# EFFECT OF OUTSOURCING STRATEGY ON ORGANIZATIONAL PERFORMANCE: A STUDY OF EQUATOR BOTTLERS, KISUMU.

BY

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## ABSTRACT

As a component to the growing division of labor worldwide, outsourcing has been a growing aspect of supply chain management and is receiving a lot of attention from companies globally. It usually involves contractual agreements between two or more organizations involving an exchange of services and payments. Despite the significant growth of the outsourcing concept, not all organizations embarking on outsourcing achieve their intended performance result. The purpose of this study was to determine the effect of outsourcing strategy on organizational performance with specific reference to equator bottlers, Kisumu. Specifically the study sought to establish the activities outsourced by Equator Bottlers, determine the benefits of outsourcing to Equator bottlers, and identify the challenges encountered by Equator Bottlers in carrying out outsourcing. The relationships of the variables of the study were set on a conceptual framework that depicts the interrelationship between the variables in an environment of other intervening variables. The target population was 180 respondents with a sample size of 124 representing 69% of the total target respondents drawn from the top management, the procurement department and the user departments. Structured questionnaires and interviews used to obtain primary data while secondary data sourced from business magazines, internet sources, newspapers and textbooks. The data was analyzed using descriptive statistics. Using Correlation analysis, a relationship between the variables under study was drawn. The findings were presented in form of tables and charts. From the study findings it was revealed that human resource services is the most commonly outsourced activity by Equator Bottlers in Kisumu with a highest percentage response of 37(29.8%), followed by advertising and sales promotion 33(26.6%), then transport services 25(20.2%) and finally cleaning services 9(7.3%).The findings also indicated that outsourcing enables the company to focus on its core competencies as the greatest benefit identified by the respondents with the highest response rate of 38(30.6%).It was also discovered that the major challenge to outsourcing in this company is the risk of losing vital information to its competitors with a response rate of 44(35.5%). The correlation analysis between outsourcing and performance indicators revealed that correlation between advertising/sales promotion and improved competitive advantage, increased productivity and improved quality is positive and significant with coefficients of 0.764, 0.353 and 0.304 respectively. The study revealed that the correlation coefficients between outsourcing and various indicators of performance were significantly positive but varied and the strongest correlation was between advertising and sales promotion and improved competitive advantage with correlation of 0.764, $p<0.01$ at 2 tailed significance level. The study will help organizations to know under which situations to outsource, benefits of outsourcing and the steps to take in order to achieve competitive advantage. It recommends that Equator bottling company should invest more on expert outsourcing as this will influence positively on performance.

# CHAPTER ONE
# INTRODUCTION

This chapter examines the background to the study problem, statement of the problem, objectives of the study, research questions, the significance of the study, the scope of the study, limitations of the study and the conceptual framework adopted for the study.

## 1.1 Background of the Study

The world is witnessing a service of industries and economies (Busi and McIvor, 2008; Tomiura, 2007; Wadhwa and Ravindran, 2007; Wagner and Friedl, 2007). Companies which have traditionally put manufacturing and service excellence at the core of their competitiveness are being forced by external factors to re-examine their core competencies (Wagner and Friedl, 2007; Weimer and Seuring, 2008). As a consequence, it is not unusual to see service and manufacturing companies shifting their focus on manufacturing or providing services around their products. Rather than providing the products/services itself in-house, they prefer to outsource the entire finished product to third-party (Arnold, 2000; Busi and Ball, 2007). As a component to the growing division of labour world-wide. Outsourcing otherwise known as 'sub-servicing' refers to the process of contracting tasks that are usually handled internally by the company itself to a third-party (Ganesh, 2007). It usually involves contractual agreements between two or more organizations involving an exchange of services and payments. These alliances often create synergistic effects, which could be in form of monetary and non-monetary benefits. In addition to risk reduction, outsourcing also allows companies to focus on their core competencies, while relying on their outsourcing partners for non-critical processes and operations (Khong, 2005).

In general, outsourcing can be defined as an organization delegating their non-core functions to an external organization that provides a particular service, function or product (Hansen, 2009; Lawler & Mohrman, 2003). Some authors observe that outsourcing is no longer confined to information technology (IT) services, but has expanded to financial services, banking services, engineering services, creative services, data management services, hospitality and clinical laboratories or laboratory medicine, and human resource management (HRM) (Bielski, 2007;

Bossuyt, Verveire and Blanckaert, 2007; Schultheis& Summer, 1998). Outsourcing the Human Resource (HR) function is one of many ways to improve an organization's efficiency (Lawler &Mohrman, 2003).

Since tasks are usually contracted to partners with competitive advantage in productions, outsourcing is expected to lead to improvements in quality of outputs, while at the same time reducing cost of production in-house. Outsourcing also induced faster access to intellectual property and knowledge, which often enhance capacity for innovation; it is also expected to increase productivity and customer service managements of both parties if properly implemented. On the part of customers and society in general, outsourcing is expected to bring about reduction in prices, since operations could be moved to countries with low labour costs or ability to enjoy tax incentives (Barthelemy, 2003).

Despite all the benefits of outsourcing, it also has its disadvantages if not properly managed. Quality risk may emanate due to defective products or services from both parties; offshore outsourcing for the purpose of saving cost often have a negative influence on productivity, due mainly to the use of cheap labour and materials by their partners. Valuable skills and competencies may be lost due to high turnover, and the subsequent replacement of the lost employees with less qualified staff by the outsourcer, and finally, outsourcing may represent a new threat, from the standpoint of labour, hence, workers insecurity may lead to serious litigation, labour unrest and resistance to change by the remaining employee (Ganesh, 2007; Manning, 2008).

Although, many academic literatures have shown the positive effects of outsourcing on both objective and perceived business performance (Quinn, 2000; Manning, 2008), empirical findings in developing countries, like Nigeria, are scarce. Outsourcing has great potential for increasing business performance through reduced process time and cost, improved quality, and greater customer satisfaction, but it often requires a fundamental organizational change and strategies. As a result, the implementation process is complex, and needs to be checked against several success/failure factors to ensure successful implementation (Quinn, 2000; Manning, 2008).

However, despite the significant growth of the outsourcing concept, not all organizations embarking on this project achieve their intended performance result. Quinn (2000) and Manning (2008) estimates that as many as 40 to 50% do not achieve the improved performance results they seek. This is attributed to poor implementation of outsourcing strategies rather than a problem with the concept itself (Quinn, 2000).

Such contradictory outcomes raise concerns among companies evaluating outsourcing as a crucial strategic initiative (Quinn, 2000). Manning (2008) also sustained these contradictory findings offer a unique opportunity for conducting studies oriented to identify critical factors that can influence the success of outsourcing implementations. Consequently, the aim of this study was to provide a holistic view of outsourcing implementation process, by reviewing the hard and soft factors that cause success and failure, as well as, examine the impact of successful outsourcing on the performance of Equator bottlers, the only Coca-Cola soft drink manufacturing company in Kisumu city.

Equator Bottling Company plant is located at the shores of lake Victoria and is adjacent to Kisumu international airport along Kisumu-Busia road. It deals in production of soft drinks like sodas in different brand names like, Sprite, Coke, Fanta, Krest, Novida, Stoney, Dasani and Minute maid among others. It has a range of activities some of which are core and not outsourced. Those that are considered non-core are outsourced to different service providers. It gets a list of service providers, looks at their terms, kind and quality of services provided and the costs involved. It is from this list that it selects the most favorable to outsource to. For instance, it outsources activities like part of its transport is given private vendors who have trucks in good mechanical conditions, negotiate the price and terms of service. These pick the products from the company premises and deliver them to the agreed destinations like depots and various customers. Cleaning is also done by other firms for all departments in the company and this gives the employees a good working environment and more time to perform their duties.

However, despite outsourcing these activities were still having weaknesses like late deliveries due car mechanical breakdowns and unsatisfactory cleaning which is at times due to personal character of the cleaners and poor supervision.

