International Journal of Application or Innovation in Engineering & Management (IJAIEM)
Web Site: www.ijaiem.org Email: editor@ijaiem.org
Volume 9, Issue 5, May 2020 ISSN 2319 - 4847

The Nexus of Outsourcing Services and Profitability: Evidence from Hotel Industries in Nigeria

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Abstract
This present study ascertained the effect of outsourcing services strategies on the profitability of Hotel industry in Nigeria. The study employed *Ex post facto* research design for the study. A sample of three hotels industries in Nigeria was used and data were collected from annual accounts of these three hotels and hypotheses were tested using regression analysis with aid of e-view version 9.0. The study revealed that outsourcing of advertising services has positive effect but not statistically significant on profitability of Hotel industry in Nigeria; outsourcing legal services has negative effect but not statistically significant on profitability of Hotel industry in Nigeria and outsourcing technology services has positive effect but not statistically significant on profitability of Hotel industry in Nigeria. Based on the findings, the study recommended among others that electronic means of advertising services should advance for the new and existing products and services of the organization in order to enhance his or her customer's patronage.
Keywords: Advertising Services, Legal Services, Technology Services and Profitability

1. INTRODUCTION

Outsourcing in Nigeria is an essential parts of business dealings of hotels. Hotels outsource power management and raw material purchases for product range are large and challenge to entry is low in order to compete effectively. Organizations consider cheap means of delegating responsibilities to the outsourcing vendor that will make them maximize profit. Outsourcing originated from two words, namely; out (means exterior) and source (means original) and in business terms, it indicates that a particular activities can received from outside the firm [1]. To improve competitive position of an organization, widely used technique is outsourcing [2]. Majority of managers sees outsourcing as the only technique to keep a company competitive. The word is relatively new, though outsourcing practice exists from the 15thcentury [3]. Recently, outsourcing is becoming very common in private and public sector. After the cost of outsourcing to their business activities, some companies find varieties of benefits of outsourcing. The increase in outsourcing shows that several benefits lie behind this process [4], [5]. Some industries outsource to gain the benefits of low price and higher expertise level. The compelling reason to adopt outsourcing is that senior manager let to enter the other firms because they have advantage over cost efficiency [6].

[7] opined that people tend to partner with only big companies as only big companies are more profit oriented. Importantly, various levels of organization involved in one kind of outsourcing or another irrespectively of their size. It is normal to see small and medium enterprises collect contracts from their customers and rather than do it themselves turn out to subcontract them to other organizations. For Instance outsourcing in Nigeria involves the outsourcing of security services from security outfits by some event centres and bakeries so they can focus on their core operation. Recently, most hotels outsource their accounting operations to external accounting firms instead of employing accountants.

Some of these hotels sometimes have limited accounting personnel whom entrusted to oversee the financial transactions of the firm and acquired the skills of external accountants to prepare and compile sophisticated accounts and audit their operations. [7] opined that other areas of outsourcing are training of staff, advertising and other supporting activities. Outsourcing over the years make way for an organization's to concentrate on area they are professional, hence experiencing effectiveness and efficiency through cost savings, reduced capital investment within the firm, increased competition among suppliers ensuring higher quality goods and services in the future, reduced risk of changing technology, among others [8],[9]. In line with the established advantages of outsourcing, most of these hotels have ventured into outsourcing.

Recently, in Nigeria, hotel industry has become a steady growing industry for hotels springing up everywhere within the country and this growth has gained both from in and outside the country. Industry trends such as rapid hotel expansion, strategic alliances (especially with the public sector like government ministries) and entrant of foreign players amongst others lends credence to these assertions. Hence, for hotels to survive and continue to have positive performance, it expected to use outsourcing to concentrate on the primary activities. Another reason to use outsourcing in the hotel industry is in the situation when the external provider of services is capable to providing economic and/or higher level of services because of specialization or cheaper labour. Outsourcing can also help to save resources for the hotels. One more not very visible reason to use outsourcing in hotels is to learn from the service provider.

