EFFECT OF OUTSOURCING ON PERFORMANCE: A CASE OF SPECTRE INTERNATIONAL, KISUMU KENYA

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ABSTRACT

Globalization and increasing consumer demand for value have pushed firms to efficiently use limited resources efficiently; outsourcing is one of the ways through which firms attempt to address the new requirements of the market place. It has been adopted by many organizations with much success as it can offer many incentives that can contribute to a firm`s competitiveness. However this success has not been realized in most firms. Such contradictory outcomes raise concerns among companies evaluating outsourcing as a crucial strategic initiative. Global empirical evidence adduced show study's done on outsourcing lacking consensus as to the effect of outsourcing on performance. Locally no study has been done to establish the strength and the relationship between these variable. In spite of the wide use of the outsourcing policy at Spectre International, its performance has been wanting and no study has been done to reveal the reasons for the low performance and it is in this regard that the study was thought of. The study was anchored by Resource based theory. Both case and correlational research designs were used to provide empirical data to help address the existing research gaps. The objectives of the study were to establish the extent to which Spectre International adopted outsourcing and to determine the effect of Outsourcing on Performance of Spectre International. The target population for the study was 56 out of which a sample of 50 were selected purposively. The primary data was collected using structured questionnaires and analysed using descriptive, correlation and regression analysis. The supervisor and supply chain experts pre-examined the instrument to ascertain its validity. To assess instruments reliability correlation of the scores from both testing periods was done and coefficient of 0.821 found illustrating that the scale was reliable. The findings showed the firm had adopted outsourcing to appreciable levels as given by a weighted mean grade of 3.92. The regression results revealed an $R^2 = 0.795$ implying that transport services, security services, human resource services and cleaning services explains performance up to 79.5 %. All the β coefficients were found to be positive ($\beta_1 = 0.971$, $\beta_2 = 0.676$, $\beta_3 = 0.547$, and $\beta_4 = 0.603$) meaning that any unit increase in the independent variable would lead to a positive increase in performance. It is therefore recommended that the management of Spectre International consider putting in place targeted measures intended to spur adoption of outsourcing on a few areas of outsourcing such as transport service and cleaning services as they contribute more to the organizational performance.

CHAPTER ONE: INTRODUCTION

This chapter provides an overview of the background of the study, statement of the problem, objectives of the study, research question, research hypothesis scope of the study, significance of the study and the conceptual framework.

1.1 Background of the Study

Outsourcing is the process of deliberating non-core activities or operations from internal production within a business to an external entity that specializes in that particular operation.

Lacey and Blumberg (2005) defined outsourcing as "reliance on external sources for manufacturing components and other value adding activities". Some focus on international sourcing of components, sub-systems and completed products (Asher & Nandy, 2007).

Gilley and Rasheed (2000) provide clarifications for the definitional confusions, positioning outsourcing as procuring something that was either originally sourced internally (i.e vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e make or buy). This includes arrangements that have been termed – internal vs external sourcing. (Beaumont, 2006).

Often the tasks that are outsourced could be performed by the company itself, but in many cases there are financial advantages that come from outsourcing. Many large companies now outsource jobs such as call center services, e-mail services, and payroll. These jobs are handled by separate companies that specialize in each service, and are often located overseas. Outsourcing enables an organization to better marshal its own resources and those of its external agents who have the required expertise and specific resources/technologies to accomplish all the tasks involved (Wu, Li, Chu & Sculli, 2005). Effective use of outsourcing will, therefore, allow an organization to focus on a limited set of strategically important tasks and will in turn lead to continuous enhancement of its core competencies (Dess, Rasheed, McLaughlin &Priem, 1995). However despite the rising popularity of outsourcing organizational activities, the practice is not without pitfalls as it is fraught with problems if not properly managed. Thomas & Rick (2005) discovered that Outsourcing sometimes results in job losses, especially in cases where reducing head count is the objective. Outsourcing can also results to loss of knowledge (Amos, 2012). There is also the problem of risk and reversibility as contracts always require a company to commit to services for an extended period of time, if the outsourcer is not satisfied with the service, it could be difficult to break the contract (Amos, 2012). It will be costly to reverse the situation and return the services in-house. There is also the problem of timeliness. Whenever additional levels are added to the infrastructure, time becomes an issue; a third party vendor adds an additional layer. If there is a delay in delivering reports at an appropriate time to the client, it's a big problem (Amos, 2012).

Outsourcing if not properly managed can result to huge financial losses. Thus care should be taken in determining the activities to outsource and those to maintain in-house. Proper measures should also be put in place to ensure the outsourced functions is not fraught with challenges that could lead to it failing. It is in this regard that the study seeks to determine the effect of the outsourced functions at Spectre International and there influence on the organizational performance so that the company could with the information make the right choice of the activities to outsource.

According to Richard, Devinney, Yip and Johnson (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment.); product market performance (sales, market share.); and shareholder return (total shareholder return, economic value added.)

Organizational performance can therefore be defined to be the analysis of the actual results or output of an organization measured against its intended outputs. A key performance indicator is a quantifiable measure a company uses to determine how well it meets the set organizational goals. Using financial indicators in business performance measurement allows an organization to compare different business types. An organization can define its own operating objectives and use them to evaluate their performance. Some of the measures it can use include: Activity ratios evaluate how efficiently the company manages its business (Muttimos, 2014). The asset turnover measures how effectively the company puts its assets to work. The inventory turnover evaluates how efficiently the company manages its inventory.

A higher turnover means better performance for both ratios. Value added is calculated as the difference between the operating result and the cost of capital of the average net assets. Alternatively, the value added can be determined by using the main value drivers: return on sales and net assets' Return on sales is of particular importance for assessing profitability. The combination of return on sales and net assets' productivity results in return on net assets (RONA). If RONA exceeds the cost of capital, value is created for our shareholders (Huselid, 1995). In this study, the role of outsourcing on organizational performance will be determined. The financial aspects will be assessed in view of outsourcing (Vorhies & Morgan, 2003).

PricewaterhouseCoopers (2008) found that outsourcing had moved markedly from performing a single function more efficiently to reconfiguring or re-bundling whole processes in new ways to generate greater shareholder value across the enterprise. As a consequence the decision on whether and how to outsource is steadily moving up to the top levels of management. Past researches have focused on outsourcing performance measures (Kotabe, 1998). For example they identified three types of performance measures as necessary components in any performance measurement system; strategic measures; financial measures and quality measures.

While other studies use additional dimensions of market performance such as cost savings, customer satisfaction and productivity to measure effectiveness of outsourcing strategy (Atallah & Li, 2005).

Maskell, Pedersen, Petersen & Dick-Nielsen 2007 identified obstacles such as poor choices of sourcing partners, inadequate planning and training needed to manage outsourcing activities and poor organizational communication have also been identified as impacting the success of outsourcing projects. More information is needed to understand successful outsourcing and problems encountered in outsourcing activities and its impact on overall organizational performance. Increasing use of outsourcing arrangements, as well as the unfamiliar complexity, suggests the need to know more about how to effectively utilize this strategy.