## 1.2 Statement of the Problem.

Outsourcing is a very crucial function in an organization because it directly affects the firm's operational activities. Even though Equator Bottlers has outsourced most of its activities, there has been persistent inconsistencies in delivery of their soft drink products, delays in dispatch of fridges to their customers which can go for weeks and months, in availability of some preferred brands of sodas, poor cleaning of the companies environment. These problems have caused a lot of dissatisfaction on the side of customers and have been attributed to the non performing organizations whose services were outsourced by Equator bottlers which in turn impacted negatively on the performance of the Equator bottling company in Kisumu. Steps had been taken to solve these problems by bringing trusted and better qualified people to provide these services. Despite the steps taken, the contribution of outsourcing to organizational performance is still low. Therefore, the study sought to establish the effect of outsourcing on organizational performance of Equator Bottling Company in Kisumu.

## 1.3 Objective of the Study

The main objective of this study was to determine the effect of outsourcing on organizational performance of Equator Bottlers in Kisumu.

**Specific objectives were to:**

1. Establish the activities which were outsourced by Equator bottlers.
2. Determine the benefits of outsourcing to Equator Bottlers, Kisumu.
3. Identify the challenges encountered by Equator Bottlers in carrying out outsourcing.

## 1.4 Research Questions

The study was guided by the following questions:

1. What activities are outsourced by Equator Bottlers?
2. What are the benefits of outsourcing in your organization?
3. What are the challenges that Equator bottlers encounter in their Endeavour to carry out outsourcing?

## 1.5 Scope of the Study

The study focused on the procurement department of Equator Bottling Company Limited. It covered the procurement staff, user department and providers of different services. The study looked at the outsourced activities, drivers of outsourcing and the challenges in connection with the organizational performance.

## 1.6 Significance of the study

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in developing countries like Kenya. The study will help business managers to minimize losses through minimizing costs and creating value for money. The research will also help organizations to know under which situation to outsource, benefits of outsourcing and the steps to take in order to achieve competitive advantage.

## 1.7 Conceptual Framework

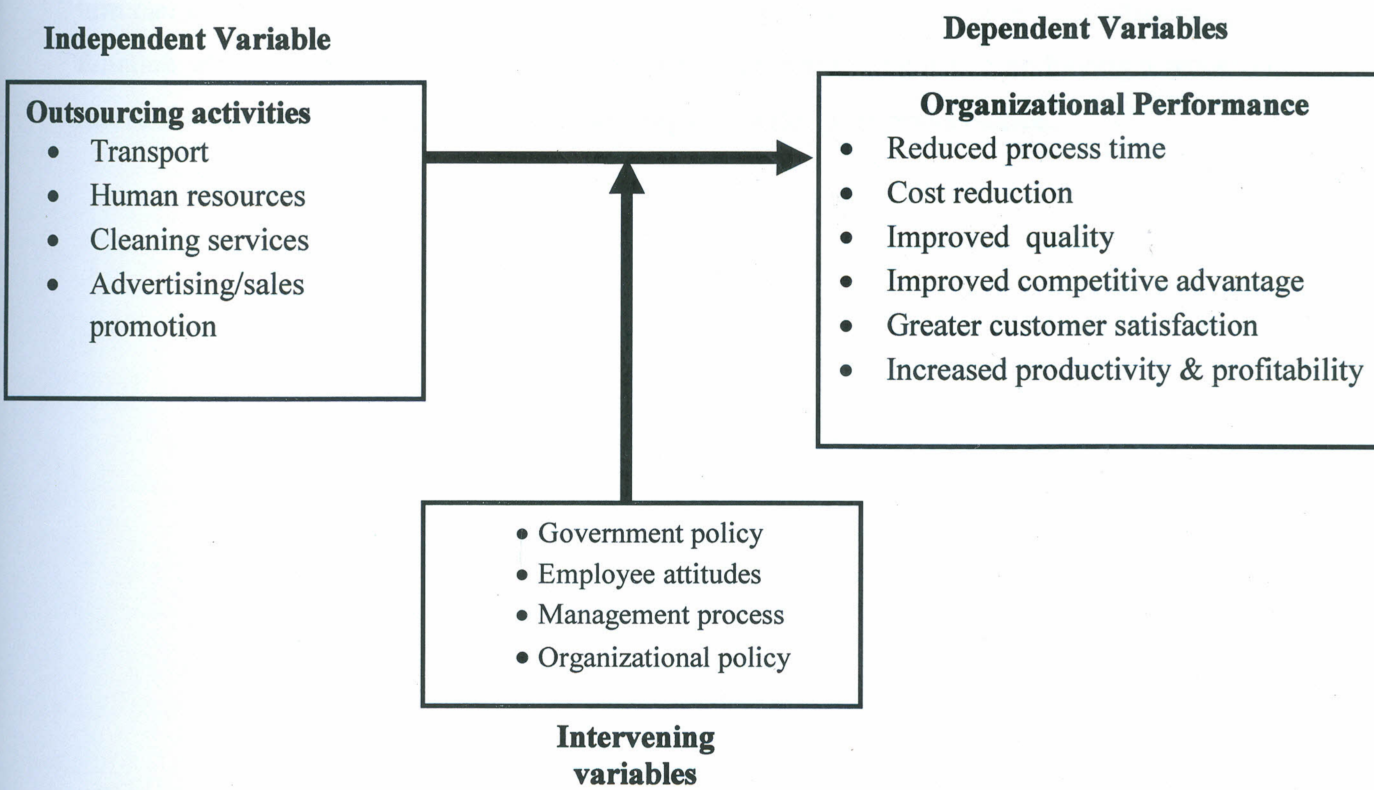



***Figure 1.1*** *Outsourcing and Organizational Performance Relationship*

**Source:** Adopted from *Quinn et al (2000)*

The relationship above shows the dependent variable, organizational performance as affected by the independent variable, outsourcing activities which has four elements namely; transport services, Human resources, cleaning services and sales promotion. The above independent variable elements have a direct effect on performance of the Bottling Company under study through reduced process time, reduced costs, improved quality and greater customer satisfaction, increased productivity and profitability.

The government policies, employee attitudes, management process and organizational policy acts as intervening variables between outsourcing activities and organizational performance relationship. When the government increases taxes on products produced by equator bottlers it automatically leads to increase in costs of those products lowering the company's profits and subsequently leading to customer dissatisfaction as a result of its products becoming more unaffordable. On the other hand, poor management can lead to outsourcing of services which can be provided by the company in-house which in turn can lead to high expenditures that in turn can greatly lower the company's profits. If an organization has a policy of outsourcing HR function which is so critical to performance, the organization might end up having a workforce that is not skilled and adequately trained leading to overall poor performance.

# CHAPTER TWO
# LITERATURE REVIEW

## Introduction

This chapter looks at a review of issues and factors that have been explored and studied in the existing literature on outsourcing and examine the existing gaps.

## 2.1 Theoretical review

### 2.1.1 The Concept of Outsourcing.

According to Baily (1998), many organizations today are turning to external procurement, where we even find that functions such as transport, accounts, computer services, even purchasing can be outsourced. This gives the company employees time to perform their duties to the company's satisfaction and this improves the organizational performance which is every company's objective to achieve a competitive advantage.

Eyaa, (2006), defined outsourcing as a decision by firms to have an external supplier to take over an activity that would have otherwise been performed in-house by organization's employees. Usually organizations look for the best service providers to whom to outsource their work, this gives them a chance to get their work done by experts which means good quality work leading to a good company name.

Lysons and Gillingham (2003), states that outsourcing is the strategic use of resources to perform activities traditionally handled by internal staff and their resources. It is a management strategy by which an organization outsources major non-core functions to specialized and efficient service providers to help the organizations perform best where it is best capable.

Axelsson and Wynstra (2000), defines outsourcing as a decision and subsequent transfer process by which activities that constitute a function that earlier have been carried out by a company are instead purchased from an external supplier. Usually companies that provide outsourced services choose what they can do better, this means training their workers to perform to the best of the clients expectations. This means specialization with all its benefits to organizations. Different Authors like, Bendor, Bona and Lysons suggest that the following activities should not be outsourced or if done it should be done with great management consideration; management of strategic planning, management of finance, management of consultancy, control of supplies Quality and environmental management. The ranges of services that are outsourced are timeless and these include; Waste disposal, research and development, transmission service, estate management, customer brokage, catering, Asset repair and control, library and cleaning.

