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Outsourcing in Ghana: An Integrated Perspective

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Abstract

This paper delves into onshore outsourcing activities in Ghana and the impact of these activities on the overall value creation activities of organizations. It also provides an insight into the challenges faced by outsourcing organisations and their suppliers in the Ghanaian operational environment. The study adopts a quantitative research approach, using a structured questionnaire with a five-point Likert scale ranging from 1 = fully disagree to 5 = fully agree. The data was collected from organizations represented in the MBA and executive MBA programmes at the University of Ghana Business School in 2008. These included private and public-owned firms as well as Not-For-Profit organizations. Statistical analyses were performed with the Statistical Package for the Social Sciences (SPSS 16.0). We find that the respondent organizations are likely to engage in outsourcing if the net cost reductions that it affords them are positive and/or if the decision frees internal resources which could then be deployed on core activities. We however found no evidence that foreign organizations in the sample behave differently from their local counterparts with respect to the nature of locally outsourced products/services. Finally, both local and foreign outsourcers are more likely to opt for larger and/or foreign suppliers due to their relative resource advantages and delivery reliability. The

data set could be expanded in subsequent studies to cover a larger sample size. The findings suggest that organizations located in Ghana (and, by extension, in other African countries) could leverage resources through outsourcing. Outsourcing decisions should therefore take on a more strategic posture in the planning regimes of organizations in Ghana and other African economies. Overall the study provides an integrated perspective to the outsourcing debate in Africa and contributes to the global outsourcing debate in general.

Keywords: *Ghana, Africa, outsourcing, international, firm, partner relationship management*

1. Introduction and Research Objectives

The impact of Foreign Direct Investments (FDIs) on economic growth in developing countries has been extensively debated in the development economics literature. Recent contributors include Narula and Dunning (2000) focusing on motives of investment inflows, Khamfula (2007) examining export promotion and import substitution effects, and Sushanta and Tomoe (2008) with a focus on resource leveraging arrangements. Narula and Dunning (2000) have suggested that FDIs are usually triggered by such motives as (1) the search for new and cheaper resources, (2) the search for new markets, (3) restructuring existing production activities, and (4) seeking strategic assets. The first three of these motives tend to focus on asset-exploitation – i.e. generating economic rent through the use of existing firm-specific assets in the home country; while the last one is mainly asset-augmenting in nature – i.e. enriching existing assets by investing in foreign locations and/or tapping into host country knowledge sources (Chen and Guido, 2006).

The resource-seeking motives of foreign investments have received extra attention in the literature in recent years due to the emergence of outsourcing as one of the tools for sustaining efficiencies and competitive advantages of firms all

over the world. These developments have produced profound changes in the organization of the global economy with more industries, functions, and countries being integrated through increasingly complex value creating relationships (Kakabadse and Kakabadse, 2000). As a result, a new role has been carved for developing country economies in the global value creation process with many Asian economies becoming major offshore sourcing destinations for developed country firms. Previous outsourcing studies have therefore focused on offshore-outsourcing with the understanding that the advantages of offshore outsourcing exceed those of onshore outsourcing (Gonzales *et al.*, 2006).

African countries have not been considered attractive candidates for offshore outsourcing largely due to the sluggish growth of their manufacturing sectors combined with the high cost of operation, lower average educational level of the labour force and less technological and organizational skills when compared with Asian countries such as China and India (Narula and Dunning, 2000; World Trade Report, 2005).[1] Outsourcing in African economies is, therefore, largely an onshore phenomenon – i.e. inter-firm linkages within the domestic economies. Few scholars have investigated the benefits and challenges of these linkages noting their growth implications for individual firms and the economies in which they are located. A recent study in the field has suggested that linkages initiated by foreign firms with local firms would produce positive spill over effects (Hansen and Schaumburg-Müller, 2006) and stimulate the growth of business spin-offs in the local economy (World Trade Report, 2005).

[1] Most researchers agree that African firms have high indirect costs - costs for transport, logistics, telecom, water, electricity, land and buildings, marketing, accounting, security, bribes, etc. – compared to firms in Asia, and that African firms suffer significant losses due to power outages, crime, shipment losses etc. Further, the economic risk in Africa is typically high, credit is either expensive or not available, skilled labour is relatively expensive.

This study builds on this understanding and investigates onshore outsourcing activities in Ghana and the impact of these activities on the overall value creation activities of selected Ghanaian firms. It seeks to make three contributions to the existing literature. First it discusses the impact of onshore outsourcing activities of foreign and local firms on enterprise development in a developing country (Ghana). Second, it provides an insight into the challenges faced by outsourcing firms and their suppliers in the Ghanaian operational environment (and, by extension, in Africa) and the relational governance arrangements that they have crafted to address some of the difficulties. Lessons from Ghana may provide guidelines for firm operations in similar environments. Third, it compares the outsourcing behaviours and strategies of the local (Ghanaian-owned) firms with those of the foreign owned firms. This comparison is meant to determine the impact of ownership and operational history on outsourcing behaviour of firms operating in an African business context.

The remainder of the paper is organised as follows. The next section provides some insight into the theories on which outsourcing decisions are usually anchored. It then sums up these theoretical viewpoints into an analytical framework that forms the basis of the hypotheses tested in the empirical part of the study. This is followed by the discussions of the study findings.

2. General Theoretical Foundations of Outsourcing

Several theories have informed recent studies in outsourcing. Prominent among them are theoretical perspectives found in transaction costs economics, resource based theories of firms and agency theories. Highlights of these theories are presented

below and their relevance to outsourcing decisions is discussed.

2.1 Transaction Costs Economics

One of the theoretical roots of firms' outsourcing decisions can be traced to Transaction Costs Economics (TCE). This body of literature draws attention to weaknesses in the assumptions underlying micro economic exchange theory and provides useful insight into firms' decision to depend on the market for inputs, components and resources or on internal arrangements to acquire them, i.e. the so called "make-or-buy" decisions of firms. Following transaction costs scholars, market actors behave intentionally in transactional situations. But the outcomes of their intentionality may be constrained by their bounded rationality, i.e. their inability to source and apply all available information to a specific transaction. Furthermore, given the chance some market actors can be deliberately opportunistic in their transactional behaviours, thereby raising the costs of transactions. Williamson (1975) suggests that three factors determine the costs associated with most economic transactions: (1) uncertainty, (2) the frequency with which the transactions recur, and (3) asset specificity.