Outsourcing must enhance organizational competitiveness in both short and long term points of view. This competitiveness can be viewed by understanding a sound cone that contains various layers. These areas represent the areas that companies must demonstrate high performance levels in order to survive in an extremely competitive environment. Sustaining successful outsourcing activities requires a company to undertake several activities relating to supplier audits, assessment and evaluation. These activities should be an integral part of management process. The organizational competitiveness (in terms of quality, reliability, speed and cost efficiency) also depends on supplier's performance- ability to reduce cost can be attributed to supplier's cost reduction capability as well is critical for companies operating in a highly competitive environment (Moss, 2002).

However, despite that firms can benefit from outsourcing, some firms never realize the full benefit of outsourcing and encounter many problems such as failure in maintaining effective and efficient service delivery. Quinn (2000) and Manning, Massini & Lewin (2008) estimated that as many as 40 to 50% do not achieve the improved performance results they seek and this is attributed to poor implementation of outsourcing strategies rather than a problem with the concept itself.

Such contradictory outcomes raise concerns among companies evaluating outsourcing as a crucial strategic initiative. Manning *et al.,* (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 is 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 Spectre International Ltd.

A number of studies have been done globally to establish the relationship between outsourcing and performance. Lau and Hurley (1997) found a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin is four times as high as that of General Motors (GM) due to effective outsourcing through strategic alliances. This study however only looked at profitability as a measure of performance, the current study will put other indicator of performance into consideration. The former study also used a cross sectional approach in conducting the study unlike the current which will consider a longitudinal approach.

Hanley and Strobl (2004) analysed the effects of outsourcing, measured by total bought inputs over value added in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. Distinguishing service outsourcing and material outsourcing, they found that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing. These studies nevertheless only looked at effect of outsourcing on profitability which is just one of the indicators of financial performance. This is where this study comes up to look at other indicators of financial performance like return on sales and return on investment.

However researchers such as Gartner (2003) reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board level executives in Western Europe. He noted that European countries wasted 6 billion Euros due poor deal structures and poorly managed relationships with IT outsourcing companies in 2002.

Gilley and Rasheed (2000) analysed the influence of the outsourcing of core and peripheral functions on firm performance considering the moderating effects of firm strategy and environmental dynamism. They collected subjective data on firm performance relative to peers and outsourcing intensity from 94 manufacturing firms. The results of this study showed no direct impact of outsourcing on firm performance. However, outsourcing was found to be positively related to the performance of firms which pursue cost leadership and innovation differentiation strategies. This study considered using moderating variables of firm strategy and environmental dynamism, the current study however wants to look at the effect of outsourcing with no consideration to any moderating or control variable.

Some researcher however have a divergent view of the effect of outsourcing on performance. Kimura (2002) discovers that poorly performing firms (low surplus to sales and low value added to sales) are more likely to use subcontractors, in an analysis of the Japanese machinery manufacturing industry. He concludes that profits are highest for those firms that do not get involved in any type of subcontracting, whether as a supplier or as an outsourcer. These results, accordingly, are in line with the findings for Germany by Görzig (2002).

Holger and Aoife (2004) analysed empirically the relationship between outsourcing and profitability at the level of the plant, using data for the electronics sector in the Republic of Ireland. Their results suggested that the profit/outsourcing relationship depends on characteristics of the plant, in particular its size. They found that plants that were substantially larger than the mean employment size benefited from outsourcing materials inputs, while this did not appear to be the case for small plants. Within their empirical analysis they were not able to explain this size disadvantage, although they could speculate on the basis of the theoretical work by Grossman and Helpman (2002) that this reflected higher transaction costs for small plants. In particular, they may face lower bargaining power vis-à-vis suppliers and/or higher costs in searching for adequate suppliers. The benefits from services outsourcing are less clear-cut, however. Due to the relatively short period of data covered, they were unable to examine the long run effects of outsourcing on profitability. When interpreting their results it is evident that their empirical methodology implied that they were essentially analysing short run effects unlike the current study which consider the long run effect of outsourcing on profitability. Thus, globally, evidence from the literature show a lack of consensus on the impact of outsourcing on organizational performance.

There are number of studies that have been done locally focusing on outsourcing. For instance Bosire (2010) carried out a survey of supermarkets in Kenya and study found a positive correlation between outsourcing and lead time and also cited mistakes in implementing the strategy. The study looked at outsourcing in relation to lead time, the current study however looks at outsourcing in relation to organizations performance.

Maina (2009) studied outsourcing service in the mobile phone industry in Kenya and found out that the major reasons for outsourcing were search for local expertise, market knowledge, language issues, cost effectiveness, effective coverage, special expertise and focus on core competence. Maina (2009) was focused on determining reason for outsourcing. This study nevertheless wants to test the hypothesis that outsourcing effect performance a case of a manufacturing company unlike the former which considered service industries.

One research which comes closest to this study was done by Maku & Iravo (2013) at Delmonte to determine the effect of outsourcing on organization performance. The research design used was descriptive unlike the current which proposes to uses case study design. The study also used descriptive analysis while this study proposed to use correlation and regression analysis to bring about the strength and direction of the relationship between the variable under study. Lastly the study considered other aspect of financial performance such as cost saving, increased access to Information technology and core competence this study however considers only financial aspect of organizational performance.

The evidence that has been produced in these studies suggests that the value-enhancing link between outsourcing and Organizational performance is not clearly established. Consequently, more information is needed to understand successful outsourcing and problems encountered in outsourcing activities and its impact on overall organizational performance (Mackler, 2009). This study is therefore meant to find out if indeed outsourcing has any effect on organizational performance and if yes where and how in the case of spectre international.

Spectre International Ltd is a company that was established in South Africa and Incorporated in Kenya under the Company's Act Cap 486 in the year 1995. It commissioned its Ethanol distillery in 2005 after an extensive rehabilitation programme initiated in 2003. Its operations are based at Kisumu in Kenya, along the shores of Lake Victoria approximately 3 kilometres from Kisumu along the Kisumu-Busia highway. The company majorly deals in the manufacture of high quality extra neutral alcohols and spirits which are sold in the local market and a substantial amount exported to other African countries like Tanzania, Uganda, Ethiopia, Congo, Ivory Coast and Even as far as Latin America. The other output of this processing plant is liquid carbon dioxide which is used to preserve and give taste to soft drinks and beers. Some of it, is transported to Cylinder Filling Depots, or to Dry-ice manufacturing units. The company outsources most of its functions such as cleaning of ponds, human resource, ground maintenance, security functions and transport functions such as transportation of raw molasses from sugar companies like Mumias and Muhoroni to its processing plant at Kisumu and night transportation of staff to and from the premises.

Spectre International has been steadily outsourcing some of its activities such as transport, cleaning services, ground maintenance services, human resource and security services. In spite of the wide use of the outsourcing policy in the company, some of the departments where these functions are outsourced don't perform well as expected in terms of return on sales, increased profit margins and return on investment . Nonetheless no research has been done to reveal the reason for the low performance of outsourcing activities at Spectre International. There is therefore a need to carry out a study of the effect of outsourcing these functions on the firm's performance

1.2 Statement of the Problem

Outsourcing offers many incentives that can contribute to the firm`s competitive advantage by providing improved economies of scale, access to technologies, shared risk, and greater availability of time to devote to the development of core competencies. However, despite that firms can benefit from outsourcing, some firms never realize the full benefit of outsourcing and encounter many problems such as failure in maintaining effective and efficient service delivery that are attributed to poor implementation of outsourcing strategies rather than a problem with the concept itself. Such contradictory outcomes raise concerns among companies evaluating outsourcing as a crucial strategic initiative. These contradictory findings offer a unique opportunity for conducting studies oriented to identify critical factors that can influence the success of outsourcing implementations. Consequently Globally empirical evidence adduced shows that researchers lack of consensus as to the effect of outsourcing on organizational performance. Locally no study has been done to establish the strength of association between outsourcing and organizational performance and to establish their relationship. Spectre International has been steadily outsourcing some of its activities such as transport, cleaning services, ground maintenance services, human resource and security services. In spite of the wide use of the outsourcing policy in the company, some of the departments where these functions are outsourced don't perform well as expected. Nonetheless no research has been done to reveal the reason for the low performance of outsourcing activities at Spectre International. There is therefore a need to carry out a study of the effect of outsourcing these functions on the firm's performance.

