

**EFFECTS OF OUTSOURCING ON ORGANIZATION PERFORMANCE IN  
MANUFACTURING SECTOR IN KENYA: A CASE OF DEL MONTE KENYA  
LIMITED.**

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**ABSTRACT:** *The emergence of globalization has made outsourcing to become one of the widely embraced business strategy for delivering outstanding services to consumers in the manufacturing sector. However, in spite of the increasing trend in outsourcing arrangements, there are inadequate literature underpinnings on how outsourcing activities affect organization performance in manufacturing sector. In order to bridge that gap this research sought to study the effects of outsourcing on organization performance in manufacturing sector in Kenyan firms. The research objectives were to determine whether cost affects organizational performance, to assess whether quality affects organizational performance, to find out whether technology adaption affects organization performance and finally to establish whether risks affects organization performance at Del Monte Kenya Limited. The researcher used descriptive research design method in carrying out his study. The study targeted a population of 42 management staff from three major departments namely: Production, Transport and Agriculture, Engineering. The researcher used census survey method to pick his sample. Census survey method was used because the population was a small one. Data was collected from primary sources through survey method by use of questionnaires. The data was quantitatively analyzed based on research objectives. The quantitative data was analyzed through descriptive statistics and inferential analysis by use of statistical package for social sciences (SPSS) version 21 software. Both correlation and regression analysis were done and the results reviewed that: Cost, quality, technology adaption had organization performance had a significant strong positive relationship. There was an insignificant positive weak relationship between risks and organization performance. Based on the study findings, the researcher recommended that: Organizations should not outsource an activity fully until they have confirmed beyond doubt that the service provider is capable of handling the activity, Organization should engage the service provider on the quality standards which are expected before entering into the contract, Organizations should select the service provider on the basis of consistent technical and managerial capabilities, Service providers should only handle particular risks which even if they occurred would not affect the entire organization performance.*

**KEYWORDS:** Outsourcing, Core competencies, offshore outsourcing, Off-showing, Service Level Agreement, Sub-contracting.

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## INTRODUCTION

A report issued by World Trade Organization (WTO) described the production of a particular United States (U.S) vehicle as follows: 30% of the vehicle value went to Korea for assembly, 17.5% to Japan for components and advanced technology, 7.5% to Germany for design, 4% to Taiwan and Singapore for minor parts, 2.5% to United Kingdom (U.K) for advertising and marketing services and 1.55% to Ireland and Barbados for data processing. This means that only 37% of the production value was generated in the U.S. (World Trade Organization, 1998).

This is a common phenomenon in many other products whose components are subcontracted from different parts of the world before being assembled at the mother country. Value chains of firms dominate the 21st century economy across the continents with close coordination of different use of new technological activities. This has led to an emergence of firms which are interdependent. Global firms are becoming virtual manufacturers whereby they have ownership of products' designs while they do not make anything themselves. When people talk about globalization, they are referring to a manufacturing process like that described by WTO (Gene M. & E. Helpman, 2005).

The recent years has seen an interesting debate on outsourcing. The outsourcing history has a direct link with the history of the growth of the contemporary business organizations. Outsourcing came as a result of over diversification that occurred majorly in the 1970s and 1980s. The result of this was increasing review of the core activities of the companies as they sought to focus on utilizing their core competencies and outsourcing the none core functions (Lysons & Farrington, 2000). Firms generally outsources those functions that are resource intensive, that is either high labor or capital costs, those that requires specialist competencies, those that are dependent on the rapidly changing technology as well as those that requires expensive investment.

The history of outsourcing is deeply rooted in the history of the growth of modern business enterprise. Outsourcing was developed as a reaction to the over diversification of the 1970s and early 1980s. This led many enterprises to review the core activities and concentrate on their core competences, i.e. what the organization believe they do best (Lysons & Farrington, 2000). The activities most easily outsourced are those that are: resource intensive (high labor or capital costs), those requiring specialist competences, those subject to rapidly changing technology and those requiring expensive investment

Outsourcing strategies originated way back in the 1960s and 1970 (Quinn and Hilmer, 1994). Outsourcing takes place when a firm entrusts some or all the entire non-core functional activities out of the core competences to external service providers in exchange with better conditions for the competitive advantage of Outsourcing (Sharpe, 1997).