Two types of uncertainty are distinguished in TCE; (1) environmental uncertainty, and (2) behavioural uncertainty. Environmental uncertainty relates to the risks associated with entering markets and cultures with which a firm is less familiar and comfortable. This makes any exchange agreement difficult to specify in advance because conditions could change from the time the agreement was reached. Behavioural uncertainty is transaction-partner focused and concerns the problem of determining whether an exchange agreement has been adhered to, either because performance is intrinsically difficult to

measure or because of the high costs of getting the appropriate information. Frequency here may be seen as the repetitiveness of transactions between a given customer and his supplier(s). Asset specificity is used to describe a situation whereby the transferability of a given asset is limited. That is, assets intended for use in a given transaction cannot be used for other transactions. Thus, highly specific assets represent sunk costs that have relatively little value outside the context of a specific transaction.

Williamson (1975) argues that it is the third dimension, (i.e. asset specificity), which is the most important factor. The more specific the assets are to a transaction, all other things being equal, the greater the associated transaction costs will be and the more likely it is that a firm will internalize the transaction, using hierarchy as a mode of governance. Conversely, when the productive assets are non-specific the process of market contracting becomes more efficient because transaction costs will be low. Thus, following scholars of TCE, firms tend to depend on the market (i.e. outsource) if their perceived uncertainty about the market is low, the transactions are not highly asset specific and the frequency of their purchases is low. However, there are situations where firms may outsource although one or several of these conditions are not fulfilled. But the choice of appropriate supplier is critical under such conditions. When partners can build into their relationships sufficient incentives that hold their wilful self-interest seeking tendencies in check, they can engage in transactions on continual basis without the fear of the cost increasing consequences of opportunism and bounded rationality. Baker *et al.* (2002) argue that with repeated interaction, the incentive to maintain a reputation for fair dealing may be sufficient to mitigate opportunism, even in the absence of contracts or vertical integration.

Two other streams of research throw further light on the negative consequences of bounded rationality and opportunism and suggest mechanisms for dealing with them in outsourcing situations. The first is the resource-based theory (RBT) of firms, which turns scholars' attention to the internal configurations of resources (competencies, capabilities and physical assets of a firm), and the second is agency theory that focuses on the sincerity and effective usage of a company's bundle of resources.

2.2 Resource-Base Theory of Firms

In brief, scholars of RBT argue that each firm consists of a bundle of resources. They define resources not merely as inputs that a firm may use, but as constituting the firm as a whole. Firm resources are therefore generally defined to include all assets, capabilities, organisational processes, information, knowledge and other attributes controlled by firms and necessary for the implementation of their strategies. The governing logic of RBT is that those components of a firm's resources that are valuable, rare, inimitable and non-substitutable enable the firm to bundle the other resources together and to implement value creating strategies that cannot be readily duplicated by other firms (Barney, 1991). Such resources combine to form what Eisenhardt and Martin (2000) describe as "dynamic capabilities". They are manifested in the ability of key actors of the firm to demonstrate exceptional alertness in identifying changes within the operational environment and to take actions sooner than competitors in order to take advantages of the opportunities and avert looming threats. Firms are therefore required to deliberately protect their "core resources" or dynamic capabilities so as to keep a step ahead of their key competitors. Outsourcing

arrangements are therefore limited to the non-core components of firms' value creation activities.

Dynamic capability creation in a firm depends on its knowledge base as well as its capacity to continuously learn (Prahalad and Hamel, 1990; Spender, 1994). If the knowledge base of the firm is weak, its other resources will remain fragmented and their rich potentials will remain untapped. Conversely, as the firm's knowledge increases, its dynamic capabilities increase correspondingly, thereby raising its competitive advantages. For this reason a continuous process of knowledge creation and dissemination is necessary if managers are to forestall situations where firms are managed by a dominant logic that is out of tune with changes in the business environment. But knowledge creation does not imply a reinvention of the wheel. It may take the form of combining various fragments of existing knowledge, reinterpreting them in the light of new awareness or concerns and producing new knowledge configurations that allow firms to produce and deliver superior value to their customers.

2.3 Agency Theory

While the resource-based theory provides insights into the internal resource configuration and management of firms, agency theory explains how best to organize relationships in which one party (the principal) determines the work which another party (the agent) undertakes – i.e. a typical outsourcing situation. Scholars of agency theory argue that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: *adverse selection* and *moral hazard*. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which

he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Fama, 1980; Fama and Jensen, 1983; Eisenhardt, 1989).

Like transaction costs economics, scholars adopting agency theory in their studies assume that agents and principals will act in their self-interest to maximize their own welfare. In the light of this assumption, agency theory seeks to define the nature of contracts that will minimize agency costs; that is the costs of monitoring, motivating and ensuring the commitment of the agent. Agency theorists specify contracts on the basis of a formal model in which an agent chooses a level of effort which, together with a random element, determines the outcome. The agent is paid a fee and the principal 'enjoys' the outcome. Thus, agency theory reminds us that there can be power game in the selection of suppliers and in the negotiation and subsequent management of the relationships.

The competence of suppliers (as agent) must be thoroughly investigated prior to contractual agreement. This entails information search with its attendant costs. If the outsourcer has imperfect information regarding the prospective supplier's capability, the outsourcer will have difficulty ensuring that the supplier has lived up to expectations. The difficulties of monitoring the process of task performance may provide the supplier with the incentive to shirk its responsibilities to the outsourcer.

Agency scholars have been criticised for the simplicity of their portrayal of organizational reality and interdependencies between specific firms that constitute a value creating system. It has been argued that organizations or firms are characterized by team production where: (a) several types of resources are used, (b) the product is not a sum of separable outputs of each team member, and (c) not all resources used in the team belong to one person (Alchian and Demsetz ,1972;

Holmstrom, 1982). Thus, and economic value creation process is best defined in terms of a network of relationships between firms. Notwithstanding these criticisms, the contributions of agency theory to the understanding of the manner in which firms organise economic activities remain very well acknowledged in the extant business economics literature.