1.3 Objectives of the Study

The main objective of the study was to establish the effect of outsourcing on the performance of Spectre International, Kisumu.

The specific objectives of the study were to:

i. Establish the extent to which outsourcing has been adopted at Spectre International Ltd, Kisumu.
ii. To determine the level of influence of Outsourcing on Performance of Spectre International Ltd, Kisumu.

1.4 Research Questions

Objective one was addressed by the following research question.

i. What is the level of adoption of outsourcing at Spectre International Ltd?

1.5 Research Hypothesis

Objective two was addressed by the following hypothesis.

The Research Hypotheses are indicated in their null and alternate non directional form.

i. H_0 Outsourcing does not influence performance at Spectre International Ltd.

H_{01} Outsourcing influences performance at Spectre International Ltd.

1.6 Scope of the Study

The content scope comprised outsourcing, as the independent variable and outsourced functions and organizational performance as the dependent variable. The study was carried out at Spectre International Ltd based at Kisumu in Kenya, along the shores of Lake Victoria approximately 10 kilometres from Kisumu town centre along the Kisumu - Busia highway. The study covered a period of 2014-2015 when Spectre International Limited operations was momentarily shut down and the operations scaled down before its opening.

1.7 Significance of the Study

The findings of this study will act as a guide for the management of Spectre International in understanding the role that outsourcing plays in their organizations performance.

Academicians will use the findings of this study as a preamble for further research studies in the field of outsourcing. It will act as basis from which future researchers can draw ideas.

Policy makers will find the study useful in their decision making process with regard to enforcing legislature that promotes adoption of outsourcing in industries.

1.8 Conceptual framework

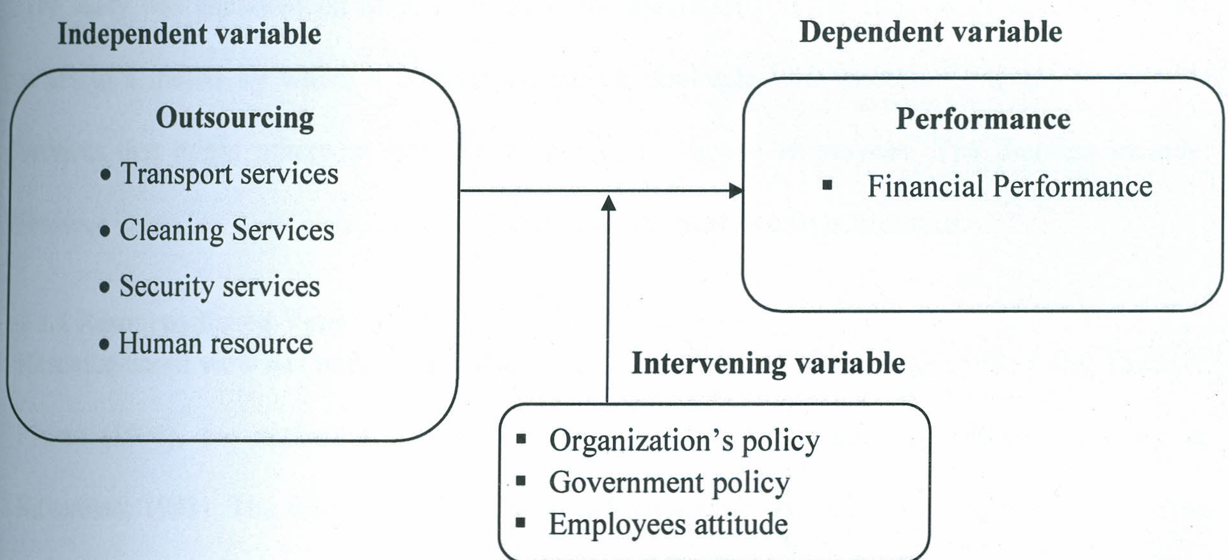

Figure 1.1: Relationship between Outsourcing and Performance
Adapted from Burt *et al.,* (2010), Krause and Ellram (1997)

The study intended to establish the relationship between outsourcing and performance of Spectre International. It was hypothesised that there is not effect of performance of Spectre International by adoption of Outsourcing. Intervening variables including the organizational policy, employee's attitude and government policy were used.

CHAPTER TWO: LITERATURE REVIEW

This chapter reviews theoretical literature and empirical studies. It focuses on the theoretical foundations on which the study will be built. It also explores comparative empirical literature which helps to explain the gap which the study seeks to address.

2.1 Theoretical Foundation of the Study

The study was anchored on three theories which are related to the concept of outsourcing that refers to a means by which a company establish contracts with another company to provide services that might otherwise be performed by in – house employees. The theories include: resource base view, core competencies theory and transaction cost economics.

2.1.1 Resource-Based View

Resource-based view has been developed in work by Barney (1996), Teece (1988), and Teece & Pisano (1994), for analysing firm behaviour and competitive strategy (Mowery, Oxley & Silverman, 1998). The RBV contends that the idiosyncratic resources and capabilities of firms are the key sources of sustained competitive advantage (Lynch, Keller & Ozment, 2000). This premise appears to be supported by logistics and SCM research (such as Lynch *et al.*, 2000). According to Barney (1991) resources can be classified into organizational capital resources, physical capital resources and human capital resources. Capabilities can be defined as the skills a firm needs to take full advantage of its assets.

Capabilities are complex bundles of individual skills, assets and accumulated knowledge exercised through organizational processes that enable firms to co-ordinate activities and make use of their resources (Olavarrieta & Ellinger, 1997). Tibben-Lembke (2002) describes the three generic strategies for competing in the marketplace as low-cost leadership, differentiation and focus. One avenue of creating a competitive advantage with differentiation is through building a brand reputation (Grant, 1991). An organization may choose to focus on implementing outsourcing to gain profit, return on investment and return on sales over its competitors. This can be done through identification of the non-core and necessary functions that if done in house would lead to the organization spending more resource that could otherwise be used in core activities. This would enable it have an upper hand over its competitors who have not considered outsourcing.

2.1.2 Core Competencies Theory

A core competency is a concept in management that has been developed on the basis of the resource-based theory by Prahalad & Hamel (1996) who defined core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina & Ross, 2003; Feeny, Lacity &Willcocks, 2005). Core competency is a specific factor that a business sees as being central to the way it, or its employees, works. It fulfils three key criteria: It is not easy for competitors to imitate; it can be re-used widely for many products and markets and must contribute to the end consumer's experienced benefits.

A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best human resource management (HRM), good market coverage etc. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value.