Despite its popularity due to outsourcing in Nigerian hotels, it's still an unsolved puzzle. There is a risk factor associated with outsourcing result in frailer of plan [10]. Decision of outsourcing is a complex decision, which involves multidimensional considerable aspects, investigation on tactical level, managerial level and operational level, and identifies those factors, which put influence on outsourcing, a wrong decision influence the whole process of outsourcing [11]. By outsourcing certain activities of hotels to expert organizations, hotel may enhance focus on their core functions. That results in effectiveness of those functions. As level of outsourcing increases, costs possibly will decline [12].

The effects of outsourcing on firms' performance are not completely clear. Previous outsourcing studies Hayes (2000), presented a positive effect, those of [7], [13], [14] found no effect or relationship between outsourcing and performance, while some claim a positive relationship between outsourcing and performance outcomes, others report no significant or even negative effects [15]. However, any outsourcing without adequate control could result in job losses sometimes. [16] said that a large number of employees whose organizations outsource their business activities may have similar problems to those employees that have undergone downsizing, while organizations claim that the basis for outsourcing is to increase business efficiency.

Currently, Most of the previous research likes [17] in the United States of America and [18] in Turkey and others conducted a study in relatively developed economies. Their findings said to represent what is obtainable in a developing economy like Nigeria. This research seeks to fill that gap of scanty literature research in the area of outsourcing in the hotel industry in Nigeria. It is because of all these statements about outsourcing services that this research seeks to determine the effect of outsourcing services (advertising, legal, and technology) and organizational profitability of the Hotel industry in Nigeria.

2. LITERATURE REVIEW

Outsourcing Services

Outsourcing is an agreement by which company a contracting with another company B to provide services that might otherwise performed by in-house employees of company A. [19]. In other words, outsourcing is a contract service agreement in which a company contacts out all or a part of its operations to another company. The other company or recipients for outsourced activities are generally in the same nation. When a company on another country is involving for example Canada, the correct term to use is offshore outsourcing.

Outsourcing is a process of giving non-relevant activities or operations from internal production within a business to an outside body that is more competent in that particular operation. Outsourcing referred to as makes or buys decisions on middle items, to the use temporary worker and to the use of outside services [20]. [21] defined outsourcing as one subtype of distributed work. It is the means of transferring task or job from internal production to external entity, such as a subcontractor. [22] sees outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies. [23] gave clarifications the confusions on the definitional; positioning outsourcing as procuring something that was either originally sourced internally (that was vertical disintegration) or could source internally even with the decision to go outside (that is make or buy). This includes arrangements that termed internal versus external sourcing [21].

In the words of [24] outsourcing decisions influenced by the quality of information available, cost, profitability, strategic alliance, supplier quality, financial evaluation, risk, and efficiency. [24] also suggested that making appropriate use of outsourcing can enable organizational, technical behavioral benefits and provide greater visibility of both issues and processes changed. [25] found that movers of outsourcing decisions are both within and outside organization as many processes integrated with information systems. In some cases, company may outsource the tasks that they can easily perform, though such outsourcing can be on the advantage of that company. Most of the large companies now contract jobs such as cleaning, call center services, e-mail services, and payroll. This kind of job is handled by a different company that specializes in each service, mostly in foreign countries. Outsourcing allows organization to make appropriate use of their own resources and those contracted out to those who have the required skills and specific resources/technologies to complete the tasks involved [26].

Outsourcing is an abbreviation for "outside resource using" [27]. This involved delegation of functions usually handled by an organization to another company outside the organization. [28] opined that outsourcing is the process of employing other organizations, to perform specific jobs or work activities that used to perform by the organization itself. [22]defined outsourcing as turning over to a supplier those activities outside the organization's core competencies. According [29] said that outsourcing connote the process of contracting something that was either originally sourced internally or could source internally even with the decision to go outside. Outsourcing connotes the means of delegating the responsibility of a particular company's operation from a working group to a non-working. Outsourcing refers to the handover of an activity to an external supplier as an alternative to internal production [30]. [31] stated that outsourcing is a technical decision taken by a company to transfer an activity to outsider to take over that would have performs internally by the company's workers.

Recently, issues of outsourcing have gone beyond the manufacturing of physical products to embrace the delivery of services. Hotels outsource power management, generator maintenance and purchase of raw materials, accounting and book-keeping, security, payroll, recruitment process and many others, thus restricting their own employees to the core functions that define the organization's business. [32] reported that in adopting outsourcing strategy, the outsourcing decision must be broken down into two key sub-decisions that address whether or not to outsource an activity (sourcing governance), and what geographic or locational arrangements for sourcing (sourcing closeness).

