

Analyzing the Effect of Outsourcing by SMEs on Company's Performance Moderating Role of Risks Associated with Decision of Outsourcing: Evidence from SMEs operating in Karachi

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Abstract

Outsourcing is a strategy which is even treated as a risk free for the conduction of business but the decision might not always ensure desired quality and results. Thus there is significant need of evaluation of outcomes associated with outsourcing decision, especially in Under Developed Countries (UDC) and Least Developed Countries (LDC) where there is significant lacking of research work on this strategy. Thus the aim of this research is to check the results associated with outsourcing in terms of its importance, especially for the most important sector of Pakistan's economy (SMEs). Thus data has been collected from all those who are working on managerial positions in SMEs operating in Karachi and after detailed statistical testing through AMOS it has been revealed that outsourcing is fruitful for SMEs but results might be different for different types of SMEs as well as if we analyze small enterprises and medium enterprises on separate basis..

Keywords: Outsourcing, SMEs, Cost, Quality, Firms Performance

Introduction

The word "**Out Sourcing**" is the combination of two words i.e. Out indicated External or Exterior and Source means Base of the source, and when anyone use these in relation to business then it highlighted that the indicated activity(s) are allocated to external partners or suppliers. (Cheon, Grover & Teng, 1995) When the discussion is about the most common reply for the question associated with "**Make-it-or-but-it**" or "**Do-it-ourselves-or-buy-it-in**" is outsourcing. (Rothery & Robertson, 1996) This scenario was even better responded by the research of Christopher and Peck (2003) that during the past in-house production was the preferred reason for most of the companies but for now in order to remain firm towards their core competencies companies are outsourcing all the remaining activities.

The strategy of outsourcing was initiated in the year 1960 with the sharing of hardware for enhancement in its level of performance. (Fersht, Filippone & Sappenfield., 2011) But since 1980's there is a boom in the preference of the strategy of outsourcing in fact companies from different sectors prefer this strategy. (Schniederjans, Schniederjans & Schniederjans, 2007) Research of 2011, also indicated that recent business trends are also in favor of outsourcing as in commercial sector nine out of ten companies shared services. (Fersht et al., 2011) Outsourcing is the careful decision to transfer value chain activities which were previously been done inside to the external suppliers or specialist firm. (Thompson, Strickland & Gamble, 2007) While the other research of the same year defines the strategy of outsourcing as a process through which company lends its in-house activities to the external suppliers or company. (Chanter & Swallow, 2007)

Moreover there is no limit for the outsourcing and company might source several of its function to the different specialists operating externally and for this purpose company will keep supervision and controlling with itself (Best, Langston & De Valence, 2003 & Barrett & Baldry, 2003) but the responsibilities associated with people and management will be delegated to the external supplier(s). (Chanter & Swallow, 2007) Two widespread and repeated opinions associated with the decision of outsourcing and its preference are *i*) If the external company has the ability to perform required activities better than the organization going for outsourcing, then external company must have the liberty to perform these activities anywhere in the world *ii*) This will enable the company to remain focus on its core competencies and thus enjoys more success. (Pralhad & Hamel, 1990)

Moreover, the research of very next year by Kakabadse and Kakabadse (2000) segmented the motives behind the use of outsourcing into three categories namely *a*) Cost *b*) Strategy and *c*) Politics, later on research work of 2009 clarified three major categories for opting outsourcing as *a*) Strategic *b*) Technical and *c*) Economic. (Marquez Moreu de Leon Fernandez, Marquez and Gonzalez, 2009)

Primary focus of these types of agreements focused upon terms of services on which the relationship is based between company and outsourced suppliers that these outsourced services must attain optimal level of quality and acceptance by the company. (Greer, Youngblood, & Gray., 1996) In fact one of the early study conducted by Porter (2000) highlighted that services which are outsourced by companies contributed Thirty

percent for the function of Information Technology, Sixteen percent for the function of Human Resources, Fourteen percent for the function of Marketing and Sales, and Eleven percent for the function of Financial Services. Moreover it has also been indicated that there is massive change in the financial indicators associated with outsourcing as total volume of global reached US \$ 1.3 Trillion from US \$ 146 Billion in 1996. (Zagda, 2011)