2.1.3 Transaction Cost Economics

Further conceptual basis for outsourcing is Williamson`s (1985) theory of transaction cost analysis. This combines economic theory with management theory to determine the best type of relationship a firm develops in the market place. The central theme of transaction costs theory is that the properties of the transaction determine the governance structure. Asset specifically refers to the non-trivial investment in transaction – specific assets. For example, the level of customized equipment or materials involved in the transaction relates to the degree of asset specificity. Due to the nature of fast food companies' operation basis, several confectionaries and operational equipment's are needed and are sometimes outsourced to minimize cost of operations but when asset specificity and uncertainty are low and transactions are relatively frequent, transactions will be governed by markets. High asset specificity and uncertainty lead to transactional difficulties, with transactions held internally within the firm – vertical integration. Medium levels of asset specificity load to bilateral relations in the form of cooperative alliances between the organizations.

Transaction cost economics (TCE) has been the most utilised theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the Managing relationship phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity. Though TCE has not been utilized explicitly for studying the Vendor selection phase, it has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. Even though it has been exercised extensively in outsourcing applications, the TCE has several indulgencies. Lacity and Willcocks (1995) found that the original mapping to the TCE framework only explained with few examples on IT sourcing decisions and generated much more anomalies in their sample. Another critique could be that TCE relies on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. On the other hand TCE is also considered static, which doesn't correspond to dynamism of current business environment.

2.2 The Concept of Outsourcing

Outsourcing is a term used to describe 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 (Lysons & Brian, 2003) It is the 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 (Axelsson & Wynstra, 2000).

Outsourcing is 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 (Eyaa, 2006). 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.

Many organizations today are therefore turning to outsourcing, 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 (Baily, 1998).

The ranges of services that are outsourced are timeless and these include; Waste disposal, research and development, transmission service, estate management, customer brokerage, catering, Asset repair and control, library and cleaning. However 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 (Bendor, Brian & Lysons, 2012).

Outsourcing decisions are influenced by the quality of information available, cost, profitability, strategic alliance, supplier quality, financial evaluation, risk and efficiency (Bennedsen & Schultz, 2005).

Outsourcing is becoming known as a stimulator for higher levels of innovation throughout business practices and technology; it enables companies to utilize their resources to better promote their competitive advantage. Outsourcing offers many incentives that can contribute to the firm`s competitive advantage. With respect to cost, outsourcing may contribute to cost reduction by providing improved economies of scale, access to technologies, shared risk, and greater availability of time to devote to the development of core competencies (Ghodeswar & Vaidyanathan, 2008). These cost savings are likely to be especially in the delivery of administrative and transactional activities. In addition, by allowing the firm to purchase only the amount of consulting support needed, outsourcing can enhance flexibility as well as improve cost efficiency by turning some fixed costs into variable costs (Gill, 2007). Outsourcing also provide an opportunity to acquire specialized expertise and expert knowledge in areas where a firm`s internal staff is deficient (Shy & Stenbacka, 2005). In similar manner, outsourcing helps to attain sustained competitive advantage by improving performance as well as freeing up of internal resources for core competencies.

Despite the rising popularity of outsourcing organizational activities, the practice is not without pitfalls as it is fraught with problems if not properly managed. Thomas & Rick (2005) discovered that Outsourcing sometimes results in job losses, especially in cases where reducing head count is the objective. The contract agreed upon by the vendor and client, should be flexible enough to support contingencies and at the same time rigid enough to ensure that the outsourcing company's interests are protected because the contract is the key to loss of control. Without addressing issues in the service level agreement such as successful job completion rate, 24-hour response time and timely project completion and without clear guidelines, control cannot be maintained. Most control issues are as a result of lack of information. If the vendor and client do not communicate and establish a mutually beneficial partnership promoting each other's success, control problems increase.

Outsourcing can also results to loss of knowledge. When knowledgeable staff people are eliminated or absorbed by the vendor, the accumulated know how and business knowledge goes with that staff member (Amos, 2012). Attempts in the future to return the process in-house will not have the benefit of key personnel with the needed knowledge on staff. Because knowledge is non-quantifiable, organizations fail to value this asset. The retention of corporate wisdom should be taken into account when considering the issue of outsourcing (Grossman & Helpman, 2005).

There is also the problem of risk and reversibility. Contracts always require a company to commit to services for an extended period of time, if the outsourcer is not satisfied with the service, it could be difficult to break the contract (Amos, 2012). It will be costly to reverse the situation and return the services in-house.

Another challenge is that of communication Problems. Communication failures are the biggest contributor to outsourcing project failures (IT Convergence, 2003) language barriers are often present in the case of outsourcing, especially offshore outsourcing. The authors' personal experience contracting support personal experience contracting support personnel with outsourcers in partnership with various companies has resulted in difficulty understanding instructions due to language barriers.

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 which also mean increase in prices of services being outsourced.

Outsourcing cannot be therefore 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, Pirolo, Peruffo, & Giustiniano, 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.

2.3 Outsourcing and Performance

Outsourcing enables and organizational to concentrate on its core competencies. Some scholars refer to core competencies as the basic skills required when competing in an industry. Hamel and Prahalad (1996) define core competencies as "the collective skills that create competitive advantage "in other words a core competency is not a competitive advantage instead it's the source of competitive advantage. Core competencies must provide a Company with either a real or perceived advantage (Maku & Iravo, 2013). For example advertising may be a source of competitive advantage to a firm and thus a core competency. Greaver (1999) asserted that core competencies are innovative combinations of knowledge special skills, proprietary technologies, information, and unique operating methods organizations use to produce products or services which customers value and want to buy.

The core capabilities of an organization include critical skills of employees, management systems norms and values (Guyo, 2012). Skinner (1969) identified the benefits of concentrating on a small, manageable number of tasks at which the operation becomes excellent. Findings by Maina (2011) in a research aimed at finding whether linkage to large enterprises promotes SMEs growth indicated that business linkages between SMEs and large enterprises were important because they made it possible for small businesses and their associations to specialize on their core competences while relying on others to undertake tasks for which they had less competence. (Maku and Iravo, 2013) argued that when a company focuses on fewer, manageable core activities organizations could lessen the costs and complexity of their own operations. This provides better customer focus flexing and changing offerings and processes to meet changing customer demands. Outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the functions of a company. Companies can therefore concentrate on aspects of business that encircle their business objectives and eventually improve their business function (Kakabadse & Kakabadse, 2003). Many companies see outsourcing as a way to hire the best in class companies to perform routine business functions as they focus corporate resources on key activities on their value chain where the impact will be felt the most by the customer.

Outsourcing enables an organization to better marshal its own resources and those of its external agents who have the required expertise and specific resources/technologies to accomplish all the tasks involved (Wu *et al.,* 2005). Effective use of outsourcing will, therefore, allow an organization to focus on a limited set of strategically important tasks and will in turn lead to continuous enhancement of its core competencies (Dess *et al.,* 1995; Kotable, 1990; Quinn, 1992; Venkatraman, 1992). Where clear differentiation can be developed and outsourcing much of the rest has also served many other companies well. The key often lies in knowing which of the main value drivers to concentrate on-customer intimacy, product leadership or operational excellence.

According to Fisher (2001) outsourcing also enables a more customer centric strategy, outsourcing production, while creating in house supply chain management teams for each major customer. Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill in the areas where they want to outsource.