The changing organization trends towards globalization have brought in new issues about outsourcing. Business environments are increasingly becoming global in many firms. Regional agreements such as North America Free Trade Agreement (NAFTA) between the United States (U.S), Canada, Mexico and the development of the European Market with a single currency facilitated the development of trade on global basis. As a result of this trend organizations have expanded the geographical depth of their business undertakings. This is with regard to the market served as well as production sources for products manufactured and service delivery. Emanating from these changes organization have acquired opportunities such as achieving greater economies of scale, selling in wide range markets, and accessing lower cost labor

sources for product manufacture and service delivery. However, globalization has presented a number of challenges such as complex manufacturing Network, distribution, language difference, culture, legal requirement and currency movements.

Arguments of free trade are based on the law of comparative advantage, which traces its origin to an English economist known as David Ricardo (1772-1823). The law offers that countries have to specialize in the production and exportation of product and services which they produce at a lower comparable cost to competing countries. Nevertheless, trade liberalization has been blamed for shrinkage of jobs in first-world economies due to enterprises outsourcing manufacturing and service related activities to developing economies where labor costs are lower, a trend known as off- showing. Off- showing is the transfer of organizational activities which are carried out locally to service providers in other countries. Despite this fact, previous studies by Kakabadse, (2002) show that the cost saving argument for outsourcing is not as attracting as the potential improvements to be gained from quality of service or resource utilization flexibility.

Emerging results suggest that offshore outsourcing is driven more by cost considerations as suggested by (Hutchins, 2004).

Globalization has brought about global sourcing which has become a distinct corporate strategy.

Global trends in globalization has contributed to numerous firms outsourcing some of their services to specialized firms in order to give much emphasis on their competitive advantage. Firms are sometimes forced to seek outsourcing services as a result of lacking human resources as they face challenges in getting right skills and knowledge which can make them gain world class capabilities similar to that expected from service provider (Kremic.*et al.*, 2006).

The choice of offshore outsourcing or any other type of global sourcing destination will depend on a variety of factors. These factors include; labor costs, technological advancements, infrastructure, language, education system, competent manpower, host government support, data security, political and economic environment, cultural compatibility and legal maturity. Most firms in Europe and America are having offshore outsourcing in countries like China and India (Willcocks. L., 2003). These has been brought about by the fact that the two countries are densely populated leading to cheap labor costs and they also have the right technological infrastructure. Internationally they are known as having the hub for technology and business (Hirschheim. R. *et al.*, 2007).

By establishing an offshore outsourcing arrangement with such countries, the client country has a competitive advantage over his competitors when competing on price and quality. One of the rapidly growing business sectors in the contemporary world is outsourcing, with countries like India leading in this area by having 5-6% global market share that generates US\$ 10.9 Billion from outsourcing and US\$ 30 Billion from Information Technology (IT) as at 2008. Numerous countries including Kenya are making significant investments of resources to develop their outsourcing potential as a result of the success they have seen in outsourcing from countries such as India, China and the Philippines (Hirschheim, R., & George, B. 2007).

Global sourcing of components & products was the trend in the late 1980s and continued to the early 1990s for most manufacturing firms. Presently the trend has changed to business process outsourcing (BPO) to countries like South Africa and India, while at the same time there is a shift in the manufacturing activities to India and China through off-showing process. As much

as outsourcing is implemented to cut costs for better competitiveness, it also allows an increased focus on remaining activities (Quinn, 1999). Outsourcing brings into the user firm supplier competences which were not there before (Quinn, 1999). Most published researches on outsourcing have given focus mainly on two key areas which are; Reasons for a firm to consider outsourcing strategy and how administration of outsourcing partners is done (Barthelemy & Geyer, 2004).

