Effect Of Outsourcing On Competitive Advantage: Mediating Role Of Innovation - An Empirical Study Of Businesses In Ghana

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ABSTRACT

The study investigates the effect of outsourcing on competitive advantage: the mediating role of innovation. 300 businesses that engage in outsourcing in Ghana were selected out of which 231 representing 77% response rate participated. Confirmatory Factor Analysis was done to confirm appropriate variables using Structural Equation Modeling. Data was collected using questionnaires. Purposive and convenient sampling techniques were adopted in selecting respondents. The study found that, transaction cost view of outsourcing inversely relates to competitive advantage. The study also found competence based view and relational view to have impacted positively on competitive advantage. Innovation plays a full mediation between competence based views as well as relational and competitive advantage. There is no mediation between transaction cost view and competitive advantage through innovation. The study recommends the use of prudent outsourcing practices and innovation as a means of gaining competitive advantage.

Keywords: Outsourcing, innovation, competitive advantage, Ghana, Accra, Tema

1. INTRODUCTION

Over the past couple of years, the business environment has witness a tremendous change as a result of keen competition among players of a particular industry. One way businesses thrive to compete favorable in the competitive business environment is by the concept of outsourcing and businesses been innovative. Outsourcing basically refers to keen strategies adopted by organizations in looking for chain of distributors and other suppliers of either raw materials, goods and services, technical know-how, organizational expertise and creativity from the organizational external environment that has not been implemented previously within the organization which has normally been solicited for with the aim of helping the organization achieve a set objective (Kraker, 1995; Engelke, 1996). Nevertheless, outsourcing is further seen in the business arena as means of reconfiguring the value chain of organizations which can eventually permit the organization to compete effectively with other firms in the industry whiles sustaining the dominance of the market in the long rum so as to perpetuate the existence organizations.

Innovation plays a critical role in business activities of gaining competitive advantage as it tends to bring new ways of satisfying customers. Innovation is seen as an idea, practice, or object that is perceived as new by an individual or other unit of adoption either by the use of logistics, technology or human resource characterized as a dynamic capability or scientific discovery (Roger, 1995; Eisenhardt & Martin, 2000; Zizlavsky, 2011). Basically any activities that are logistically related with services that are considered to be new, very excellent in practice with regards to a particular segment of audience are largely refer to as logistics innovation. Logistics innovation may be considered to be such basic activities to the complex one which can be related to the internal works and operations or the services in relation to the business partners (Flint et al., 2005).

Competitive advantage is seen as a way businesses try to have an edge over their competitors resulting in the adoption of numerous business strategies. It is an organizational strength and capabilities that basically strengthen and help companies in performing in one way or the other an activity of which the other competitors in the industry find it very difficult in copying either now or in the future date (Kotler, 2000). Hence competitive advantage is basically seen as a management theory which has been well known in management literature in recent times. The main idea or the underling factors behind the innovative theory is the rapid and rampant changes that firms are facing in recent times coupled with the very complex business environment, the effect of globalization and market situations that are not well structured. Likewise, consumer needs also keep changing, the growing intense competition, the emergence of the information and communication technology and finally the free movement of the global trade continues to mount pressure on firms (Al-Rousan & Qawasmeh, 2009). As it is well noted, competitive advantage was developed out of the value propositions that companies have been able to create and offer to consumers. The value is basically what the buyers are willing and prepared to pay, whiles the superior value connote from the fact that organizations readiness to offer lower prices than what the competitors are offering in equivalent terms or also providing a unique benefits which can offset the higher prices. Many businesses for that matter in Ghana do not exploit the full benefit of outsourcing although they believe it could result in competitive advantage hence do not bring innovation into their line of operations. This therefore results in their inability to compete favorable in the competitive business environment and sometimes results in wastage of resources in their desire to compete favorably. In addition, some businesses that do not take precautionary measure when making outsourcing decisions end up recording low market share, low profitability and low quality product among others. Current research has failed to comprehensively explain how outsourcing actually results in higher competitive advantage. There is no clear indication of which specific competitive advantages are prompted by particular outsourcing activity. This study therefore seeks to examine the effect of outsourcing on competitive advantage, the mediating role of innovation.

