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EFFECTS OF OUTSOURCING OF SERVICES ON PERFORMANCE OF MANUFACTURING COMPANIES IN ELDORET AND NANDI HILLS, KENYA

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ABSTRACT: *At the present, firms are increasingly using outsourcing of services to improve the firm's effectiveness, productivity, profitability, quality of products, quality workforce. Private sector expenditure is substantial. Owing to the enormous amount of money involved and the fact that the money comes from the private stakeholders and business, thus, they demand accountability and efficiency. The general objective of this study was to examine the effects of outsourcing on organizational performance. Specific Objectives were; to examine the effect of outsource marketing activities, outsource technology and innovation activities. The study is anchored by two theories, Resource-Based View Theory and Principal Agent Theory. Explanatory research design was utilized in this study. Data was collected from a sample of 81 respondents from the private sector manufacturing companies translating to a response rate of 90%. A likert scale type of questionnaire was used to solicit primary data. The data analysis methods used were descriptive and inferential statistics, utilizing a multiple regression analysis model. The study findings showed that outsourced marketing activities have significant effect on performance of firm. Similarly, outsourced technology activities has significant effects on firm performance. The study concludes that outsourcing marketing allows firms to reduce costs and enhances their portfolio hence impacting positively on performance. They should outsource website design and maintenance services since it is cost effective. Also, firms should also outsource telephone maintenance services so as to spend less on wage. Firms should use external transport and logistics agencies for distribution of their products since it reduces on cost enormously and use advertising firms to market their products.*

KEYWORDS: Firm performance, marketing activities and technology and innovativeness.

INTRODUCTION

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender 1999). Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn, 2000). Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers (Corbett, 1999). The traditional outsourcing emphases on tactical benefits like cost reduction

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(for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999).The market for providers of outsourced services of all types are growing rapidly. In 1996, American firms spent over $100 billion in outsourced business activities (Casale and Overton 1997). A study conducted by Yankelovih (2005) Partners indicated that two-thirds of companies world-wide already outsource at least one business process to an external third party. This practice appears to be most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought (Goldstein 1999).

Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Greer, Youngblood and Gray 1999), increase capacity, improve capacity, improve quality (Kotabe, Murray and Javalugi 1998), increase profitability and productivity, improve financial performance, lower innovation costs and risks (Quinn 2000), and improve organizational competitiveness (Steensma and Corley 2000). Companies that outsource should continue to monitor the contractor's activities and establish constant communication (Guterl 1996). Previous research of outsourcing (Jacobides, 2005) is largely exploring the financial implications of outsourcing and mainly presents parent organizations dissatisfaction with the ongoing projects which are often terminated before expected (Kavcic and Tavcar, 2008). Despite the growing interest in the phenomenon of outsourcing, which have recently raised increasing attention among researchers in the most propulsive economies over the past few years, namely the authors in India (Pandey and Bansal, 2003) and China (Choy *et al.*,2005), it is difficult to trace a comprehensive strategy for preventing or resolving problems of outsourcing projects. Studies (Thoms, 2004; Schniederjans*et al.*,2005; Taylor, 2006) often reveal the hidden costs as the most problematic segment of outsourcing, in which problems usually occur when organizations are already heavily involved in the outsourcing projects and the termination of contract in that phase would inflict large financial losses for both sides. Surprisingly, research is rarely dealing with the other negative consequences that may pose a potential threat.

With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang, *et al.*, 2007; McIvor, 2008). 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 competences and capabilities (McIvor, 2008). Traditionally, outsourcing is an abbreviation for "outside resource using". Outside means to create value from without, not within, the company (Yang, *et al.*, 2007).

Kenya manufacturing firms are not an exception; they too are outsourcing operations to external contractors in order to achieve low cost and hence maximize returns. There has been a need to understand in broadness how outsourcing affects the organization performance of manufacturing firms in Eldoret and in Nandi hills Towns and hence the need for this study.

