

# THE IMPACT OF OUTSOURCING ON OPERATIONAL PERFORMANCE: A FIELD STUDY IN INDUSTRIAL COMPANIES IN JORDAN

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## ABSTRACT

*This paper investigates the impact of outsourcing on the operational performance in industrial companies in Jordan. It also tested the effect of the organizational structure and organizational culture as mediator variables. To achieve this goal, a questionnaire was developed based on the previous literature, the face and content validity evaluated. To ascertain the construct validity, converging, and discriminant validity, confirmatory factor analysis was carried out using AMOS 24 software to fit the measurement model with the sample data selected from industrial companies in Jordan and to confirm the validity and reliability of the scale. Testing of hypotheses using the structural equation modeling revealed that all the hypotheses suggested were supported, besides, the organizational structure and culture ate fully mediate the impact of outsourcing on operational performance.*

**Keywords:** Outsourcing, Organizational Structure, Organization Culture, Operational Performance

## INTRODUCTION

This paper seeks to investigate the impact of outsourcing on operational performance in industrial companies in Jordan. As such exploring the role of organizational culture and structure as mediator variables. The empirical study focused on developing a model to measure the variables identified in the study conceptual model then testing the hypotheses and providing recommendations that assist decision-makers in Jordanian companies when making outsourcing decisions. Considering the most important aspects that can be outsourced, as well as focusing on how outsourcing impacts organizational structure and culture, this research opens new perspectives on literature, enabling experts and researchers to apply the same knowledge in other different environments. Outsourcing has become a major business tool that can create a competitive advantage (Lamminmaki, 2011; McCarthy & Anagnostou, 2004). In the 1980's and 1990's, many corporate restructuring processes disbanded many companies to become more competitive (Bergh et al., 2008). Most of the outsourcing was confined to the manufacturing sector, it began to spread rapidly to the service sector (Barrar & Gervais, 2006).

Organizations need to focus on critical and strategic aspects that might carry out internally and the activities that should be outsourced. Although the strategic implications of outsourcing have been discussed for several years, it was generally taken on a cost basis (Momme & Hvolby, 2002). Additionally, many studies have discussed practical guidance for outsourcing decisions taking into account other dimensions such as the impact of outsourcing on people and teams.

Outsourcing can also affect the structure and culture of organizations as indicated by (Espino-Rodríguez & Gil-Padilla, 2005)

To ensure the effectiveness of outsourcing, some knowledge and data must reflect boundaries between the leading company and its suppliers. When outsourcing to perform simple final tasks, the information is rather simple, as well as confidential and clear. But if the tasks tend to be more complex, more important, less clear than peripheral tasks, outsourcing is conducted, where the transfer of the required knowledge is extensive and systematic and includes explicit and implicit knowledge. Therefore, outsourcing decisions often require a specific review of organizational boundaries, as it is a new perception of a more important organizational structure (Nyameboame & Haddud, 2017). The effective control in the organization is also closely linked to its organizational structure, Outsourcing part of tasks or processes will lead to a change in the organizational structure (Wüllenweber, Beimborn, Weitzel, & König, 2008). Likewise, control systems should be examined and formulated to the new business model accordingly to ensure their effectiveness. Outsourcing companies generally use a functional organizational structure, which is the accepted method to standardize business activities (Nadkarni & Herrmann, 2010).

Outsourcing leads to unknown and unexpected results regarding the dynamics of working groups, as well, it may have unintended consequences on the corporate culture that include standards, values, expected and shared behaviors between most or all of the organization's members (Trice & Beyer, 1993), as well as the approaches by which people interacting repeatedly with each other. The regularity of these interactions and the problems they interact with may dramatically change the corporate culture (Yap & JK Webber, 2015; Luki Karunia, 2020).

This research focuses on areas of outsourcing that influence the structural and cultural aspects within the organization, as well as with its operational performance. The conceptual model has been adapted to fit the industrial environment in Jordan through an empirical study and data analysis using confirmatory factor analysis and structural equation modeling. This paper is divided into several sections, namely: introduction, review of the theoretical literature and hypotheses development, study methodology, results and discussion, conclusion, and implication.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### Outsourcing, Operational Performance

The literature identified the concept of outsourcing as using of human resources associated with information technology services to perform tasks or part of those tasks (Kotabe, 1992), others indicate that obtaining services by independent suppliers locally or globally (Lamminmaki, 2011). Some have indicated a reliance on external sources for component manufacturing and other value-added activities. In general, outsourcing is an important factor in influencing the goods and services that companies can buy from foreign companies.