The outsourcing governance deals with the economic and strategic importance of the activity to outsource. Thus, an organization that is considering an activity for outsourcing must evaluate the value of that activity before it makes an outsourcing decision. The sourcing closeness is concerned with the location either domestic or international. Today organizations are operating globally, maintaining operations in various countries around the world through subsidiaries, joint ventures or contracts. This provides organizations with more outsourcing options in terms of closeness. For example, a firm may choose to outsource to a domestic location that is in the same city, to one that is more distant but in the same country, to another country that is geographically close and culturally similar (e.g., U.S. to Canada), to another country that is geographically distant but culturally similar (e.g., U.S. to Australia) or a country that is both geographically and culturally distant (e.g., India or China). Often, the tasks that outsourced could perform by the company itself, but in many cases there are financial advantages that come from outsourcing [33].

As outsourcing vendors typically provide services to many clients they can achieve cost advantages over single firms' productions costs as they benefit from economies of scale and centralization of expertise. In the study of [34], it stated that outsourcing has become an essential means of doing business, which could lead to competitive advantage as a particular products or services produced are more effective and efficient by outside bodies. Outsourcing can enable firms tap into new ideas, knowledge and creativity through access to service providers' resources like skills, experience, specialized equipment and investments to provide services of better quality, at lower costs than in-house departments [35]. [36] are of opinion the fundamental issues laying on outsourcing are more competitive in the marketplace, hence minimizing cost of operation and establishing a global presence. Most of the companies that involved in outsourcing are for the purpose of economic or strategic reasons. The economic reasons enable them to attract tasks outsourced which can perform by the provider at a lower cost. Strategic reason of outsourcing is to attract when they have capacity constraints that will prevent them from servicing a market. Early outsourcing arrangements are motivated mainly by cost saving but in recent time, the motivation has shifted to business performance [37]. Outsourcing considered as a strategic tool for the organization to use to increase its competitiveness and performance in the marketplace. Some organizations choose contractual arrangements like outsourcing to access scarce resources in order to reduce costs or build capabilities and competence for competitive advantage [38].

Support /Services Activities

Just like in the case of back-office activities, support activities assist in running of business effectively [7]. In the work of [9]support activities align with major activities in a firm. According to [7], these activities, shipping, IT services/system, training, advertising, legal services, transport services, public relations. In the work of [29], they classified outsourcing activities and then adopted for their research. The choice of this is because of its explicit nature. A pilot survey shows clearly the fact that, these activities usually outsourced by hotels at various extents.

Organizational Performance

"Organizational performance", can assess in various means based on the intent. Meanwhile, any procedure used, the Performance of the organization is the output of that organization. [39] identifies three types of performance measures as vital components in any outsourcing performance measurement system: strategic measures; financial measures; and quality measures. Other studies use additional dimensions of market performance such as costs savings, cycle time, customer satisfaction, and productivity to measure the effectiveness of outsourcing strategy [40]. The Performance of organization is the output of that organization, which can measure in terms of profitability. Profitability can measure in terms of savings of cost, focus on core business, Reduction in spending on fixed assets, reduction in his or her amount of tax paid and Increase turnover (Sales). In tracing the relevance of outsourcing to organizational performance also, many authors including [41],[42],and [8] submitted that, outsourcing can improve organizational performance when applied as an organizational strategy. Outsourcing one's business processes can improve one's competitive edge [8].The reason behind this is that outsourcing reduces business costs [42],[8], [43]. Organizations may choose to outsource with certain business aims in mind. The aim might be the need to improve on financial performance [7]. Most often, such organizations are aware that outsourcing firms may offer them an opportunity to work cheaply through efficient technology and economies of scale. By minimizing costs, organizations can achieve their economic related goals and this enhances their organizational performance [38]

Consequently, the extra amount the producer would have been passed to the consumers in the form of higher prices for the goods and services now becomes irrelevant as consumers pay less for their commodities [8]. This allows businesses to compete favorably on price giving them a competitive edge [42]. Organizations that did everything on their own may be exposed to greater levels of risk than those who outsource their business functions [8]. Most time, the former mentioned organizations may face difficulties trying to balance between choosing the right alternatives, training their employees in that area of interest, increasing reliability, and maximizing efficiency.