Statement of the Problem

There has been so much outsourcing in areas like information technology that scholars are now starting to ask whether some of that outsourcing will be reversed, in the form of back sourcing (Whitten and Leidner, 2006). By outsourcing to specialist organizations services not generated by core competences, companies can see an improvement in their organizational performance, Gilley and Rasheed (2000). Though with outsourcing of non-strategic services, manufacturing

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firms have been regularly hampered with declining performance, Now that, if manufacturing firms can embrace on outsourcing there is likely to increase performance and allow the organization to be more flexible. Most organizations grapple with quality of their services and as a result leading to poor performance. Dress *et al.,* (1995) points out that, increasing the outsourcing of non-strategic services can improve both the quality and the service. Gilley and Rasheed (2000) state that the outsourcing of services of low strategic value enables the company to reduce costs and improve its competitive position. In the recent past, firms are increasingly using outsourcing to improve the organizational performance of the firm. Despite this, few organizations lack adequate capacities to outsource and thus the need to point out the effects of outsourcing on organization performance. Firms face intense competitive pressures due to factors like technological change and globalization. In response to these concerns, companies, both large and small, are increasingly outsourcing their activities by shifting what they traditionally handled internally to external suppliers. Therefore, study sought to establish the effect of outsourcing services of companies on performance while focusing on manufacturing firms in Eldoret and Nandi Hills town.

LITERATURE REVIEW

Concept of Organization Performance

Organization performance is defined as an internal standard of performance (Pfeffer and Salancik 1978) and is approximately a construct "for doing the things right". From resource dependence perspective efficiency is an independent measure for evaluating organizational performance. Outsourcing strategy effects should be observed in long term operating performance for two reasons. First, assuming management bases its outsourcing decision on the goal of minimizing costs, overall performance should improve. Second, the market response to an outsourcing announcement is the result of investors' revised expectations about future cash flows based on newly available information. A positive market response to an announcement suggests investors expect improved future organization performance. Likewise, resource based theory suggests that even an outsourcing decision resulting in a negative net wealth effect enables the firm to focus resources on strategic activities indirectly leading to improved organization performance.

Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, strategic outsourcing and survival at pre-determined time using relevant strategy for action (Koontz and Donnell, 1993). Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization (Koontz and Donnell, 1993).

Although theory suggests expected improved organization performance following human resource, marketing, technology and finance activities. Empirical survey research to date reports mixed results on the relationship between outsourcing and firm performance. Gilley *et al*,. (2004) employ survey methodology in firms outsourcing technology and payroll functions, and find no relationship between managers' perceived firm performance. Empirical studies investigating profitability effects of other types of outsourcing are inconclusive. Namely, no

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direct effect of outsourcing peripheral and core activities on firms' financial and non-financial performance (Gilley &Rasheed, 2000), a negative short term and positive long term impact of outsourcing business services on firm performance (Gorzig& Stephan, 2002), no effect of outsourcing business services on profits (Görg& Hanley, 2004) and a decline in profitability in the year of the announcement, but improvement in subsequent years (Juma'h& Wood, 2000). These contradictions show that notwithstanding the prevalence of outsourcing, there is no clear empirical evidence that firm performance improves following outsourcing strategy implementation.

Recognizing that the outsourcing decision and factors determining organization performance may be endogenous choices, the optimality of the outsourcing decision is introduced as a boundary condition. Leiblein, Reuer, and Dalsace (2003) show that technological performance improvements following outsourcing are dependent upon the alignment of governance decisions with contractual hazards; suggesting an influence of the optimality of the outsourcing decision on firm performance.

THEORETICAL PERSPECTIVE

Resource based view

Resource-based view has become one of the most influential and cited theories in the history of management theorizing. The study has been building on the resource-based view theory of the firm according to (Wernerfelt, 1984), this study applies knowledge-based view of the firm. Drawing on the RBV, we extend transaction-based perspectives of strategic outsourcing by focusing attention on the role of specialized services obtained through intermediate markets. This approach, however, requires a refinement in the traditional role of boundaries. In particular, while conventional approaches to boundary conditions emphasize boundaries as an economizing buffer to environmental contingencies (Araujo*et al.*,2003), boundaries also act as a bridge to intermediate markets through relationship 'ties' formed by a focal firm. In other words, boundaries integrate as well as separate a firm from its environment. In this work, we define bridging as the process by which firms establish linkages with intermediate markets, suggesting that new services may be obtained through relationships established within and across a firm's relationship network (Burt, 1992; Granovetter, 1973). Herein, our focus is on the specialized services provided through these relationships. The ability to access new and potentially more valuable services is a critical driver of strategic outsourcing because these actions can fundamentally alter a firm's services endowments (Morrow *et al.*,2005), making it easier to pursue new opportunities in the market. We maintain that different conditions affect the value of services sourced from intermediate markets. In particular, we briefly describe four resource based considerations for strategic outsourcing: complementarily of services, strategic relatedness, relational service-building mechanisms, and cooperative experience.

