SUBCONTRACTING AND ORGANIZATIONAL PERFORMANCE: A CASE STUDY OF NIGERIAN BOTTLING COMPANY

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ABSTRACT

This study examined the link between subcontracting and organizational performance. The study adopted an explanatory research design. The population of the study comprised staff of Nigerian Bottling Company Plc in Ajegunle and franchising outlets. Questionnaire was used to collect primary data for the study, while the Chi Square non-parametric statistical tool was used to test the hypotheses formulated. The study found that subcontracting relates to productivity, efficiency and profitability of Nigerian Bottling Company Plc in Ajegunle and its franchising outlets. Nigeria Bottling Company, it was determined, applies subcontracting as a strategic management tool. The study recommends that government must take measures to rationalize the industry and remove policy and institutional impediments which make small suppliers riskier and more expensive for the assemblers.
Keywords: Efficiency, organizational performance, productivity, profitability

INTRODUCTION

Organizations exist for a variety of purposes; some produce goods and service for local or overseas consumption to earn a profit, while others produce same for community benefits. In pursuit of their goals and objectives, all organizations rely on various levels of plans, and surviving strategies has to be formulated routinely to meet demands of changing business environmental constraint or to optimally utilize available resources. Current trends in the business environment include product shortened life cycles, rapid advances in technology, rising demand for capital, increased government intervention organizations' internal affairs and more awareness of the social consequences of organizations' pursuit of profit.

Manufacturing companies are increasingly reorganizing their value chains and outsourcing non-core activities since the last two decades. The importance of subcontractors have grown both from economic and production point of view. The new manufacturing paradigms of outsourcing, co-operation, networking and agility have been subjects of discourse among business researchers and practitioners. However, little empirical research has been done on them.

As the changing business environment calls for more managerial skills, increased importance is placed on managers' ability drive change and innovation, intelligently and rapidly communicate essential information, lead and motivate organization employees in new directions, and enlist the acceptance and support of employees. Strategic management is a level of managerial activity under set goals and over tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of organization studies. It is an ongoing process that evaluates and controls the business of the company; assesses its competitors and set goals and plans to outsmart existing and potential competitors; and then reassessed each strategy regularly (annually or quarterly) to determine how it has been implemented and whether it has succeeded in meeting changing circumstances, new

technology, new competitors, new economic environment, or new social, financial, or political environment (Lamb, 1984).

Oyedijo (2008) defines strategic management as institutional management that involves of drafting, implementing and evaluating cross-functional decisions that enables an organization achieve its long-term objectives. Whereas Akewushola (2009) defined strategic management as the process of specifying the organization's vision, mission and objectives, developing policies and plans, often in terms of projects and programmes, which are designed to achieve these objectives, and then allocating resources to implement the policies, plans, projects and programmes.

Subcontracting is strategic management decision that aligns the organization to its operating environment. Subcontracting results in a situation where the firm outsources part of its operational activities, such as production, processing of materials, components, parts or subassembly, to other independent enterprises, to perform according to specifications or plans provided (Holmes, 1986, as cited in Taymaz & Kilicaslan, 2005). It is a specific form of outsourcing that involves intimate relations and information exchange between firms (Heshmati, 2003); and a practice that has gained increased adoption in the business world. Yet, literature is scant on the role of subcontracting in enhancing the performance of firms.

The main objective of this study therefore, is to analyze the impact of subcontracting on organizational performance. The Specific objectives are to determine the role of subcontracting in the productivity and profitability of firms, with a particular focuses on Nigerian Bottling Company Plc in Ajegunle and franchising outlets.

The succeeding sections of the paper presents a review of literature of subcontracting and its importance, as well as organizational performance and its indicators. The methodology adopted to examine the association between subcontracting and organizational performance is also presented in the following sections. Furthermore, the following sections showed the data analysis and interpretation, and discussion of findings, conclusion and recommendations.

LITERATURE REVIEW

Concept of Subcontracting

Subcontracting refers to the purchase of a part of a product or process from a different company (Kimura, 2010). Kawasaki (1998) defines a subcontracting relationship as one in which one firm hires another to conduct a commissioned work (producing parts, components, or finished products) under a dominant position. Subcontracting relationships are often long-term arrangements that involve risk-sharing arrangements, technology diffusion mechanism, and distinctive subcontractor control, such as “kanban system” (Uekusa, 1987). However, the arrangement is not necessarily an exclusive one; a subcontractor may have multiple clients.