Statement of Problem and Delimitations: Increased competition coupled with instability of environment (Porter, 1980) posse's pressure on organization to produce technologically updated as well as quality based products. (LaFollett, 2006) Thus creates significant need for companies not only to remain profitable but also to deal effectively with rising HR issues, so to protect their employees as well as company's image. (Porter, 1980) Thus after applying all the contemporary measures of cost cutting like validating employees and reducing overheads, outsourcing is one of the prime measure for companies to diminish cost. The main theme behind outsourcing is to keep focus on the prime objectives of the company through outsourcing remaining business functions. (Minondo & Rubert, 2006) Thus it is better to outsource all those services which requires sufficiency in internal resources and does not have high value for the company in long run. (Roy & Aubert, 2001)

These findings are even supported by the initial research work of Argyres (1996) who claims that often organizations prefer to outsource those set of activities which they could not perform better as of their outsourced suppliers. This preference of organization became more evident if contractors available to company for these activities are in number and quality of work might be optimized even at lower level of cost (Herbsleb, Zubrow, Goldenson, Haynes & Paulk, 1997) and this would become possible as the contractors are have high familiarity and also have expertise of work due to its continuous repetition. (Usher, 2003)

Therefore recent work of Aubuchon (2012) termed outsourcing as a tactical mechanism of controlling cost rather than tactical mean of cost controlling. Though some of the research work also highlighted that drawbacks might emerged in short run as well as in long run (Compbell, 1995 & Quinn, 2000) As research work highlighted that the use of outsourcing is not always a risk free as various researchers for e.g. Hoecht and Trott (2006); Lonsdale and Cox (1998) Lonsdale (1999) Lysons et al. (2006) and Quinn and Hilmer (1995) emphasized that most crucial risks in this regards are the risk of being dependent, risk of being less competent because of loss of competency and risk of being outdated in knowledge because of loss of critical knowledge. Moreover outsourcing decision is highly crucial when there is matter of outsourcing of vertically integrated operations (Bidanda et al., 2006) while market position of the company might also at risk because of the transfer of main competency to supplier(s). (Leavy, 2004)

This is also supported by the indication of Langfield-Smith, Smith and Stringer (2000) that ineffective outsourcing might make organization opting the strategy of turn around because of loss of control over production and expertise required to perform necessary operations. Thus at the end we are forced to conclude that regardless of the popularity of outsourcing the issue remains unresolved as the factor of risk associated with that might make all the planning fail. (Tariq, Bashir, Ghazanfar and Dar, 2016) Moreover most of the research conducted on the issue of outsourcing has been done in developed countries (Hafeez & Andersen, 2014) and very few research works for e.g. Hafeez & Andersen (2014); Javed & Khan (2013); Tariq et al., (2016) and Sheikh and Rana (2012), highlighted the issue with respect to Pakistan.

Among them the latest research of Tariq et al., (2016) highlighted that results of their study does not indicated any improvement in profitability, which raised the claim on the essence of outsourcing, as if outsourcing does not helpful in increase of profitability then how any one claims that it is beneficial for the company and how it is raising the productivity or quality of work.

Moreover the research work conducted in Pakistan is based mostly on the evidences from banking sector (Javed & Khan, 2013 & Tariq et al., 2016) SME sector (Hafeez & Andersen, 2014) or on outsourcing of Logistic Functions. (Sheikh and Rana, 2012) In addition to all this most predominant limitation associated with mentioned research works is that the main focus of these research works is on the evidence from Punjab Province. (Javed & Khan, 2013 & Tariq et al., 2016) Thus here was no or very limited research work on outsourcing and its benefits in the territories of Sindh except the one conducted by Tanzil, Zahidie, Ahsan, Kazi and Shaikh (2014) on outsourcing of Primary Health Care Services & except this there is almost no research on outsourcing of any business function or on the topic of advantages of outsourcing with reference to Karachi or Sindh.

But in reality Karachi is not only a former capital of Pakistan but a business hub which pays massive contribution in economic activity. In fact according to the publication of 2015 almost sixty five percent of the total revenue of Pakistan has been created by Karachi. (Tariq, 2015) On the other hand, SME,s are the source which contributes significantly in economic development through providing job opportunities and cultivation of Gross Domestic Product (GDP) thus help country in stabilizing their economies.(Ale-Ebrahim, Ahmed & Taha, 2010)

Discussing the scenario of Pakistan's economy, SMEs are responsible for the formation of ninety percent of overall enterprise representation, eighty percent of non-agriculture manpower and signifies forty percent in

overall GDP of country. (Khalique, Hassan & Shaari, 2011) Thus through focusing on the claim made by Tariq et al. (2016) “*Despite its [outsourcing] popularity the result is an unsolved puzzle*” (p. 43) and also the lack of evidence for the advantages of outsourcing on business functions and especially on the profitability (Tariq et al., 2016), we believe there is sufficient room for investigating the advantages of outsourcing by SME’s operating in Karachi, especially in the presence of risk for outsourcing function.