3. Hypotheses and Framework

Firms outsource some of their value activities either directly from the market or through collaboration with other firms or through the acquisition and integration of the firms within their corporate framework. Theoretically considered, the decision options are guided by the strategic and/or operational importance of the resources and value-added functions. Where outsourcing is highly important both strategically and operationally, the firm would seek to collaborate intensively with a strategic partner that has complementary competencies and capabilities and is willing to undertake asset-specific investments that would serve the outsourcer. The outsourcer would also commit substantial resources to the management of the relationship (Dwyer *et al.*, 1987). Building on this understanding, Jiang and Qureshi (2006) divided empirical studies on outsourcing into three categories: (1) *determinant-oriented studies*, focusing attention on the drivers or motives behind a firm's outsourcing decision, (2) *process-oriented studies*, being concerned with issues such as contract negotiations, partner selection and relational governance, and (3) *outcome* or *result-oriented studies*, focusing on consequences or impact of outsourcing on firm activities. This classification has guided issues addressed in the present study. Their theoretical rationale and related hypotheses are presented in the following sub-sections.

3.1 Outsourcing Motives

Consistent with arguments found in transaction costs economics (TCE), most outsourcing scholars agree that cost considerations dominate the outsourcing decisions of major firms on the global business scene (Kakabadse and Kakabadse, 2000). From cost perspective, the make-or-buy decision is based on finding the balance between fixed and variable costs that results in the lowest total costs. To some scholars, this is the most important reason why outsourcing is attractive (Quinn and Hilmer, 1994; Jennings, 2002). Other triggering cues found in the literature include focus on core competence, increase in flexibility and external resource leveraging (knowledge and technology), reducing or avoiding additional capital investments in facilities such as manufacturing, warehousing, IT and employees (Lynch, 2004; Beaumont and Sohal, 2004). It has also been argued that through outsourcing, firms seek to shed off their non-core activities and strategically re-position their value adding activities – with focus on "core competence, enhancement, greater service integration and/or higher value creation" (Kakabadse and Kakabadse 2000:672).

One can anticipate differences between foreign firms and local firms in terms of their outsourcing motives and strategic focus. Both categories of firms may take cost considerations into account in their outsourcing decisions. But while non-core resources may be the foundational concern of foreign firms operating in developing countries (Hansen and Schaumburg-Müller, 2006), local firms may be a lot more concerned with leveraging core resources in order to strengthen their competitive positions in the local and foreign markets. According to the resource-based theory, firms look for partners that have the resources they lack (Nohria and Garcia-Pont, 1991). Beekman and Robinson (2004) also argue

that small local firms tend to experience "liabilities of newness" and a higher risk of failure, and tend to reduce these risks through partnering with more established firms. Similarly, Gulati (1999) suggests that new and smaller firms establish partnerships with other companies in order to facilitate entry into an industry and to co-create new resources. Such relationships serve as signals of legitimacy, social status, and recognition within the industry (Hudson and McArthur, 1994; Stuart, 2000).

Recent studies have revealed increasing government pressure on public-owned businesses and public service organisations to outsource functions that they have difficulties in performing optimally. Khalfan (2003) reports of government pressures on public organizations to engage in business process outsourcing in Kuwait in order to reduce budgetary difficulties. Similarly, in his study of the water and health service sectors in Ghana, Larbi (2006) identified massive public sector deficits and indebtedness as major triggers of the Ghanaian government's demand that the water company outsourced some of its activities in the early 1990s. Based on these arguments we expect that:

> H_1: Firms located in Ghana will engage in outsourcing under the following conditions: (1) if there is increased institutional pressure, (2) if the net cost reductions are assessed to be positive, and/or (3) if the decision frees internal resources to be deployed on core activities.
>
> H_2: Foreign firms located in Ghana will outsource non-core value adding activities that require local knowledge or other local-specific resources.
>
> H_3: Outsourcers in Ghana will engage in co-value creation with local suppliers and will outsource both core and non-core value adding activities.

3.2 Delivery Capabilities

The resource-based theory draws attention to the resource profiles that make specific firms attractive candidates to deliver the outsourced products and services. To be a suitable partner the supplier must fulfil a number of conditions. First, it must possess the competencies and capabilities that are lacking in the outsourcing firm. Second, it must have the organizational capability to respond to the evolving need of the customer firm. Third, it must show commitment and ethical business orientation that allow the outsourcer to honour its contractual obligations (Jennings, 2002). That is, suppliers must possess the "best-in-world" bundle of resources that would deliver the inputs, components and/or resources that outsourcers require (Quinn, 1999). In this regard, firm size has been considered a good proxy for selecting suppliers. The argument here is that larger firms would, other things being equal, enjoy economies of scale and thereby produce at a lower cost (Jiang and Qureshi, 2006). They will also be less sensitive to risk than smaller firms (Walker, 1975; Delone, 1988), have better technical expertise (Barry and Milner, 2002), and more substantial capital (Raymond, 2001). These characteristics enhance their abilities to fulfil the delivery expectations of outsourcers.

Other scholars have an opposite view. They argue that the flexibility, lower overhead costs and resource advantages and innovative capabilities of small firms enable them to deliver specific services at substantially lower costs than larger firms. In other words, smaller firms may enjoy "economies of skill" even if they do not benefit from scale economies (Quinn, 1999; Jennings, 2002). In other words, while certain types of products and services are best supplied by larger firms, smaller firms may be most suitable for supplying other kinds of goods

and services. Previous studies of enterprise development in Ghana have shown that the smaller manufacturing firms have weak technological capacities and suffer from irregular supplies of local raw materials and inputs (Lall and Wignaraja, 1995). What is more, their qualities are unpredictable and they are channelled through a long chain of intermediaries thereby unduly raising their costs (Fafchamps, 1996). Puplampu (2005) also showed that foreign-owned firms in Ghana tend to have greater ability to develop the competencies of their employees than local firms. Based on these arguments we hypothesise as follows:

> H_4: Outsourcers in Ghana (both local and foreign firms) are likely to select larger and/or foreign firms as their suppliers due to their relative resource advantages and reliability.