Although various organizations have tried to look at what the different Authors have written and put it in consideration in their bid to outsource, they have not fully met their intentions like cost reduction, efficient and effective service provision from the service providers to whom they outsource their activities. This is partly due to the ever-increasing prices of products that also mean increase in prices of services being outsourced.

The aim of this study is to show how the main variables have effect on business performance related to outsourcing. In such a sense, outsourcing cannot be approached as a simple "make or buy" decision, but, instead, it should be considered as a corporate strategy, put in place by top management to improve the performance of firms (Marchegiani et al. 2010). Despite that this point is still debated, researches rooted on the examination of core competencies, mostly adopting the RBV perspective (Espino-Rodríguez &Padròn-Robaina, 2006), showing that outsourcing is not merely a means of cost reduction, but it also implies a transfer of intellectual capital. From this perspective, the development and maintenance of competencies might be necessary to achieve a competitive edge against competitors and drain resources, allowing top management to improve performance.

### 2.1.2 Cost Reductions.

Sabiti (2003), says that, the organization that outsources is cutting administration cost of maintaining or doing the activity in house, the overriding factor in outsourcing decision is cost cutting, but whereas this may make business sense in the beginning, in some cases it could bring complications and put the whole exercise at a high risk if all concerns are not adequately assessed. This means that the outsourcing organization should not only look at the costs being low but also consider the outcomes of process of outsourcing at the end of everything to the organization.

Manzi (2004), states that the most common economic factor that influences the decision is the need to reduce costs .Where the benefits analysis has been carried out and has been established that it is most economic to outsource rather than continue to operate a given function looks forward to making profits in business.

Kulumba (2005), states that, outsourcing is a popular phenomenon with managers because they believe that outsourcing vendors are inherently more efficient due to economies of scale. The outsourcing organization benefits from getting the services from the provider at a reduced cost since it is provided on a large scale and usually for a reasonable time if it is good work. Antonuccci 1998, advised that, if the vendor is efficient than the prospective client, organizations could reduce its own costs through function consideration and resource optimization. Due to experience in the field and knowledgeable experts, it leads to proper and efficient use of resources yet with good quality work.

### 2.1.3 Key factors necessary for outsourcing

#### 2.1.3.1Competence

Bourassa (1988), says that organizations should focus on core activities and leave the non-core activities to outside providers who have the skills to do them better. The providers who have all the required competence, skills, and service providers should be of desired level to be able to meet the company requirement.

K. Farrington (2006), also shows how important competence is, it is the core activities of the company that tell or manifest the performance of the organization. These activities need much more time so as to come out at their best and give the company competitive advantage over others. This can be achieved through outsourcing non-core activities and concentrate on its core competence.

#### 2.1.3.2 Management Support

Peter Jeans (2008), suggests that when it comes to outsourcing, it should be supported by all departments of the organization so as to get the best of the benefits of outsourcing in the organization. To achieve success, people always have to stand together to share ideas for better organizational performance.

Garry Petty, says that any activity in the company done without management consent and support is a manifestation of failure in that activity. This shows how much important management support and involvement is in all company activities outsourcing inclusive. Frayer et al. (2001) suggested that in order for an out-sourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they suggested that companies that have not raised their sourcing approach to global, strategic level might already be behind in terms of quality, cost, delivery, technology, performance, and customer service. Klaas et al. (2001), suggested that the influence of organizational characteristics was highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities outsourced. As such, it appears that many factors such as pay level, promotional opportunities and demand uncertainty should be considered when deciding to outsource functions or activities. Other researchers have focused on outsourcing performance measures (Kotabe, 2008; Choi, 2008).

For example, Kotabe (1998) identified three types of performance measures as necessary 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 (Kotabe, 2008).

### 2.1.4 Drivers of Outsourcing

#### 2.1.4.1 Quality Actual Capacity

Lysons and Gillingham 2006, state that, it is temporarily insufficient to comply with demand; the quality motive can be subdivided into three aspects, that is to say; Increased quality demand, shortage of qualified personnel and outsourcing as a transitional period. Therefore companies have various reasons for outsourcing their non-core activities.

**2.1.4.2 Finance**

According to Frankwood and Sangster,2007, the company has a limited investment budget. Therefore the funds must be used for investments in the core activities which are long term decisions and leave non-core activities to outside providers to do them on behalf of the organisation.

**2.1.4.3 Core Business**

Erick Bartz, shows that, Core business is a primary activity that enables an organization to generate revenues to concentrate on core business activities. All subsequent activities are supportive and should be outsourced to give enough time to the core activities.

**2.1.4.4 Employees' Attitudes towards Outsourcing**

As in any new area of research, there has been very little empirical research on the psychological aspects of the practice (Giardini, Kabst, 2008). How employees feel about BPO is important because it may have mediating effects on employees' behavior and attitudes as well as on variety of organizational outcomes. Employee's cognitions and affects regarding outsourcing are likely to vary with the degree of their familiarity of various aspects of outsourcing such as its content, and process. Some aspects of outsourcing may be evaluated favorably, while other aspects may be viewed as detrimental (Drezner, 2004)

Organizations provide employees with a sense of identification and feelings of security and belonging. When these are disrupted, employees, as stakeholders, may feel resentful and retaliatory. About one-third of HR professionals resist outsourcing because they risk losing their jobs, may be forced to work for a vendor, and fear that management believes that outsiders are more competent. Once rumors of outsourcing arrangements are started, HR managers can expect talented employees to start job searches and all employees to suffer anxiety resulting in lost production (Belcourt, 2006).

Regardless of underlying reasons for outsourcing activities, employees perceive a qualitative change in their employment and psychological contract with the firm as a results of the firm's outsourcing decisions. Outsourcing may affect some employees positively by upgrading their role, requiring them to focus on high value-added activities, replacing mundane and repetitive work . However, for some employees, outsourcing can result in a loss of employment (Adler, 2003). Given such significant effect on employees, it can be posited that outsourcing may lead to a perceived alteration of the psychological contract, potentially leading to negative organizational outcomes such as perceived betrayal (Kessler, Coyle- Shapiro & Purcell, 1999), job insecurity, (Cooper, 1999), depression and low self-esteem (Applebaum, Simson, Shapiro, 1987).

### 2.1.5 Benefits of Outsourcing

One avenue that organizations have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage to these organizations (Monczka and Trent, 1991; Quinn and Hilmer, 1994). In addition, economics of globalization and liberalization facilitate the process of searching for opportunities on the open global market to outsource some of organization's activities instead of performing them internally.

Because of diverse nature of business processes an organization has to manage today, it is nearly impossible for an organization to manage all of its processes by solely depending on its own expertise. Even if it is feasible, the organization may lose its focus and efficiency. Outsourcing some or all of noncore business processes can enable an organization to focus on core competencies, rather than services that fall outside of expertise. Lee and Kim, (2010) have argued that outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and strategically use outside vendors to perform service activities that traditionally have been internal functions. Outsourcing can also involve the transfer of both people and physical assets to the supplier (McIvor, 2008).

There have been several key advantages of outsourcing identified in literature. These include cost savings (Bettis et al. 1992; Lacity and Hirschheim, 1993; Quinn, 2000; Verhoef, 2005; Bardhan et al. 2006; and Nayak, et al. 2007); reduced capital investment within the firm (Mc.Farlan and Nolan, 1995;Gilley and Rasheed, 2000); improved responsiveness to changes in the business environment (Dess et al. 1995); an increased focus on core competencies (Kotabe and Murray, 1990; Saunders et al. 1997);increased competition among suppliers ensuring higher quality goods and services in the future (Kotabe and Murray, 1990); and a reduced risk of changing technology (Quinn, 1992).

### 2.1.6 Challenges of Outsourcing

Like any restructuring exercise and management decision making in business, there are risks associated with outsourcing that procurement managers or top management need to consider carefully (Procurement News December,17th,23rd 2003) and these may be; The possibility of over depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive. Over a long time, a supplier of outsourced service may become complacent or change ownership and also a risk of a fall in employee morale for fear of being made redundant, confidentiality links of company matters and in some instances loss of intellectual property rights. Eyaa, 2006, says that, high prices being imposed on suppliers due to increasing trends in outsourcing, the demand for suppliers is so high and has pushed the rates being charged by the suppliers to be high. This later increases the costs yet outsourcing is all about helping firms cut costs. Too much expectancy from suppliers as Company employees tend to expect too much from supplier firms as far as service provision is concerned because they are specialists yet things can go wrong once in awhile. Such issues should not be ignored. According to Manzi, (2005), there is a possibility that vital company information may be at a risk of being leaked to the company's competitors which is dangerous since some suppliers may be spies to the company.