Subcontracting firms play an important role in industrial development. One of the main reasons is that large firms subcontract to small and medium-sized enterprises and by doing so, large firms can enjoy the advantage of lower wage of small firms (traditional approach) and lower transaction cost from inter-firm cooperation in terms of technology, production and marketing (modern approach).

Japan's Ministry of International Trade and Industry (MITI) defines subcontracting as "a contractual arrangement between firms where the contractor is commissioned by the *contractee* to produce products, parts, attachments, materials, or components used as inputs in the *contractee*'s production, or to produce or repair facilities, equipment, tools, and others which the *contractee* firm uses in production. When a firm purchases non-customized parts, components, and others through regular marketing channel, it is not regarded as subcontracting. In subcontracting, a *contractee* directly outsources a task to a contractor, and assigns a plan, quality specification, form, design, etc.

According to EU (2007) when enterprises make complex products involving many different processes, when demand is too high, or the product is too specialized, they have the choice of doing the work themselves or getting others to do it for them. If they buy in specially made rather than standard products, this is known as subcontracting (Compton & Jessop, 2009). Omogunwa (2007) posited that a sub-contracting relationship exists when a company (called contractor) places an order with another company (called sub-contractor) for the production of parts, components, subassemblies or assemblies to be incorporated into a product to be sold by the contractor. Such orders may include the processing, transformation or finishing of materials or parts by the sub-contractor at the request of the contractor.

Oragnge (2008) identified several forms of subcontracting arrangements. These include, but limited to full capacity sub-contracting, where due to insufficient capacity in the principal's firm, a percentage of total output is regularly subcontracted; special sub-contracting, where sub-contractors manufacture and supply parts or components on a more or less permanent basis, including the use of specialized machinery or equipment or techniques; marginal sub-contracting, where infrequent or small orders are passed on to sub-contractors; cost-saving sub-contracting, where costs of production of subcontracted items are much lower in sub-contractor firms because of lower overheads, lower taxes and lower expenses in wages and other payments to labour; and capacity sub-contracting, which arises due to temporary factory overload on account of a sudden increase in market demand, bad production scheduling, machine breakdown and other fatalities.

Oragnge (2008) further distinguished between industrial (production) sub-contracting and commercial (marketing) sub-contracting. In a commercial subcontracting, the contractor does not participate in the actual production process, but takes care of marketing and financing. The contractor usually specializes in a specific product range, and organizes production by establishing contracts with selected enterprises or individuals, who are then required to work according to fixed specifications. Often, the subcontractors are organized such that each completes only part of the whole production cycle. Thus, they form a chain of complementary producers, with the contractor as the central inch pin. The finished products are then marketed under the name of commercial contractors (Webster et al., 1997). Whereas industrial contractors, as distinct from commercial contractors, use sub-contractors for the execution of specific tasks within their own production process. The fixed tasks are usually labour or skill-intensive.

Webster et al. (1997) defined subcontract manufacture as the process by which a subcontractor performs all or part of the manufacture of the principal's product, to specifications provided by the principal. Subcontracting and subcontracting system concept has been commonly used in Japan. The Japanese law on "Promotion of Subcontracting Small

and Medium Enterprise" (2010) defined parent firms (e.g. prime contractor) and subcontracting enterprises (*shitauke*) or co-operating factory (*kyoryoku kojo/gaisha*) based on the size of companies. A subcontractor is considered smaller in terms of capital and number of employees than a parent company (Asanuma, 1989).

However, the term "subcontracting" has had its traditional use when there exists a prime contractor, in most cases in government procurement contracts and in construction projects (Chaillou, 2008; Sako, 2002). In areas outside defense contracting, construction and steel, the term "subcontractors" has often been encountered in garment making. Lastly, the term "subcontractors" rather than "suppliers" has tended to be used in Britain in operations which have been regarded either as a temporary overspill or as peripheral non-core activities (Sako 2002).

Based on these concepts there are two different aspects to look at in subcontracting. First, is the firm's position within the chain and second, the independence of producing own products (Asanuma, 2009; Hovi, 2005; Christensen, 2000). The product independence aspect of a subcontractor has traditionally been used in definitions, even though it is very difficult to separate a subcontractor from a general supplier. However, Lilliecreutz (2006) notes that the border becomes unclear, when a supplier of standard components or raw materials starts to customize products or when a subcontractor starts developing products independently.