2. LITERATURE REVIEW

2.1 OUTSOURCING

In the field of business, outsourcing plays a critical role in business landscape which cannot be ignored. Outsourcing has been a very relevant subject to many businesses in the area of manufacturing and service sector resulting in lowering supply cost which has been a challenge to industries in the past (Grewal et al., 2008). In explaining the meaning of outsourcing, it is seen as giving out components of production, finished products, sub-assemblies, a process or a service part to a third party company to implement on the company's behalf (Hiemstra & Tilburg-Van, 1991). One can also look at outsourcing in terms of looking for new suppliers, strategy to safeguard raw materials delivery, goods or services and company through utilization of experience, creativity as well as knowledge of third party (Kraker, 1995; Engelke, 1996; Hansen, 2009). Mayer and

Solomon (2006) defined outsourcing as giving out a secondary task to third party to help firm concentrate on their core competencies. As the value of transactions has increased, so too has the range of outsourced services. Most non-core services which organizations have traditionally provided internally including; IT, HR and manufacturing and so on are now commonly outsourced (Hansen; 2009). Outsourcing the Human Resource (HR) function is one of many ways to improve an organization's efficiency (Lawler & Mohrman, 2003). For example, almost 97 percent of organizations give reports on reduction of cost which can serves as a huge form of motivation in research on organizations that has consistently engage in outsourcing activities (Lewin & Peeters, 2006). As most of the organization has successfully use the practice of outsourcing to achieve vital component of cost reduction, there are equally more avenue for exploitation of outsourcing since minimizing cost tends to be a major challenge with regards to companies in their bid to attain the competitive advantages through the introduction of excellent innovative practices (Porter, 1990)

Many companies use outsourcing as a strategic tool to deliver several advantages that impact on corporate growth and financial stability through strategies such as downsizing and cost reductions. By outsourcing non-essential work, the corporation can free valuable resources and focus on its areas of competitive advantage (Friedman & Giber, 2007). There are various approaches that explain the concept of outsourcing in organization and how the organization can use it to gain competitive advantage. Woodall et al., (2002) proposes a four stage good practice approach in managing outsourcing decision. Thus, prioritize, select, trust and monitor the success of the outsourced function (two-part model). Other theories that underpin outsourcing include transaction cost base view, competence based view and relational base view. Proponents of transaction cost view believed that, once a business strategy or an activity will bring cost benefit to the organization than executing such activity in-house (self-production), then it is prudent to outsource such activities. Cost reduction is therefore seen as an important driver for gaining competitive advantage (Sparrow, 2005; Sahgal & Malhotra, 2005; Kremic et al., 2006; Kakabadse & Kakabadse, 2005). There are also critical factors in a form of wage differences and it is always better to gain cheaper cost of production in areas where firms can explore because of its numerous benefits (Wang et al., 2008; Sharma & Loh, 2009; Herath & Kishore, 2009). One will therefore not be far from proposing that, businesses should outsource an activity once they can gain cost benefits from such transaction with a third party.

2.2 COMPETITIVE ADVANTAGE (CA)

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Fundamental element in competitive strategy involves understanding why one firm differs in performance from another. Some firms gain advantage over others because they can conduct certain organizational processes in a better manner relative to their competitors. Competitive advantages result from controlling costly resources that enable business to undertake activities better or more economically than their competitors (Collis and