From a different perspective, obstacles such as poor choices of sourcing partners, inadequate planning and training/skills needed to manage outsourcing activities and poor organizational communication have also been identified as affecting the success of outsourcing projects (Manzi, 2005).

### 2.1.7 Performance Implications of Outsourcing

Outsourcing can improve organizational performance when applied as an organizational strategy. Outsourcing one's business processes can improve one's competitive edge. The reason behind this is that outsourcing reduces business costs. Organizations may choose to outsource with certain business aims in mind. The aim might be the need to improve on financial performance. Most time, such organizations are aware that outsourcing firms my 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. Consequently, the extra amount that 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. This allows businesses to compete favorably based on price thus giving them a competitive edge. Organizations that do everything on their own may be exposed to greater levels of risk than those who outsource their business functions. 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. Consequently, this eats into their profitability and reduces their chances of growing their organization's businesses. However, through outsourcing, organizations can minimize their risks with regard to huge infrastructural expenditures and the overall result of this issue is that more investors will be attracted to such organizations.

Outsourcing is good for business because there are certain situations that can be avoided through it. For instance, organizations that perform all their business functions may have to spend huge amounts on replacing obsolete technology. However, when that business function is outsourced, then organizations will not even the feel the pinch. This means that organizations can dedicate their resources to productive activities alone and thus enhance their effectiveness and efficiency (Frayer et al. 2000). Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Gupta and Zeheuder, 1994; Greer et al. 1999), increase capacity, improve capacity, improve quality (Lau and Hurley, 1997; Kotabe et al. 1998), increase profitability and productivity (Sinderman, 1995; Casale,1996), improve financial performance (Crane, 1999), lower innovation costs and risks (Quinn, 2000),and improve organizational competitiveness (Lever, 1997; Sharpe, 1997; Steensma and Corley, 2000). Nevertheless, outsourcing does generate some problems, as outsourcing usually reduces an organization's control over how certain services are delivered, which in turn may raise the organization's liability exposure.

The effects of outsourcing are not limited to the economic domain. There are also organizational implications, such as loss of control over how an outsourced activity is carried out or a service is delivered (Elmuti et al. 1998; Lankford and Parsa, 1999) including a loss of property rights (Loh and Venkatraman, 1992). The organization may become dependent on the external service provider and thereby lose strategic flexibility (Kakabadse and Kakabadse, 2003)

**2.2 Review of Empirical Literature**

Baumol (1967) argued that one of the major reasons for the growth of the services sector could be linked to services outsourcing in the manufacturing industries (Fixler and Siegel, 1999; ten Raa and Wolff, 2001). The fact that manufacturing industries to an increasing extent could outsource their less efficient service activities, and focus on their core competences, led to significant productivity gains in the industry, and increased the already existing productivity gap between the manufacturing industry and the service sector – a phenomenon that was later called "Baumol's disease".For data covering the 1980s, Siegel and Griliches (1992) investigated if outsourcing of services by manufacturing industries led to an overstatement of manufacturing productivity. However, when examining the acceleration of manufacturing total factor productivity and outsourcing of services they found only a weak link. While replicating these results, a later study by ten Raa and Wolff (2001) also provided indirect evidence supporting the theory of Baumol's disease. Their findings suggest that manufacturing industries had been especially successful in outsourcing relatively inefficient services over 1987-1996, but that increasing services inputs observed alongside with the TFP growth recovery over 1977-1987 could stem from both outsourcing and a general substitution of service activities for material inputs. Elmuti, Grunewald, Abebe (2010) researched consequences of outsourcing strategies on employee quality of work life, attitudes and performance. The attitudinal results of this research indicated that outsourcing strategies had a negative impact on the perceived quality of work-life dimensions.

Ndubisi, (2011) identified conflict handling typologies which affect trust and commitment in B2B outsourcing relationship. It is also considered the moderating effect of culture in the relationship. Data was collected from Chinese and Indian firms providing HR outsourcing services. The effect of compromising conflict handling on trust and commitment is moderated by culture -significantly higher for the Chinese (business culture is a blend of the moral values of Confucianism and comprising elements which relate to long-term business relationship including strong personal connection and interpersonal harmony) service providers compared to the Indians (Spiritualism and the Notion of 'Karma'). Culture has also a direct effect on commitment but not on trust (National culture effect).

As Jiang, Frazier, and Prater (2006, p. 1281) noted, "in an age in which management carefully weighs the costs and benefits of every discretionary investment dollar, finding evidence of the results of outsourcing is critical." Nevertheless, although academic studies have provided valuable insights into the drivers of the outsourcing decision, surprisingly little empirical research exists on the performance implications of this decision (Leiblein, Reuer, and Dalsace 2002). Moreover, the scant research that has studied the performance outcomes of outsourcing is inconclusive. Whereas some studies find a positive relationship between outsourcing and firm performance (Jiang, Belohlav, and Young 2007), other studies report a negative relationship (Weigelt 2009). Still others find no significant effect of outsourcing on performance (Gilley and Rasheed 2000).

Hosking (2004) identified four key benefits of outsourcing: Increased flexibility and responsiveness for the business, reduced risk, lower cost access to new business technology and reduced operating costs. However, organizations have always seeking for ways to achieve a competitive edge over their potential competitors, however, with contemporary highly competitive environment in which today's businesses operate acts as a strong stimulus for organizations to outsource. The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities (McIvor, 2008).

Fixler and Siegel (1999) provided some insights into outsourcing and its productivity effect on the services sector. Their empirical evidence suggested that outsourcing led to short-run reductions in services sector productivity, but that productivity improvements can be expected, especially for business services, once outsourcing of services by manufacturing firms will subside relative to production capacity in the services sector. They also argued that productivity in the services sector will increase as outsourcing by service firms increases, although they provided no direct evidence of this.

Görzig and Stephan (2002) examined a panel data set of about 43 000 German manufacturing companies over the period 1992-2000. They estimated firm performance measured by both the returns per employee, which could be interpreted as productivity, and the return on sales. Three different measures of outsourcing were employed, and were all related to internal labour cost. The first was "material inputs" which reflects make-or-buy decisions by the firms and therefore resembles material outsourcing to external suppliers. The second was "external contract work" meant to reflect subcontracting, and the third was "other costs not related to production" capturing outsourcing of services. The authors estimated both a between-firm specification, where all observations were averaged for each firm, and a within-firm specification, where they controlled for unobserved heterogeneity and excluded all time-invariant variables. The former model was interpreted as the long-run model, whereas the latter was interpreted as the short-run model.

Generally, Görzig and Stephan found a positive and significant effect of all three measures of outsourcing on firm performance, measured as returns per employee. This effect is strongest for material outsourcing, but negative for services in the short run. Moreover, they found that increased subcontracting and outsourcing of services reduces firm profitability, whereas firms that engaged in material outsourcing tend to do better than those that do not outsource. Based on this they concluded that, on average, the level of subcontracting and outsourcing of services that firms have engaged in is above the optimal level. Despite the significance of these results, it should be noted that most of the variation in performance across firms can be attributed to firm-specific characteristics.

Girma and Görg (2002, 2004) addressed the effect of outsourcing on both labour productivity and TFP for three separate UK manufacturing industries over the period 1982-1992. They used plant-level data, including larger establishments with more than 100 employees, in the chemical, electronic, mechanical and instrument engineering industries. Using the standard framework outlined in the methodology section they analyzed how both productivity levels and growth are affected by outsourcing, although they did not distinguish between the domestic and international direction of the activity. Outsourcing was measured as the cost of industrial services received by an establishment relative to the total wage bill, where industrial services include machine maintenance services and engineering and drafting services only. Thus, compared to other studies, Girma and Görg applied a more narrow measure.