Link between Outsourcing and Firm Performance

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance (Lilly *et al.*, 2005). According to the survey, conducted by Accenture and the Economist Intelligence Unit, two-thirds of the respondents all of whom had been outsourcing a major business process for at least two years agreed that outsourcers who know how to manage the process can enhance their company's performance and achieve a high

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level of satisfaction with the results (Lacey and Blumberg, 2005). Gilley and Rasheed (2000) proposed that organizational performance in firm can improve for three reasons. First, an increased focus on a firm's core competencies is an important benefit associated with outsourcing (Gilley and Rasheed, 2000). The evolving literature on core competencies has been concerned with the "make-or-buy" decision that every firm faces. His broad argument was similar to Adam Smith's, if an outside party can do the work more efficiently and inexpensively than can the firm itself, then the outside party ought to do it: if the firm's employees can do the job better, then the work ought to remain internally (Bahli, 2002; Espino-Rodrı´guez and Padro´n-Robaina, 2005; Taylor, 2005).

Increased outsourcing of non-core activities can improve service quality (Dess *et al.,* 1995). Frequently, the improved capabilities of the supplier are the result of large investments in technology, in methodology and in human resources made over time. In many cases, the capabilities of the vendor include specialized knowledge in the industry obtained by working with many manufacturers. Because of resource limitations, few firms have the ability to apply world-class resources to all areas of competition. Thus, in order to gain competitive advantage they must select areas in which they will concentrate their resources (Hamel and Prahalad, 1994).

By outsourcing to specialist organizations services not generated by core competences, companies can see an improvement in their organizational performance (Kotabe, 1989) Gilley and Rasheed (2000) state that there are three reasons for this. Firstly, the acquisition of non-strategic services allows the organization to center on what it really can do well, that is, on the services whose resources have a high strategic value (Gilley, *et al., 2004*). Such a focusing on services not included in the core competences can increase performance and allow the company to be more flexible. Secondly, increasing the outsourcing of nonstrategic services can improve both the quality and the service (Dess *et al.,* 1995). Lastly, the outsourcing of services of low strategic value enables the company to reduce costs and improve its competitive position (Espino *et al.,* 2004).

Outsourced Marketing activities on organizational performance

A stream of research originally characterized as 'vertical disintegration' (Stigler, 1951) helps explain outsourcing by developing a 'capabilities view' (Leiblein and Miller, 2003). According to this perspective, the emergence of new intermediate markets is driven largely by the desire of firms to pursue gains from the trade of specialized production. Richardson (1972) was one of the first to suggest that boundaries were contingent on the different activities in which firms engage, the capabilities such activities require, and the selection and use of those capabilities along a value chain.

The idea of marketing outsourcing of a product or service to the public is a function so central to a business that it requires careful nurturing and a considerable amount of personal attention. Accordingly, businesses who wish to convey the salient aspects of their product or service offerings may do so in a creative but sometimes costly manner. As a more cost effective alternative, marketing outsourcing has become an extremely popular modern business development. Once thought of as an alternative for only large multinational corporations (Sharpe, 1997), marketing outsourcing has now evolved into a viable business solution for any organization serious about improving its market position, reducing costs, and improving overall quality (Burden *et al.,* 2006). While many corporate activities such as information technology (IT) and human resource management (HRM) have traditionally been performed internal

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advocacy for outsourcing the bulk of these efforts is steadily increasing (Klaas *et al.*,2001) and more and more they are becoming a global business trend (Leverett *et al.*,2004).

Marketing outsourcing is aforementioned areas provided in the marketing department with a chance to work with experts who can offer a professional and objective viewpoint in many areas (Belcourt, 2006; Burden and Li, 2002). Likewise, it allows them to gain new knowledge, access new markets, establish traction in the industry, reduce the threats and barriers of competition, enhance resource efficiency, and acquire new skills (Klaas *et al.*, 2001). Outsourcing can also free up valuable resources that, in turn, allow for crucial resource reallocation toward core business activities to better serve organizational goals (Burden and Li, 2005), while providing greater access to leading-edge technology and limiting the focus to core competencies (Harris *et al.*, 1998). Informing this strategic management process is that of core competencies theory (Prahalad and Hamel, 1990). This theory suggests that certain business activities should be performed either internally or by suppliers.