Montgomery 1995). Porter (1996) pointed that the activities of the organization and its assets are significant to a certain strategy, since the extent of specificity of the organization's resources may affect the differentiation strategy as well as that of cost-leadership. Competitive advantage is seen as a firm capability to perform in one way or the other among competing brands such that its action will be difficult to imitate (Kotler, 2000). Porter (1985) sees competitive advantage to emanate out of the value a firm is able to create for its clients that are seen to exceed the organization capability. A firm has a competitive advantage if it is able to create more economic value than the competitor (Peteraf & Barney, 2003), and firms are positioned to sustain such an advantage when isolating mechanisms hinder rivals from acquiring key resources (Rumelt, 1984). A firm is said to enjoy competitive advantage when the value that is created in an economic exchange in which the firm partakes is greater than the value that could be created when the firm do not participate in the exchange (Brandenburger & Stuart, 1996). Barney (1991) believed that, firms competitive advantage takes the form of been valuable by creating increased perceived value in the distinct mind of the clients, rare where only limited companies can have the resources to compete, costly to imitate meaning that the competences are unique, and organized to capture value where system and processes are put in place to create competitive advantage.

Clark et al., (1988) conceptualize competitiveness as a model that pointed out how companies basically compete in the market based on the following competitive priorities. These priorities include the following; time, quality, and the cost which comes with flexibility and the fundamental means for assessing the business transactions in the global context. The time that organization and its suppliers deliver the products and services to the customers serve as competitive advantage to them. As such, anytime a company tries to reduce the time frame between receiving the customers' orders and the time that goods and services are made available to customers then they are trying to be more responsive. The products development speed also refers to the time schedule of which the idea regarding the innovation and the production of the products and services are generated and implemented (Evans, 1993). Quality obviously can be obtained through the addition of some unique attributes to the products so as to increase its value and the competitive attractiveness in order to benefit the customers in the end (cited by Al-Rousan & Qawasmeh, 2009). For firms to compete favorably, it will be necessary to produce quality goods (Juran, 2004; Rousan & Qawasmeh, 2009). Cost is also critical factor if companies seek to gain competitive advantage. Minimizing cost of production, exchange and distribution will in the long run help firms to strive above competing brands (Juran, 2004). Adaptable behaviour of business will in the long run help businesses to excel and achieve some level of competitive advantage as well (Forster, 2006).

2.3 TRANSACTION COST VIEW (TCV)

Transaction cost theory is a means of explaining outsourcing whereby cost efficiencies are achieved by assigning transactions to different governance mechanisms. From this perspective, firms incorporate production to reduce costs from opportunism and bounded rationality of firms and their suppliers, the uncertainty and frequency of market exchange, and asset specificity that arises from supplier firm or firm-customer relationships

(Holcomb & Hitt, 2007). This theory holds that certain types of governance mechanisms manage exchanges with particular service providers more efficiently than others, and for this reason cost economizing therefore reflects a firm's efforts to minimize costs arising from the governance of market exchanges. Accordingly, the decision to outsource often rests on economizing motives related to the fit between firms' governance choices and specific attributes about an economic exchange (Grover and Malhotra, 2003). Ellram et al. (2007) contend that there are some activities that should or should not be outsourced based on the comparative cost and danger connected with internal and external operations from economics view point. A lot of other researchers have used transaction cost to better enlighten outsourcing decisions, giving support for the validity of such transaction cost as a suitable mirror through which to view outsourcing (Arnold, 2000 and Auburt et al., 2004). On the basis of this, it is important to note that transaction cost largely affect outsourcing efforts and affect competitiveness of firm operations. The study therefore hypothesized that;

H_1: Transaction cost positively and significantly impact on competitive advantage on businesses in Ghana

2.4 COMPETENCE BASED VIEW (CBV)

Competence based view or approach is an important theory which is hardly for organization to lose sight of when it comes to outsourcing transaction. The theory assumed that core competency does not necessarily reside within the organization but can be sought for from external source, hence it will not be entirely out of place for firms to seek this competence outside when it can increase competitiveness through cost savings. This opens the avenue for firms to look for third parties (experts) capable of handling such outsourcing activity. When an expert hand is tapped, the firm has the capacity to focus on its core objectives hence making the business thinking like a modern day firm that is eager to satisfy demands in the market (Leavy, 2004). One can confidently advice a company that aims at increasing performance but do not have the expertise in certain areas to look out for competence base parties and get the work done (Mehta et al. 2006). The study therefore hypothesized that;