By doing everything on its own, an organization may have a difficult time trying to eliminate risks, and usually run the risk of spending too much on infrastructural capital [8], [44]. Consequently, this eats into their profits and reduces their chances of growing their organization's businesses.

Empirical Review

[45] ascertained the effect of outsourcing on operational objectives of organizations using SPSS and Minitab software based on deductive and descriptive statistics. The study found that outsourcing minimized cost, encouraged quality as well enhanced performance of financial and non-financial services. [46] studied the effect of outsourcing activities on project success of Nestle Nigeria Plc. The study obtained data from questionnaire and analyzed them using frequented distribution and chi-square analysis statistical tool. Findings show that firms that outsource their production process to control expenses improve on sales, save time and maximized profit. [47] determined outsourcing services as a strategic tool for organizational performance, an exploratory study of 15 Nigeria food, beverage, and tobacco companies. Information obtained through questionnaire and analyzed with the use of econometrical statistics. The study found that outsourcing allows companies to enhance expertise, improve quality, minimized cost and save time.

[48] studied the effect of recruitment process outsourcing on creating competitive advantage for organizations operating in Egypt. The study employed descriptive survey design, and revealed that the Egyptians managers do not believe that by outsourcing the recruitment function the organizations will be able to reduce operational costs. [49] ascertained the relationship between outsourcing and organizational performance in the service sector. The population of the study made up of 50 firms in the banking and insurance sectors of the economy of Ghana. The study employed purposive sampling for the selection of respondents. Data for the study was collected through questionnaire. The study revealed that there is no significant relationship between outsourcing and quality. [50] examined outsourcing strategy and performance of organization in Nigerian manufacturing sector. Data obtained from questionnaire was administered on 120 sample size of the population and tested using regression analysis. Findings shows that outsource minimized cost, improve quality and saves time. [51] determined whether outsourcing services enhanced organizational performance in the Nigerian food, drink, and tobacco industry. Questionnaires were administered to 15 companies of food, beverage, and tobacco industry in Nigeria. The study found that organizational productivity is positively significant to the amelioration of competitive advantage of labor productivity and average production cost. [13] ascertained the relationship that exists in the services sector between outsourcing and organizational performance. Pearson correlation was used by the study with the aid of SPSS to test the data collected from a population of 50 companies operating in Ghanaian banking and insurance sectors. The correlation result shows that there is no statistically significant between outsourcing and performance, but show that there is statistically significant between outsourcing and quality and competitive advantage. [52] ascertained the strategies in the outsourcing activities in hotel industry in Ghana. Fifty (50) respondents were administered questions, which comprising of management staff. The study concluded that Hotels have been concentrating on their major functions in the areas of housing, feeding and bar services and housekeeping

and have outsourced their non-major operations. [53] worked on business outsourcing strategy and performance of Kenya State Corporations. The study used 144 Kenyan corporations. The study gathered information through the questionnaire administered to the respondents. Survey design was used and descriptive and multiple regression analysis was used by the study to establish the degree of relationship that exit between the variables. The study found that Kenyan State corporations involved in outsourcing of both core and non-core activities. The research concluded that business process outsourcing had a positive impact on the firm's overall performance. [54] determined the effects of outsourcing on the performance company in Kenya Revenue Authority Nairobi Customs Station. Descriptive research design was used and census sampling was employed to collect data from all 15 procurement officer, 17 financial officers and 50 support staff. The study randomly sampled 10% of the 386 custom department staff to include 38 staffs. Pearson's correlation was used by the study to analyze the data collected with SPSS (Statistical Package for Social Sciences). The study found that outsourcing increases performance positively and minimized costs of operation, save time and so on. [55] ascertained if the cost affects the performance organization. The study employed descriptive research design, the population of the study consist of 42 management staff from Production, Transport and Agriculture, Engineering. The study collected data through questionnaires and was analyzed using descriptive statistics and inferential analysis by use of statistical package for social sciences (SPSS) version 21 software. Both correlation and regression analysis were used in testing hypotheses and the results shows that Cost, quality, technology adaption had organization performance had a significant strong positive relationship while risks found to be insignificant positive on organization performance. [56] examined the impact of outsourcing activities on the performance of Small and Medium Scale Enterprises in Benue State. Survey research design was used and data for the study was collected through the questionnaire and was tested using multiple regression technique. The study found that outsourcing of back office activities; outsourcing of primary activities; outsourcing of supporting activities has a significant effect on organizational profitability of SMEs whereas that of accounting activities has no significant effect on performance of SMEs.