3.3 Supplier's Gains from Outsourcing Arrangements

Upgrading of technological and managerial capabilities of local firms has been presented in the literature as one set of benefits that foreign firms bring to developing countries (Driffield and Love, 2003). Our previous discussions of the relationships between firm size and capability development suggest that when outsourcers select smaller firms, they may need to intensify their efforts to upgrade their technological and managerial capacities to enable the suppliers to fulfil their delivery requirements. If specialised inputs are outsourced, the investments that the supplier requires to make in order to produce and deliver them may be "asset specific" and therefore of little value outside the outsourcing contract. A useful distinction may be drawn between *allocative* support and *accommodative* support when analysing the manner in which outsourcers help to upgrade the capabilities of suppliers. Allocative support refers to the resources which are actually

provided by outsourcers to their suppliers while accommodative support refers to the degree of tolerance of the initial errors that young and smaller suppliers may enjoy in their relationships with outsourcers (see for example Yilmaz *et al.*, 2004). These observations legitimise the following hypothesis:

> H_{5a}: Outsourcers in Ghana are likely to engage in upgrading the technological, financial and managerial capabilities of the local suppliers in order to strengthen their ability to deliver quality products and services.
>
> H_{5b}: The smaller locally-owned suppliers are likely to enjoy a lot more support from outsourcers due to their resource limitations than the larger firms.

3.4 Relational Governance

The importance of the quality of supplier-outsourcer relationship for effectiveness of collaborative arrangements has been extensively discussed in the outsourcing literature (Quinn and Hilmer, 1994; Murray and Kotabe, 1999; Kakabadse and Kakabadse, 2000). The general understanding is that conflicts are inevitable in all kinds of inter-organisational relationships (Dwyer *et al.*, 1987; Mohr and Spekman, 1994). Conflict in an outsourcing arrangement is especially problematic, given the complexity of technology and the level of detail in many contracts (Kern, 1997; Lee and Kim, 1999; Chin, 2005).

It has been suggested that the characteristics of the outsourced service provide an important element in determining the governance structure. The more important the outsourced value creation activities the more likely it will be that the outsourcing firm develops relational contracting that will provide flexibility over the provision of the service. In the

case of the outsourcing of non-core but essential services, such as accounting, it is argued that parties seek to set up closer relationships with each other and resist the temptation to make short-term gains at the expense of their partners. Here, emphasizing mutual trust and commitment between the parties may be a key element in reducing the risks and uncertainties of the outsourcing relationship, especially in the case of adaptations to changing conditions and in updating the levels of service provided over time (Kingshott, 2005). Where foreign firms depend on supplies from developing country-based firms with a limited tradition for maintaining consistent product quality, they will design governance arrangements aim at sustaining commitment to quality. This may be achieved through obligational contracting, involving rigorous quality checks and sanctions combined with upgrading the quality improvement skills of local suppliers. Hence we hypothesise as follows:

> H_6: The more important the outsourced value creation activities to the outsourcer, the more likely it will be that the outsourcing firm develops relational governance mechanism

4. Methodology

We adopt a quantitative research approach. We utilized a structured questionnaire with a five-point Likert scale ranging from 1 = fully disagree to 5 = fully agree. The outsourcer instrument was composed of 43 items all measuring aspects of the outsourcing behaviour of the organizations. Of these, 9 items relate to motives of outsourcing, 8 to choice of suppliers, 5 to types of products/services outsourced, 12 to management/governance of the outsourcing relationships, 5 to assessment of the suppliers' capacity, 4 to the assessment of the importance of the relationship to the outsourcers.

Respondents were required to provide information about the ownership of their organizations, the types of sectors within which they operate, size (in terms of number of employees), performance (in terms of EBIT), and country of origin (if a foreign company). We focussed on companies represented in the MBA and executive MBA programmes at the University of Ghana Business School in 2008 in the absence of a reliable sampling frame for companies and organisations in the country. The sample is composed of private and public-owned firms as well as Not-For-Profit organizations. A pilot study was conducted among six managers in our target respondent organizations to ascertain the clarity and reliability of the questionnaire, and to identify any issues relating to the administration of the instrument. All statistical and demographic analyses were performed with the Statistical Package for the Social Sciences (SPSS 16.0).

5. Discussion of Findings

We first present demographic characteristics of the organizations in the sample. The rest of the results are then organized according to the following themes of the study hypotheses: Outsourcing Decision Motives, Locally Purchased Products/Services, Selection of Suppliers, Suppliers' Gains from Participating in Outsourcing Arrangements, and Governance and Importance of Outsourcer-Supplier Relationships. For each theme, descriptive statistics are presented and described, exploring their nature across the various demographic characteristics of the sample organizations (origin, type of firm, age, number of employees and EBIT). Only statistically significant differences are reported.

Three approaches were adopted in testing the various study hypotheses. These are Principal Components Analysis (PCA), Analysis of Variance (ANOVA) and Regression Analysis. Where the hypothesis just makes generalizations about outsourcing behaviour across organizations, PCA is employed. This first approach was adopted to test H_1, H_4, H_{5a} and H_{5b}. Where the behaviour is hypothesized to be different for different demographic groups of firms, PCA is first employed and ANOVA used to establish differences. This second approach was adopted for testing H_2 and H_3. Where different behaviour is expected of organizations at different levels of items, an index of the behavioural items is developed after data reduction by PCA. PCA is again employed to extract underlying components of the influential items which are then used as independent variables for a regression model with the behavioural index. This third approach was adopted for testing H_6.

5.1 Characteristics of Sample

A total of 187 establishments in Ghana (with either foreign or local origins) provided responses for the study. Local organizations constitute 68.8% of respondents while foreign organizations constitute 31.2%. Majority of the organizations (72.9%) were established between 1950 and 1999. Presented in Table 1 is the distribution of organizations with respect to origin (local or foreign), type of organization, year of establishment in Ghana, number of employees and earnings before interests and taxes (EBIT).