H_2: Competence based view positively and significantly impact on competitive advantage on businesses in Ghana

2.5 RELATIONAL VIEW (RV)

Rationally, it is important for the firm and the third party to identify areas of possible misunderstanding before contract is signed so as to bring beneficial relationship between the parties (Friedman & Giber, 2007). The relational view assumed that firms exist in a network of relationships to promote higher performance of the individual firms (Chen and Paulraj, 2003). What this suggests is that, the inter-dependency of firms within this network creates room for the superior performance of the individual firms which is impossible to achieve if the firms operates independently. It is worth mentioning that, the concept of outsourcing lies in the fact that, client-vender relationship should be exciting and mutual (Webb & Laborde, 2005). It is therefore important for the firm to take rational decisions that will enhance and build long lasting relationship when the firm wants to engage the services of a third party company. One must also bear in mind that, there are time that outsourcing contracts can fail as evidence have it that, about 78% of these contracts reaches failure point in the long run (Mehta & Mehta, 2010). One must therefore know that, for a relational view outsourcing to be successful, parties involve must create value for each other. It must also be noted that, both parties can gain competitive advantage when there is mutually open relationships that allow both parties to share expertise and knowledge to make a robust contract (Saxena & Bharadwaj, 2009). The study therefore hypothesized that;

H_3: Relational views positively and significantly impact on competitive advantage on businesses in Ghana

2.6 INNOVATION

Kao (2001) views innovation as assessing and combining some level of concept resulting in developing novel thinking which were previously not been implemented. If a firm seeks to gain competitive advantage, it should aim at becoming innovative in the dynamic business environment as it intends to create value for dynamic clients that are eager to switch for better service (Montes et al., 2004; Ranjit, 2004). Innovativeness is also seen as a business capability to build up and bring new products, services or processes as it requires the need to take up challenges (Hult et al., 2007; Lovelace et al., 2001; Garcia et al., 2003). Rogers, (2003) believed that firm should focuses on how their program will motivate participant to participate and let their problem known to firms for solution. Innovation sometimes results in complexity in need identification, compatibility, relative advantage firms may achieve, as well as bringing innovation to come to play (Rogers, 2003). It is worth noting that, innovation duly deals with analytical concept that are meant to create new level of approaches and thinking forwards with the view to coming out with new ways of doing things so as to maximize output and returns that previously was not thought of or available (Kao, 2001).

Innovation is largely considered to be a critical factor that enables organizations in creating value for customers and thereby sustaining or enhancing competitive advantage in today's highly competitive and frequently changing business environment (Ranjit, 2004; Hoecht & Trott 2006). Companies that have accepted the new innovation with regards to the environmental changes can assist other companies to come out with new strength and abilities which can support them in achieving quality and higher performance (Montes et al., 2004). As well noted and accepted, innovation tends to be the engine of growth for industries and organizations since it is the mechanisms through which value is created thereby sustaining the competitiveness and economies of scale required by firms (Ranjit, 2004). Knoll and Jarvenpaa (1994) explained flexibility to be a very important asset for maintaining fit that lies between the business process and its support in creating the environments for innovation to thrive. Gainey and Klaas (2002) suggested that allowing the suppliers of particular products or services to perform activity on their own enable them to "carving out a niche" which promotes innovation. Base on the above discussion on innovation, it is strongly believed that the pursuit of innovation can promote competitive advantage for firms to compete effectively in the market. The study therefore hypothesized that,

H_4: Innovation mediates the relationship between outsourcing and competitive advantage among Ghanaian businesses