Few of the literature was directed toward measuring the impact of outsourcing in industrial companies, most studies were limited to the technology sector. Several studies pointed out the influence of outsourcing on operational performance is strongly supported (Liu, Wang & Huang, 2017). The results indicated that working with external suppliers led to a significant improvement in productivity, efficiency, quality, continuous improvement, profitability, quality of working life, and social responsibility (Narayanan, Jayaraman, Luo & Swaminathan, 2011).

This implies that outsourcing can significantly affect operational performance and achieve the desired results if it is linked to effective planning and implementation.

Espino-Rodríguez & Padrón-Robaina, (2005) study figured out outsourcing in the services sector leads to organizational productivity, as it has a direct impact on quality and achieving competitive advantage, the study confirmed the need for a backup system to prevent the loss of important knowledge. As for (Mwichigi & Waiganjo, 2015), he conducted a study in the energy sector, noting that outsourcing specifically services related to administrative support, financial services, human resources, and technical services affect the operational performance of Kenyan energy companies. Energy companies witnessed an increase in profits by 75% for the year 2009, the companies achieved remarkable growth by 16%, the operating costs were reduced and operational efficiency increased.

Mac Kerron, et al., (2015) established an effective performance management framework for outsourcing projects in a financial services organization in the UK, how this could contribute to successful outsourcing and assistance from external sources. The projects outsource valuable information on goal setting, performance measurement, and performance improvement. It is recommended to use a modified version of the Balanced Scorecard called Logic Scorecard as a measurement tool. It provides guidelines for practitioners in implementing performance management in outsourcing projects.

Espino, et al., (2006) indicate that the outsourcing decision depends on the risks in the business environment, company policy, and the tasks to be outsourced in terms of supplier competence and commitment. Outsourcing can lead to positive and/or negative results. The study indicates that improvements can be made to improve the positive impact and increase the value of outsourcing, it concluded that outsourcing opens markets for free trade and development. Outsourcing is no longer confined to purchasing technical services as before, but rather extends too many business sectors. Few of the previous literature explored the impact of outsourcing in other sectors. Gilley et al., (2004) studied Human resource outsourcing and operational performance in manufacturing firms, Gilley, Greer, & Rasheed, (2004) have shown that a coaching job can have a positive impact on a company's performance. (Nyameboame & Haddud, 2017) explored the impact of outsourcing on operational performance in oil and gas companies in Ghana. Nyameboame & Haddud, (2017) discussed the impact of outsourcing on competitive advantage in non-profit organizations. (Belayneh, 2018) studied the effect of Outsourcing of Management Functions on operational Performance. Based on the above, the following hypothesis was defined:

*H1 Outsourcing positively impacts operational performance.*

## **Outsourcing, Organizational Structure, Culture, and Operational Performance**

Outsourcing is an appropriate strategic choice for companies whose business is limited to core competencies (Jesper Momme, 2002). Usually, companies are developing models for identifying production elements and internal support functions. Outsourcing is linked to strategic planning, the focus is directed to the logical sequence of key activities concerning integrated performance indicators and results expected (Jia, Orzes, Sartor & Nassimbeni, 2017).

The emphasis on organizational structure, roles that individuals and groups play within the organization, the competencies, and responsibilities were discussed in the literature on a large

scale. Companies establish their organizational structures to coordinate operations internally, it is considered critical when associated with outsourcing because this enables the company to realize the value of outsourcing (Schilke & Cook, 2015). Moreover, coordination is imperative to achieve effective activities, such as daily technology services. Formalization, standardization, specialization, number of layers in the hierarchical level, professionalism, and horizontal integration are important factors in determining outsourcing decisions (Bals, Kirchoff & Foerstl, 2016). Likewise, the degree to which decisions are made (the subject of decision-making: high and low), levels of the decision hierarchy (many or few managerial levels), and vertical integration are important issues in the organizational structure that should be discussed (Rao, 2015). Organizational structure is an important factor in making the outsourcing decision because it is influenced by many outsourcing decisions and thus affects operational performance.