From the literature reviewed, the findings of these previous studies on outsourcing strategy and financial performance were contradictory; besides, most of the research was conducted in developed economies using only primary data (questionnaires) their findings said to represent what is obtainable in a developing economy like Nigeria. This research seeks to fill that gap of scanty literature research in the area of outsourcing in the hotel industry in Nigeria.

3. METHODOLOGY

Sample

The population of this study covered the four quoted hotels on the Nigerian Stock Exchange that listed from 2009 – 2018. Purposive sampling technique to select the three hotels quoted on the Nigerian Stock Exchange listed for the periods under review (2009 to 2018). Hence, the other hotel was excluded based on unavailability of audited reports and account for extraction.

Method of Analysis

Ordinary Least Square is used to test the relationship between the independent variables and the dependent variables with aid of the e-view version 9.0 at 95% confidence at five degree of freedom (df).

Model Specification

The equation expressed as follows:

$Y = \alpha + (X1) + (X2) + (X3) + e$

Y – Organization Performance proxied by profit after tax

α- Constant (coefficient of intercept)

X_1 – Advertising Outsourcing

X_2 – Legal Outsourcing

X_3 – Technology Outsourcing

e – Error term

The specified regression model is:

$Prof = b0 + b_1ADV + b_2LGA + b_3TCHGY + \varepsilon$

Where:

PFT = Profitability (measured by profit after tax)

ADV= Advertising (Note from comprehensive income)

LGA= Legal (Note from comprehensive income)

TECH/MGT= Technology (measured by the Customers services, Management/technical service)

ε = the error term of 5% is provided for in the course of the analysis.

The a priori expectations are:

b1; b2; b3; b4; b5; b6; b7; b8; b9; b10 > 1

4. RESULT

Table 1: Descriptive analysis

	TECH	LGA	ADV	PFT
Mean	172790.1	102569.9	38964.90	635386.4
Median	180114.0	49602.50	30099.00	637812.0
Maximum	233709.0	339493.0	163981.0	1728481.
Minimum	69926.00	5100.000	2861.000	-482930.0
Std. Dev.	52958.91	115050.5	47976.14	689472.8
Skewness	-0.523588	1.101484	1.906683	0.064880
Kurtosis	2.329800	2.856620	5.817772	2.044107
Jarque-Bera	0.644060	2.030678	9.367331	0.387737
Probability	0.724677	0.362280	0.009245	0.823766
Sum	1727901.	1025699.	389649.0	6353864.
Sum Sq. Dev.	2.52E+10	1.19E+11	2.07E+10	4.28E+12
Observations	10	10	10	10

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) Statistics (normality test). The results in table 1 provided some insight into the nature of the Nigerian hotel industries used in this study. It revealed that on the average over the ten years periods (2009-2018), the sampled hotel industries in Nigeria characterized by positive profitability (PAT =635386.4). Also, the large difference between the maximum and minimum value of the outsourcing of advertising services (ADV), outsourcing of legal services (LGA) and outsourcing of technology service (TECH) show that the sampled quoted hotels in this study are not dominated with large outsourcing services.

However, the Jarque-Bera (JB) which test for normality or the existence of outliers or extreme values among the variables shows that most of the variables were distributed normally at 5% level of significance. This means that any variables with outlier are not likely to distort our conclusion and are therefore reliable for drawing generalization. This also implies the use of least square estimate to estimate the pooled regression model.