Table 1: Descriptive Statistics on Sample

Ownership	N	%
Foreign	53	31.2 %
Local	117	68.8 %
Type of Organization		
Donor Agencies	15	8.2 %
ICT Organizations	12	6.5 %
Not-For-Profit Organizations	39	21.2 %
Private Firms	71	38.6 %
Public Sector Organizations	47	25.5 %
Year of Establishment in Ghana		
1850 – 1899	6	4.2 %
1900 – 1949	10	6.9 %
1950 – 1999	105	72.9 %
2000+	23	16.0 %
Number of Employees		
0 – 10	22	13.3 %
11 – 100	63	38.0 %
101 – 250	27	16.3 %
251 – 1000	35	21.1 %
Above 1000	19	11.4 %

Earnings Before Interest and Taxes in 2005 (US$)		
Up to US$ 50,000	26	13.9%
US$ 50,001 - 250,000	14	7.5%
US$ 250,001 - 500,000	14	7.5%
US$ 500,001 - 1,000,000	11	5.9%
US$ 1,000,001 - US$ 5,000,000	13	7.0%
US$ 5,000,001 - 10,000,000	5	2.7%
US$ 10,000,000	16	8.6%
Missing	88	47.1%

5.2 Outsourcing Decision Motives

A total of 9 items were used to investigate the motives of outsourcing among organizations in the study. Scores on outsourcing because government requires it (Q7) differed significantly among public and private sector organizations (Mean difference = 1.014, p = 0.003). Public sector organizations had a mean score of 2.95, indicating indifference on the item while private companies had a mean score of 1.94, indicating slight disagreement. Scores also differed for outsourcing because it is cheaper (Q5) between organizations with Ghanaian and foreign origins. While Ghanaian organizations had a mean score of 3.21, indicating indifference, foreign companies had a mean score of 4.08, indicating agreement. Table 2 presents the descriptive statistics of the outsourcing motives.

Table 2. Outsourcing Motives Descriptive Statistics

Motive	N (Valid)	Mean	Std. Deviation
We buy some products/services from local suppliers because we cannot produce them ourselves (Q6)	164	4.07	1.362
We buy some products/services from local suppliers because we want to support the local economy (Q10)	160	3.93	1.277
We are able to focus our resources a lot better by outsourcing some of our activities (Q11)	162	3.81	1.282
We buy some products/services from local suppliers because it is cheaper than producing them ourselves (Q5)	160	3.58	1.481
We buy some products/services from local suppliers because their production requires local knowledge (Q9)	161	2.59	1.438
We are able to reduce the problems of industrial disputes by buying from local suppliers (Q12)	160	2.56	1.137
We buy some products/services from local suppliers because the government requires it (Q7)	163	2.27	1.449
We buy some products/services from local suppliers to take advantage of the government incentives (Q8)	164	2.26	1.356
Our suppliers appear suspicious about our motives (Q13)	155	1.72	1.072

To investigate the conditions under which organizations in Ghana outsource and thus test the study hypotheses, Principal Components Analysis (PCA) was employed to uncover underlying factors of outsourcing motives, since moderate correlations were observed among the outsourcing motives measured. The verbal wording of items under the various factors is used as a guideline in labeling the factors. The extracted factors and the nature of item loadings are then used as the basis for a decision on the study hypotheses. Principal Component Analysis (PCA) with varimax rotation was used to extract three factors from seven of the nine items measured under Motives. The extracted factors accounted for 66.5% of the total variation in the items. Two of the items, Q12 and Q13, were dropped from the PCA because of improper loading. An internal reliability test conducted suggests satisfactory reliability of this scale. Cronbach's Alpha values for the factors are 0.732, 0.482 and 0.477 respectively. Bartlett's Test of Sphericity is significant ($\chi^2 = 158.083$, $p \leq 0.001$) suggesting suitability of data for PCA and Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO-MSA) is 0.663. All individual MSAs ranged between 0.516 and 0.784. Extraction of factors was by the Kaiser criterion where only factors with Eigen values above one (α>1) are selected. Factor loads greater than 0.5 were required for satisfactory loading of items. There was convergence validity since all factor loadings were above 0.6. Discriminant validity was demonstrated by the absence of any cross loadings on the factors. The factors have been labeled as institutional norms/pressures, resource-based value creation and transaction cost reductions respectively. From the factor loadings, we conclude that organizations located in Ghana will engage in outsourcing if:

1. There is increased institutional pressure,
2. The decision frees internal resources to be deployed on core activities and
3. The net cost reductions are assessed to be positive.

H_1 is therefore accepted.

Table 3: Factors of Outsourcing Motives

Factors	Factor Loads	Eigen Values	% of Var. Explained	Cumulative % of Variance	Cronbach's α
Factor 1 (Institutional pressure)		*2.33*	*29.15*	*29.15*	*0.732*
Q7. We buy some products/services from local suppliers because the government requires it	0.816				
Q8. We buy some products/services from local suppliers to take advantage of the government incentives	0.847				
Q9. We buy some products/services from local suppliers because their production requires local knowledge	0.682				
Factor 2 (Resource-based value creation)		*1.23*	*18.82*	*47.96*	*0.482*
Q10. We buy some products/services from local suppliers because we want to support the local economy	0.672				

Table 3 continued

Q11. We are able to focus our resources a lot better by outsourcing some of our activities	0.868				
Factor 3 (Transaction cost reductions)		*1.10*	*18.51*	*66.48*	*0.477*
Q5. We buy some products/services from local suppliers because it is cheaper than producing them ourselves)	0.756				
Q6. We buy some products/services from local suppliers because we cannot produce them ourselves	0.840				

Notes: Principal component analysis with varimax rotation, KMO-MSA = 0.663, Bartlett's test of sphericity = 158.083 (p < .0001)

5.3 Locally Purchased Products/Services

Five items were used to assess the nature of locally purchased products /services. No statistically significant differences were observed in the scores on the items under the nature of locally purchased products/services between local and foreign organizations. Scores neither differed by the industry of organizations and their sizes (defined either by the number of employees or EBIT). Mean scores ranged between 2.49 and 3.21, indicating neutrality about the items. Table 4 presents the descriptive statistics for locally purchased products/services.