The effect of outsourcing on productivity levels was positive and significant for plants in the chemical and engineering industries, and about three times stronger in the latter. The effect of outsourcing in the electronics sector was negative but insignificant. Girma and Görg also included an interaction term for outsourcing and plant ownership and found that the productivity effect was more pronounced in case of foreign ownership, especially for plants in the engineering sector. There were no clear results regarding outsourcing's effects on the growth of labour productivity, although there appeared to be a correlation in foreign owned plants in the engineering sector. Regarding the analysis of TFP, the sectoral pattern of effects on labour productivity was repeated. This implied that there is a positive productivity effect of outsourcing to plants in the chemicals and engineering sectors, but not in the electronics sector, and the effect for plants in engineering is stronger than that for chemicals. The only exception is that the effects of outsourcing generally are even stronger in engineering as well as positively and significantly correlated with the growth in TFP. Foreign ownership strengthens the effects of outsourcing on TFP.

Görg and Hanley found no clear productivity impact of offshore outsourcing in either materials or services – unless the sample is split into sub-sectors of plants operating either upstream or downstream. In this case, services outsourcing has a large positive and significant impact on both the level and growth in labour productivity for plants operating in downstream sectors. A one percentage point increase in outsourcing is associated with an increase of labour productivity of 0.99 and 0.55 percentage points for levels and growth rates, respectively. For plants operating in the upstream sectors of the electronic industry, on the other hand, the effect is negative, albeit insignificant. There was no effect of foreign material outsourcing in either of the two sub-sector classifications.

Using the same data Görg and Hanley (2005) extended their study of offshore outsourcing in the Irish electronics sector and its productivity effects. In this study, however, they focused on TFP instead of labour productivity and control for differences in export intensities across plants. To do this they introduce a dummy that takes the value 1 if the plant's export intensity is higher than the median. Since they also coded for plant-specific effects, the export intensity dummy captures productivity effects for plants moving from low-export to high-export intensity. Time effects are also included, but they did not distinguish between upstream and downstream operations as in Görg and Hanley (2003*b*). The dependent variable was plant-specific total factor productivity levels.

Looking at offshore outsourcing of materials and services combined, Görg and Hanley (2005) found a positive and significant effect on TFP. When distinguishing between off shoring of services and materials, however, materials were found to have a positive and significant productivity effect while the coefficient on services was positive but insignificant. These effects were robust across different model specifications. There is was significant productivity effect from the export intensity dummy.

Prior to the two studies mentioned above, Görg and Hanley (2003*a*) conducted another but closely related study. This was based on the same data source, but addressed the question whether or not outsourcing increased plant profitability. In the study they found evidence of a causality going from outsourcing to profitability; they also found that outsourcing of services lowers plant profitability. The effect on profitability from outsourcing of materials was positive but insignificant. Reversing the regression, they found that material outsourcing was positively and significantly related to profitability, whereas services outsourcing was negatively related, but insignificant. It should be mentioned, however, that no plant specific effects were estimated, which potentially could bias the results. Moreover, they did not distinguish between national and international outsourcing.

Görg, Hanley and Strobl (2004) extended on Görg and Hanley (2003*a*, 2003*b*) by investigating the effects of offshore outsourcing on plant productivity over a longer time period (1990-1998), and by using data covering all manufacturing industries. Again, outsourcing of services was distinguished from material outsourcing, and productivity effects were estimated for productivity levels only following the standard framework. The only notable difference from Görg and Hanley (2003*b*) besides larger data coverage is a slight change in the outsourcing variable which here is measured as the ratio of imported inputs over the plant's total wage bill, and not total inputs. The measures of material and services inputs did not change.

Just as in Görg and Hanley (2003*b*), Görg, Hanley and Strobl (2004) generally found that there is no productivity effect from services outsourcing. Despite the similarity in estimation frameworks between the two studies, however, the effect from material outsourcing is both positive and significant, and they estimate that an increase in material outsourcing by one percentage point leads to a 1.2% increase in labour productivity. When allowing different production functions according to plant ownership (foreign or national) and trade activity (domestic or international, based on the exporting status of the plant), offshore outsourcing of materials is found to have an effect on plant productivity of a similar magnitude for both foreign and nationally owned exporting plants. The effect for non-exporting plants, regardless of ownership, was insignificant. Thus, only plants oriented toward the international market seem to benefit from offshore outsourcing of materials. Taking into account the international character and ownership of plants did not result in any effect on productivity from offshore outsourcing in services. However there is a little empirical research investigating outsourcing performance implications (Agrawal et al. 2006). Additionally, while consultants identify the success of their approach, they do not identify the failures or problems of their approach as readily. Fewer studies have examined the outcomes of outsourcing activities.

Lau and Hurley (1997) found a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin was four times as high as that of GM due to effective outsourcing through strategic alliances. Frayer et al. (2000) reported that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firm's overall competitive position.The argument is that outside firms specializing in support functions can work cheaper because they benefit from economies of scale (Gupta & Gupta, 1992), offer up-to-date expert knowledge (Greer, Youngblood, & Gray, 1999), and apply the latest new technologies (Due, 1992).

A study by Elmuti & Kathawala (2000) based on data from 620 US firms, ranging in size from less than 500 employees up to 50,000 employees, found that 69% of the firms engaged in outsourcing obtained significant cost savings and increased performance. However, cost savings may be limited, incidental and well below the 20% claimed by consultancies (e.g. Benson &Littler, 2002); who also postulate that cost raises have also been reported (Walker & Walker, 2000). Giardini and Kabst (2008) hypothesized that Recruitment Process Outsourcing (RPO) has a negative effect on the perceptions and evaluations of job applicants. Results indicated that the satisfaction of participants with the process, the attractiveness of the organization, and the intention to accept a job offer decreased with increasing levels of recruitment process outsourcing.

## 2.3 Summary

Organizations always want to let specialists in a particular area accomplish a certain task for them. This implies that business can benefit from the practice of outsourcing.Outsourcing is growing at an exponential rate and could deliver desired benefits if proper choices are made at the inception of the arrangement. When companies choose to outsource, they should give themselves room to monitor performance, renegotiation, or terminate the arrangement with the service providers. The outsourcing client must also ensure that their employees are informed about the progress of discussions regarding outsourcing their department and properly treated when the arrangements come into effect.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## Introduction

This chapter provides an overview of the methods used to collect and process data. It gives the research design the sample selection methods, size, and data processing.

## 3.1 Research Design

The research design refers to the overall strategy that is chosen to integrate the different components of the study in a coherent and logical way, thereby, ensuring that the research problem is effectively addressed; it constitutes the blueprint for the collection, measurement, and analysis of data (Hall, 2008). The research problem determines the type of design to be used and not the other way around (Sekaran, 2000). The study adopted a case study design. This was deemed appropriate because it enabled the researcher to focus on and gather in-depth information about the phenomenon under study. It also helped carry out self-report data collection from the interested sample and allowed a thorough and easy analysis of the respondent's opinion. Case study led to collection of reliable information by description of the effect of outsourcing on organizational performance in the study area.

## 3.2 Study Area

The study area was in Kenya and conducted in Kisumu City, Kenya's third largest city. The city lies in Nyanza province found in western Kenya on the western shores of Lake Victoria. This area lies approximately between longitudes $0^{o}$ 60′ 0″ south, and Latitude $34^{o}$ 45′ 0″ E. It is bordered by Busia town to the north, Kakamega town to the north east, Kericho town to the east and Kisii town to the south. Major roads lead from the city to these towns.The prominent geographical feature in the city is Lake Victoria, the world's largest fresh water and the source of the Nile.The major economic activities in the county include, but not limited to fishing and cotton farming. The study was based on Equator bottlers company ltd. Which was registered and operating within Kisumu City council.

### 3.3 Target Population

Kombo and Delmo (2006) defined population as a group of individuals, objects or items from which samples are taken for measurement. In this regard, the universe for this study comprised 180 i.e. 10 from top management 90 from the procurement department, and 80 from the user departments. This enabled the researcher to obtain elaborate information and to save on time, finances and human resource (Mugenda and Mugenda, 2003).

### 3.4 Sampling technique

The study used stratified random sampling on the targeted respondents whereby top management, procurement team and user departments were treated as stratum then responses were taken from each stratum. This is summarized in the table below:

**Table 3.4.1: Target Population and Sample Size**

| CATEGORY | POPULATION | SAMPLE SIZE |
|---|---|---|
| Top Management | 10 | 7 |
| Procurement Department | 90 | 62 |
| User Departments | 80 | 55 |
| **TOTAL** | **180** | **124** |

*Source: Field Data 2014*

### 3.5 Sample size

A sample size of 124 respondents was used. This was arrived at as follows:

$n=N/ [1+N (e)^2]$ (Yamane, 1967).