Outsourcing is a management strategy through which a company assigns some non-core functions to more specialized, more effective and more efficient service providers such that the organization can be left to perform and concentrate with the core business activities. Outsourcing activities have existed for centuries. The earliest outsourcing activities were found in the prehistoric Roman Empire (Kakabadse & Kakabadse, 2002) where tax collection was done through outsourcing. In the history of America, it used to outsource the production of wagon covers to Scotland, and the raw materials for production process was imported from India, (Kelly,2002). Driven by globalization pressures resulting from an urge to deal with both opportunities and threats brought about by global competition, firms from different corners of the world started looking for more affordable resources available in different offshore locations.

Kenyan perspective on outsourcing was underscored in the Kenya Vision 2030 program which was unveiled in 2007. The initiative was seen as a principal pillar as well as driver of social and economic improvement by means of wealth and job creation. According to Manono, (2012) the aim of the Kenya government was to have development goals in the use of technology as well as emulating countries like India and China which have succeeded in outsourcing. The advancement in Information's and Communications Technology (ICT) through the incorporation of fibre-optic cable infrastructure will boost outsourcing activities. Many jobs will be created for Kenyans and other non-local firms will be attracted to do business in Kenya. This research explored the effects of outsourcing on organization performance in manufacturing sector in Kenya. According to Gonzalez *et al.*, (2006), published research on outsourcing has been appearing for at least the last eighteen years

### **Statement of the problem**

Manufacturing industry was the leading business activity in Kenya during the early 80''s both in terms of size and employment. The industry was employing over 200,000 family households and about 30% of the labor force in the national manufacturing sector. Later the sub-sector started declining in the mid-1980s until the 1990s (Export Processing Zone, 2011). Efforts to boost growth in manufacturing industry have been undertaken with outsourcing being one of the strategies.

Kenya's share of manufacturing exports to the global market is estimated to be about 0.02 percent that is favorable compared with its immediate neighbors Uganda and Tanzania (Kenya Institute for Public Policy Research and Analysis, 2013). Manufacturing sector grew by 4.8 percent in 2013 compared to a revised growth of 3.2 per cent in 2012 and was expected to maintain that growth path (Kenya National Bureau of Statistics, 2014).

Agricultural manufacturing organizations are constantly in search of new solutions and strategies to develop and improve organization performance. One of the strategies which they have adopted is outsourcing for competitive advantage. Even though many studies have been done in relation to outsourcing, very few have focused on effects of outsourcing in

manufacturing sector. Despite the rapid growing trend in outsourcing there are limited published sources of literature related to outsourcing in Kenya. Meclah *et al.*, (2010) mentioned that there are limited studies on outsourcing. Based on these facts, the present study will be carried out to fill this gap by finding out the effects of outsourcing on organization performance in a manufacturing sector with Del Monte Kenya Limited as a reference industry.

Outsourcing concept has not received a remarkable attention and support which can be considered to be favorable for improving organization growth and performance in Kenya. Besides the effects of outsourcing on organization performance is not well documented. This is supported by the fact that previous outsourcing studies give contradicting outcomes. While some give positive relationships between outsourcing and performance results, other reports give no significant or sometimes negative results. This would then mean it depends on the motive of the firm to outsource.

Western firms such as North America, Europe and Asia had poor performance in outsourcing which was caused by lack of effective and efficient planning. Also studies carried out by Deloitte, (2014) found that most large firms that had outsourced failed to achieve the expected cost saving. Even though outsourcing enhanced improved quality and lowered costs, it led to loss of in-house talent and jobs.

Based on this information, the researcher carried out a study on the effects of outsourcing on organization performance for a manufacturing firm which will add more knowledge to the existing one.

### **Objectives of the study**

The general objective of this research project was to investigate the effects of outsourcing in organizational performance in manufacturing sector in Kenya: A case of Del Monte Kenya Limited. The Specific Objectives of the study were:

- i. To determine whether cost affects organizational performance at Del Monte Kenya Limited.
- ii. To assess whether quality affects organizational performance at Del Monte Kenya Limited.
- iii. To find out whether technology adaption affects organization performance at Del Monte Kenya Limited.
- iv. To establish whether risks affects organization performance at Del Monte Kenya Limited.