Significance of Research: This study will not only be beneficial for intrapreneurs in making trade-off between Make it in and Outsourcing but will also clarify advantages which might be gained by sole proprietors of small sized and medium sized business through implementing the decision of outsourcing. As there was a lack of research work in the territories of Pakistan, especially in Sindh this study will also signify the impact of risk on the performance of the firm. Moreover this research will also aid in conducting further research by exploring further merits, demerits, risks as well as forces behind the decision of outsourcing, which will contribute significantly in enhancement of knowledge base and further research activities on the topic of outsourcing.

Theoretical Framework:

Research highlighted that outsourcing enhances organizational savings thus allow organization to increase ratio of its investment on core activities, saves management’s time, optimize organizational focus towards its prime goal, minimize staff cost and at last provides more flexibility to the organization. (Kenneth & Brain, 2006) On the other hand research also indicated that inclination of top management towards outsourcing because of its ability to optimize different extents associated with the performance of the organization. (Lilly, Gray & Virick, 2005) Any activity must only be outsourced to the external suppliers when the external party has the competency to perform in better way than the organization itself, otherwise the activity must be retained as in-house activity. (Bahli & Rivard, 2001)

Thus it is optimal to state that the idea behind the decision of outsourcing is to improve the organizational performance. (Lilly et al., 2005) But as indicated in statement of problem “*Despite its [outsourcing] popularity the result is an unsolved puzzle*” (p. 43) we focused towards this point with the context of Pakistan and found that there is minimal amount of research available in this regard except few which are highlighted as under:

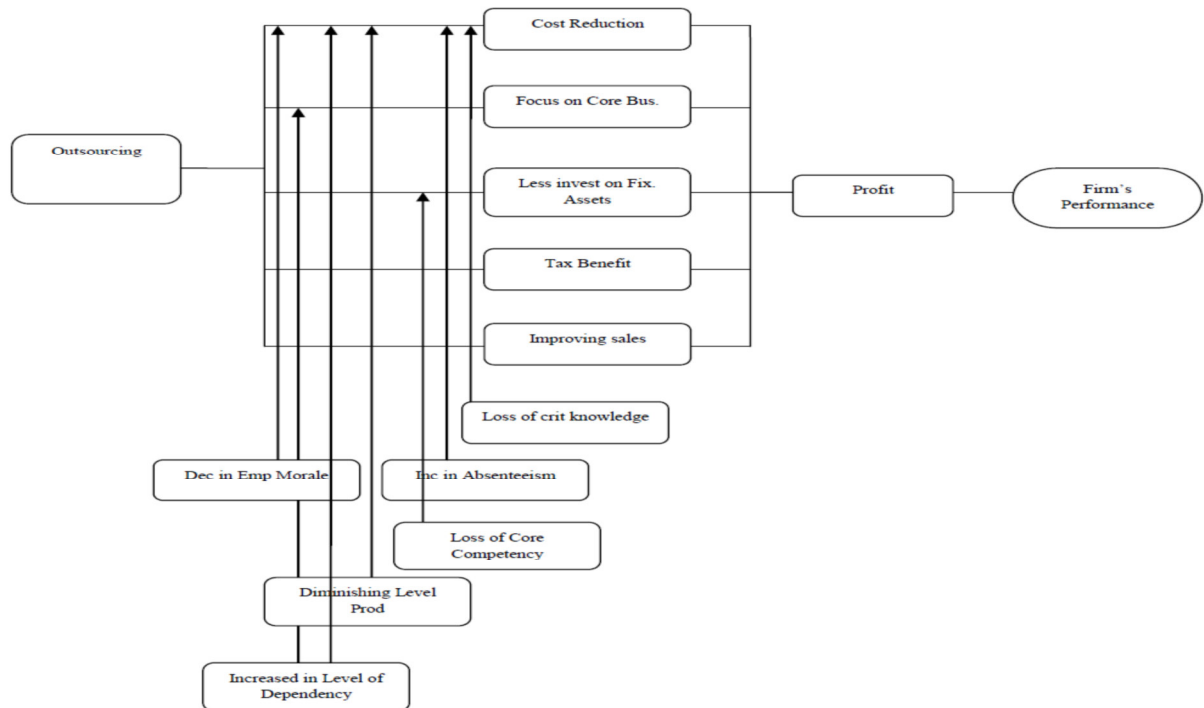
Research of Khan and Javed (2013) tries to clarify the role of outsourcing on Return on Assets and Return on Equity by taking five years data of listed banks operating in Pakistan i.e. from 2007 to 2011. Tariq, Bashir, Ghuzanafar and Dar (2016) conducted research by taking the reference of banking industry in Punjab in order to clarify the role of outsourcing on firm’s performance and for that reason he has taken productivity, Profitability, Continuous Improvement and Quality of work life as the major dependents of outsourcing. On the other hand research paper of Zameer and Ali (2013) signifies Perceived benefits and Perceived risks of Outsourcing by taking reference of the Banking Industry of Pakistan, and collected data from three banks i.e. First Women Bank, Bank of Punjab and Bank Alfalah Limited. Thus in addition to advantages of outsourcing, research also highlighted some of the risks and roadblocks which are hurdles in the path of outsourcing.