Accordingly, given advances in technology and standardization, new intermediate markets emerge, decomposing the value chain allowing firms to 'acquire' valuable yet specialized capabilities cost-effectively via the market. As a result, firm boundaries shift as activities that were carried out internally are 'transferred' to newly formed intermediate markets. It is therefore argued that outsourcing not only allows firms to reduce costs, but also to enhance their portfolio of capabilities, and value creation potential, especially when firms produce unique combinations using capabilities provided by these markets. Three assumptions underlie resource based views about outsourcing. First, selection determines gains available to firms from capabilities accessed in the intermediate markets and then intensifies the effect of these capabilities on firm performance. Complementarity and relatedness creates uniquely valuable synergy, especially when specialized capabilities are effectively combined and when no other combination can replicate the resulting value chain activities (Tsai, 2000).

Strategic outsourcing relationships form within a social context. It ties, both direct and indirect, with firms in intermediate markets create a network (Uzzi, 1997), and become an important source of information about the reliability and performance of current and future exchange partners (Granovetter, 1985). Such information helps a focal firm to learn about capabilities available in intermediate markets. Repeated ties improve trust in current and potential exchange partners and increase the likelihood of future cooperation (Gulati, 1995). Accordingly, marketing experience forges close bonds over time and increases confidence that exchange partners will pursue mutually compatible interests thereby reducing the probability of opportunism (Das and Teng, 1998), and facilitating the exchange of capabilities crucial for performance (Combs and Ketchen, 1999; Uzzi, 1996). Because outsourcing involves coordinating the actions of two or more firms, markets experience is vital to its success.

From a transaction-based perspective, these mechanisms reduce coordination and integration costs and enable firms to exploit new opportunities in the market, especially when they develop the mechanisms to more effectively manage the portfolio of capabilities they acquire from intermediate markets. These mechanisms also create causal ambiguity, obscuring the use of capabilities deployed across a value chain and making it difficult for competitors to determine a priority the sources of value within firms' supply chains. In sum, the study contends that specialized capabilities accessed by outsourcing may allow firms to achieve greater performance gains. Marketing activities outsourced most often include: PR, advertising,

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website development, marketing program management, market research and sales tool development.

Ho_1: There is no significant effect of marketing activities on firm performance.

Outsourced Technology and Innovation on organizational performance

Improving delivery of technology services through the use of structured processes has been an active research topic over the last few years (Mayerl *et al.*,2005; Bartolini and Salle, 2004; Keller, 2005; Hanemann *et al.*,2005; Stanley *et al.*,2005; Jakobson *et al.*,2004). Historically, technology support plays as a best effort role to help businesses function in an organization and service level agreements (SLA) and its management are luxury in nature. This mindset and practice has significantly changed over the last decade with the introduction of service outsourcing and service management frameworks like information technology infrastructure library (ITIL, 2000).

In an outsourcing context, technology and innovation provides the basic foundation to disaggregate business processes and facilitate production process outsourcing by reducing the complexities associated with communication and coordination across organizational boundaries. Technology also enables manufacturing plants to reintegrate the outcomes of outsourced processes back into their internal operations through better codification and standardization of information exchange. In other words, technology assets provide the infrastructural capabilities for manufacturing plants to outsource their production effectively to dynamic changes in customer requirements, achieve greater production flexibility, expand capacity or focus on core competencies, but the vast majority of firms outsource activities to reduce costs or improve product quality by leveraging the expertise of their suppliers. It was note that technology may also have a direct effect on plant costs and quality. A plant can leverage its technology infrastructure to integrate processes and resources within and across firms. Investments in appropriate technology and innovativeness solutions can enable plants to Participate in electronic (Internet) exchanges and online procurement auctions, providing a channel to identify low-cost suppliers and partners for outsourced production of primary products. These solutions provide an avenue for plants to lower their costs of material procurement, and reduce their labor and overhead costs. A plant's technology infrastructure also provides greater visibility into the supply-chain processes of its value chain, including its partners and suppliers, which, in turn, enable the plant to monitor real-time changes in customer requirements and product.

However technology and innovation outsourcing only act as a decisional option, but rather as a piece of managerial plans of whole business and particularly we can develop a technology strategy, where operational dimensions require such an approach. Earl (1996) suggests that outsourcing technology is the first option when operational performance of technology is low and is not strength for the company, also in his "smart source" variant when business value of technology is not a core of organization and operational performance of technology trough outsourcing is improved. Technology outsourcing benefits include enhanced efficiency and cost savings, infusion of cash, reduced capital expenditure, quicker development of applications, improved services, access to new technological knowledge and technologies, and greater flexibility in technology and innovation resource management Peter Weill and Marianne Broadbent (1996). Lacity and Wilcocks (2000) categorize the desired benefits of technology outsourcing in terms of six strategic foci: financial restructuring (or cost efficiency), core competence, technology catalyst, business transition, business innovation and new market.