For achieving the desired results on operational performance, companies need to align their structure, making some changes to respond to the requirements of external suppliers (Espino-Rodríguez & Padrón-Robaina, 2005). The decision-making should focus on relevant key performance indicators, outsourcing impact on the performance lies in the ability to reorganize to adapt to customer conditions and needs and to facilitate employee training to work in multi-functional teams (Leeman & Reynolds, 2012). Among the possible changes in organizational structures is the change of written rules and procedures to improve the quality of the services provided, changes may be reflected in the decision-making process in general, that is, the shift from centralization to decentralization (Espino-Rodríguez & Gil-Padilla, 2005). One of the most prominent manifestations of change in the organizational structure is the presence of multiple work teams, which should be more agile to deal with external suppliers; a change in the number of hierarchical layers can happen quickly (Tsai et al., 2012). Based on the above, the following hypotheses were defined:

- H2*     *Outsourcing positively impacts organizational structure.*
- H3*     *Organizational structure positively impacts operational performance.*
- H4*     *Organizational structure is positively mediate the impact of outsourcing on operational performance.*

Additionally, Organizational culture plays an important role in outsourcing. Factors associated with organizational culture affected by outsourcing were widely discussed (Kshetri, 2007). Studies have shown that outsourcing can affect the relationships with organizational culture (e.g. Messner, 2013; Lee & Kim, 1999; Handley & Angst, 2015); attitudes, and behaviors related to design and selection, implementation and subsequent implementation of outsourcing were also explored. Some specific cultural factors such as the degree of dependence on a professional path, confidence, and avoiding uncertainty are related to organizational culture. Organizational culture is unique to every organization because it includes traditions, values, shared beliefs, expectations of organizational life, and the relationship with the present and future. Organizational culture is the result of a long-term process of disseminating and unifying values, principles, procedures, attitudes, methods of work, and informal elements (Schilke & Cook, 2015).

Outsourcing affects organizational culture by fostering creativity (Schilke & Cook, 2015). When the same processes and products continue to be used for a long time, new knowledge may be needed to introduce flexibility and originality. Innovative companies grow more rapidly than companies with limited creativity. Outsourcing not only motivates management to develop products but also provides new methods of working and creative ideas that nurture corporate culture (Lonsdale, 2001; Kalaignanam et al., 2013).

Change may be terrifying, but obtaining new technologies to improve the corporate culture can have an important influence on employee participation. Outsourcing also allows the company to rethink ambitions and attitudes, understanding the reason behind the need to improve products, which leads to long-term decisions that are more effective and efficient. Zack, et al., (2009) refers to organizational culture and outsourcing as complementary tools for building capacity and improving business performance.

According to Pascale, (1990) institutional culture can predict the ability of organizations to withstand some of the changes that come from the external environment. An important part of the role that corporate culture can play in organizations is its impact on employee attitudes and behaviors (Avey, Wernsing & Luthans, 2008). Many studies (e.g. Bals et al., 2016; Yang & Chen, 2007; Ajmal & Koskinen, 2008) indicated that organizational culture is an important factor that must be considered to foster successful outsourcing and achieve organizational effectiveness from an individual-level perspective. Organizational culture can contribute to overcoming outsourcing employee resistance so they become more aware of potential benefits. Accordingly, outsourcing is an effective strategy for organizations to obtain significant performance, when employees share knowledge and experience with their external peers; they may demonstrate positive relationships in workplaces which lead to higher levels of performance (Kamdar & Van Dyne, 2007). The following hypotheses were formulated:

- H5 Outsourcing positively impact organizational culture.*
- H6 Organizational culture positively impacts operational performance.*
- H7 Organizational culture is positively mediate the impact of outsourcing on operational performance.*

## METHODOLOGY

### Data

Data were collected using a questionnaire. The paragraphs used in the questionnaire were pooled from literature; face and content validity were tentatively verified through expert opinions. Several paragraphs matched expert opinions, and then the initial draft of the questionnaire was prepared. Since most of the paragraphs corresponded to theoretical literature, the researchers conducted a confirmatory analysis to ensure the construct, convergent, and discriminate validity, as well as the reliability of the measurement scale (Allison, 2000). Likewise, it is possible to ensure the correctness of the responses to the paragraphs, as the paragraphs are free of linguistic errors which have been confirmed as well. All items were evaluated using a 5-Likert scale ranging from (1 "Strongly Disagree" to 5 "Strongly Agree."). The first part of the questionnaire included questions to collect demographic information such as (gender, company age, educational

manager's education, and size of the company), these variables were measured using qualitative measures.