Coming towards the research work carried out on the outsourcing of specific functions, some of the researches like Sheikh and Rana (2012) also highlighted the role of outsourcing through focusing on logistics and distribution network. In their article distribution network has been divided into four levels and among four levels research found significant impact of outsourcing on level four of logistics which highlighted decisions pertaining to restructuring of supply chain. Similarly the research of Mubarik, Warsi, Nayaz and Malik, (2012) also highlighted the impact of outsourcing through the outsourcing of transportation in improvement in the performance of supply chain function. Moreover in order to conduct research they use SCM Efficiency, SCM effectiveness and also use relationship with suppliers as a mediator in order to clarify their research. But as mentioned in the statement of problem there was no or very limited research work highlighted the benefits which firms might have through outsourcing in the territories of Sindh.

But the latest research of Agburu, Anza Lyortsuun (2017) on SMEs highlighted that there are various measures to gauge organizational performance and this measurement is based upon intent of the evaluators that what they want to gauge? But we can surely state that, whatever the intent of the evaluators regarding measurement, organizational performance is the resultant of the organization. Though in the article Agburu, Anza Lyortsuun indicated that organizational performance is based upon profitability, and profitability is indicated as the resultant of Reduction in Cost, Increase in Efficiency through focus on its Core Business, Cost Restructuring through reduction on investment on fixed assets, Achieving Tax Benefits and last but not the lesser enhances company’s turnover through improving sales.

Thus through taking the outcomes highlighted by the article Khan and Javed (2013) with the article of Agburu, Anza Lyortsuun (2017) we tried to focus on the advantages which company might gain through outsourcing, not only this through impairing it with the research work of Aron et al. (2005); Hoecht and Trott (2006); Lonsdale and Cox (1998); Lonsdale (1999); Lysons et al (2006) and Quinn and Hilmer (1995), we came to know that there are some risks also which are associated with the decision of outsourcing, while SMEs are the major source behind the economy of Pakistan (as indicated through delimitations), we are going to present thoughts of entrepreneurs regarding the benefits which SME sector might have through use of outsourcing

Research Model:



Literature Review:

A range of studies highlighted positive impact of outsourcing on performance level of the Firm. (Bolat & Yilmaz, 2009; Chao, Uzmant & Sink, 2008; Gilley, Greer & Rasheed, 2004; Jiang, Fraaier, & Prater, 2006; Pounder, Cantrell & Daly 2011; Sallimat, Cullen & Umesh, 2008 & Wang, Gwebu, Wang & Zhu, 2008) But the major focus of these studies was on outsourcing of specific functions e.g. Human Resource Management, Logistics Management, Outsourcing of Business Process etc but not overall outsourcing. (Khan & Javed, 2013) While major purpose of outsourcing includes saving through cost optimization, Improvement of Core Competency. Moreover there are opting outsourcing is also linked with some Non-Financial motives like improvement of quality (Pounder et al., 2011 & Gilley & Rasheed, 2000), while other benefits for opting outsourcing are restructuring of cost, achievement of tax related benefits, Reduction of time to reach markets, Optimization of risk management, Expertise in operations and Catalyst for change etc. (Khan & Javed, 2013)

Outsourcing and Cost Reduction: Initial evidences associated with the cost reduction aspects of outsourcing are “*Transaction-Cost Theory*” (Williamson, 1975 & 1991) and *Principal-Agent Theory*. (Jensen & Meckling, 1976) The *Transaction Cost Theory* holds the perspectives that we can treat outsourcing as profitable if it will on cheaper side as compared to the benefits yield through it. Theory also highlighted that advantage of outsourcing would be treated as optimal only if it is overwhelming than cost associated with tracking of optimal supplier, asset specific investments and costs of contract imperfectness. (Williamson, 1975 & 1991)