Table 4: Locally Purchased Products/Services Descriptive Statistics

Item	N	Mean	Std. Deviation
Q24. Products we buy from local suppliers have substantial local resource content	164	3.21	1.154
Q23. We buy very important products or services from local suppliers	165	3.08	1.254
Q26. We buy only simple and standardized items from local suppliers	164	2.90	1.290
Q25. We produce part of the items or services in-house and buy the rest from local suppliers	162	2.80	1.486
Q22. We buy very complex products or services from local suppliers	164	2.49	1.270

To test H_2 and H_3 concerning the nature of locally purchased products/services, PCA was employed as done under outsourcing decision motives. An analysis of variance (ANOVA) was performed on the extracted factor scores by the origin of organizations (local and foreign classification) for an examination of the nature of locally purchased products/services by these groups of organizations. The initial PCA ran on all five items extracted two factors which explained 61.9% of the variance in the items. One item (Q25) however did not load satisfactorily and so was dropped. The final analysis on the four items also extracted two factors, explaining 74.78% of the total variation in the items. The factors were labeled as core/complex products/services and non-core products/services with local resource content. Analyzing the factors extracted and the ANOVA, one can conclude that both core and non-core value adding activities that require local resources are outsourced by both local and foreign organizations. The results do not provide evidence that foreign organizations behave differently from their local counterparts with respect to the nature of locally outsourced products/services.

H_2 is not supported *but* H_3 is supported. The results of the PCA and ANOVA are shown in Tables 5 and 6.

Table 5: Factors of Locally Purchased Products/Services

Factors	Factor Loads	Eigen Values	% of Var. Explained	Cumulative % of Variance	Cronbach's α
Factor 1 (Core/complex products/services)		*1.706*	*42.66*	*42.66*	*0.73*
Q22. We buy very complex products or services from local suppliers	0.853				
Q23. We buy very important products or services from local suppliers	0.879				
Factor 2 (Non-core products/services with local resource content)		*1.285*	*32.12*	*72.78*	*0.435*
Q24. Products we buy from local suppliers have substantial local resource content	0.734				
Q26. We buy only simple and standardized items from local suppliers	0.846				

Notes: Principal component analysis with varimax rotation, KMO-MSA = 0.528, Bartlett's test of sphericity = 98.824 ($p < .0001$)

Table 6: ANOVA for Factors of Locally Purchased Products and Services By Local or foreign Classification of Organizations

Factor	Source of Variation	Sum of Squares	Df.	Mean Square	F	Sig.
Core/complex products/services	Between Groups	3.401	1	3.401	3.439	.066
	Within Groups	155.222	157	.989		
	Total	158.622	158			
Non-core products/services with local resource content	Between Groups	.372	1	.372	.373	.542
	Within Groups	156.575	157	.997		
	Total	156.947	158			

5.4 Selection of Suppliers

Eight items were measured in this segment of the study. A look at the descriptive statistics in Table 7 reveals three categories of scores on the items. Slight agreement was expressed with items Q20 and Q21. Scores on Q19, Q18 and Q17 indicate neutrality while scores on Q14, Q15 and Q16 indicate slight disagreement.

Table 7: Selection of Suppliers - Descriptive Statistics

Item	N	Mean	Std. Deviation
Q20. We select suppliers with the most reliable delivery track record	164	4.57	.880
Q21. We select suppliers with the best quality control facilities	165	4.53	.859
Q19. We select the cheapest supplier for our products or services	164	3.26	1.417
Q18. We believe that it is less costly to deal with Ghanaian-owned suppliers than foreign-owned suppliers	163	3.10	1.348
Q17. We believe that Ghanaian-owned suppliers are more willing to learn than foreign-owned suppliers	163	2.63	1.207
Q14. We believe that Ghanaian-owned suppliers are more reliable than foreign-owned suppliers	165	2.41	1.088
Q16.We believe that Ghanaian-owned suppliers are more trustworthy than foreign-owned suppliers	163	2.23	1.004
Q15. We believe that Ghanaian-owned suppliers show stronger commitment to contracts than foreign-owned suppliers	164	2.19	1.000

PCA with varimax rotation extracted two factors, accounting for 64.5% of the total variation in seven of the eight items. The initial extraction performed on the eight items extracted three factors in which Q19 created a single-item factor. Its MSA was also low at 0.455. Q19 was therefore dropped from the final extraction. The data were suitable for PCA and the factors extracted were labeled as orientation about local suppliers' capabilities, and resource advantages and

reliability. The results of the PCA are shown in Table 8. The extracted factors indicate that organizations select their suppliers on the basis of their resource advantages and reliability. Their perception about how resourced and reliable local suppliers are vis-à-vis their foreign counterparts tend to determine their choice.

Table 8: Selection of Suppliers

Factors	Factor Loads	Eigen Values	% of Var. Explained	Cumulative % of Variance	Cronbach's α
Factor 1 (Orientation about local suppliers' capabilities)		*2.777*	*31.67*	*31.67*	*0.781*
Q14. We believe that Ghanaian-owned suppliers are more reliable than foreign-owned suppliers	0.752				
Q15. We believe that Ghanaian-owned suppliers show stronger commitment to contracts than foreign-owned suppliers	0.785				
Q16.We believe that Ghanaian-owned suppliers are more trustworthy than foreign-owned suppliers	*0.839*				
Q17. We believe that Ghanaian-owned suppliers are more willing to learn than foreign-owned suppliers	*0.732*				

Table 8 continued

Q18. We believe that it is less costly to deal with Ghanaian-owned suppliers than foreign-owned suppliers	*0.595*				
Factor 2 (Resource advantages and reliability)		*1.736*	*24.8*	*64.5*	*0.831*
Q20. We select suppliers with the most reliable delivery track record	0.902				
Q21. We select suppliers with the best quality control facilities	0.907				

Notes: Principal component analysis with varimax rotation, KMO-MSA = 0.702, Bartlett's test of sphericity = 343.145 ($p < .0001$)

As shown in Table 8, outsourcers in Ghana scored local suppliers low on their resource advantages and reliability vis-à-vis foreign suppliers. The evidence therefore supports H_4 that outsourcers in Ghana (both local and foreign organizations) are more likely to select larger and/or foreign organizations as their suppliers due to their relative resource advantages and reliability.