Outsourcing saves on valuable time. Usually companies that outsource can make faster deliveries to their consumers. The overall result is that their consumer's needs are satisfied. All clients consider prompt delivery as a positive attribute and this may keep them coming back for repeat services. Related to the above outsourcing heightens consumer satisfaction. This is because outsourcing produces better quality and also improves the nature of one's business practices. All this goes along to increase the business competitiveness.

According to Lange's *et al.,* (2005) reduced costs would come from economies of scale and scope. Scale economies would come from using focused large scale specialists for activities where the outsourcers lack the necessary volume of requirements for current technology. Scope economies would be gained through access to a wide range of service provided by niche specialists. Outsourcing one's business functions can improve one's competitive advantage. Scope economies might also arise through the outsourcer providing complimentary assets (Tecce, 1986). Successful implementation of outsourcing strategy has been accredited to cutting cost (Bowser, 1990). Outsourcing can free up assets and reduce costs in the immediate financial period. Organizations outsourcing parts of their in house operations report significant savings on operational costs (Rimmer, 1991). Laugen, Berger, Zeng & Gerstenfeld, (2005) found a co relation between outsourcing best practice and high performing companies. Outsourcing by reducing costs helps the organization to generate more profit. More profit comes in when vendors are able to purchase products at a less expensive rate and continue to sell them at a reasonable price for consumers.

Another way outsourcing saves business money is due to the fact that the business doesn't have to pay payroll tax deductions and other benefits to outsourced workers and if some work can be outsourced it can also cut down on this expense, which means that the business can operate more profitably (Kotable, 1990). There is also less need for infrastructure. A company that outsources its works has less need for furniture, IT infrastructure equipment's and other expensive machines and vehicles. There is also less need to rent or to own large property (Sharpe, 1997).

According to Abraham and Taylor (1996), outsourcing may provide a viable strategy if firms aim to save on labour costs. In support Abraham and Taylor (1996) also emphasized that outsourcing can be used to economize on production cost, in particular by substituting in-house production with buying-in of components. They also argued that companies that do everything themselves have much higher research, development, marketing and distribution expenses, all of which must be passed on to customers. An outside provider's cost structure and economy of scale can give a firm an opportunity to be more efficient. Kotabe (1998) argued that cost-cutting may not be the only reason to outsource, but it is certainly a major factor. Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business, and allows you to avoid large expenditures in the early stages of your business (Charles, 2010). Outsourcing can also make your firm more attractive to investors, since you are able to pump more capital directly into revenue-producing activities.

Linder (2004) argued that most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency, and expertise that large companies enjoy. According to Hamel (1996), hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don't always live up to your expectations. Outsourcing lets you focus your human resources where you need them most.

In conclusion, for an organization to implement and succeed in outsourcing it needs to critically analyse the outsourced functions and their contributions to the performance of the organization. It is in this regard that the study wishes to determine the extent to which the organization outsources in order to be able to know if the organization warranties a study on outsourcing.

2.4 Empirical Review

Internationally a number of studies have been done to establish the relationship between outsourcing and performance. Lau and Hurley (1997) found a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin is four times as high as that of General Motors (GM) due to effective outsourcing through strategic alliances. This study however only looked at profitability as a measure of performance, the current study will put other indicator of performance into consideration. The former study also used a cross sectional approach in conducting the study unlike the current which will consider a longitudinal approach.

Hanley and Strobl (2004) analysed the effects of outsourcing, measured by total bought inputs over value added in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. Distinguishing service outsourcing and material outsourcing, they found that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing. These studies nevertheless only looked at effect of outsourcing on profitability which is just one of the indicators of financial performance. This is where this study comes up to look at other indicators of financial performance like return on sales and return on investment.

However researcher such as Gartner (2003) reported that satisfaction with the benefits from outsourcing contracts fell from 86 percent in 2001 to 50 percent in 2002 among board level executives in Western Europe. He noted that European countries wasted 6 billion Euros due poor deal structures and poorly managed relationships with IT outsourcing companies in 2002.

Gilley and Rasheed (2000) analysed the influence of the outsourcing of core and peripheral functions on firm performance considering the moderating effects of firm strategy and environmental dynamism. They collected subjective data on firm performance relative to peers and outsourcing intensity from 94 manufacturing firms. The results of this study showed no direct impact of outsourcing on firm performance. However, outsourcing was found to be positively related to the performance of firms which pursue cost leadership and innovation differentiation strategies. This study considered using moderating variables of firm strategy and environmental dynamism, the current study however wants to look at the effect of outsourcing with no consideration to any moderating or control variable.

Benson and Littler (2002) compared the effects of outsourcing of core and support functions to other restructuring measures of large Australian organizations using a survey among 4500 firms in 1998. Of the 1222 respondents, 649 firms reported recent workforce reductions. The authors found that the most important reason for outsourcing was a change in the business strategy, whereas this was not the trigger for other restructuring measures. The main objective of outsourcing was the reduction of labour costs and an increase in labour productivity, which was indeed achieved by outsourcing according to the responding managers. On the other hand, firms that reduced workforce for other reasons than outsourcing reported similar objectives and achievements. The authors concluded that outsourcing cannot deliver labour cost reductions in excess of those produced by other forms of restructuring. This study focused on core and support functions this current study however looks at the non-core functions outsourced and their effect on performance in contrast with the former which looked at effect of outsourcing on restructuring measures.

Charles (2010). Carried out a research on the effect of outsourcing on organizational performance in private organizations in Uganda a case study of Uganda Telecommunication Ltd. He established that outsourcing positively affects Performance in Uganda Telecommunication

Limited. This study however analysed data descriptive unlike the current study which proposes to use correlation and regression analysis.

Some researcher however have a divergent view of the effect of outsourcing on performance. Kimura (2002) discovers that poorly performing firms (low surplus to sales and low value added to sales) are more likely to use subcontractors, in an analysis of the Japanese machinery manufacturing industry. He concludes that profits are highest for those firms that do not get involved in any type of subcontracting, whether as a supplier or as an outsourcer. These results, accordingly, are in line with the findings for Germany by Görzig (2002).

Holger & Aoife (2004) analysed empirically the relationship between outsourcing and profitability at the level of the plant, using data for the electronics sector in the Republic of Ireland. Their results suggested that the profit/outsourcing relationship depends on characteristics of the plant, in particular its size. They found that plants that were substantially larger than the mean employment size benefited from outsourcing materials inputs, while this did not appear to be the case for small plants. Within their empirical analysis they were not able to explain this size disadvantage, although they could speculate on the basis of the theoretical work by Grossman & Helpman (2005) that this reflected higher transaction costs for small plants. In particular, they may face lower bargaining power vis-à-vis suppliers and/or higher costs in searching for adequate suppliers. The benefits from services outsourcing are less clear-cut, however. Due to the relatively short period of data covered, they were unable to examine the long run effects of outsourcing on profitability. When interpreting their results it is evident that their empirical methodology implied that they were essentially analysing short run effects unlike the current study which consider the long run effect of outsourcing on profitability. Thus, globally, evidence from the literature show a lack of consensus on the impact of outsourcing on organizational performance.

Locally, there are number of studies that have focused on outsourcing. For instance Bosire (2010) carried out a survey of supermarkets in Kenya and study found a positive correlation between outsourcing and lead time and also cited mistakes in implementing the strategy. The study looked at outsourcing in relation to lead time, the current study however looks at outsourcing in relation to organizations performance.