Linking outsourcing with the theory of Jensen & Meckling (1976) it is appropriate to state that principle agent problem(s) is the major cause due to which company might outsource some of its activities to external suppliers and the contract of outsourced services is dependent upon result oriented contract. Research from Australia also signifies that through outsourcing of cleaning services the estimated level of cost saving reaches up to 46%. (Domberger & Fernandez, 1999) Research conducted by Khan and Javed (2013) indicated that for reduction in cost and improvement in the level of organizational performance, a firm can outsource its non-core activities, while prior research work also highlighted that there is a direct relationship between increase of cost associated with internal process and company’s inclination towards the decision of outsourcing. (Bolat & Yilmaz, 2009; Chao et al., 2008; Pounder et al. 2011; Sallimat et al., 2008 & Wang et al, 2008)

Moreover research work also highlighted that cost reduction is the prime purpose of outsourcing rather than optimizing of firm’s performance. (Chao et al., 2008; Gilley et al., 2004; Khan & Javed, 2013; Pounder et al. 2011; Sallimat et al., 2008; Jensen & Meckling, 1976 & Wang et al, 2008) But on the other hand research also indicated that sometimes outsourcing will not yield the estimated results and this is even highlighted through the research work conducted by (Bryce & Useem, 1998; Cole-Gomolski, 1998 & Pepper, 1996) Similar findings has also been indicated in the case of IT outsourcing by the research of Domberger and Fernandez, (1999) and findings highlighted that increase of nine percent in the cost after the decision of outsourcing.

Outsourcing and Firm's Performance: Several studies evidenced a positive link between firm's performance and outsourcing (Pounder et al., 2011; Bolat & Yilmaz, 2009; Cho et al., 2008; Sallimat et al., 2008; Wang et al., 2008; Jiang et al., 2006; Gilley et al., 2004). Research of Jummah and Wood (2000) highlighted the performance of the firm in the context of outsourcing of accounting and indicated the presence of positive association between them. In their article Jummah and Wood used panel data and indicated that use of outsourcing is not only beneficial for short term but also for long term, in fact in terms of accounting services it is more beneficial for long term purposes rather than short term. When linking the outsourcing with HR perspectives then it is beneficial in managing long term obligations as pension and rights of employees over company. (Khan & Javed, 2013)

On the other hand research conducted by Gilley et al (2004) indicated significant impact of HR outsourcing on payroll management and training of employees, results of their studies are also significant enough to highlight that positive impact of outsourcing of these HR activities on the performance of the firm. Research conducted on outsourcing in hotel industry indicated the optimization of firm's performance because of three major reasons as more focus on core competencies, improvement of service quality and last due to cost reduction. (Gilley & Rasheed, 2000) Moreover through this company can also decrease its long term expenditures in hardware as well as in software. (Khan & Javed, 2013)

Risks and Outsourcing: Though outsourcing is even treated as a risk-free activity (Lonsdale & Cox, 1997) but we cannot take this as the universal truth and have to pay attention on the other side of the coin, as in real world scenario most of the markets encompasses considerable amount of risks. (Quinn & Hilmer, 1995) Company's might examine their workflow immediately after the decision of outsourcing (Aron et al., 2005) As per research literature authors raise their concerns towards the presence of risks in different way but majority of the researchers for e.g. Hoecht and Trott (2006); Quinn and Hilmer (1995); Lonsdale and Cox (1998); Lonsdale (1999) and Lysons et al (2006) are united upon the decision that most relevant risks associated with the decision of outsourcing are **a) loss of critical knowledge b) loss of core competency and c) increase in the level of dependency.**

Moreover there is a significant level of social cost associated with the outsourcing decisions which are difficult to quantify but results in decrease in employee morale, increase rate of absenteeism and diminishing level of productivity. (Eisele, 1994; Kakabadse, 2000 & Walsh, 1996) This social cost is not only limited to the organizational level. (Kremic, Tukul & Rom, 2006) as research of Lafferty and Roan (2000) indicated that outsourcing of public services in Australia leads to decrease in concern towards skills and education by the entire class of workers as the contractors are least concerned about paying for skills and education. Initial research work in this regard by Quinn and Hilmer, (1994) also highlighted that synergy level inside the firm may suffer due to outsourcing of some internal functions which will leads to decrease in the level of productivity of other functions.