3. METHODOLOGY

The research design used was explanatory which establishes the relationship among the variables. The population of this study comprised service and manufacturing firms within Accra and Tema metropolis that outsource part of their activities. A sample 300 businesses were selected to be a representative of service and manufacturing businesses that outsource their services. Management responded accordingly to the questionnaires. Stutely (2003) believed that, for a statistical study, a sample of 30 is enough hence a sample 300 businesses were enough to be a representative of service and manufacturing businesses that outsource their services. The study adopted purposive and convenient sampling techniques to select businesses that are in Accra and Tema metropolis in Ghana. This area is noted for concentration of industries in Ghana. The data collection method used was questionnaires. The software's used for analysis include Statistical Package for Social Sciences (SPSS) version 20 and Stata software version 13 for analysis purpose. Structural Equation Modeling (SEM) was used to estimate the effect of outsourcing on competitive advantage and mediation.

3.1 MEASUREMENT OF CONSTRUCT

Variables measuring the constructs were adopted from authors based on previous studies and amended to suit the Ghanaian situation. Variables measuring effectiveness of outsourcing include TCV, CBV and RV. TCV construct were adapted from the works of Kremic et al., 2006; Kakabadse and Kakabadse, 2005. CBV variables were also developed from the works of Leavy, 2004 and Mehta et al. 2006 and RV variables were also develop from the findings of Webb and Laborde, 2005; Friedman and Giber, 2007; Saxena and Bharadwaj, 2009. Variables with respect to innovation were also developed from the works of Montes et al., 2004; Ranjit, 2004; Hult et al., 2007; Lovelace et al., 2001.

3.2 VALIDITY AND RELIABILITY

To test the reliability and validity of measures, the study used Stata version 13 to examine all scales in CFA. The CFA was programme to find out any problematic indicators that the construct might seek to measure. After purification, numerous items were removed from the models because they loaded poorly on the factor. Final indicators were displayed in the list of items, respective standardized factor loadings and t-values as well as results of reliability. The positive and significant loadings confirm convergent validity of measures used in this research. The result shows that, discriminant validity and composite reliability are acceptable; thus the indices exceed the minimum cut-off criteria of .50 and .60 respectively (Bagozzi & Yi, 2012). The Average Variances Extracted (AVI) was greater compared shared variances between constructs, meaning satisfactory discriminant validity (Fornell & Larcker, 1981). For a good construct, the general requirement is that: RMSEA should be less than 0.08; CFI or TLI should be 0.95 or better; Whereas SRMR must be less than 0.03; VIF should be less than 10; AVE should be higher than the highest correlation. The alternative is to calculate if the chi-square divided by the Degrees of Freedom (d.f) is less than 5. However because the chi-square and degrees of freedom quotient of 5 or a non-significant chi-square (indicative of a good fit) is always difficult to obtain when the sample size is much over 200; it is recommended that, it is used in addition to the other fit indices, (see Newson, 2015; after Hu & Bentler, 1999). The indices shows were satisfactory meaning the model is fit. Even though some of the factor loadings may prove poor, other fit indices such as CFI and SRMR are satisfactory hence robustness of the model. Table below shows validity and reliability of variables.

Table 1: Validity and Reliability test using CFA

Measures		Factor Loadings	Cronbach's Alpha	Construct Validity	Highest VIF	AVE	Highest Correlation
TCV	Item 1	.5753804	0.7138	0.805	2.05	.6534	.586
	Item 2	.4234735					
	Item 3	.809422					
	Item 4	.7851233					
CBV	Item 1	.6441649	0.7311	0.773	1.68	.6042	.586
	Item 2	.4037311					
	Item 3	.814241					
	Item 4	.5850516					
RV	Item 1	.4014653	0.7275	0.601	1.37	.5000	.424
	Item 2	.6023504					
	Item 3	.4189946					
	Item 4	.6476039					
INNOV	Item 1	.766439	0.8819	0.885	1.42	.7727	.488
	Item 2	.7219972					
	Item 3	.8267827					
	Item 4	.7431669					
	Item 5	.8006092					
CA	Item 1	.8351073	0.6500	0.902		.7740	.488
	Item 2	.7869801					
	Item 3	.8655469					
	Item 4	.7461188					
	Item 5	.6971591					
	Item 6	.6971591					