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The factors that lead to success are more business oriented than anchored in technical domain. It is important to first understand the problem, and then find the right operation that fits the problem. This is the case when outsource technology final results may place technology to business needs, improving the management of projects change and having the appropriate balance level between the management expertise and technical know-how.

Complementarily of capabilities beginning with Penrose (1959), strategy scholars have proposed that firms enhance outsourcing performance when they align with exchange partners in order to access complementary capabilities (Rothaermel, 2001). Applied to strategic outsourcing, this argument suggests that firms seek ties with specialized firms that possess capabilities beneficial to and needed by a focal firm. Such capabilities may be required to replace existing capabilities deployed along a value chain (e.g. substitution-based outsourcing) or to fulfill a specific need not currently available in a firm (e.g. abstention based outsourcing). Capability complementarity reflects a situation in which specialized capabilities enhance the value creation potential of a focal firm's own capability endowments. Complementary capabilities are different, yet mutually supportive (Luo, 2002a; Hitt *et al.*, 2001).

Ho_2: There is no significant effect of technology and innovativeness on firm performance.

MATERIALS AND METHODS

Explanatory research design was used in this study. A population of were 256 line managers from various department of finance, and human resource these were two top departmental managers in their departments Simple random sampling technique will be adopted to extract respondents sample to represent the company's line managers. Out of 256, simple random sampling was used to achieve 90 respondents which represent 35% of the target population. This agrees with Kerlinger (1986) who noted that a sample size of at least 30% is a good representation of the entire population. The study used a questionnaire in data collection. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate among them in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables.

Data Analysis and Presentation

The study conducted initial data analysis using simple descriptive statistical measures such as, mean, standard deviation and variance to give glimpse of the general trend. However, correlation analysis was used to determine the nature of the relationship between variables at a generally accepted conventional significant level of P values less or equal to 0.05 (Sekaran, 2003). In addition, multiple regression analysis was employed to test the hypotheses. Multiple regression analysis is applied to analyze the relationship between a single dependent variable and several independent variables (Hair *et al.*, 2005). The study also utilize variable inflation factor (VIF) to handle the issue of Multi-collinearity.

The beta (β) coefficients for each independent variable generated from the model, was subjected to a t –test, in order to test each of the hypotheses under study. The regression model used to test is shown below:

$$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \varepsilon$$

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Where, Y = organization performance

α = Constant

$\beta_1 \ldots \beta_2$= the slope representing degree of change in independent variable by one unit variable.

X_1= marketing activities

X_2= technology and innovativeness activities

ε = error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 20. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$

RESULTS AND DISCUSSION

Correlation Statistics for Linear Relationship between Variables

Pearson's measures the strength and direction of the linear relationship between variables. Pearson Correlations results in table 1.0 showed that, there is a clear and significant relationship between the independent variables and performance. From the results, the most significant relationship exists between outsourced technology activities and performance with a correlation coefficient value of 0.624 (significant at $\alpha = 0.01$) which indicates that outsourced technology activities contributes up to 62.4% of the change in performance. Also, outsourced marketing activities was shown to contribute 58.1% of the change performance as indicated by the correlation coefficient value of 0.581 which is significant at $\alpha = 0.01$.

Table 1.0 Correlation Statistics for Linear Relationship between Variables

	Organization performance	**Marketing activities**	**Technology activities**
Organization performance	1		
Outsourced marketing activities	.581**	1	
Outsourced technology activities	.624**	.572**	1

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

* Correlation is significant at the 0.05 level (2-tailed).

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MULTIPLE REGRESSION ANALYSIS AND HYPOTHESIS TESTING

Model Summary

The study intends to assess of contribution of the independent variables on dependent variable. The study findings in table 1.2 illustrates the model summary of multiple regression model, the results showed that all the two predictors (outsourced marketing activities and outsourced technology and innovation activities) explained 50.4 percent variation of performance. This showed that considering the four study independent variables, there is a probability of predicting performance by 50.4% (R squared =0.504).

Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.710a	0.504	0.478	0.22872	1.744

a Predictors: (Constant), Outsourced marketing activities, Outsourced technology and innovation activities

b Dependent Variable: Firm performance

Source; (survey design, 2014)

Testing Goodness of Fit

Study findings in ANOVA table 1.3 indicated that the above discussed coefficient of determination was significant as evidence of F ratio of 19.325 with p value 0.000 <0.05 (level of significance). Thus, the model was fit to predict performance using outsourced marketing activities, and outsourced technology activities.