Research Methodology: The philosophy of research we have used for conducting this research is "**Epistemology**" while the philosophical stance we have used is "**Realism**" as we have to investigate the business related issue and also we wants to do this through enhancing our knowledge base through mingling data from different sources. In addition to do this, the method we employ was "**Deductive**" in nature and the type of investigation was "**Co-relational**" and in order to check the impact of various variables on each other the research strategy used is survey, while the unit of analysis is individual and time horizon is "**Cross Sectional**" in nature.

The research work of Khan and Javed (2013) conducted their research as archival research and collected data from past records of Banks listed in Karachi Stock Exchange (KSEx) from the year 2007 to 2011. Research on the topic of SME's conducted by Hafeez and Andersen (2014) conducted survey through collecting data from owners, Managers and CFOs of SMEs operating in Pakistan and 350 respondents was the sample size thus they have collected data through Non-Probability Sampling. On the other hand research of Tariq et al., (2016) also used likert scale questionnaire to collect data from different branches of Banks operating in Punjab. Thus through taking these parameters of sampling in mind we have developed closed ended questionnaire through taking items from prior research work in order to have reliability in the collected data.

But in Pakistan all the SME's are not registered with SMEDA (Small and Medium Sized Firms Developing Authority), thus through the criteria of Hafeez and Andersen (2014) we collected data by having specific criteria's for the selection of respondents working in SMEs. Discussing population of research we would like to mention that, research Population for this research are entire set of top level executives in SMEs operating in Karachi and The observed population for this research was the top level managers.. Thus for collecting data appropriately we have employed "**Non Probability Sampling**" and the method of Sampling was "**Quota Sampling**", while the base for making the quota was their inclusion in the top level management of SME, the sample size for this research is Two hundred and Fifty.

Questionnaire: As there was lacking of research on the topic of outsourcing and its affects in the territories of Pakistan thus we have mingled several researches in order to develop concrete research model as well as

questionnaire. But researches which are mostly used for the development of questionnaire are Agburu et al., (2017); Kamanga and Ismail (2016); Khan and Javed (2013); Mubarik, Warsi, Nayaz and Malik, (2012); Sheikh and Rana (2012) and Tariq, Bashir, Ghuzanafar and Dar (2016).

Statistical Testing & Analysis

In order to validate the collected data initially we tried to figure out its reliability and after evaluation through SPSS it has been found that the data is significant for conducting further tests associated with inferential statistics, as the result of all the variables is above seventy percent (70 %), as shown in Table No. 01

| <u>Reliability Statistics</u> | |
|----------------------------------|-------------------------|
| | Cronbach's Alpha |
| Outsourcing | 0.722 |
| Cost Reduction | 0.716 |
| Focus on Core Bus | 0.728 |
| Less invest on Fixed Assets | 0.803 |
| Tax Benefit | 0.727 |
| Improving Sales | 0.771 |
| Profit | 0.726 |
| Firms Performance | 0.794 |
| Dec in Emp. Morale | 0.724 |
| Increased in Level of Dependency | 0.723 |
| Diminishing Level Prod | 0.739 |
| Loss of Core Competency | 0.754 |
| Inc in Absenteeism | 0.798 |
| Loss of Crit. knowledge | 0.812 |

Table No. 01

Then through using AMOS, we have implemented second order CFA (Confirmatory Factor Analysis) and also draw the research model through AMOS, in order to provide the real view of variable linkages to our readers, which is highlighted in Figure No. 01

Moreover while testing the impact of different variables upon each other through the use of CFA, we have found that all the variables of interest are affecting each other significantly and thus it is legitimate to state that it's a believe of all the managers, intrapreneurs and entrepreneurs working on top levels in SMEs, operating in Karachi that outsourcing is a significantly important for SMEs too and while doing business on selected level this activity is significantly important for conducting business, same can be observed in Chart No. 01