Source: Author Field work, 2016

Table 2 below shows fit indices from the CFA result conducted

Table 2: CFA Results

	chi-square	degrees of freedom	p-value	RMSEA	CFI	SRMR	CD
TCV	8.68	2	.0131	.120	.968	.038	.805
CBV	6.84	2	.0328	.102	.970	.030	.773
RV	.68	2	.7113	.012	1.0	.000	.601
INNOV	11.56	5	.0414	.076	.988	.021	.885
CA	13.35	9	.1474	.046	.993	.017	.902

3.3 PEARSON CORRELATION ANALYSIS

To ascertain whether the strength of relationship between the variables used will affect further statistical analysis; a multicollinearity test was done using the variance inflator factor (VIF) and the correlation statistics.

For robustness, it is suggested that the VIF should not exceed 10 and the correlation statistics should not exceed 0.7 (Hair et al., 2014; Pallant, 2007). As shown on Table 3, all the variables falls within range that was suggested by literature. The relationship between CA, INNOV, TCV, CBV, RV and GPA are also significant. Therefore one can confidently say that, the constructs are valid and that, the problem of multicollinearity is not a serious threat in this study. Table 4.3 below shows the correlation statistics.

Table 3: Correlation Matrix

	CA	INNOV	TCV	CBV	RV
CA	1				
INNOV	.488**	1			
TCV	.241**	.367**	1		
CBV	.322**	.409**	.586**	1	
RV	.277**	.417**	.424**	.393**	1
GPA	.268**	.382**	.510**	.350**	.283**

**. Correlation is significant at the 0.01 level (2-tailed) TCV=Transaction Cost View CBV=Competence Based view RV=Rational View INNOV=Innovation CA=Competitive Advantage

4. ANALYSIS AND DISCUSSION

The study was conducted on a total of 300 businesses that outsource within Accra and Tema out of which 231 responses were received representing 77% response rate. The study made use of both Stata and SPSS as software for analysis. Confirmatory Factor Analysis (CFA) was done to confirm appropriate variables and Structural Equation Modeling (SEM) used with its corresponding path diagram adopted for analysis

4.1 DEMOGRAPHIC

With gender distribution of the respondents, findings revealed that 151 of the respondents with the highest percentage figure of 65.4% are males, whiles the remaining 80 of the respondents are females. This confirm the notion that, most of the top managerial position are been occupied by males. 76 of the workers are managing directors, 80 of the workers which constitute the highest percentage of 34.6% are General Managers, 51 of the respondents are operations managers, 15 of them are human resource managers and the remaining 9 of the workers are marketing managers. These respondents have thorough knowledge about the activities of the business hence in the capacity to give an in depth information. 49 of the businesses were sole business, 76 of them also engaged in partnership type of business, 77of them also engaged in Limited Liability Company whiles the remaining 29 is a family business. 58 of the businesses contacted are in manufacturing whiles 178 constituting the percentage rate of 74.9% are engaged in services businesses.

The demographic information is presented in table 4.

Table 4: Demographic Information

Variables	Frequency	Percentage
Gender		
Male	151	65.4
Female	80	34.6
Position in the organization		

Managing Director	76	32.9
General manager	80	34.6
Operations Manager	51	22.1
Human Resource Manager	15	6.5
Marketing manager	9	3.9
Line of business		
Manufacturing	58	25.1
Services	173	74.9
Number of Employees		
5 or less	18	7.8
6 to 29	81	35.1
30 to 99	73	31.6
100 and above	59	25.5
Form of Business		
Sole proprietorship	49	21.2
Partnership	76	32.9
Limited liability company	77	33.3
Family business	27	12.6