### **THEORETICAL REVIEW**

This section reviews the theoretical framework on which the concept of Outsourcing for organization performance is anchored on. Outsourcing is based on many theories of which this research project was supported by the following theories: Resource Based View, Transaction Cost Economics, Core Competency, and contractual Theory.

**Resource Based View (RBV) Theory.**

Outsourcing can be explained from the dimension of relationship between service receiver and service provider. The resource based view (RBV) analyses other aspects, taking into account internal strengths and weaknesses. A firm's resource perspective generates the core competencies and competitive advantage for specific business activity, RBV defines resources as tangible and intangible assets within the firm. According to Barney, (1991) the resource based view is based on the concept of productive resources.

In view of RBV theory of the firm, outsourcing is taken as a strategic decision which can be used to fill gaps in the firm's resource and capabilities (Grover *et al.*, 1998). Normally firms establish their specific resources which they keep on reviewing in order to respond to shifts in the changing business environment. Hence, firms must come up with dynamic capabilities which are adaptable to the environmental changes (Pettus, 2001). Capability is the key role of strategic management to ably adapt, integrate and reconfigure internal and external organizational skills, resources and functional capabilities to match the requirements of a changing environment. Combined capability, skills and right resources are necessary ingredients used by service providers to make quality products.

RBV theory puts more emphasis on the firm's internal resource rather than external opportunities and threats created by industry conditions. The theory maintains that in order to generate sustainable competitive advantage a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable and not readily obtainable from markets. The theory also relies on two key points; first that resource are determinants of firm performance and second that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs a competitive advantage has been created (Priem & Butler, 2001).

**Transaction Cost Economic (TCE) Theory**

Transaction costs arise from the fact that it is not possible for a firm to completely contract while incomplete contracts create renegotiations when the balance of power between the transacting parties shifts (Williamson, 1979). The attribute of a firms transactions positively associated with transaction costs include the necessity of investment in durable, specific asset, inefficiency of transacting, task complexity and uncertainty, difficult in measuring task performance and interdependence with other transactions.

Transaction cost economics (TCE) theory is based on a rational decision made by firms after considering transaction related factors such as asset specificity, environmental uncertainty and other types of transaction cost. Activities conducted under conditions of high uncertainty require specific assets e.g. human and physical capital. Asset specifically refers to the non-trivial investments in transaction i.e. specific assets.

On the other hand transaction cost economics (TCE) or theory view the relationship between service receiver and service provider as a model that allows economic transactions to take place (Reuben *et al.*, 2007). Transaction costs include time, money, human resources, contract issues negotiation matters, risks e.tc. Hence the relationship between service receiver and service providers is closely integrated due to cost considerations (Shaharudin et al, 2014). However, according to McIvor *et al.*, (2008), the two theories RBV &TCE can be combined to form a

combined view through which outsourcing decisions can be based upon as RBV & TCE complement each other.

### **Core competency theory**

Simchi-Levi, Keminisky & Simchi-Levi, (2004), defined core competency as the collective learning in the organization on how to coordinate diverse production skills and integrate multiple streams of technologies. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. Non-core activities should be considered for outsourcing to the best suited service providers who are experts in that field. However some few non-core activities which have a big impact on competitive advantage should be retained in house. Core competencies refer to the collective knowledge of the production system concerned in particular knowledge of procedures and how to best integrate and optimize them.

The process of outsourcing non-core competencies continues to gain importance as it transfers responsibilities such as maintenance and transport functions, in the hands of suppliers most capable of performing them most successfully (Chandra & Kumar, 2000). Vendors' competence is an important factor that influences the success of an outsourcing arrangement (Lavina & Ross, 2003).