Subcontracting has been a dominant research topic in developed and developing countries. Scholars in the field of economic development have conducted research on subcontracting and derived implication to policy makers (see Andrabe, et al. 2006; Rosés, 2005; Wattanapruttipaisan, 2002 among others).

There are two main reasons a large firm may outsource production to subcontractors. One of the main benefits is to enjoy flexibility by utilizing production capacity of subcontractors (Holmes, 1986; Watanabe, 1971). Second main benefit of subcontracting is related to cost reduction. Large firms may seek to subcontract production, particularly for unskilled labour intensive production and to take advantage of lower wages in small firms.

There are few studies that empirically examined determinants of subcontracting in literature. Kimura (2002) and Taymaz and Kilicaslan (2005) identified factors that determine subcontracting relationship to include size of firm, wage, female workers, skilled-labour, intensity of production process, level of technology, firm growth and ownership.

Theoretical Review

According to Oragnge (2008), the dualistic approach and networking and clustering approach are two important theories to consider when analyzing subcontracting. Dualistic approach considers subcontracting as an unequal power relationship. Originally, this theory is based on the concept of "dualistic economy", which includes two different sets of enterprises, the large firms (multinational corporations), and the small firms (Berger & Piore, 1984). The basic understanding of this theory is that large contractors realize benefit at the expense of small contractors.

Networking and clustering approach on the other hand, emphasizes networking and clustering. It is approach that supports networking initiatives and development of industrial

clusters (Pyke, 2002; UNCTAD, 2004). Ceglie and Dini (2008) suggest that small firms are in the best position to help each other through horizontal cooperation (they can collectively achieve economies of scale), vertical cooperation (they can specialize in their core activities and develop external division of labour) and networking among enterprises, providers of business development services, and local policy makers.

Clustering is important to establishing subcontracting relationships, and bestows significant benefits to subcontractors, particularly small or local firms (Rama & Calatrava, 2002). Patterns of subcontracting as a specific form of networking are associated with specific types (subcontracting relationships) of industrial clusters (Rama et al., 2003). Under these circumstances, there have some firms working as both subcontractors and contractors at the same time. In this study, we combine the dualistic approach and the networking and clustering approach due to their similarity in measurement variables.

METHODOLOGY

The aim of this study was to examine the link between subcontracting and organizational performance. The study adopted an explanatory research design. The study population of this study is the staff of Nigerian Bottling Company Plc. The staff strength in Nigerian Bottling Company Plc in Ajegunle, Lagos and franchising outlets are 1500. This comprise management, technical and clerical staff, and excludes casual workers. The study derived a sample size of 205 staff using the Krejcie and Morgan Table for sample size determination. In view of homogeneity of the study population, purposive sampling method was adopted to arrive at the test units. Questionnaire was used to collect primary data from respondents. The validity of the research instrument was confirmed by experts in the field, while its reliability was determined through the test-re-test method. The data analyzed and interpreted are based on pre-tested set of questionnaire administered. 250 questionnaire were self-administered to staff of Nigerian Bottling Company Plant at Ijora, but only 205 were returned in time for the analyses. Out of the 205 returned questionnaire, 4 were not filled and one (1) are improperly filled. Hence, 200 questionnaire were certified fit enough, and were collated for final analyses. The Chi square statistic used to test the hypotheses formulated for the study.

DATA ANALYSES AND INTERPRETATION

Analyses of Section A: Bio Data

The responses to questions were analyzed in Tables using frequency and percentage as below.

Table 1: Gender distribution of respondents

Response	Frequency	Percentage
Male	110	55.0
Female	90	45.0
Total	**200**	**100**

Source: Field Study (2022).

Table 1 showed that out of the two hundred accepted as valid for analysis, 55 percent of the respondents are male while 45 percent are female.

Table 2: Age distribution of respondents

Response	Frequency	Percentage
Below 30 years	128	64.0
30 - 40 years	35	17.5
41 years and Above	37	18.5
Total	**200**	**100**

Source: Field Study (2022).

The information in Table 2 is in line with the 2006 population census where it is ascertain that working population in Nigeria are between 25 to 35 years.