Source: Researchers field work, 2016

4.2 RELATIONSHIP BETWEEN OUTSOURCING (TCV, CBV AND RV) COMPETITIVE ADVANTAGE AND INNOVATION

The result shows that, the coefficient value for TCV is -.0479534 showing an inverse relationship on competitive advantage. All things being equal, when CBV and RV are held constant, if the index of TCV goes up, competitive advantage will fall. TCV view is statistically not significant and the variable is making any unique contribution to explaining competitive advantage with a P value of .419 and Z value of -0.69. *H_1 which states that transaction cost positively and significantly impact on competitive advantage on businesses in Ghana is not supported*. The implication is that, the more business relied on cost reduction as rational for gaining competitive advantage, the likelihood of decline in competitive advantage. Likewise reduction in wage budget and cost of training as rational for outsourcing may not make them gain competitive advantage.

The result shows that, the coefficient value for CBV is .1335474 showing a positive effect on competitive advantage. All things being equal when the other independent variables (CBV and RV) are held constant, if the index of CBV goes up, the index of competitive advantage will go up. However, CBV is not statistically significant and not making any unique contribution to the explaining competitive advantage (P=0.056 Z=1.91). *H_2 which states that competence based view positively and significantly impact on competitive advantage on businesses in Ghana; is supported but not significant.* This indicates that, businesses in Ghana in their desire to achieve competitive advantage by means of outsourcing must focus on their core competences, minimize their workload and seek expertise somewhere.

The coefficient value for RV as a means of outsourcing is .0451514 showing a positive effect on business competitiveness. When RV is intensified businesses that outsource, it will result in increased competitiveness all things being equal when the TCV and CBV are held constant. RV is not statistically significant to the prediction of competitive advantage (P value of 0.392; Z statistics of 0.86). *H_3 which states that relational views* *positively and significantly impact on competitive advantage on businesses in Ghana; is supported but not significant.* The implication is that, businesses in Ghana in their desire to achieve competitive advantage must exploit their internal skills and expertise, build a strong mutual benefit between them and third party service providers. Again, to gain competitive advantage, outsourcing must also be based on long standing relationship and if the business have a limited resource to operate.

The results were presented in Table 5

Table 5: SEM results estimating the effect of outsourcing on competitive advantage

Independent Variables	Coef.	OIM Std. Err	Z	P>|z|	[95% Conf.	Interval]
_cons	1.298117	.3003088	4.32	0.000	.7095229	1.886712
TCV	-.0479534	.0696398	-0.69	0.491	-.1844449	.0885381
CBV	.1335474	.0699501	1.91	0.056	-.0035524	.2706471
RV	.0451514	.0527682	0.86	0.392	-.0582723	.148575
Dependent variable: Competitive Advantage						

Source: Author Field work, 2016

4.3 MEDIATING ROLE OF INNOVATION BETWEEN OUTSOURCING AND COMPETITIVE ADVANTAGE

One of the commonly used method in estimating mediation is the causal steps strategy, propounded by Baron and Kenny (1986), that which the investigator estimates the paths of the model, using Ordinary Least Square (OLS) regression or SEM, which evaluate the degree to which several criteria are met. Baron and Kenny's (1986) suggested three important but not sufficient conditions that should be met so as to claim that mediation is happening. For mediation conditions: X (Independent variable) is significantly related to M (Mediator); M is significantly related to Y (Dependent variable). The relationship of X to Y diminishes when M is in the model. It implies that, each of the three constructs should show proof of a nonzero monotonic association with each other, and the relationship of X to Y must decrease substantially upon adding M as a predictor of Y (Kenny, Kashy & Bolger, et al., 2002). Having qualified the measurement instrument's suitability for statistical analysis, SEM was used to ascertain the relationship between the variables. Specifically to ascertained whether innovation performed any mediating role in the relationship between outsourcing and competitive advantage.