Managers in industrial companies were selected and required to answer the questionnaire paragraphs. The purpose of data collection and how to process this data has been explained. Despite a low valid sample size for statistical analysis, it included

the responses from managers, where several studies such as (Byrne, 1995; Fornell & Larcker, 1981) indicate that managers' responses provide greater insight and considered valuable, also, managers can give more information about outsourcing activities and how it reflects the change in the organizational structure and culture, as well as the indicators of operational performance. However, a sample size greater 150 response considered appropriate to facilitate parameters estimation about the population as indicated by (Byrne, Shavelson & Muthen, 1989; McGaw & Jöreskog, 1971). On the other hand, (Allison, 2000) suggests when the model includes 5 to 7 latent variables, and each latent construct includes 3 items and more, a sample of 150 and more considered sufficient for conducting CFA and SEM using Maximum Likelihood Estimation. The researchers used a sample of 211 responses for analysis, 12 incomplete responses were excluded, were 199 (94%) considered valid for analysis. IBM. SPSS and AMOS.24 software were used to analyze and summarize the data.

## Measures

The Measurement model was estimated using AMOS 24. In Table 1, the measurement scale and their respected estimates for items and constructs included in the questionnaire were presented to evaluate convergent validity, reliability. Table 2 shows means, standard deviations, correlations matrix among the data constructs, and the square root of average variance extracted to assess the construct discriminant validity.

The first step involved conducting confirmatory factor analysis for data to assess the measurement scale validity and reliability. Confirmatory factor analysis is one of the multivariate analysis techniques used to verify the structure of the observed construct groups (ALLISON, 2000; McGaw & Jöreskog, 1971), it can help to identify reliable structures, and ensure their validity (construct discriminant and convergent validity). Data were analyzed using AMOS 24, various model fit indices mentioned in many previous studies were used to evaluate the fitness of the measurement model to the sample population. All indices exceeded the acceptable thresholds as follow: CMIN/DF ( $X^2/df$ )=1.930<3.00, GFI=0.818 close to 1.00, CFI=0.914 close to 1.00, RMR=0.04<0.8, IFI=0.915 close to 1.00, TLI=0.903 close to 1.00, RMSEA=0.074<0.08, note that accepted thresholds were reported in (Ahmad, Bosua & Scheepers, 2014; Allison, 2000; Anand & Goyal, 2009). Acceptable model fit indices indicate the construct validity; the acceptable model fit can be obtained whenever we eliminate weak factor loading. Also, when conducting CFA, the modification indices revealed redundant items between Q25 and Q26; these two items were not eliminated because of their importance to the theory. But they make a high error and producing overlapping with other paragraphs. Adjusting this error makes them free and avoids overlapping of those paragraphs with other paragraphs within the measurement model. This procedure is called a free parameter estimate through making Error Covariance for the following variance errors in (e25, e26) which belong to the above-mentioned paragraphs. Furthermore, excluding low factor loading items raises the convergence of indicators for each

construct. It is also possible to infer convergent validity when the Average Variance Extracted (AVE) exceeds 0.50 according to (Allison, 2000). This indicates that the paragraph is related to the construct and explains a sufficient amount of variance. The standardized factor loading was checked, all factor loading exceeded 0.60 following the suggestion of (Ahmad et al., 2014; Allison, 2000; Song, Li, & Zhao, n.d.). All values of AVE are greater than 0.50 as shown in Table 1; this indicates that the convergent validity of items with each respected construct has been achieved. Table 1 also summarizes the composite reliability CR and Cronbach Alpha where they are all above the acceptable cut-off points 0.70 revealing reliability of the measurement scale (Daghfous, Belkhodja, & Linda, 2013). To assess measurement discriminant validity, Table 2 shows the correlation matrix and respected square root for AVE, also, the mean and standard deviation for each construct. The square root of AVE that exceeds the correlation coefficients values in rows and columns within the correlation matrix support that these constructs are different, which is an indication of discriminant validity(Hair, Anderson, Tatham & Black, 2010). This also supports the non-linearity relationship (Multicollinearity) between two or more independent variables as indicated by (Okazaki, 2009).