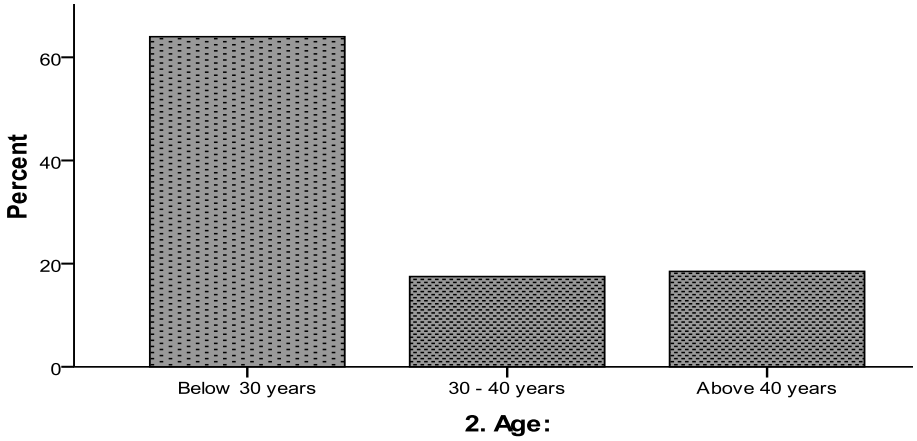

Fig. 1: Age distribution of respondents
Source: Field Study (2022).

Table: 3: Marital status of respondents

Response	Frequency	Percentage
Married	135	67.5
Single	65	32.5
Widow	0	0.0
Divorced	0	0.0
Total	**200**	**100**

Source: Field Study (2022).

Table 3 shows that the percentage of married respondents is 67.5, and is the majority, while single comprise 32.5 percent of the respondents. The analyses show that majority of staff of Nigerian Bottling Company in Ajegunle, Lagos are married and stay married.

Table 4: Educational qualification

Response	Frequency	Percentage
OND/Diploma	47	23.5
B.Sc/HND	61	30.5
Professional Degree	92	46.0
Total	**200**	**100**

Source: Field Study (2022).

Table 4 shows that the majority of respondents have Professional Degree with 46 percent and while 23.5 percent have OND or Diploma. This analysis showed that there are many competence and effective hand in the firm with most of the staff with higher qualification, it is assume that the respondents will be able to comprehend organizational policy.

Table 5: Respondents' department

Response	Frequency	Percentage
Management staff	7	3.5
Finance Department	20	10.0
Logistic Department	12	6.0
Production department	22	11.0
Marketing/Sales Department	51	25.5
Administrative Department	31	15.5
Human Resource Department	29	14.5
Administrative	25	12.5
Engineering Department	3	1.5
Total	**200**	**100.0**

Source: Field Study (2022).

Table 5 showed the distribution of respondents according to their departments. The majority of respondents belong to marketing department with 25.5 percent. This analysis show that marketing department has the highest employees of the organization and adequately represented.

Table 6: Distribution respondents' status

Response	Frequency	Percentage
Top Management	19	9.5
Middle Management	102	51.0
Lower Management	79	39.5
Total	**200**	**100.0**

Source: Field Study (2022).

Table 6 showed the distribution of respondents according to status in the firm, the analyses show that majority of the respondents are middle manager with 51 percent, this is in line with designation of duties in the firm with the middle management responsible for most of clerical and routine duties. This majority cadre formed the policy implementation group, hence it is ascertain that the respondents are familiar with policies of the organization.

Table 7: Distribution of respondents' years in the organization

Response	Frequency	Percentage
Below 5 year	40	20.0
5-10 years	160	80.0
11 years and above	0	0.0
Total	**200**	**100.0**

Source: Field Study (2022).

Table 7 shows the distribution of respondents according number of years served in the organization. Majority of the respondents have served the organization from 5 -10 years with

160 respondents or 80 percent while those that served less than 5 year are 40 respondents or 20 percent. The analyses show that none has served up to 11 years among the respondents.

Table 8: Subcontracting and Productivity

	Question	Response	Frequency	Percentage
10	strategy of use in your organization	Yes	182	91.0
		No	13	6.5
		Not Aware	5	2.5
		Total	**200**	**100**
11	Subcontracting strategy aid product expansion	Yes	174	87.0
		No	20	10.0
		Not aware	6	3.0
		Total	**200**	**100**
12	Subcontracting and cost and goodwill of the organization	Yes	176	88.0
		No	24	12.0
		Not Aware	0	0.0
		Total	**200**	**100**
13	Subcontracting and efficiency of the staff and service delivery	Yes	160	78.5
		No	30	15.0
		Not Aware	10	5.0
		Total	**200**	**100**

Source: Field Study (2022).