### **Contractual Theory**

For an outsourcing strategy to be implemented, it requires a legally bound contract which sets the institutional framework in which each party's rights, duties, and responsibilities are clearly defined. The goals, policies, practices, and strategies on which the arrangement is based are also specified in the contract. The purpose of the outsourcing contract is to facilitate proper exchange of services between the two parties, prevent misunderstanding, prohibit moral hazards in a cooperative relationship, and protect each party's proprietary knowledge. Properly written contracts prevents risks arising from non-performance and misunderstanding, and also reduces uncertainty likely to be faced by firm decision making process. The contract sets a procedure for conflict resolution (Luo, 2002). Legal experts emphasize the need for comprehensive contract which can serve as a reference point specifying how the client and the vendor relate (Kem & Willcocks, 2000)

### **Conceptual Framework**

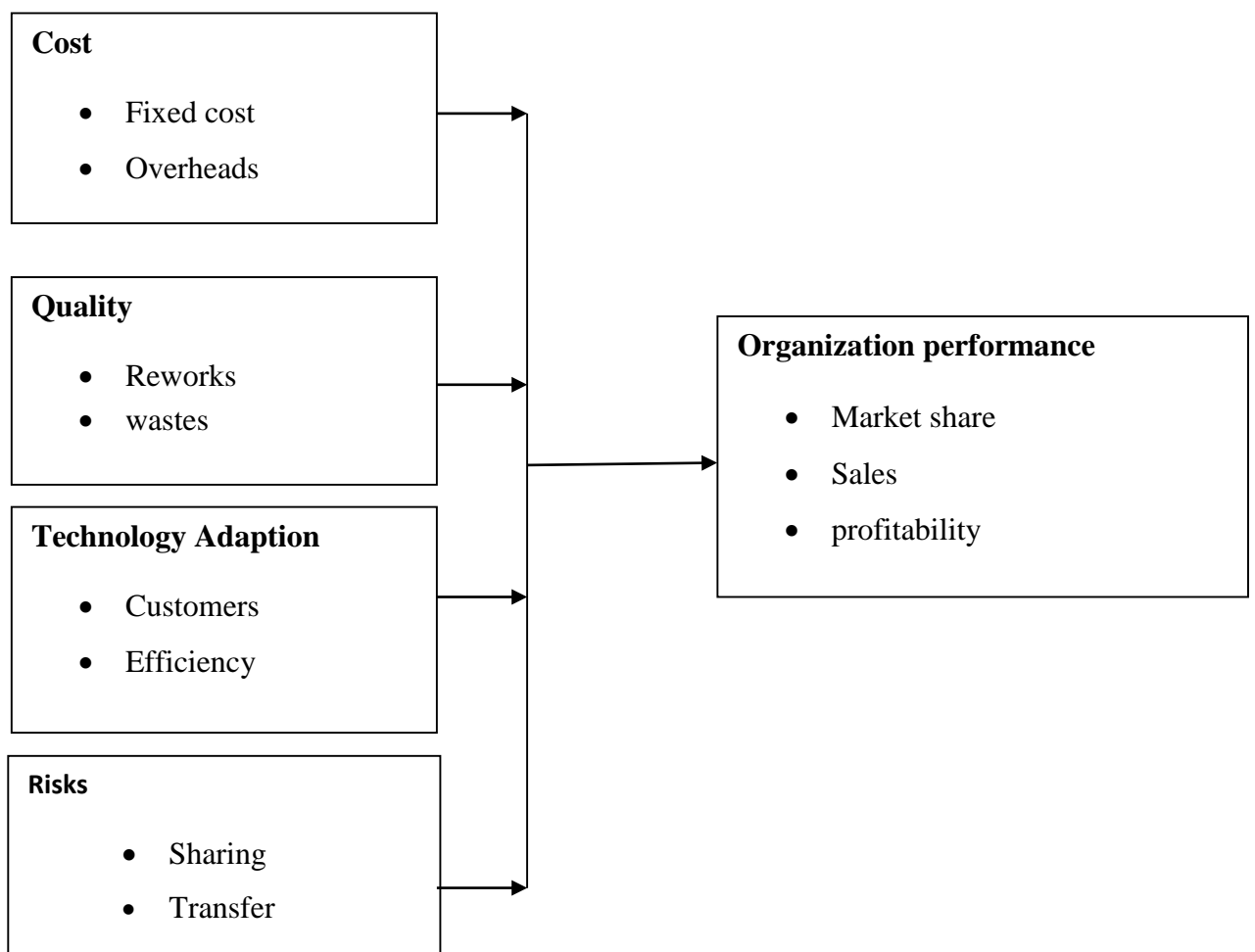
According to Thomas, (2010), a conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Its aim is to assist a researcher to develop awareness and understanding of the situation under scrutiny and communicate the same in a broad perspective. It highlights the study variables and illustrates the underlying relationships (Thomas, 2010).