Maina (2009) studied outsourcing service in the mobile phone industry in Kenya and found out that the major reasons for outsourcing were search for local expertise, market knowledge, language issues, cost effectiveness, effective coverage, special expertise and focus on core competence. Maina (2009) was focused on determining reason for outsourcing. This study nevertheless wants to test the hypothesis that outsourcing effect performance a case of a manufacturing company unlike the former which considered service industries.

Ojijo (2013) carried out a study of outsourcing on performance a case of Equator Bottler. This study was however determined to finding the outsourced practises, their benefits and the challenges faced in implementing them unlike the current study whose main interest is determining the effect of outsourcing on performance. The study also employed descriptive analysis unlike this study which proposed to use correlation and regression analysis.

One research which comes closest to this study was done by Maku & Iravo (2013) at Delmonte to determine the effect of outsourcing on organization performance. The research design used was descriptive unlike the current which uses case study design. The study also used descriptive analysis while this study proposed to use correlation and regression analysis to bring about the strength and direction of the relationship between the variable under study. Lastly the study considered other aspect of financial performance such as cost saving, increased access to Information technology and core competence this study however considers only financial aspect of organizational performance.

The evidence that has been produced in these studies suggests that the value-enhancing link between outsourcing and Organizational performance is not clearly established. Consequently, more information is needed to understand successful outsourcing and problems encountered in outsourcing activities and its impact on overall organizational performance (Mackler, 2009). This study is therefore meant to find out if indeed outsourcing has any effect on organizational performance and if yes where and how in the case of spectre international.

2.5 Summary of Literature Gap

This is a review of literature on works linking outsourcing with organizational performance. Empirical evidence adduced show that researcher such as Laurgers *et al.,* (2005), Lau & Hurley (2007), Benson & Littler (2002), Hanley & Strobl (2004) and Charles (2010) found a positive correlation between outsourcing and performance. Nevertheless Gartner (2003), Kimura (2002), Gorzig and Andreas (2002) and Grossman & Helpman (2005) reported no evidence that outsourcing had effect on performance. Thus, globally, evidence from the literature show a lack of consensus on the impact of outsourcing on organizational performance. There is therefore need to study and understand the effect of outsourcing on performance.

Locally, researchers such as Maina (2011), Bosire (2010), Maku & Iravo (2013) and Ojijo(2013) have also attempted to link outsourcing to performance but did not looked at performance with reference to the specific dimensions this study examined them from. It is also evident that there has been little research carried out on this topic in developing countries such as Kenya with a huge business potential. The few were also just focused on certain segment of industries and other aspects of performance such as market performance.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter describes the methodology that was used in conducting the study. It includes the research design, population of the study, sample and sampling technique, data collection, operationalization of research variables and data analysis techniques.

3.1 Research Design

The study utilized both case study and correlational research designs. Case study was used since the unit of analysis is one organization. According to Ngechu (2006), a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari, (2004) noted that a case study involves a careful and complete observation of social units. It is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations. The study was aimed at getting detailed information regarding outsourcing on performance focusing on a case of Spectre International Ltd. Case study research design was deemed fit as it allowed the study to collect quantitative data, which was analysed quantitatively using descriptive and inferential statistics hence helping in processing of the collected data in order to test hypothesis and to answer the questions of the current status of the subject under study. On the other hand correlation research design assisted in the assessing between outsourcing and performance.

3.2 Study Area

The study was conducted at Spectre International Ltd based at Kisumu in Kenya, along the shores of Lake Victoria approximately 10 kilometres from Kisumu town centre along the Kisumu-Busia highway.

3.3 The Target Population

Target population for in statistics is the specific population about which information is desired. According to Ngechu (2006), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. In this regard, the universe for this study comprised of 62 employees working for Spectre International drawn from the top management, the supervisors and the low cadre staff.

3.4 Sample and Sampling Technique

A sample is the number of items selected to represent the whole population (Kothari, 2014). A sampling technique is the method of selecting items to be observed for a given study (Kothari, 2014). Purposive sampling technique was used to select the sample of 50 respondents from the 57 employees that remained after 5 had already been used for the pilot study. Mugenda and Mugenda (2003) indicated a sample size of 10% or 20% will be sufficient for a study and in this case a sample of 50 is 87% of the population targeted by the study.

3.5 Data Collection Methods

3.5.1 Data Types and Sources

Data for this study was obtained from primary sources. The primary data was collected through the use of a structured questionnaire which were administered to employees of Spectre International Ltd.

3.5.2 Data Collection Instruments

Questionnaires as defined by Sekaran (2006) include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order. The questionnaire was designed based on study objectives and was administered using 'drop-andpick-later' method. The questionnaire comprised of closed and open ended questions. It was sub divided into three sections; the first part sought general information of the respondents. The second part focused on the outsourcing practices adopted by Spectre International. The third part contained the questions aimed at determining the effect of outsourcing on organizational of Spectre International Ltd. The target respondents were the senior managers in their respective organizations charged with developing and implementing policy the supervisor and the low cadre staff who were at some point also involved in with outsourcing. The questionnaire was accompanied with a five-point Likert scale response continuum, that is 5 = Very large extent, 4 = large extent, 3 = moderate extent, 2 = little extent and 1= No extent.

3.5.3 Reliability Tests

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda, 2003). The test retest method of assessing reliability of data was used where the same instrument was administered twice. According to Connelly (2008) pilot study sample should be 10% of the sample projected for the larger parent study. It is reference to Connelly (2008) a sample of five respondents which is 10% of the sample population were selected to participate in the pilot study. Keeping all the initial conditions constant the same questionnaire was administered to the sample population after two weeks to conduct the actual study. The correlation of the two study periods was done and a coefficient of 0.821 found which illustrated that the scales was valid and reliable as the reliability value exceeded the prescribed threshold of 0.7 prescribed by (Connelly, (2008).

3.5.4 Validity Tests

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 in the field of study such as the researcher's supervisor for review for validity checks. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

3.6 Data Analysis and Presentation.

The questionnaires were first checked for accuracy, consistency and completeness. Thereafter, the data was edited, coded, classified and tabulated for ease of interpretation and further analysis. Data presentation was done by the use of percentages and frequency tables for ease of understanding and interpretations of the respondent bio data. Descriptive statistics such as means, standard deviation was used to analyse the data to establish the extent to which outsourcing was adopted at Spectre International. For inferential statistics, correlation and regression were used to establish the strength of association between variables and to establish the relationship between outsourcing practices and performance.

The dependent variable was the financial performance of the organization. Using the regression analysis, the following variables are included: transport, cleaning, security services and human resources.

The relationship is modelled as follows.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad \text{......} 3.1$$

Where: Y= Average score on financial Performance;

β_0 = Constant Term;

β_1, β_2, β_3 and β_4= Beta coefficients;

X_1= Average score on Transport Services;

X_2 = Average score on Cleaning Services;

X_3 = Average score on Security Service;

X_4 = Average score on Human Resources Services;

ε = Error term

Table 4. 2 : Job Position Held

Staff Category	Frequency	Percent
Manager	15	30
Supervisor	20	40
Other staff	15	30
Total	**50**	**100**

Source: Survey data (2015)

From table 4.2 which presents the current job position held by the respondents show that 40% of the respondents were Supervisors of the various department followed by the managers at 30% and then the other staff 15%. This indicates that majority of the respondents for this study were supervisors who in the organization reported to the managers on the performance of the outsourced functions. This implies that most the respondents by virtue of their job titles were in a position to understand the outsourcing and its effects on the performance and therefore give accurate information and also that the researcher obtained information from people of diverse levels of management.