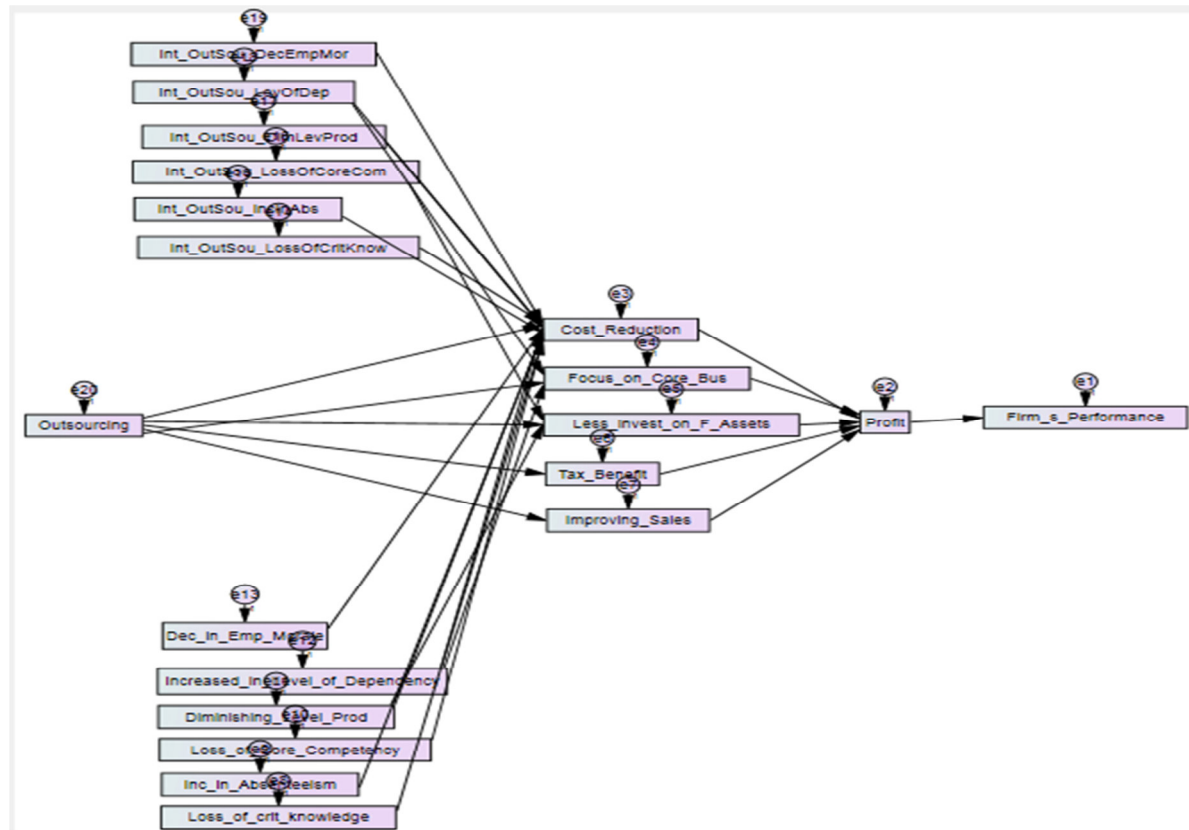


Figure No. 01

Thus we have to find out the Model Fit too in order to proceed further towards inferential statistics associate with research and in order to do so we have checked the validity of our research model through using measure associated with model fit, highlighted in Table No. 01

Model Fit Summary

| CMIN/DF | GFI | CFI | RMSEA |
|---------|-------|-------|-------|
| 1.692 | 0.971 | 0.953 | 0.03 |

Table No. 01

Table No. 01 highlighted that the value of CMIN/ DF (Relative Chi-Square) is found to be 1.692 which, is less than even 2 thus it is sufficient to believe that the model is sufficiently fit for the purpose of research, while the value of The Root Mean Square Error of Approximation (RMSEA) is 0.03 which also falls in the range of acceptable figure i.e. below than 0.05, thus sufficient to highlight the model fit. On the other hand values of Goodness of Fit Index (GFI) and Comparative Fit Index (CFI) are 0.971 and 0.953 thus all these measures to check the model fit for Structural Equation Modeling (SEM) are highlighting satisfactory results for the fitness of model.

