

**A STUDY ON OUTSOURCING CORE BUSINESS
FUNCTIONS IN THE SRI LANKAN CONTEXT**

Perera W.W.S.

(10/9024)



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk

Master of Business Administration

Department of Management of Technology

University of Moratuwa

Sri Lanka

11th November 2011

Declaration

I declare that this is my own work and this dissertation does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

Also, I hereby grant to University of Moratuwa the non-exclusive right to reproduce and distribute my thesis/dissertation, in whole or in part in print, electronic or other medium. I retain the right to use this content in whole or part in future works (such as articles or books).

Signature:

Date:



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk

The above candidate has carried out research for the Masters Dissertation under my supervision.

Signature of the supervisor:

Date

Abstract

In the Sri Lankan context most of the large scale companies outsource their manufacturing functions which is the core function of their business while keeping the business and the customers within the company. This study focuses towards large scale manufacturing companies in the Sri Lankan Industry to investigate how the companies take the outsourcing decision with confident on their business and how the companies achieve success through outsourcing. Two main leading companies namely Unilever Sri Lanka limited and Dockyard PLC were studied under this report as case studies. Both companies operate in two completely different market segments and the study was done considering both of these companies separately. In each case manufacturing is the core function and outsourcing this function was studied to gain the knowledge on each area.

Interviewing was selected as the primary data gathering method to capture the real expertise of the interviewee. Secondary data were gathered through company documents. Analysis was done according to a categorization of data after summarizing each interview. According to the findings apart from the marketing category most of the other success factors were related to each other when compared these two business units. The major limitation of the study is considering two companies as case studies and findings from these two companies are not enough for generalization process.

Decreasing the direct labour cost is the main factor both companies are aiming into and this factor is common to any business segment. The conclusion was made as through proper outsourcing plan, Company can minimise the risk of business failures and gain competitive advantage through cost benefits. The factors to consider for a successful outsourcing plan are listed in each case. Further researches can be conducted to develop generalized models in outsourcing core business functions.

Acknowledgement

I would like to offer my sincere gratitude to the people who helped me in scheduling the interviews with the middle level managers in both USL and CDPLC companies. Special thanks goes to E.M.M.B Yatiyana in arranging the entrance passes to Colombo dockyard PLC and coordinating and arranging appointments regarding all the necessary interviews in the company within a limited time period.

Special thanks go to my wife and family for the understanding and the support given in completing this task in numerous ways.

The instructions and the advices in every stage of the research including the design and the analysis, provided by the supervisor Prof. Chandana Perera was highly appreciated in completing this dissertation. This thesis would not have been possible unless with the extensive support given by the supervisor in guiding as well as rectifying the decisions throughout the research.



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk

Table of Contents

	Page No.
<i>List of Figures</i>	<i>vi</i>
<i>List of tables</i>	<i>vii</i>
<i>Abbreviations</i>	<i>viii</i>
CHAPTER 1 – INTRODUCTION	1
1.1 Background	1
1.2 Research Problem	3
1.3 Objectives	4
1.4 Scope of the research	4
1.5 Limitations	5
CHAPTER 2 – LITERATURE REVIEW	6
2.1 What is outsourcing	6
2.2 The rationale for outsourcing	7
2.3 Choosing what to outsource	8
2.4 Motivational factors of outsourcing	10
2.4.1 Cost reduction	11
2.4.2 Access to special functional capabilities, new technologies and skills.....	13
2.4.3 Freedom to focus on core business functions	14
2.4.4 Sharing the risk & saving the huge capital requirements	15
2.4.5 Process improvement and strategic benefits.....	16
2.4.6 Motivate managers towards core functions	16
2.5 Theories in outsourcing	17
2.6 Success Factors of Outsourcing	22
CHAPTER 3 – METHODOLOGY	26
3.1 Introduction	26

3.2	Research Design.....	26
3.2.1	Scope selection.....	26
3.2.2	Sampling.....	28
3.2.3	Data Collection.....	28
3.3	Data Analysis	30
CHAPTER 4 – ANALYSIS.....		31
4.1	Case 1 - USL.....	31
4.1.1	Overview of the company	31
4.1.2	Company Structure related to Interviews	32
4.1.3	Motivational factors of outsourcing	36
4.1.4	Success factors of outsourcing	39
4.1.5	How the company gain competitive Advantage	48
4.1.6	Success in Outsourcing	50
4.2	Case 2 – Colombo Dockyard PLC	52
4.2.1	Overview of the company	52
4.2.1	Company Structure related to Interviews	53
4.2.2	Motivational factors of outsourcing	58
4.2.3	Success factors of outsourcing	61
4.2.4	How the company gain competitive Advantage	69
4.2.5	Success in Outsourcing	70
CHAPTER 5 – DISCUSSION.....		71
CHAPTER 6 – CONCLUSION & RECOMMENDATIONS.....		81
6.1	Conclusion.....	81
6.2	Recommendations	82
6.3	Further Research Areas.....	83
REFERENCES		84

List of Figures

	Page No.
<i>Figure 1: Michael Porter's Value Chain</i>	1
<i>Figure 2: What is core?</i>	10
<i>Figure 3: Structure - Supply Chain Make</i>	32
<i>Figure 4: Structure - Supply Chain Non-Make</i>	34
<i>Figure 5: Structure - Marketing</i>	34
<i>Figure 6: Site selection Procedure</i>	42
<i>Figure 7: Structure of the Hull construction department</i>	54
<i>Figure 8: Structure of the Commercial Department</i>	55
<i>Figure 9: Structure of the HR Department</i>	56
<i>Figure 10: Structure of the HR Department</i>	57



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk

List of tables

	Page No.
Table 1 – General Comparison.....	71
Table 2 – Motivational factors.....	74
Table 3 – Success factors of outsourcing.....	77



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk

Abbreviations

USL – Unilever Sri Lanka Limited

CDPLC - Colombo Dockyard PLC

FMCG – Fast Moving Consumer Goods

HACCP – Hazard Analysis in Critical Control Points

GM – General Manager

HOS – Head of Section



University of Moratuwa, Sri Lanka.
Electronic Theses & Dissertations
www.lib.mrt.ac.lk