Table 1.3 Testing Goodness of Fit

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4.044	4	1.011	19.325	.000
Residual	3.976	76	0.052		
Total	**8.019**	**80**			

a Dependent Variable: Firm performance

b Predictors: (Constant), Outsourced marketing activities, Outsourced technology activities

Source; (survey design, 2014)

Hypothesis Testing

Hypothesis 1 (Ho_1) revealed that outsourced marketing activities has no significant effect on performance. However, research findings showed that outsourced marketing activities had coefficients of estimate which was significant basing on β_1= 0.274 (p-value = 0.012 which is

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less than $\alpha = 0.05$) implying that we reject the null hypothesis stating that outsourced marketing activities has no significant effect on performance. This indicates that for each unit increase in the positive effect of outsourced marketing activities, there is 0.274 units increase in performance. Furthermore, the effect of outsourced marketing activities was stated by the t-test value = 2.583 which implies that the standard error associated with the parameter is less than the effect of the parameter.

Hypothesis 2 (Ho_2) stated that outsourced technological activities has no significant effect on firm performance. Findings showed that outsourced technological activities had coefficients of estimate which was significant basing on $\beta_2 = 0.355$ (p-value = 0.002 which is less than $\alpha = 0.05$) hence we reject the null hypothesis, and conclude that outsourced technological activities has significant effect on firm performance. This implies that for each unit increase in outsourced technological activities, there is up to 0.355 unit increase in firm performance. Also the effect of outsourced technological activities is shown by the t-test value of 3.279 which implies that the effect of outsourced technological activities surpasses that of the error by over 3 times.

The rule of thumb was applied in the interpretation of the variance inflation factor. In addition, Durbin Watson test had value less than two indicating minimal autocorrelation with no effect on the study output (Watson value = 1.842). From table 1.4, the VIF for all the estimated parameters was found to be less than 4 which indicate the absence of multi-Collinearity among the independent factors. This implies that the variation contributed by each of the independent factors was significant independently and all the factors should be included in the prediction model.

Table 1.4 Coefficient of Estimate

	Unstandardized Coefficients		**Standardized Coefficients**			**Collinearity Statistics**	
	B	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
(Constant)	1.596	0.337		4.736	.000		
Outsourced marketing activities	0.22	0.085	0.274	2.583	.012	0.581	1.721
Outsourced technology activities	0.276	0.084	0.355	3.279	.002	0.555	1.8

Dependent Variable: Firm performance
Source; (survey design, 2014)

CONCLUSION

The study affirms that outsourced marketing activities have a positive and significant effect on firm performance. From the study, it is evident that outsourced marketing activities are mainly

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driven by firms' desire to gain from trade. Likewise, marketing outsourcing allows firms to reduce costs and enhances their portfolio hence impacting positively on performance.

Moreover the study findings showed that outsourced technology and innovation also impact positively on firm performance. This is achieved through reduction in the complexities associated with communication and coordination across organizational boundaries. Also, technology provides the infrastructural capabilities for manufacturing plants in order for them to achieve greater production flexibility expand capacity, reduce costs and improving product quality.

RECOMMENDATIONS

In light of the research findings, firms should outsource marketing activities. Particularly, firms should use external transport and logistics agencies for distribution of their products since it reduces on cost enormously. Further, in order to increase sales, manufacturing firms should use advertising firms to market their products. Similarly, contracting external firms for product promotion campaigns is necessary because it yields optimum performance. Likewise, firms should use research consultants for market and customer analysis in order to have better performance.

Furthermore, in order for manufacturing firms to enhance performance, they should outsource website design and maintenance services since it is cost effective. Also, firms should also outsource telephone maintenance services so as to spend less on wages. Similarly, firms should do their special printing services outside rather than within because it is cost effective

RECOMMENDATION FOR FUTURE RESEARCH

This study was conducted to investigate the effects of outsourcing on organization performance: a survey of manufacturing companies in Eldoret and Nandi Hills towns. The sample was drawn from manufacturing companies in Eldoret and Nandi Hills town, thus this study may be limited in its generalizability of the findings. So, future research should have to draw sample of respondents from the county level for the sake of generalizing the results of the study.

This study included only four factors, there could be some other relevant factors that may be perceived as important, but those were excluded from this study. Future researches, therefore, may consider more factors like adaptation to change and government policies. Moreover, including moderator factors and looking forward to direct or indirect relationship towards organizational performance can also be made in the research models of the new research by other scholars in future.

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