$n=180/[1+180(0.05)^2]=124$

**where:**

n = Sample size

N = Population

$e^2$ = Level of precision (at 95% confidence level)

### 3.6 Data Collection Methods

Primary data was collected through interviews and structured questionnaires administered to top management, procurement staff and user department staff of Equator Bottling Company. Secondary data was reviewed from magazines, text books, internet sources and

Newspapers.

### 3.7 Data analysis and Presentation

The data collected was analyzed using descriptive statistics and correlation analysis which helped to draw inference on the relationship between the variables under study.

The data collected was presented in the form of tables, graphs and charts for easy interpretation.

#### 3.7.1 Reliability Test for Data collection instrument

A pilot study was carried out on a few selected respondents to detect any weaknesses in the design and instrumentation. Since the study involved self- administered type of data collection instruments, questionnaires were revised to reduce cases of ambiguity.

Questionnaires were then tested for content validity to establish quality of instrument. These procedures involved pilot testing on the same population which was not part of the sample. The reliability analysis was conducted on all the multi-items scales to check the internal consistency of the scales and constructs. In this view, the study adopted a cut off 0.60 Cronbach's coefficient which was recommended by Bagozzi and Yi (1988) as a good indicator of reliability.

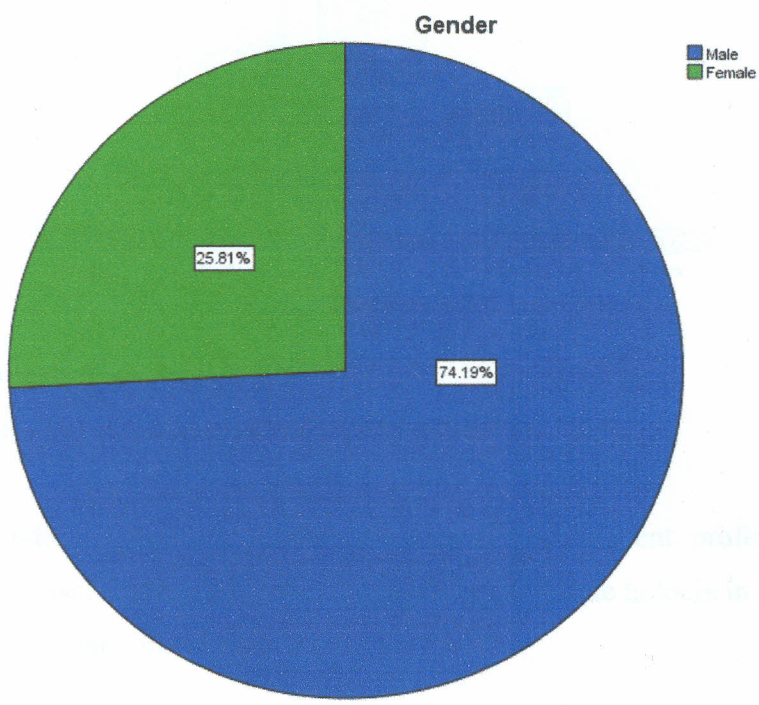
#### 3.7.2 Validity Test for Data collection instrument

Validity of a questionnaire refers to the extent to which it measures what it claims to measure (Mugenda, 2003). It is the degree to which results obtained from the analysis of the data usually represents the phenomena under study. The research instruments was exposed to experts review for validity checks.

# CHAPTER FOUR

## RESULTS AND DISCUSSION

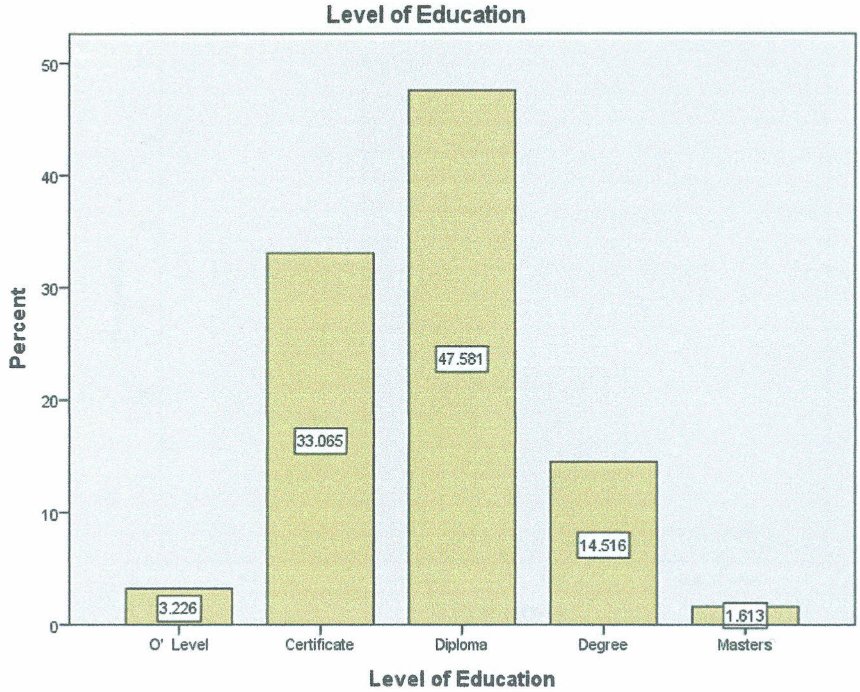
This chapter is divided into two main sections. The first section addresses the descriptive aspects of the data such as the demography of the sample data while the second part deals with the quantitative or inferential statistics. Therefore, this chapter will address the specific objectives of the study.




*Source: Survey data 2014*

**Figure 4.1: Analysis of respondent's gender**

The respondents who filled in the questionnaires were composed of 32 ladies translating to 25.81% of the total respondents and 92 gentlemen (74.19) who were in the procurement department of Equator bottler's ltd. This is summarised in the figure above.

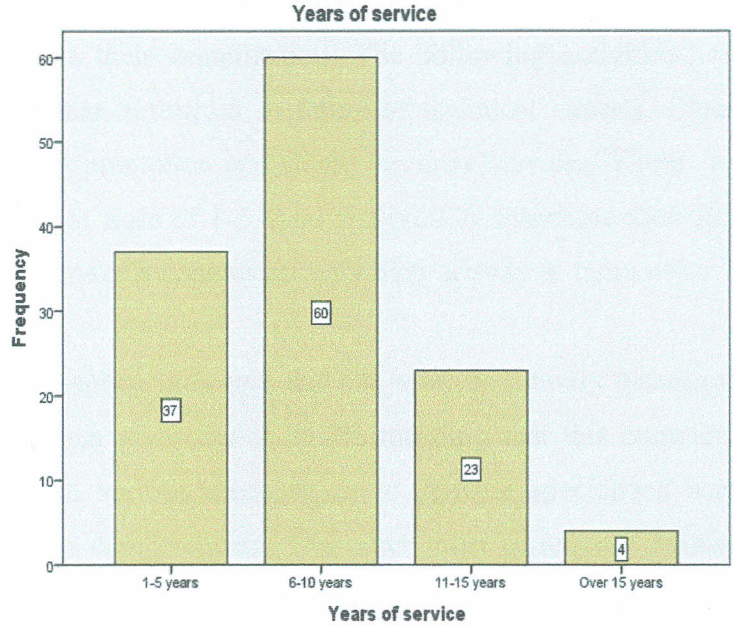



*Source: Survey data 2014*

**Figure 4. 2: analysis of Respondent's level of education**

The figure above indicates that the highest number of procurement professionals at Equator bottles limited were diploma holders followed by certificate holders in the field of procurement and supply chain management.

This study also established that the most senior procurement positions in this organization were held by diploma certificate holders and masters degree holders while the degree holders were in the middle level positions.