The result from SEM from the direct, indirect and total effect from output is presented in table 6

Table 6: Innovation mediates between Outsourcing and competitive Advantage

Path	Direct effect (D)	Indirect effect(I)	Total effect (D+I)	Form of mediation
TCV → INNOV → CA	-.0479534	(-.016x.488) =-.0077897	-.0557431	No mediation
CBV → INNOV → CA	.1335474	(.171x.488)=.0837414**	.2172887**	Full mediation
RV → INNOV → CA	.0451514	(.171x.488)=.0834274**	.1285787**	Full mediation

Source: Author Field work (2016) Note: *mediation significant at 1%; ** denotes significant at 5%*

TCV=Transaction Cost View CBV=Competence Based view RV=Relational View INNOV=Innovation CA=Competitive Advantage

4.4 MEDIATING ROLE OF INNOV BETWEEN TCV AND CA

The total effect for TCV, -.0557431, is the effect we would find if there was no mediator in the model. It is not significant (z=-0.75 p=.456). The direct effect for TCV is -.0479534 which is not significant (z=-0.69 p=.491). The indirect effect of TCV, that passes through innovation is -.0077897 and is also not statistically significant (z= -.29 p=.774). Base on the assumption by Baron and Kenny (1986) there is no mediation. The implication for business is that, innovation has no role to play as far as TCV in outsourcing is concern. Businesses can achieve competitive advantage of their businesses even if they decide not to employ any innovativeness in their operations when it comes to outsourcing decision of TCV.

4.5 MEDIATING ROLE OF INNOV BETWEEN CBV AND CA

The study expects innovation to mediate between CBV and CA. Examining the standard estimates of the mediation model, it is observed that the direct paths from CBV to CA is positive but not significant (β=.1335474; p>.056). The indirect path of CBV through INNOV to CA is also positive and significant (β=0837414; p< 0.006; z=2.77). The total effect for CBV is .2172887 which is positive and significant (z =2.96; p=0.003). One can conclude that, there is full mediation. The implication for businesses is that, the presence of CBV as the business outsource to third parties will not necessarily achieve CA unless businesses implement innovative practices into their operations. Businesses must therefore developed strong innovative means when relying on CBV outsourcing decision if they want to achieve competitive advantage.

4.6 MEDIATING ROLE OF INNOV BETWEEN RV AND CA

The study expects innovation to mediate between RV and CA. Examining the standard estimates of the mediation model, it is observed that the direct paths from RV to CA is positive but not significant (β=.0451514; p>.392). The indirect path of RV through INNOV to CA is also positive and significant (β=0834274; p< 0.001; z=3.43). The total effect for RV is .1285787 which is positive and significant (z =2.36; p=0.018). One can conclude that, there is full mediation. There is a strong indication for businesses to employ level of innovativeness in the area of RV in outsourcing. The presence of RV alone to third parties will not necessarily achieve CA unless businesses implement innovative practices.

5. CONCLUSION AND POLICY IMPLICATION

It is worth mentioning that, innovation plays a critical role and impact positively on achieving competitive advantage for many organizations. The results generally show that outsourcing greatly affects competitive advantage for most organization, hence play a significant role in the performance and service delivery of firms in recent times. Outsourcing is therefore seen as a means through which organizations assigned part of their business operation to other competent organization based on several factors such as technological know-how, as a means of concentrating on the core competent of the organization and in most cases, serves as means through which organizations obtain financial support in order to enhance and improve their production process. Moreover, outsourcing allows organizations to effectively engage in offshore business transactions where the organizations can effectively engage in sourcing services from countries perceived to be a lower cost organization in the foreign countries, doing on shore business by assigning some services to be provided by someone outside a company but within the same country and also engaging in near shore where the organization seek sourcing from neighboring region with common characteristics. Policies should be developed by stakeholders geared towards building innovative cultures among businesses so as to achieve competitive advantage.

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