Supplier's Gains from Participating in Outsourcing Arrangements

Five items were measured under this section. Their mean scores suggest that outsourcers are generally neutral about their willingness to support their local suppliers to upgrade their financial, technological and managerial capabilities. Since moderate correlations were observed among the items, PCA

was used to extract underlying gains to suppliers in outsourcing arrangements. One factor was extracted and this explained 66.98% of the total variation in the items. As shown in the results below, the data was suitable for PCA. Cronbach's Alpha was 0.876 and Bartlett's Test of Sphericity was significant. KMO-MSA was 0.784 and individual MSAs ranged between 0.745 and 0.878. The extracted factor was labeled as financial, managerial and technological support factors. The low scores on the items as shown in the descriptive statistics indicate the indifference of outsourcers in Ghana in engaging in upgrading the technological, financial and managerial capabilities of their local suppliers. The evidence is thus not strong enough to support H_{5a} and $H_{5b.}$ Table 9 and 10 show the descriptive statistics and the results of the PCA.

Table 9: Supplier's Gains from Participating Outsourcing Arrangements Descriptive Statistics

Item	N	Mean	Std. Deviation
Q29. We are willing to support other innovations in our local suppliers organizations	157	3.60	1.213
Q28. We are willing to transfer superior management knowledge to our local suppliers	157	3.54	1.243
Q27. We are willing to support our local suppliers financially to upgrade their technology	158	3.04	1.359
Q31. We have provided management support services to our local suppliers	156	2.94	1.301
Q30. We have provided financial support to upgrade the technology of our local suppliers	155	2.77	1.352

Table 10: Principal Components Analysis of Supplier's Gains from Outsourcing Arrangements

Factors	Factor Loads	Eigen Values	% of Var. Explained	Cumulative % of Variance	Cronbach's α
Factor (Financial, managerial and technological support factors)		*3.39*	*66.98*	*66.98*	*0.876*
Q27. We are willing to support our local suppliers financially to upgrade their technology	0.820				
Q28. We are willing to transfer superior management knowledge to our local suppliers	0.769				
Q29. We are willing to support other innovations in our local suppliers organizations	0.821				
Q30. We have provided financial support to upgrade the technology of our local suppliers	0.816				
Q31. We have provided management support services to our local suppliers	0.863				

Notes: Principal component analysis with varimax rotation, KMO-MSA = 0.784, Bartlett's test of sphericity = 429.229 ($p < .0001$)

5.5 Governance and Partner Relationship Management

Respondents expressed high levels of agreement with six of the seven outsourcing governance items. Apart from Q34 "We have been compelled to take our local suppliers to court for non-compliance of contracts" which scored 2.12, indicating disagreement, mean scores of the other items ranged high

from 3.84 to 4.29, indicating agreement. While the respondents agreed that they can get the products or services that their local suppliers produce for them elsewhere (4.25), they disagreed that they can produce those products or services themselves (2.26). They were neutral about being major customers to their local suppliers (3.63) and the dependency of their local suppliers on sales to them (3.36). Tables 11 and 12 present descriptive statistics of outsourcing governance mechanisms and their importance.

Table 11: Governance of Outsourcing Relationships - Descriptive Statistics

	N	Mean	Std. Deviation
Q32. We closely monitor our local suppliers in order to ensure compliance with contracts signed with them	161	4.29	1.104
Q38. Our departments have the competence to handle all matters relating to our suppliers	161	4.20	.934
Q37. Our departments cooperate effectively with all relevant departments of our suppliers	158	4.11	1.007
Q33. We do our quality control in-house in order to be sure the quality of our supplies	158	4.11	1.126
Q36. Our local suppliers have high commitment to relationships with us	160	4.01	.918
Q35. We have resolved all conflicts with our local suppliers through negotiations	158	3.84	1.137
Q34. We have been compelled to take our local suppliers to court for non-compliance of contracts	156	2.12	1.260

Table 12: Importance of Outsourcing Relationships - Descriptive Statistics

	N	Mean	Std. Deviation
Q46. We can get the products or services that our local suppliers produce for us from elsewhere.	164	4.25	1.029
Q44. As far as we know, we are a major customer to our local suppliers	164	3.63	1.239
Q45. As far as we know our local suppliers depend very much on their sales to us	165	3.36	1.184
Q47. If our local suppliers decide not to produce for us we can produce these goods or services ourselves	160	2.26	1.403

In testing the hypothesis concerning governance of outsourcing relationships, an index of governance was developed by summing five governance items that loaded properly on two factors extracted from the seven items measured under governance of outsourcing relationships. The five items are Q32, Q33, Q35, Q37 and Q38. Q34 and Q36 were dropped because of improper loading and low MSAs. The index developed thus had possible values from a minimum of 5 to a maximum of 35. Observed values of the index ranged between 8 and 25 with a mean of 20.5. Cronbach's Alpha for this scale is 0.672, indicating scale reliability. Another PCA was run on the four "importance of outsourcing relationship items" and this extracted two factors. The factors were then used as independent variables for a regression model with the governance index. The two importance factors were labeled as importance of relationship to supplier and importance of relationship to outsourcer. Table 2.5.2 below shows the results of the PCA. The regression model was significant ($F=19.635$, $p<0.0001$) and the coefficients had the appropriate signs and were significant at the 0.05 level. Thus hypothesis H_6 is supported. The linear regression results are shown in Tables 13 and 14.

