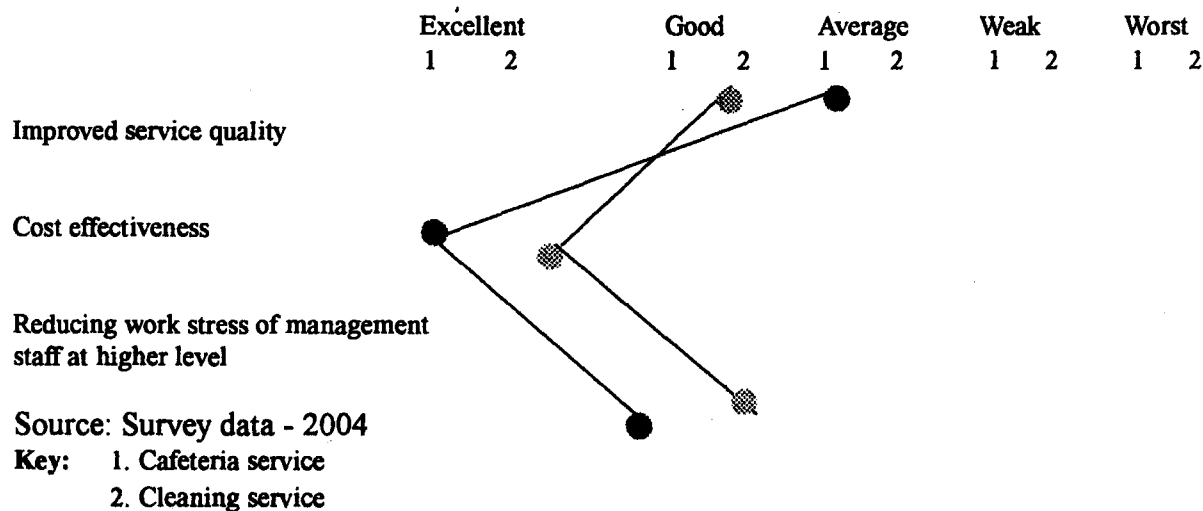
**Table 3. Cost benefit analysis for cleaning services**

Description	Notes	Cost in Rupees	
		In-house sourcing	Outsourcing
Annual Payment (on the agreement)		-	545,000
Cost for supporting services	01	-	-
Salary: 30 x 8000 x 12	02	2,780,000	-
University Provident Fund Contribution 18%		478,400	-
Material cost		240,000	-
Equipment depreciation and other costs		200,000	-
Total cost to University		3,698,400	545,000
Net cost savings		3,153,400	-
Percentage of net cost savings		85.26%	-

Source: Survey - 2004

**Notes:**

1. Support services (water, electricity, and employee hospitability) must be provided whether the function is in-house sourced or outsourced, thus, associated cost on supporting services considered as irrelevant to the outsourcing decision.
2. Researchers that assumed the number of minor workers have been assigned for either Cafeteria or Cleaning is 30 and both services have been handled by the students' welfare branch.
3. Researchers assume that the university can recover the material cost by selling foods to the students, thus, the sales revenue and material cost are considered as irrelevant to the outsourcing decision.



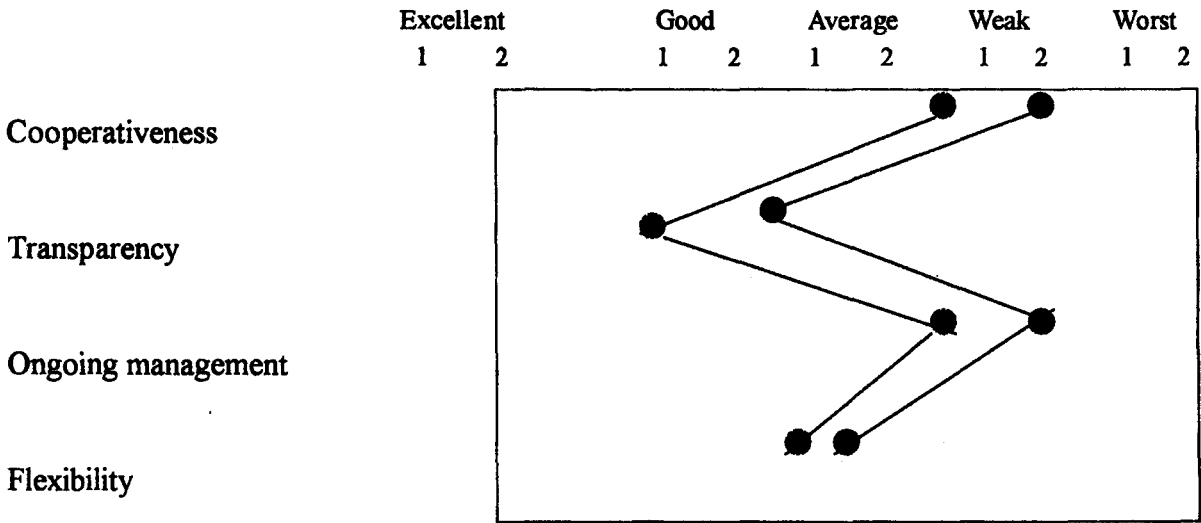
Source: Survey data - 2004

Key: 1. Cafeteria service  
2. Cleaning service

**Fig. 3: Level of performance on outsourcing decisions**

## Quality of the Sourcing Relationship

As seen in figure 4 criteria have been utilized to determine the quality of the relationship between the vendor and the host organization. Figure 4 depicts that the transparency is somewhat high. But all other criteria (flexibility, cooperativeness, and ongoing management) have “average” and “below average” positions. Other than the poor level of partnership, a wide array of barriers to effective outsourcing was reviewed in this study. They are: (i) perception of risk; (ii) complex state regulations; (iii) “confinement” in much bigger system; (iv) resistance to change and negative attitudes of union members and student unions; (v) less supervision; (vi) loss of control; (vii) lack of quality vendors within the region and; (viii) favourations for several vendors.



Source: Survey data - 2004

**Fig. 4: Quality of the partnership**

## Conclusion

The findings confirmed that a level of performance of services, which has been outsourced, is satisfactory as compared with their previous standard. However, several problems still remain in cafeteria service specially with respect to the quality issues. Those issues can be minimized or avoided through organizing meetings to address the workings of the outsourcing contract in practice to identify and dissolve any problems that have been encouraged and to agree on changes to ensure continued satisfaction. The study revealed that ongoing management on how the vendor is functioning was at a poor level. The outsourcing initiative did not stop when the ink has dried on the contract; senior management must involve during the implementation of the contract. Not only should there be a clearly defined escalation procedure, but senior management should meet at regular intervals to discuss the outsourcing relationship. Further the senior management should evaluate the performance of outsourcing by using the techniques like “Management By Walking Around (MBWA) and inviting complains and suggestions from the staff and students of the UR and the service providers”.

Finally, the researchers identified several functional areas in the university that have the potential areas for outsourcing, namely, photocopy and printing services, student health center, mail service, maintenance, and IT services.



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