4.1.2 Years of Service at Spectre International

The study further sought to establish the number of years the respondents had been working for the Spectre International. The results are as shown in Table 4.3:

Table 4. 3: Years of Service

Service Period	**Frequency**	**Percent**
Less than 2 years	6	12
2-5 Years	12	24
6-10 Years	21	42
Over 10 Years	11	22
Total	**50**	**100**

Source: Survey Data (2015).

Results presented in table 4.3 show that a large proportion of respondents (42%) indicated they have worked for Spectre International for a period of 6-10 years, 24% for a period of 2-5 years, 22% for above 10 years and the remaining 12% for less than 2 years. This indicates that the study obtained their data from people with diverse years of experience in the company.

4.2 Extent of Adoption of Outsourcing

The study assessed the extent to which outsourcing was adopted at Spectre International Ltd. The extent of the adoption of activities were rated on a scale of 1-5 where: 1= No Extent; 2= Little Extent; 3= Moderate Extent; 4= Large Extent; 5=Very Large Extent. The findings were as indicated table 4.4.

Table 4. 4: Extent of adoption of outsourcing

Outsourcing	**N**	**Mean**	**Std. Deviation**
Transport logistics	50	4.52	.505
Cleaning Services	50	4.06	.767
Human Resource services	50	3.74	.600
Security Service	50	3.34	.479
Grand Mean		**3.92**	**.587**

Source: Survey data (2015)

Results presented in table 4.4 show that that outsourcing was adopted to a large extent as indicated by its weighted mean of 3.125. The respondents were found to be very familiar with outsourcing of transport services as they rated it as being outsourced to at a large extent with a mean of 4.52. Likewise they indicated that adoption of cleaning services was relatively prominent given its mean of 4.06 as well as outsourcing of human resource (mean of 3.74) and that of security given its mean of 3.34. On human resource outsourcing the company the company has been able to save on staff training welfare cost, statutory deductions, no payment on employees on sick leave, maternity and absent employees. On transport services outsourcing the organization saves expenditure on such assets like fleet of vehicle for ferrying workers working at night and those that transport the raw materials from their various sources. The respondents further indicated that service providers also bring with them their own machines and tools and thus saving Spectre International on such tremendous expenditure. The study findings corroborates the assertions of some authors that asserted that the main motivation for outsourcing is found to be cost reduction (Gilley & Rasheed 2000). This is because paying for outsourcing generally costs less than maintaining equivalent services in-house.

The findings of the study are further in similar vein with assertions of some academicians (Bowersox 1990; Gupta and Zeheuder 1994; Greer, Youngblood & Gray 1999) that successful implementation of an outsourcing strategy has been credited with helping to cut cost. The study findings are also in tadem with Abraham and Taylor (1996) assertions that outsourcing may provide a viable strategy if firms aim to save on labour costs. Findings support Abraham and Taylor (1996) who postulated that outsourcing can be used to economize on production cost, in particular labour cost by substituting in-house production with the buying-in of components. The study findings corroborates the assertions by Barthelemy and Adsit (2003) that firms should consider outsourcing when it is believed that certain support functions can be completed faster, cheaply, or better by an outside organization.

Outsourcing of these functions means the Company is able to allocate more time to essential activities and thus the overall efficiency of the organization. By concentrating on only a few tasks the management is able to greatly improve the overall performance of the organization.

4.3 Outsourcing and Performance

Correlation analysis was used to establish the strength of association between variables and regression analysis done to establish relationship between outsourcing functions and organizational performance.

4.4 Correlation Analysis

To determine the strength of the association between outsourcing and performance. Pearson's correlation was done and results are presented in table 4.5.

Table 4. 5: Correlation analysis between outsourcing and Performance.

		Performance	Transport Services	Cleaning Services	Security Services	Human Resource
Performance	Pearson Correlation	1				
	Sig. (2-tailed)	0.02				
	N	50				
Transport logistics	Pearson Correlation	.869	1			
	Sig. (2-tailed)	.001				
	N	50	50			
Cleaning Services	Pearson Correlation	.736	.574	1		
	Sig. (2-tailed)	.001	.004			
	N	50	50	50		
Security Service	Pearson Correlation	.334	.685	.670	1	
	Sig. (2-tailed)	.003	.001	.003		
	N	50	50	50	50	
Human Resource	Pearson Correlation	.659	.133	-.116	.572	1
	Sig. (2-tailed)	.002	.002	.001	0.001	
	N	50	50	50	50	50

Source: Survey data (2015)

Results from the Pearson's correlation analysis in table 4.5 show that there existed a positive and significant correlation between performance and outsourcing at Spectre International Ltd at 95% confidence level. The study established that the correlation between outsourcing of transport services and performance is highly positive and significant with a coefficient of (r=0.869 at significance level .05, P=0.002. This results implies that according to the respondents increased adoption of transport services has a probability of affecting the performance of the company positively.

The results between outsourcing of cleaning services and performance was as well highly positive and significant with a coefficient of (r=0.736) significant at .05, P=.001. This suggests that increased adoption of outsourcing service has a probability of affecting the performance of the company positively.

The results also show that there is a positive and significant relationship between outsourcing of security services and performance with a correlation coefficients of (r=.0334) at significance level .05, P=.002). This observation alludes that according to the respondents increased adoption of outsourcing security service has a probability of positively affecting performance.

Further analysis reveal that the correlation between human resources outsourcing and performance has a highly positive and significant correlation coefficients of (r=0.659) at a significance level of .05, P=.002. The observation insinuates that according to the respondents outsourcing of human resources has a probability of affecting the company's performance positively.

4.5 Regression Analysis

Model Summary

Table 4. 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892(a)	0.795	0.784	0.05

a. Predictors: (Constant), Transport services, Cleaning Service, Security services, Human Resource

b. Dependent: Performance

Source; Survey Data (2015)

The study sought to determine relationship between outsourcing and performance of Spectre International Ltd. From the table 4.6, R is the square root of R-Squared also known as "proportionate reduction in error" or "variance accounted for." R is the correlation coefficient between the observed and predicted values of dependent variable implying that there was association of 0.892 between performance and outsourcing at Spectre International Ltd. Adjusted R^2 in Table 4.6 is called the coefficient of determination which indicates how the performance varied with variation in outsourcing in the company which includes transport services, cleaning services, security services and human resource. From Table 4.6, the value of adjusted R^2 is 0.784 implying that, there was a variation of 78.4% of the outsourcing practices in the company and the performance at a confidence level of 95%. This clearly indicated that transport service, cleaning service, security service and human resource services outsourcing have a probability of improving the company's performance.