Item			Estimate	Standardized Estimate	S.E.	C.R (t-value)	P	AVE	Composite Rel.	SQRT (AVE)	Cronbach Alpha
Q9	Outsourcing	Outsourcing of graphic design services.	1	0.706				0.51	0.91	0.714	0.91
Q8		Maintenance services.	0.988	0.743	0.107	9.317	***				
Q7		Call center services.	1.193	0.841	0.112	10.517	***				
Q6		Marketing services.	1.12	0.807	0.112	10.113	***				
Q5		personnel recruitment	0.973	0.766	0.102	9.606	***				
Q4		manufacturing processes	0.834	0.663	0.11	8.308	***				
Q3		IT services	0.757	0.592	0.103	7.424	***				
Q2		Legal services	0.825	0.653	0.102	8.213	***				
Q1		Accounting services	0.866	0.603	0.116	7.552	***				
Q11	Operational Performance	Service improvement.	1	0.763				0.633	0.873	0.797	0.897
Q13		Cost reduction.	1.054	0.834	0.093	11.474	***				
Q14		Quality of products	1.17	0.837	0.12	11.549	***				
Q15		Flexibility.	1.062	0.749	0.106	10.108	***				
Q16	Organizational Structure	Promoting communication and information	1	0.747				0.617	0.887	0.786	0.87
Q17		Supports information sharing across organizational units.	0.933	0.858	0.082	11.578	***				
Q18		encouraging individual initiatives towards outsourcing	0.867	0.83	0.078	10.977	***				
Q19		Providing clear guidance on the completion of its operations.	0.92	0.843	0.07	11.342	***				

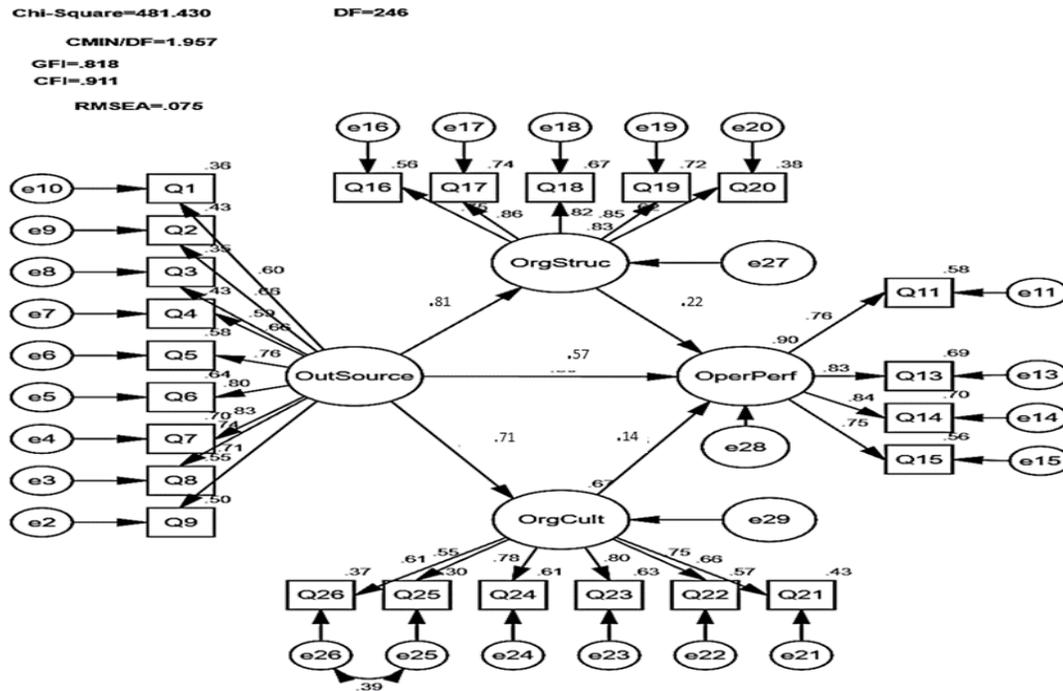
Q20		Following the administrative sequence according to the organizational structure.	0.654	0.628	0.07	8.203	***				
Q21	Organizational Culture	Supporting the transfer of knowledge culture.	1	0.663				0.487	0.849	0.698	0.849
Q22		Adopting a culture of knowledge acquisition.	1.183	0.753	0.13	8.432	***				
Q23		Adopting a culture of knowledge application.	1.076	0.787	0.124	8.734	***				
Q24		Solving the problems faced by employees.	1.099	0.777	0.126	8.653	***				
Q25		Engaging employees when making management decisions.	0.647	0.552	0.102	6.433	***				
Q26		Allowing individuals an opportunity to present their initiatives.	0.842	0.613	0.13	7.054	***				
Note Average variance extracted (AVE), composite reliability (CR). Standard Error (S.E), Critical Ration (C.R)											
*** Statistically significant at $p < 0.001$ .											