Table 8 shows that majority of respondents agreed that there sis identifiable strategy within the organization. Also, majority confirmed that subcontracting has influence on product expansion in the organization. Also in the table showed that majority of respondents that subcontracting as a strategy has reduce cost and contributed to the goodwill of the organization. The analyses of the respondents show that majority of respondents that adoption of subcontracting has contributed to efficiency of the staff and improved service delivery in Nigerian Bottling Company Plc.

Test of hypotheses one

Ho1: There is no relationship between subcontracting and organizational productivity

This hypothesis aim to verify the relationship between subcontracting as a strategic option and organizational productivity in Nigerian Bottling Company Nigeria Plc. Questions in section B of the questionnaire are used as the main instrument of analyses.

Table 9: Subcontracting and Productivity (Chi Square Extract)

Question	Responses	%	X^2 Cal	X^2 Tab	DF	Remark
10	Yes	91.0				
	No	6.5				
	Not Aware	2.5	149.78		2	
12	Yes	88.0				
	No	12.0				
	Not Aware	0.0	57.76		2	
13	Yes	78.5				
	No	15.0				
	Not Aware	5.0			2	
14	Yes	78.5				
	No	15.0				
	Not Aware	5.0	95.660		2	
Total			**303.2**	**15.507**	**8**	**Sig**

X^2 Cal= 303.2, X^2 table = 15.507, Degree of Freedom (df)= 8 at 0.05 Level of Significance
Source: Field Study (2022).

Table 9 above presents the Chi-square analyses of the responses on hypothesis I. The result indicates that the Chi square calculated (X^2 cal) is 303.2 while Chi square table (X^2 tab) is 15.507 with degree of Freedom (df) = 8 at 0.05 Level of Significant (LS). It is observed that Chi square (X^2) Calculated is greater than Chi square (X^2) Table. According to decision rule reject null hypothesis and accept alternate hypothesis that there is relationship between subcontracting and organizational productivity.

Table 10: Subcontracting and profitability

14	Adoption of subcontracting strategy and expansion drive	Strongly Agreed	121	60.5
		Agreed	47	23.5
		Disagree	28	14.0
		Strongly Disagreed	4	2.0
		Total	**200**	**100**
15	Qualified staff in production line of the organization	Strongly Agreed	36	18.0
		Agreed	150	75.0
		Disagree	12	6.0
		Strongly Disagreed	2	1.0
		Total	200	100.0
16	Division of labour is in practice in the organization	Strongly Agreed	52	26.0
		Agreed	132	66.0
		Disagree	10	5.0
		Strongly Disagreed	6	3.0
		Total	**200**	**100**
17	Cost of production has reduced due to large scale production	Strongly Agreed	54	27.0
		Agreed	114	57.0
		Disagree	22	11.0
		Strongly Disagreed	10	5.0
		Total	**200**	**100**

Table 10 Cont'd: Subcontracting and profitability

18	Raw material demand of Nigerian Bottling Company Plc has increase due to growth in production line.	Strongly Agreed	49	24.5
		Agreed	134	67.0
		Disagree	6	3.0
		Strongly Disagreed	11	5.5
		Total	**200**	**100**
19	Subcontracting has helped to increase their products	Strongly Agreed	64	32.0
		Agreed	105	52.5
		Disagree	10	5.0
		Strongly Disagreed	21	10.5
		Total	**200**	**100**

Source: Field Study (2022).

According to Table 10, majority of respondents agreed that subcontracting has contributed to the expansion drive in the organization. In the same table majority of the respondents agreed that qualified staff has been engaged in production line as a result of subcontracting f Nigerian Bottling Company Plc. Majority of the respondents agree that division of labour has been practice to the core in the organization. In the table, majority of respondents with 57 percent agree that cost of production has reduced as a result of large scale production. Majority of respondents also agree that raw material demand of Nigerian Bottling Company Plc has increase due to growth in production line. Also majority of respondents agree that subcontracting has helped Nigerian Bottling Company Plc to increase their products.

Test of hypothesis two

Ho_2: There is no significant relationship between subcontracting and profitability.

This hypothesis aim at testing the relationship between subcontracting and organizational profitability in Nigerian Bottling Company Nigeria Plc. Questions in section C of the questionnaire are used as the main instrument of analyses.

