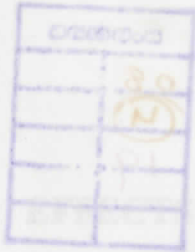


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OF OUTSOURCING ON ORGANIZATIONAL
PERFORMANCE WITH SPECIAL EMPHASIS ON
**EFFECTS OF OUTSOURCING ON
ORGANIZATIONAL PERFORMANCE WITH
SPECIAL EMPHASIS ON
MANUFACTURING**

I certify that this work is my own work and does not contain any material previously submitted for a degree or a diploma in any university, or contain any material from another person except where due reference is made in text.

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This is to certify that Research paper on above subject

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SRI LANKA

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Abstract

Outsourcing (OS) is enacted all over the world in manufacturing and service organizations. It is becoming sophisticated day by day as core, non core and support functions are outsourced. But there are doubts on many managers on the effects of outsourcing when manufacturing is outsourced. This research is to clear the doubts of practicing managers on the effects of OS when OS is enacted on manufacturing. This has become an imperative due to increasing outsourcing to increase strategic capabilities of the organizations.

This paper ascertains effects of OS on the performance objectives, by measuring common performance objectives (PO). These common Performance objectives are; cost, Quality, Speed, Dependability, Flexibility. They were measured using indicators to find the variance of performance before and after OS. Then scores were summed up algebraically by giving weights to each objective as for customer priorities and analysed them statistically to check on effects on organizational performance. The sample study was selected from Hayleys, a large Group companies with a practice of outsourcing for the last 10 years. The sample represents local manufacturing industries such as Textiles, Tea, Fibre, Engineering, Chemicals & Consumer durables, Agriculture machinery, Seeds, Fertilizer and Farm products.

The research found that increase in the extent of outsourcing does not change the mean effect of the performance objectives. Outsourcing has a positive affect on the performance objectives and OS increase organization performance. It also found that there is no substantial cost benefit due to outsourcing. Of the five objectives Outsourcing has a negative effect on the quality objective this is corrected by quality conformance methods adopted by the sourcing organization. Outsourcing helps the organizations to increase competitive advantage, reduce cost, increase speed, reduce cycle time, increase flexibility and increase dependability.

The size of the sample had limitations in its accuracy of the study as the variance was small. Further studies should focus on allocation weight on performance

indicators on flexibility dependability and quality according to the effects on these objectives in manufacturing.

INTRODUCTION

1.1 History of Manufacturing

Manufacturing is one of the oldest processes in the history of Sri Lanka. Robert Knox describes the manufacturing prevalent during the time he was in Sri Lanka as follows.

The illustrations are few, of nature of how most of crafts and carpentry and masonry, all sorts of work were done, also the way they were done, the materials used, patterns used, and the tools used, and the way they were done, the materials used, patterns used, and the tools used, and the way they were done, the materials used, patterns used, and the tools used.

Manufacturing is defined as any industry that makes products from raw materials by use of manual labour or machinery and that is carried out systematically with division of labour.

In 1878 with the invention of Otto gas engine the craft based manufacturing was over and human power shifted moving towards other areas for producing cotton and woolen based products. Before this industrial revolution most products were hand made. There were 3 stages of manufacturing in the history, hand production, mass production and the period beyond mass production.

A key development from craft production to mass production was interchangeable parts which reduced the cost due to scale of production. This is the mass production which made products for mass markets instead making goods for wealthy selected customers. These mass production organizations had several problems due to specialization and functionalism. Specialization is these organizations found difficult to vary products as the systems were designed for large volumes. Functionalism was the organization concentrated only on functions than on the customer needs. As an example marketing function concentrated on achieving the targets of sales volumes. While manufacturing produced the volumes required irrespective of the marketing needs.

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