<b>Factor</b>	<b>Mean</b>	<b>St. Deviation</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Outsourcing	3.5	0.934	0.71			
Performance	3.18	0.657	0.277	0.797		
Organizational Structure	3.44	0.668	0.323	0.157	0.786	
Organizational Culture	3.32	0.725	0.277	0.283	0.167	0.698
Values in bold and italics represent the square root of average variance extracted						

## Testing the Hypotheses

Structural Equation Modeling (SEM) was used to test the assumptions about the conceptual model. Due nature of the model that includes several independent and dependent variables, this requires testing mediating variables, as well as testing direct and indirect effects. SEM considered an effective method for this type of model, whereby causal relationships, interrelationships between variables, and hypotheses are tested in a simultaneous manner (Hair Jr, Black, Babin, & Anderson, 2010; Jamal & Anastasiadou, 2009). Testing of the structural model, hypotheses testing, direct and indirect effects were presented in Figure 1 and Table 3 respectively. To test hypotheses, a structural model was constructed. The hypotheses were tested using SEM with Maximum Likelihood Estimation. Initially, it was necessary to confirm acceptable model fit indices, note that the following indices were adapted based on (Bagozzi & Edwards, 1998; Hu & Bentler, 1999) CMIN/DF ( $X^2/df$ )=1.957<3.00, GFI=818 close to 1.00, CFI=0.911 close to 1.00, RMR=0.042<0.8, IFI=0.912 close to 1.00, TLI=0.901 close to 1.00,

RMSEA=0.075<0.08, all values did not move away from acceptable cut-offs points. Figure 1 represents standardized estimates for the structural model, while Table 3 displays the hypothesis testing, direct and indirect effects for the structural model.



**FIGURE 1**  
**THE STRUCTURAL MODEL**  
**RESULTS AND DISCUSSION**

Testing of the structural model reveals that all the proposed hypotheses are supported as the standardized estimates ( $\beta$ ) were found to be significant. Additionally, the mediator variables (organizational structure, culture) were also explained the operational performance along with the outsourcing (see table. 3) as the total estimates for the path model were found significant. following the procedures of (MacKinnon, Lockwood, Hoffman, West, & Sheets, 2002) who pointed Since all paths in the model are statistically significant, The mediation effect is partial, accordingly, the organizational structure and culture are partially mediate the impact of outsourcing on operational performance. There is a clear resonance of our research results, whether the relationships are direct or indirect. For the first assumption, many studies indicated that outsourcing directly affects many performance indicators such as cost, flexibility, innovation, quality and business performance (Bals et al., 2016; Messner, 2013), some studies have confirmed that the convergence between outsourcing engines positively affects the performance of the entire supply chain (Handley & Angst, 2015). Some support the idea that outsourcing leads to increased export performance (Schilke & Cook, 2015). Others have emphasized that outsourcing technical services by small and medium-sized companies have a positive impact on competitiveness locally and internationally. The results of the study also coincided with (Bals et al., 2016), who indicated a significant impact on competitive advantage and lower operating costs. (Mwichigi & Waiganjo, 2015) stated that outsourcing administrative and financial services

reduced operating costs and helped improve operational efficiency, provide effective services and effective allocation of resources to meet the needs of customers. Likewise, many researchers agree that outsourcing inevitably leads to changes in the organizational structure. Outsourcing some tasks may create more flexible organizational structures; this will lead to higher levels of performance (Arrigo, 2020). According to organizational culture, many researchers have confirmed that due to outsourcing, there may be a problem in accepting a third party to perform certain tasks, this may lead to organizational conflict (Espino et al., 2006). Some see it as an opportunity to acquire new skills and knowledge. Refer to Messner, (2013) He mentioned that organizational cultural factors can be affected by the trends towards outsourcing, which are related to the design and implementation of outsourcing. We conclude that positive attitudes towards outsourcing are what determine the individuals, working group's acceptance or resistance of the third party to perform some tasks, if they accept that, performance levels will rise in response. Finally, given the indirect effects, outsourcing leads to more flexible and specialized organizational structures, this leads to improved levels of performance, since the organizations will respond to outsourcing requirements by making changes to their organizational structures. The acquisition of new knowledge, skills, and sharing of knowledge with others outside the organization would improve the performance levels of the company since knowledge sharing becomes rooted in the corporate organizational culture.