ANOVA

Table 4. 7: Analysis of Variance

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	2.1359	13	0.1643	1.719	0.00(a)
	Residual	5.4474	57	0.0956		
	Total	7.5833	70			

a. Predictors: (Constant), Transport services, Cleaning Service, Security services, Human Resource
b. Dependent: Performance

Source: Survey Data (2015)

Table 4.7 shows that the calculated value of F is 1.719 with a p- value of 0.00 at 5% level with d.f. being $v1 = 13$ and $v2 = 57$ this shows that the overall model was significant and that is there is a significant relationship between outsourcing and performance. The analysis hence rejects the null-hypothesis that stated that there is no effect of outsourcing on performance of Spectre International. The Total variance (7.5833) was the difference into the variance which can be explained by the independent variables (Model) and the variance which was not explained by the independent variables (Error).

Coefficients

Table 4. 8: Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.521	0.251		6.057	0.00
	Transport Services	0.971	0.041	0.828	23.490	0.00
	Cleaning Service	0.676	0.040	0.654	16.837	0.00
	Security Services	0.547	0.050	0.459	10.947	0.00
	Human Resource	0.603	0.067	0.494	9.059	0.00

a. Dependent Variable: Performance

Source: Survey Data (2015)

The established regression equation from the model was;

$Y = 1.521 + 0.971X_1 + 0.676X_2 + 0.547X_3 + 0.603X_4 + ẹ$

Where: Y=Performance, X1= Transport Services, X2= Cleaning Services, X3= Security Service, X4= Human Resource service and ẹ = Error Term

The equation implies that when independent variables (transport services, cleaning services, security services and human resource) are controlled for or held constant, there is a probability that performance would be affected positively as shown by a coefficient of (β_0 = 1.521), this effect being significant at (p=.05).

The analysis also show that increase adoption of outsourcing of cleaning services has a probability of affecting performance of the company's performance by a coefficient (β_2 = 0.676) the effect being significant at .05, p=0.00

Moreover the study established that there is a probability that transport service outsourcing would positively and significantly affect performance by a coefficient (β_1=0.971) the effect being significant at .05, p=0.00

The study further revealed that increased adoption of Security services and human resource outsourcing would have a probability of affecting the company's performance by coefficients

(β_3=0.547) and (β_4=0.603), their effect being significant at .05, $p=0.00<0.05$) and, p=0.00 respectively.

This finding corroborate the assertions by the theories of Frayer, Scannol & Thomas (2000) who asserted that companies are increasingly viewing outsourcing strategies as a means of reducing costs, increasing quality, and enhancing a firm's overall competitive position.

The findings are also in similar vein to findings by Lau and Hurley (1997) who studied the relationship between outsourcing and profitability margin and found that Chrysler's profit margin was four times as high as that of GM due to effective outsourcing through strategic alliances.

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.

This findings are in tandem with teachings by Alexander and Young (2007) who postulated that firm's value is enhanced when management attention is more focused on strategic issues and less on daily operational problems or organizational conflicts. Outsourcing has also enabled Spectre International to achieve adequacy of the required resources as resources previously used in providing the outsourced services are used to supplement resources used in the core activities. This is tandem with the finding of Brian (2000) who noted that outsourcing offers the opportunity to grow without a corresponding expansion in organizational size or bureaucracy. The external service providers like transporting service providers tend to be more efficient than the complacent internal staff. The organization is also able to offer better quality goods and services which further enhance customer satisfaction.

The findings are however in departure from the findings of a study done by Kimura (2002) who did not find any evidence that outsourcing led to higher profits in Japanese manufacturing firms.

In addition the findings do not conform to the findings by Kimura (2002) who did not find any evidence that subcontracting leads to higher profits and also deviates from the arguments held by Görzig, Hanley & Strobl (2004) who argued that that there is no productivity effect from services outsourcing.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter an attempt is made to give a summary of the research findings, conclusions, recommendations, limitations and suggestions for further studies. It is divided into five sections. The first section presents the summary of the research findings. The second section presents the conclusions, the third section presents the recommendations the fourth section presents the limitations and lastly the fifth section suggestions for further research.

5.1 Summary of the Findings

An inquiry on the extent of adoption of outsourcing was based on level of adoption of elements of outsourcing, transport services, cleaning services, human resources and security services which are functions that are outsourced at Spectre International Ltd. The findings showed there is a significant level of adoption of each of the outsourced functions with each of the indicators attaining above average levels of mean ranking thus giving overall level of adoption of outsourcing by Spectre International at a large extent. It was also established that transport services an outsourcing function an which was indicator of adoption of outsourcing by Spectre International had the highest mean ranking followed by outsourcing of cleaning services, human resource and lastly outsourcing of security services in decreasing order of adoption.

The Pearson correlation analysis used to establish the direction of the relation between the variables showed that there existed significant correlation between performance and outsourcing at Spectre International Ltd at 95% confidence level. The study established that the correlation between outsourcing of transport services and performance is highly positive and significant. This results implies that according to the respondents increased adoption of outsourcing has a probability of affecting the performance of the company positively.

The results between outsourcing of cleaning services and performance was as well highly positive and significant. This implies that increased adoption of outsourcing service has a probability of affecting the performance of the company positively.

The results also showed that there is a positive and significant relationship between outsourcing of security services and performance. This observation implies that according to the respondents increased adoption of outsourcing security service has a probability of positively affecting performance.

Further analysis reveal that the correlation between human resources outsourcing and performance has a highly positive and significant. The observation implies that according to the respondents outsourcing of human resources has a probability of affecting the company's performance positively.

A regression analysis was then used to establish the strength of the association between the variable under study and it revealed that when independent variables (transport services, cleaning services, security services and human resource) are controlled for or held constant, there is a probability that performance would be affected positively

5.2 Conclusions

Based on the findings of objective one it was concluded that Spectre International have adopted outsourcing to appreciable levels. These practices on adoption tended to have variable effects on performance of the company of the according to the regression analysis used.

Based on the findings of objective two where performance was found to be dependent on increased adoption of transport services, cleaning services, human resource and security services. These outsourced functions were found to effect performance of Spectre International positively and significantly. It was therefore concluded that outsourcing enhances performance of Spectre International.

5.3 Recommendations

Based on conclusion of objective one it is therefore recommended that the management of Spectre International consider putting in place targeted measures intended to spur adoption of outsourcing.

Based on the conclusions of objective two the study recommends that although the adoption of outsourcing is fairly good, the attention of stakeholders needs to be concentrated on a few areas. These include ensuring that the firm enhance particular elements of outsourcing such as transport service and cleaning services as they contribute more to the organizational performance.

5.4 Limitations of the Study

The study had certain limitations. Most of the respondents approached were reluctant in giving some information fearing that the information sought would be used to intimidate them or create a negative image of the firms they work for. The researcher handled the problem carrying an introduction letter from the university so as to assure them that the information will be treated as confidential and will be used purely for academic purposes.

The study was carried out at Spectre International which is a manufacturing firm and therefore the findings could be limited to the manufacturing sector only. The time constraint is also a limitation to this study, since the study was carried out while on academic programme. The study used correlation analysis and regression analysis that brought only the direction of the relationship between outsourcing and organizations performance. Finally the study was also limited to one company within a particular geographical region.

5.5 Areas for Further Research

In view of the findings and limitations of this study, and it's recommended that these areas be further investigated: The study only focused on a manufacturing firm future studies should carry out a similar study in service organization such as Communication Service providers and Retail organizations such as Supermarkets to validate the findings.

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.

Future research studies in this area should use prohibit regression analysis to bring out clearly the relationship between outsourcing and the other performance measurement constructs used in this study.

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