Table 13: PCA of Importance of Outsourcing Relationships

Factors	Factor Loads	Eigen Values	% of Var. Explained	Cumulative % of Variance
Factor 1 (Importance of relationship to suppliers)		*1.752*	*43.79*	*43.79*
Q44. As far as we know, we are a major customer to our local suppliers	0.922			
Q45. As far as we know our local suppliers depend very much on their sales to us	0.916			
Factor 2 (Resource advantages and reliability)		*1.098*	*27.45*	*71.24*
Q46. We can get the products or services that our local suppliers produce for us from elsewhere.	0.716			
Q47. If our local suppliers decide not to produce for us we can produce these goods or services ourselves	0.766			

Notes: Principal component analysis with varimax rotation, KMO-MSA = 0.510, Bartlett's test of sphericity = 118.223 (p < .0001)

Table 14: ANOVA for Regression of Governance Score on Importance Factors

Source of Variation	Sum of Squares	Df.	Mean Square	F	Sig.
Regression	371.975	2	185.988	19.635	.000
Residual	1364.025	144	9.472		
Total	1736.000	146			

Table 15: Coefficients of Regression of Outsourcing Relationship Governance Index on Importance Factors

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	20.544	.254		80.917	.000
Importance of relationship to supplier	1.498	.257	.430	5.822	.000
Importance of relationship to outsourcer	.566	.264	.158	2.144	.034

6. Conclusions and Implications

Outsourcing delivers benefits to the enterprise development of organizations in Ghana. Outsourcing decisions are however precipitated by triggers such as institutional pressure, perceived cost reductions and the freeing of internal resources for deployment on core activities. Business development associations, trade associations and government agencies tasked with enterprise development in Ghana should strengthen training on outsourcing for both local and foreign organizations operating in Ghana; explaining key benefits and helping to create business clusters that would enhance the culture of outsourcing in Ghana. To the extent that outsourcing also frees up internal resources that would be focused on core activities and also facilitates perceived cost reductions, business owners in Ghana should focus more absolutely on re-engineering their business process management mechanisms to actively ensure that only activities that are core to the organization are executed using internal organization resources. From a brand and service management standpoint, however, there would be a need to closely monitor the quality of outsourced services received by organizations operating in Ghana, to ensure that there are no compromises in service quality. This would be particularly important in cases like the outsourcing of parking and valet services at banks in Ghana for example; where the outsourced service has a direct bearing on the perception of service quality rendered by the bank. In the eye of the banking customer, the receipt of excellent customer service is core to a pleasurable service experience and therefore a bank that employs an supplier in the delivery of this service experience, must insist on corporate standards set by the outsourcer. This study is the first comprehensive crack at understanding outsourcing activities in

Ghana from a multi-theoretical perspective and future studies might focus on replicating this study in other developing economy contexts in a bid to ultimately develop a context relevant model of outsourcing for developing economy contexts.

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EDITORIAL

This final issue assembles six papers based on research across five sub-Saharan African (SSA) countries – Botswana, Egypt, Ghana, Nigeria and Zimbabwe (not necessarily in that order). The coverage also ranges from corporate social responsibility (see El-Bassiouny *et al.*, this issue) to outsourcing (Kuada and Hinson, this issue); financial sector liberalization (Muyambiri and Odhiambo, this issue); Corporate Governance (Okaro *et al.*, this issue); Multi-Fibre Agreement (Makasi and Govender, this issue); and women business ownership in SSA (Madichie and Hinson, this issue).

In the first paper, El-Bassiouny, Seoudi, Darrag, and Zahran highlight the importance of Corporate Social Responsibility (CSR) at the interface between business and society cannot be underestimated. These authors argue that prior research had sought to tackle the motivations behind corporate engagement in CSR as it pertains to managerial intentions behind the CSR curtain. They posited that the element of religion and religiosity, and the relationship between CSR behavior and religiosity had been a neglected area of research. As a consequence, these authors set out to undertake an interdisciplinary study exploring the intersections between CSR and general religiosity. They find that the more stringent institutional structure for CSR, the less the impact of general religiosity on CSR behavior.

In the second paper, Kuada and Hinson provide some insights from the outsourcing activities of Ghanaian firms. According to them the impact of these activities on the overall value creation activities of organizations provides some insight into the challenges faced by outsourcing organisations and their suppliers – albeit in the Ghanaian operational environment. The authors find that the respondent organizations were likely to engage in outsourcing if the net cost reductions that it affords them are positive and/or if the decision frees internal resources which could then be deployed on core activities. They

also report that there was no evidence that foreign organizations in the sample behaved differently from their local counterparts with respect to the nature of locally outsourced products/services, which further suggests opportunities for resource leveraging through outsourcing. Overall the study provides an integrated perspective to the outsourcing debate in Africa and contributes to the global outsourcing debate in general.

Muyambiri and Odhiambo, in the third paper, investigate the evolution of the financial sector of Botswana, specifically focusing on monetary policy, financial sector legislation, financial reforms as well as trends in financial sector development. The authors find that the introduction of financial liberalization in that country brought about increased financial development as evidenced by increases in interbank competition, access to credit facilities, the ratio of bank deposits to Gross Domestic Product and increased banking sector stability and performance. In addition, savings have relatively increased after liberalization though the main contribution to savings is from Government, mainly from revenue from sales of precious minerals.

In the fourth paper, Okaro, Okafor, Ogbodo and Nkamnebe, drew upon the established notion that the internal governance of organizations determines their readiness to direct internal resources towards desired goal attainment. The authors examine the extent to which quoted firms in Nigeria complied with the code of corporate conduct issued by the Nigerian Security and Exchange Commission. Indeed research has also shown that disciplined compliance often determines the quality of internal mechanisms that support sustainable performance of organisations and vice versa. Overall, the study found that stakeholders' perception of Board and Audit Committee effectiveness were not consistent with the Board's compliance to relevant codes. This suggests that mere compliance may not necessarily translate into effective and efficient corporate governance – thus prompting the need for further research enquiry in this area.

Makasi and Govender, in the fifth paper, sought to empirically link three distinct concepts; globalization, marketing strategy and national policy from three diverse literature streams to extend the boundaries of current knowledge. In so doing these authors explored the international trade agreements ranging from the lens of the Multi-Fibre Agreement and the World Trade Organization. The authors propose a need for

major policy interventions in order to assist marketing strategy in the face of globalization – which a multilaterally negotiated.

In the sixth and final paper, Madichie and Hinson present some tentative findings on the challenges faced by women business owners (WBOs) in what is traditionally a woman dominant sector – catering. Drawing upon two cases, based on completed in-depth interviews from Anglophone Sub-Saharan African (SSA) countries, these authors highlight some of the shared challenges of WBOs in SSA. While unpacking the WBOs' background (nationality, ethnicity, education, family etc.); prior motivations (why they chose to start-up); challenges (including start-up capital, government regulations, personal achievements), and plans for the future – the study seeks to spur further research enquiry on the subject and especially so in the context of SSA.

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