**Table 3**  
**HYPOTHESES TESTING, DIRECT AND INDIRECT EFFECTS**

Hypothesis (Direct Effects)		Unstandardized Estimate	Standardized Estimate ( $\beta$ )	S.E.	C.R.	P	Decision
Organizational Structure →	Outsourcing	0.91	0.806	0.052	17.793	***	Supported
Organizational Culture →	Outsourcing	0.667	0.708	0.053	13.012	***	Supported
Operational Performance →	Outsourcing	0.637	0.572	0.084	7.53	***	Supported
Operational Performance →	Organizational Structure	0.223	0.223	0.066	3.398	***	Supported
Operational Performance →	Organizational Culture	0.167	0.142	0.063	2.597	0.009	Supported
Hypothesis (Indirect Effects)		Unstandardized Estimate	Total S. Estimate	Lower	Upper	P	Decision
Outsourcing → Org. Structure → Operational Performance		0.21	0.179	0.086	0.308	0.01	Supported
Outsourcing → Org. Culture → Operational Performance		0.113	0.0909	0.033	0.209	0.016	Supported
*** Significant at the $p < 0.001$ level (two-tailed).							

## CONCLUSION AND IMPLICATIONS

This study was designed to explore the impact of outsourcing on operational performance in industrial companies in Jordan. The literature revealed that outsourcing; performing certain tasks through a third party may lead to changes in organizational structures and culture. Therefore, this research assumed that organizational structure, along with organizational culture, could explain the operational performance in industrial companies in Jordan. The study was

designed to explore the impact of outsourcing on industrial companies' operational performance. Most of the previous literature studied outsourcing and its benefits to performance indicators in the IT sector. Few studies went to focus on outsourcing other functions, such as financial and administrative functions. As well, most studies explored financial performance indicators such as cost and revenues, few of them incorporated other indicators such as quality, flexibility, improving services. Also, the studies did not address the impact of outsourcing on the organizational structure and culture, nor did they focus on investigating how they explain, along with outsourcing, the operational performance. The researcher ensured the fitness of the measurement model with the industrial environment in Jordan; the fitness indicators for the structural model were confirmed also before testing the hypotheses. All assumptions suggested in the conceptual model are statistically significant in line with the previous literature. Additionally, the mediator variables organizational structure and culture were partially mediating the impact of outsourcing on operational performance. Several implications have been addressed for organizations based on these findings, As noted earlier, outsourcing is a strategic decision, the outsourcing decision should be linked to strategic planning. Since the results support outsourcing effect on both structural and organizational culture, the impact can be negative, positive, or mixed, and therefore, the outsourcing decision must be related to its suitability to the company's goals. The company must determine the time to resort to outsourcing. In the Jordanian industrial environment, outsourcing is seen as an effective approach because it allows activities to be sponsored effectively and in a better way to compete in the market. This research provides a full image of the activities that can be outsourced; companies need to assess its impact on a variety of organizational and cultural characteristics to bring dynamic compatibility. The relationship organization and the service vendor, the introduction of a third party to perform specific tasks is a reason for causing organizational conflicts that can negatively affect performance measures, companies need to manage change to build capacity, changing the organizational culture to benefit from new experiences and knowledge. The researchers developed a set of recommendations for future research. First, future research should include other business sectors to generalize the study model and reach critical empirical evidence. Second, there is no doubt that companies, according to their size, differ in their organizational and cultural components. Therefore, conducting comparative studies between the large, medium and small companies provides a clearer view of the unique organizational and cultural characteristics for each company type. Third, expanding the model to include other variables such as competitive advantage, customer satisfaction, and strategic performance etc. Finally, although the sample size is considered appropriate to achieve empirical results, future studies should include larger samples so accurate results could be obtained.

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