This displays the inputs as independent variables and the output as dependent variables. Any changes in the input brought about by the way outsourcing process is carried out will have an effect on the outputs. The independent variables of the study are: Cost, quality, technology adaption and risks.

Outsourcing can be conceptualized as a process rather than an event. This process begins with the development of a strategic and financial business case for outsourcing. The crafting of the

business case is followed by implementing the external sourcing model and ultimately managing the relationship with the provider (Benton, 2010).

Due to increased competitive pressures accelerated technological changes and effects of globalization, firms are looking for ways of reducing costs and building new opportunities by optimizing the use of internal and external resources (Hoetker, 2005). Firms may therefore adopt either tactical or strategic outsourcing. The latter looks for overall business improvement as well as competitive advantage and not simple cost cutting measures, hence the firm attains its strategic goals on core activities leading to superior performance. The former has a short term focus of minimizing operational costs on daily, weekly and monthly basis (Murphy, 2004).



**Figure 2.1: Conceptual framework**

**Independent Variables**

**Dependent Variable**

**Cost**

The service provider must be ready to offer a competitive cost. These costs should be compared with that of in-sourcing or planned budget and an analysis done to justify its viability. Clear boundaries should be drawn to show all areas covered in the costing. Occasionally the costs



should be reviewed in view of adjusting either upwards or downwards depending on market changes. Outsourcing frees up cash thus allowing investments on core activities, improves organization focus, frees management time and reduces staff costs as well as giving more organization flexibility (Kenneth Lysons, 2006).

Cost minimization is accomplished by reducing direct operating costs, eliminating overhead costs, and transforming fixed costs into variable costs through paying for a service instead of buying equipment, and having a big inventory system. Improvement in operating performance can be accomplished by increasing quality, increasing productivity, and obtaining new capabilities as well as technologies from external sources.

Cost reduction and efficiency improvement have frequently been reported as the major drivers of outsourcing, Baldwin *et al.*, 2001. Study by Smith and McKeen, (2004) calls them “outsourcing for operational efficiency” which is done with a clear objective of saving money through reductions in staff and other resources.

### **Quality**

Quality is the ability of product or service to consistently meet customer needs and expectations by giving value for money. The service provider should be in a position to carry out repair, service, and equipment maintenance with zero or minimum defects thereafter. All equipment's should be kept in tip-top conditions ready for use any time. Service provider should be rated on an agreed percentage level of performance acceptance of equipment's after repair. Other aspects to be included in quality are that; there should be reduced equipment returns due to failure after repair, as well as reduced downtime.

The service delivery should be reliable, on time, and defect free such that it meet customer satisfaction. Outsourcing provides an improved quality by utilizing a service provider who has more knowledge, experience and expertise in providing a particular service. It is also the responsibility of the service provider to implement changes in the service industry as necessary brought about by changes in technology. Similarly when a firm does not have the required capacity to perform its non-core activities, outsourcing may be an option. For firms wishing to reduce costs and achieve service improvement, Service outsourcing is an attractive option for them.

The growth in outsourcing practice has been contributed by the firms need for diverse and high quality services in order to survive and excel in the rapidly changing external environment (Kok & Richardson, 2003). Nevertheless building strong outsourcing partnerships faces challenges as firms lack the know how to select their outsourcing vendors as well as poor management of outsourcing relationships (Golenaris *et al.*, 2003; Parker & Russel, 2004). Quality can be described as fitness for use. Quality in outsourcing contract exists when the contract serves its intended function and meets the objective of both parties.