Testing of Hypotheses formulated

To determine the relationships between the dependent variable profits and the independent variables (ADV, LGA and TECH), pooled multiple regression analysis is used since the data had both time series (2009-2018) and cross sectional properties. The pooled interaction based multiple regression results was presented and discussed in regression analysis, table 2 below:

Table 2: Regression Analysis

Dependent Variable: PFT				
Method: Least Squares				
Date: 03/24/20 At: 09:38				
Sample: 2009 2018				
Included observations: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-29855.92	590985.2	-0.050519	0.9613
ADV	7.137767	4.047558	1.763475	0.1283
LGA	-2.364529	1.251668	-1.889102	0.1078
TECH	3.644013	3.691661	0.987093	0.3617
R-squared	0.744528	Mean dependent var		635386.4
Adjusted R-squared	0.616792	S.D. dependent var		689472.8
S.E. of regression	426809.6	Akaike info criterion		29.05524
Sum squared resid	1.09E+12	Schwarz criterion		29.17627
Log likelihood	-141.2762	Hannan-Quinn criter.		28.92246
F-statistic	5.828654	Durbin-Watson stat		2.731765
Prob(F-statistic)	0.032779			

In Table 2, R-squared and adjusted Squared values were (0.74) and (0.62) respectively. This means that the independent variables explain about 62% of the systematic variations in profitability (PFT) of the samples hotels over the ten years periods (2010-2019). The F-statistics (5.83) and its P-value (0.03) show that the profitability regression model is well specified.

Test of Autocorrelation: using Durbin-Waston (DW) statistics which we obtained from regression result in table 2, it is shows that DW statistics is 2.73 and an Akika Info Criterion and Schwarz Criterion which are 29.06 and 29.18 respectively also further confirms that the model is well specified. In addition to the above, the specific finding from each independent variable is provided as follows:

Outsourcing of Advertising Services (ADV): from the analysis, t-value of 1.763 and p-value of 0.13 was found to have a positive effect on the sampled quoted hotels profits and this effect is not statistically significant at 5% level since its p-value is more than 0.05 values. This result therefore suggests that we should accept our null hypothesis, which states that advertising activities has no significant effect on profits of hotel industries in Nigeria.

Outsourcing of Legal Services (LGA): from the analysis, t-value of -1.889 and p-value of 0.11 was found to have a negative effect on the sampled quoted hotels profitability and this effect is not statistically significant at 5% level since its p-value is more than 0.05 values. This result therefore suggests that we should accept our null hypothesis, which states that legal activities have no significant effect on profits of hotel industries in Nigeria.

Outsourcing of Technology Services (TECH): from the analysis, t-value of 0.987 and p-value of 0.36 was found to have a positive effect on the sampled quoted hotels profits and this effect is not statistically significant at 5% level since its p-value is more than 0.05 values. This result therefore suggests that we should accept our null hypothesis, which states that technology activities have no significant effect on profits of hotel industries in Nigeria.

Discussion of Results

Outsourcing of Advertising Services was found to affect positively on the dependent variable, profits. This effect was not statistically significant. This finding of Nazeri, Gholami and Rashidi (2012) supports our aprori result and views of Asiamah (2013) disagree with it. Outsourcing of Legal Services was found to affect negatively on our dependent variable, profits. This effect was not statistically significant. This finding therefore supports our aprori expectation and the findings of Suraju and Hamed (2013) and disagrees with the view of Agburu, Anza and Iyortsuun (2017). Outsourcing Technology Services was found to effect positively on our dependent variable, profits. This impact was not statistically significant. This finding therefore supports our aprori result and the findings of Kamanga and Ismail (2016) and disagrees with the view of Agburu, Anza and Iyortsuun (2017).

5. CONCLUSIONS AND RECOMMENDATIONS

The study shows that outsourcing (advertising, and technology services) have positive significant effect on the profitability of hotel industries in Nigeria while legal services has negative significant effect on the profitability of hotel industries in Nigeria. The results further infers that of all the predictors considered in this study advertising contributes the most to the profits followed by technology adaption as implicated by their larger coefficients. This shows that outsource have reduced average cost, increased sales turnover and profits, enhance expertise, improve services, reduce staff strength, streamline the production process, reduced administrative burden and save time for core activities.

Based on the objectives and conclusions, this study recommended as follows:

1. The electronic means of advertising services should advance for the new and existing products and services of the organization in order to enhance customer's his or her patronage.
2. Based on the negative effect of legal fees on financial performance, managers must always act in ways that are in line with the objectives of the organizations such that these fees should moderate in some areas in order to enhanced financial performance for the organization.
3. Organizations should choose to outsource non-core service activities like I.T and Engineering services to both local and global service providers who are placed with the experience and technical know-how in such areas. This process will drive by factors, which are beyond only cost minimization.

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