| | | | Estimate | S.E. | C.R. | P | Label |
|-------------------------|------|-----------------------------------|----------|------|----------|------|-------|
| Focus on Core Bus | <--- | Outsourcing | .378 | .010 | 37.427 | *** | |
| Less invest on F Assets | <--- | Outsourcing | .678 | .018 | 37.296 | *** | |
| Tax Benefit | <--- | Outsourcing | .331 | .025 | 13.041 | *** | |
| Improving Sales | <--- | Outsourcing | .800 | .014 | 57.675 | *** | |
| Cost Reduction | <--- | Int. Out Sou. Loss Of Crit. Know. | .030 | .001 | 50.427 | *** | |
| Cost Reduction | <--- | Int. Out Sou. Dec Emp. Mot. | .009 | .001 | 17.704 | *** | |
| Cost Reduction | <--- | Int. Out Sou. Lev Of Dep. | -.001 | .000 | -2.477 | .013 | |
| Focus on Core Bus | <--- | Int. Out Sou. Lev Of Dep. | .095 | .002 | 57.900 | *** | |
| Cost Reduction | <--- | Int. Out Sou. Dim Lev Prod | -.025 | .001 | -45.315 | *** | |
| Cost Reduction | <--- | Int. Out Sou. Inc In Abs | .002 | .001 | 2.476 | .013 | |
| Cost Reduction | <--- | Outsourcing | .443 | .003 | 171.718 | *** | |
| Less invest on F Assets | <--- | Int Out Sou Loss Of Core Com | .100 | .013 | 7.926 | *** | |
| Cost Reduction | <--- | Loss of Crit knowledge | -.071 | .002 | -29.439 | *** | |
| Cost Reduction | <--- | Loss of Core Competency | -.034 | .003 | -12.295 | *** | |
| Cost Reduction | <--- | Inc in Absenteeism | -.003 | .003 | -1.240 | .215 | |
| Less invest on F Assets | <--- | Diminishing Level Prod | -.056 | .027 | -2.094 | .036 | |
| Cost Reduction | <--- | Diminishing Level Prod | 1.018 | .004 | 267.898 | *** | |
| Focus on Core Bus | <--- | Increased in Level of Dependency | -.109 | .010 | -10.606 | *** | |
| Cost Reduction | <--- | Increased in Level of Dependency | -.498 | .003 | -190.410 | *** | |
| Cost Reduction | <--- | Dec in Emp Morale | -.014 | .002 | -5.840 | *** | |
| Profit | <--- | Cost Reduction | -1.013 | .001 | -703.043 | *** | |
| Profit | <--- | Focus on Core Bus | .008 | .002 | 4.593 | *** | |
| Profit | <--- | Less invest on F Assets | .004 | .002 | 2.321 | .020 | |
| Profit | <--- | Tax Benefit | .002 | .001 | 1.979 | .048 | |
| Profit | <--- | Improving Sales | -.006 | .002 | -3.408 | *** | |
| Firms Performance | <--- | Profit | .545 | .023 | 23.298 | *** | |

Table No. 02

Analysis: It has been observed that outsourcing is affecting all the dimensions/ variables i.e. (Focus on core business, Level of investment of Fixed Assets, Tax Benefits, Improvement in Sales and Cost Reduction in significant as well as in positive manner. The reason behind this indication is the p-value, which founds to be significantly low. Thus it is appropriate to state that the there is a significant impact of outsourcing on all the dimensions/ variables.

But as highlighted through research model that there are various types of risks which are acting as moderator in the process of outsourcing thus we have to impair outsourcing with these moderating variables. Moreover with out moderating role it has been found that outsourcing has a positive relationship with all the above mentioned dimension/ variables, but when we use the strategy of outsourcing to decrease cost then it might results in loss of critical knowledge, decrease in employee's level of motivation, increase in the level of dependency, diminishing level of productivity at employee as well as departmental and organizational level and increase in the rate of absenteeism.

Moreover company might focus effectively upon their core business through using the strategy of outsourcing but it will also enhance the level of dependency of the company over their external suppliers. Similarly lesser investment in fixed assets might optimize the cash flow and balance sheets of the company in short run but it might also result in loss of core competency(s) which might hurt company's growth and level of profitability in the long run.

Discussion: As the research is based upon the outsourcing in SME sector thus it is optimal to state that only achievement of short term benefits must not be the point of view of entrepreneurs and they must observe that the long term orientation of outsourcing specially by coupling it with critical risks associated with the strategy. Thus they must outsource only those functions which are lesser or least important not only under the recent scenario but also in long run, in order to diminish chances of decrease in loss of critical knowledge and core competencies which are the most dominant features for the long term growth of the company.

Moreover being good administrator entrepreneurs must focus upon the relationship of one department with others in order to take optimal decision of outsourcing, as outsourcing is not affecting one or two departments but can decrease overall level of synergy in the company and thus can diminish employee morale, satisfaction and productivity. Thus the decision of outsourcing must be taken after proper analysis and understanding of probable results in order to make the decision beneficial in short run as well as in the long run.

Future Need of Research: The research is conducted on SMEs operating in Karachi but does not separated the findings in Small Sized and Medium Sized organizations and if the future research may divide the work in Small

and Medium sized organizations then it might become more easier to understand the role of outsourcing for both the sectors comes under SMEDA (Small and Medium Sized Forms Development Authority)

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