*Source: Survey data,2014*

**Figure 4.3: Analysis of respondent's years of service**

The figure above indicated that a majority of the workers (60) in the procurement department have served in the company for between six to ten years while the least number were the most experienced ones who have served in various capacities in the procurement department. This confirms that Equator bottler's ltd. Prefer retaining their productive and experienced workforce since they can use their experience to find solutions to emerging challenges in the procurement department which translates to better organizational performance

**Table 4.1: Analysis of Outsourced activities by Equator Bottler's ltd.**

| Outsourced activities | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Transport services | 25 | 20.2 | 20.2 | 20.2 |
| Human resources | 37 | 29.8 | 29.8 | 50.0 |
| Advertising & sales promotion | 33 | 26.6 | 26.6 | 76.6 |
| Cleaning services | 9 | 7.3 | 7.3 | 83.9 |
| Security services | 20 | 16.1 | 16.1 | 100.0 |
| Total | 124 | 100.0 | 100.0 | |

*Source: survey data 2014*

When the respondents were asked to identify and list the services that their company outsources from outside their organization, The following activities were identified: Transport services, Human resources in terms of technical experts, Cleaning services, Advertisement and sales promotion and finally security services. These responses were coded and put on a Likert scale of 1-5. And analysed to determine their frequencies, and percentages in order to make a conclusion on which activity is more often outsourced by Equator bottlers.

The results in the table above indicated that the most commonly outsourced activity by this organization is human resources at 29.8% meaning that this company preferred to outsource for experts in various areas so as to provide specialized services as they concentrate in their core competencies. The other most commonly outsourced services according to this survey was advertising and sales promotion and transport services respectively at 26.6% and 20.2% respectively. The least outsourced activity was found to be cleaning services. The respondents further clarified that it is cheaper to employ casual cleaners than engaging another organization to offer cleaning services to Equator bottler's limited.

**Table 4.2: Analysis of The benefits of outsourcing**

| Benefits of outsourcing | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Competitive advantage | 28 | 22.6 | 22.6 | 22.6 |
| Focus on core competencies | 38 | 30.6 | 30.6 | 53.2 |
| Cost savings | 5 | 4.0 | 4.0 | 57.3 |
| Improved responsiveness to changes | 24 | 19.4 | 19.4 | 76.6 |
| Higher quality of goods | 4 | 3.2 | 3.2 | 79.8 |
| Reduced risk of changing technology | 25 | 20.2 | 20.2 | 100.0 |
| **Total** | **124** | **100.0** | **100.0** | |

*Source: Survey data, 2014*

From the table 4.2, it is clear that the respondents identified six benefits that their company gain as a result of engaging in outsourcing. These included having a better competitive advantage, It enables the company to focus more on its core competencies, cost savings, improved responsiveness to changes in its environment, production of her quality goods ,and reduced risk to ever changing technology. These findings are in agreement with the theory of Monczka and Trent, 1991; Quinn and Hilmer, 1994) who said that one avenue that organizations have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage to these organizations. It also concurs with the theories of Lee and Kim, (2010) who argued that outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service and strategically use outside vendors to perform service activities that traditionally have been internal functions.

Moreover, the findings of this study also confirms those of Hosking (2004) who identified four key benefits of outsourcing: Increased flexibility and responsiveness for the business, reduced risk, lower cost access to new business technology and reduced operating costs. He also reiterated that organizations are always seeking for ways to achieve a competitive edge over their potential competitors, however, with contemporary highly competitive environment in which today's businesses operate acts as a strong stimulus for organizations to outsource. McIvor, 2008 also asserts on the same note that the need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities.

Moreover the findings of this study concurs with the theory postulated by Frayer et al. 2000 that Outsourcing is good for business because there are certain situations that can be avoided through it. For instance, organizations that perform all their business functions may have to spend huge amounts on replacing obsolete technology. However, when that business function is outsourced, then organizations will not even the feel the pinch. This means that organizations can dedicate their resources to productive activities alone and thus enhance their effectiveness and efficiency. Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Gupta and Zeheuder, 1994; Greer et al. 1999), increase capacity, improve capacity, improve quality (Lau and Hurley, 1997; Kotabe et al. 1998), increase profitability and productivity (Sinderman, 1995; Casale,1996), improve financial performance (Crane, 1999), lower innovation costs and risks (Quinn, 2000),and improve organizational competitiveness (Lever, 1997; Sharpe, 1997; Steensma and Corley, 2000).

**Table 4.3: Analysis of Challenges of Outsourcing**

| Challenges of outsourcing | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Lowered employee morale | 28 | 22.6 | 22.6 | 22.6 |
| Increased costs | 30 | 24.2 | 24.2 | 46.8 |
| Risk of leaking vital information to competitors | 44 | 35.5 | 35.5 | 82.3 |
| High expectations from suppliers | 17 | 13.7 | 13.7 | 96.0 |
| Poor choices of sourcing partners | 5 | 4.0 | 4.0 | 100.0 |
| **Total** | **124** | **100.0** | **100.0** | |

*Source: Survey data, 2014*

The table 4.3 indicated that the respondents identified six challenges that their organization face as a result of outsourcing. These challenges were summarized as: Lowered employee morale as a result of fear of job loss or fear of becoming irrelevant. Other challenges that were identified included risk of leaking vital information to competitors, increased costs and poor choices of sourcing partners. This is in line with the theory of Belcourt, 2006 that once rumors of outsourcing arrangements are started, HR managers can expect talented employees to start job searches and all employees to suffer anxiety resulting in lost morale in production. It concurs with the theory of other writers such as Manzi, (2005), who posits that outsourcing might lead to a possibility that vital company information may be at a risk of being leaked to the company's competitors which is dangerous since some suppliers may be spies to the company.A theory by Eyaa, 2006, also says that, high prices are being imposed on suppliers due to increasing trends in outsourcing, and this has pushed the rates being charged by the suppliers to be high. This later increases the costs yet outsourcing is all about helping firms cut costs. Too much expectancy from suppliers as Company employees tend to expect too much from supplier firms as far as service provision is concerned because they are specialists yet things can go wrong once in awhile. Other author's theories like Adler, 2003 also validate the findings of this study by positing that for some employees, outsourcing can result in a loss of employment. Others like (Kessler, Coyle- Shapiro & Purcell, 1999) also said that given such significant effect on employees, it can be posited that outsourcing may lead to a perceived alteration of the psychological contract, potentially leading to negative organizational outcomes such as perceived betrayal, job insecurity, (Cooper, 1999), depression and low self-esteem (Applebaum, Simson, Shapiro, 1987)

**Table 4.4: Correlation analysis between Outsourcing Activities and Organizational Performance.**

| | Advertising & sales promotion | Transport | Human resources | Cleaning services | Reduced process time | Cost reduction | Improved quality | Increased productivity & profitability | Improved competitive advantage |
|---|---|---|---|---|---|---|---|---|---|
| Advertising & sales promotion | 1 | | | | | | | | |
| Transport | .110 | 1 | | | | | | | |
| Human resources | .391 | .131 | 1 | | | | | | |
| Cleaning services | .175 | .179 | .252 | 1 | | | | | |
| Reduced process time | .030 | .690** | .256** | .059 | 1 | | | | |
| Cost reduction | -.239** | -.179** | .467** | .077 | .052 | 1 | | | |
| Improved quality | .304** | .076 | .657** | .533** | -.164 | .275 | 1 | | |
| Increased productivity& profitability | .353** | .575** | 553** | .600** | .039 | .364 | .452** | 1 | |
| Improved competitive advantage | .764** | .440** | .316** | .063 | -.230 | .189 | .467** | .305** | 1 |

**. Correlation is significant at the 0.01 level (2-tailed).

*Source : Survey data, 2014*

The table 4.4 shows that the correlation between advertising/sales promotion and improved competitive advantage, Increased productivity and improved quality is positive and significant with coefficients of 0.764,0.353 and 0.304 respectively. This means that if the company outsources advertising and sales promotion services, performance will be enhanced in terms of improved competitive advantage, increased productivity and improved quality. This contradicts the findings of the study by Görg, Hanley and Strobl (2004) who found out that that there is no productivity effect from services outsourcing.