Table 11: Chi square extract

Question	Responses	%	X^2 Cal	X^2 Tab	DF	Remark
15	SA	60.5				
	A	23.5				
	D	14.0				
	SD	2.0	78.0		3	
18	SA	27.0				
	A	57.0				
	D	11.0				
	SD	5.0	64.960		3	
20	SA	32.0				
	A	52.5				
	D	5.0				
	SD	10.5	56.72		3	
Total			**199.68**	**16.919**	**9**	**Sig**

X^2 Cal= 199.68, X^2 table = 16.919, Degree of Freedom (df)= 9 at 0.05 Level of Significance

Source: Field Study (2022).

Table 11 presents the Chi-square analyses of the responses on hypothesis II. The result indicates that the Chi square calculated (X^2 cal) is 199.68 while Chi square table (X^2 tab) is

16.919 with degree of Freedom (df) = 9 at 0.05 Level of Significant (LS). It is observed that Chi square (X^2) Calculated is greater than Chi square (X^2) Table. According to decision rule reject null hypothesis and accept alternate hypothesis that there is significant relationship between subcontracting as strategic option and organizational profitability.

Summary of Findings

It was discovered from the analyses that majority of the respondents are male and are below age of 40 years which is the most active age in human life, this is in line with Nigeria Census Board (2006) that the age bracket are the workers of within the economy. The characteristic of the respondents showed that majority are married and have the perquisite skill and knowledge to give opinion on the subject of subcontracting in the organization and are experience in the activities of the organization apart from belonging to various key departments but has spent quality years in the employment of the organization.

It is established that the NBC applied various strategy with aim of increased performance over time. It also agreed that one important strategy applied is subcontracting and these has helped the organization to expand in term of products. It also helped in reduction of wastage and cost of production.

It is also observed that subcontracting has contributed in term of growth and expansion of the organization and increased the raw material demand of the organization. It also discovered that organizational turnover has increased as a result of adoption of subcontracting and this has been beneficiary to the organization in term of encouragement of investment into the organization. And lead to increase in market share of the organization. Then it is established that there is relationship between subcontracting and organizational productivity, and these has led to increased profitability and efficient utilization of material resources in an organization.

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

In the analyses it was discovered that majority of the respondents agreed that the organization has an identifiable strategy and that this strategy is very effective in the organization. It is observed that majority of the respondents agreed that subcontracting as a strategy has helped the organization to expand in term of products, this has reduced wastage and cost of production as result of economy of large scale and increased goodwill in the organization. Therefore it is established that there is relationship between subcontracting and organizational productivity.

In the analyses of section c, it is observed that adoption of subcontracting strategy has helped in growth and expansion of the organization due to the fact that the organization has qualified staffs which were engaged in production line and this has increase the organization's productivity which has increased the raw material demand of the organization. In section D, it is discovered that organizational turnover has increased as a result of adoption of subcontracting and this has been beneficiary to the organization in term of encouragement of investment into the organization. And lead to increase in market share of the organization.

The idea of business strategy has been developed, discussed and applied by academics and practitioners over many years. Subcontracting is not always specified in an explicit manner, but it is defined as a contractual relationship in which a large firm asks a small firm to

conduct a commissioned work (producing parts, components, or finished products) under a dominant position. There also seems to be a general consensus that subcontracting is a long-term arrangement.

The research showed that subcontracting chains develop over a time, which means that the activity of the supplier development and methods should vary with time. In the manufacturing context, subcontracting is always a long-term decision, even though the position and importance of different subcontractors could differ during the initial stage of the subcontracting. In order to find best practices for managing the supply chain, the stages of evolution of the subcontractors' business should be recognised. It is difficult to accumulate experience to meet the quality standards demanded by assemblers and franchise holders.

The future decisions on subcontracting are generally built on the existing supplier base. In a lean supply environment the supplier selection could be based on the assessment of the subcontractor's evolution stage. That way the best position for each supplier within the network could be defined. Manufacturers and franchise holders, therefore, appear to have little incentive to procure their requirements locally, particularly from small manufacturers, unless the government intervenes.

Yet, according to current thinking, government should reduce its regulatory role in industry, and should, instead, provide a conducive policy and institutional framework for the sector. The current dependency of the industrial sector on the government legislation requiring assemblers to procure certain items locally is a manifestation of the fragile relationship between buyers and suppliers in the sector and the lack of commitment of large buyers towards supplier development, owing to lack of incentives.

For visible and effective application of subcontracting, the study recommends that institutional and policy support should be instituted to improve manufacturing sector operators' confidence in the capabilities of suppliers, particularly SMEs.

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