The highest correlation exists between sales promotion and improved competitive advantage. This implies that the company should invest more in advertising and sales promotion in order for it to be always ahead of its competitors in terms of profitability and market share. On the other hand, the correlation between sales promotion and cost reduction is negative and significant with a coefficient of -2.39.This means that as much as the company would engage in advertisement and sales promotion to have a competitive edge over its rival firms, It will spend more funds that can eventually push the cost of the final product upwards to the disadvantage the consumers. These findings contradicts the findings of a study done by Elmuti & Kathawala (2000) based on data from 620 US firms, ranging in size from less than 500 employees up to 50,000 employees, that found out that 69% of the firms which engaged in outsourcing obtained significant cost savings and increased performance. However, cost savings may be limited, incidental and well below the 20% claimed by consultancies but concurs with (Benson &Littler, 2002); who also postulate that cost raises have also been reported as a result of outsourcing of services.

The correlation between sales promotion and reduced process time is positive but insignificant with a coefficient of 0.30 meaning there is no effect on process time even if the company invests in advertisement and sales promotion. The correlation between transport service outsourcing and other constructs of performance measurement such as improved competitive advantage, increased productivity and reduced process time are positive and significant with correlation coefficients of 0.440, 0.575 and 0.690 respectively. This means that keeping other factors constant, outsourcing of transport services will lead to better performance in terms of these constructs. However the correlation between transport and cost reduction is negative and significant with a coefficient of -0.179.This implies that if the company outsources more transport services costs will increase thereby affecting the cost of their products upwards.

The correlation between human resources outsourcing and all the four performance indicators identified by the researcher are positive and significant with coefficients of 0.256, 0.467, 0.657, 0.553, 0.316 in descending order of the list at 0.01 significance level meaning that outsourcing of human resources in terms technical expertise by Equator Bottlers company enhances its performance. This finding concurs with the theories of Frayer et al. (2000) reported who reported that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firm's overall competitive position. It also concurs with Lau and Hurley (1997) who found a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin was four times as high as that of GM due to effective outsourcing through strategic alliances. Gupta and Zeheuder, (1994); Greer et al. (1999) also posited that successful implementation of an outsourcing strategy has been credited with helping to cut cost, increase capacity, improve capacity, improve quality (Lau and Hurley, 1997; Kotabe et al. 1998), increase profitability and productivity (Sinderman, 1995; Casale,1996), improve financial performance (Crane, 1999), lower innovation costs and risks (Quinn, 2000),and improve organizational competitiveness (Lever, 1997; Sharpe, 1997; Steensma and Corley, (2000). Quinn, 2000; Manning, (2008), further clarified that outsourcing has great potential for increasing business performance through reduced process time and cost, improved quality, and greater customer satisfaction.

Lastly, there is only a positive and significant relationship between outsourcing cleaning services and improved quality and increased productivity with correlation coefficients of 0.533 and 0.600 respectively at 0.01 level of significance while its correlation with cost reduction ,reduced process time and improved competitive advantage are positive but insignificant. These findings concur with the theories of various scholars such as Gupta and Zeheuder, 1994; Greer et al. (1999), who postulated that outsourcing services has the potential to increase capacity, improve capacity and improve quality.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of study findings, conclusions and recommendations based on the major findings.

## 5.2 Summary of the Findings

The first objective was to establish the activities which were outsourced by Equator Bottlers, Kisumu. Descriptive statistics were computed to establish the most commonly outsourced activity.The study revealed that human resource services is the most commonly outsourced activity by Equator Bottlers in Kisumu with a highest percentage response of 29.8% followed by advertising and sales promotion, then transport services and finally cleaning services.

The second objective of the study was to determine the key benefits of outsourcing to Equator Bottlers. Descriptive statistics was computed on the responses that were given by the respondents and it emerged that most of them (30.6 %) identified enabling the company to focus on its core competencies as the major benefit of outsourcing. Other benefits that were identified in the order of their frequencies were: competitive advantage (22.6%), reduced risk of changing technology (20.2%), improved responsiveness to change (19.4%), cost savings (4.0%) and finally higher quality goods (3.2%)

The third objective of the study was to identify the challenges encountered by equator bottlers in carrying out outsourcing activities. Descriptive statics was computed to identify the greatest challenge that the company encounters in its effort to outsource. It emerged that the greatest challenge to its outsourcing endeavors was the risk of leaking vital information to its competitors like Pepsi Cola Company with a response rate of 35.5% followed by increased costs (24.2%) and the least challenge was poor choices of sourcing partners (4.0%)

The main objective of the study was to determine the effect of outsourcing on organizational performance. To address this objective, a correlation analysis was carried out between the outsourcing activities and the organizational performance indicators which were identified as reduced process time, cost reduction, improved quality, increased productivity and profitability and finally improved competitive advantage. The correlation between advertising/sales promotion and improved competitive advantage, increased productivity and improved quality is positive and significant with coefficients of 0.764, 0.353 and 0.304 respectively. This means that if the company outsources advertising and sales promotion services, performance will be enhanced in terms of improved competitive advantage, increased productivity and improved quality. On the other hand the correlation between transport service outsourcing and other constructs of performance measurement such as improved competitive advantage, increased productivity and reduced process time were positive and significant with correlation coefficients of 0.440, 0.575 and 0.690 respectively. This means that keeping other factors constant, outsourcing of transport services will lead to better performance in terms of these constructs. However the correlation between transport and cost reduction is negative and significant with a coefficient of -0.179.This implies that if the company outsources more transport services costs will increase thereby affecting the cost of their products upwards.

Moreover the correlation between human resources outsourcing and all the four performance indicators identified by the researcher are positive and significant with coefficients of 0.256, 0.467, 0.657, 0.553, 0.316 in descending order of the list at 0.01 significance level meaning that outsourcing of human resources in terms technical expertise by Equator Bottlers company enhances its performance.

## 5.3 Conclusion of the Study

The study therefore concludes that the outsourced activities by equator bottlers include and was not limited to advertising and sales promotion, transport, human resources and cleaning services with human resources outsourcing being the most commonly outsourced activity by the company. I t was also concluded that of the benefits that equator bottling company enjoys as a result of outsourcing, the greatest one is that outsourcing enables the company to focus more on its competencies with a response rate of 30.6%. The study also concluded that there are challenges that Equator bottling company face as a result outsourcing but the greatest of all these is the risk of leaking vital information to the competitors. Lastly, it can be concluded that outsourcing has an effect on organizational performance.

## 5.4 Recommendations

In the light of the findings, the study recommends that Equator bottling company should invest more on human resources (expert) outsourcing as this will impact positively on performance. However, it should minimise its effort to outsource advertising and sales promotion and transport because according to this study, these will lead to increased costs which will transferred to the final consumer in terms of increased cost of the final product. Secondly the company management should train their workforce through seminars and workshops so that they become aware of how overcome the challenges that they may face as a result of the company outsourcing some services from outsiders.

Finally, in order to successfully implement the outsourcing practices and achieve good organizational performance, the procurement management of this company must articulate and fulfil the varying needs and demands of the major stakeholders of the supply chain namely: suppliers, customers and users of these supplies in order to maximize the benefits of using technology in supply chain management. These three groups play a pivotal role in firm's endeavour to design and implement outsourcing strategies.

## 5.5. Limitations of the Study

The study adopted a case study design covering only one bottling company based in Kisumu There are many other Cocacola bottling companies based in Kisii, Eldoret, Kericho, Nakuru, Nairobi and Mombasa which were not included in this study therefore the findings of this study may not necessarily be generalized to other Coca-Cola companies not found in Kisumu or elsewhere in the world. The study also relied purely on primary data obtained from employees of Equator bottling company and this may have led to biased opinions since some of them are not directly involved with outsourcing.

### 5.6 Suggestions for Further Research

Based on the foregoing conclusions on the findings of this study, the researcher suggests the following future research directions in the field relating to outsourcing and organizational performance relationship.

First, the study used cross-sectional data to answer research questions on the relationship between outsourcing and performance of Equator Bottlers Kisumu. It only looked at one processing plant at a point in time. Therefore, there is need to conduct a longitudinal study to provide even more conclusive evidence to the above relationship.

Secondly, future research efforts could also be focused on investigating the moderating effects of the Government policies, employee attitudes, management processes and organizational processes which were treated as intervening variables.

Moreover, future research endeavours in this area should use regression analysis to bring out clearly the relationship between outsourcing and the performance measurement constructs used in this study.

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