Outsourcing contract may be affected by organizational human and environmental factors. In order to build a satisfied relationship with service provider, firms need to equip themselves with the right knowledge and relationship management capabilities (Ren *et al.*, 2010). Lee & Kim, (1999) found that successful outsourcing contract quality is influenced by five factors which are: trust, business understanding, benefit and risk sharing, conflict and commitment, while Anderson & Narus, (1990) found other factors such as communication, top management

support and age of the relationship. Successful outsourcing contract enable firms to achieve organizational objective and build competitive advantage (Khong, 2005; Han *et al.*, 2008).

### **Technology adaption**

Organizations are choosing to outsource non-core service activities like human resource, Finance, Transport, I.T And Engineering services to both local and global service providers who are better placed with the experience and technical know-how in such areas. In any case outsourcing such functions is a challenging process. The process is driven by factors which are beyond cost reduction alone. Other factors like service design, work management across different culture and business process redesign are important elements that must be considered in the management of service outsourcing. It is also the responsibility of the service provider to implement changes in the service industry as necessary brought about by changes in technology. Similarly when a firm does not have the required capacity to perform its non-core activities, outsourcing may be an option.

With advancement in technology manufacturing operations have continued to become more and more complex and challenging, hence more knowledge is required to diagnose, solve and manage problems associated with production. The ever rising inflation rates has made product prices to keep increasing calling for more capital and putting pressure on firms to further reduce their costs so that they can maintain short and long term survival (Heber, 2014). Production activities are costly and calls for huge operation expenditure, hence have become major targets for outsourcing. Firms can free costs, moeen *et al.*, (2013), reduce long-term capital expenditure and shift internal costs (Holoomb & Hitt, 2007).

Non-operational equipment's leads to delays in delivery of products and services and this in turn causes poor organization performance which leads to customer dissatisfaction and loss of goodwill. For specialized (and custom built) equipment's, the knowledge and skill to carry out the maintenance and spares needed for replacement need to be obtained from the original equipment manufacturers (OEM). Hence, customers must have a maintenance service contract with the OEM which results in a non-competitive market. If agents provide maintenance service instead of OEM the cost of switching prevents customers from changing their service agent, hence customers get "locked in" and are unable to do anything about it without a major financial consequence.

### **Risks**

Traditionally the role of risk management is to help management understand the potential impact of changes in business strategy, new products and market changes as well the entire business environment.

The objective of outsourcing should be to free up management and instill confidence in them to take up more risk in core areas of business which have more value addition. However, outsourcing of firm activities brings about critical risk related issues due to operational changes involving human resources, physical assets, technology and business processes, which lead to operational risk exposures. Similarly outsourcing brings about uncertainty because the new relationship between service provider and the firm represents an untested agreement. Also it is difficult to justify whether the service provider will perform the task better than it was internally done. Though outsourcing may come with different types of risks, they are all related to

operation performance. This calls for serious risks evaluation before entering into an outsourcing arrangement of any business function.

BPO is the long-term contracting of the firms' business operation to a service provider who is better placed to increase stakeholder value. BPO enables the firm to go beyond their traditional business boundaries, and to build long term strategic partnerships with outside professional firms.

Other risks associated with outsourcing and which may directly or indirectly affect the firm performance include: Lack of strategic clarity before entering into the contract, and/or failure to take into account the strategic change in the future might change the nature of the outsourcing relationship; some outsourcing agreements require huge capital outlays in which success or failure can make a lot of difference to a firm's overall financial status and organization performance; Since outsourcing involves the handing over of control of a function/activity to the service provider, this creates the risk of business disruption at the beginning and during termination of the contract; Firms become uncertain as they become dependent on service providers to manage what could be a critical part of their operation in terms of quality and efficiency; The service provider may fail to understand the firm business thus increasing the risk for the firm.

The service provider needs to understand the firm's strategic perspective in terms of vision and future core competencies and make sure he aligns his service with the firm's objectives and culture. There are chances of an increase in operation risks as organizations continue placing more of their infrastructure supporting the achievement of their strategic objectives to service providers. Also, supplier markets do entail some risks for buyers with respect to price, quality and time.

Outsourcing brings about loss of control, loss of critical skills and knowledge, loss of intellectual property, loss of security, service quality may drop, and costs may increase as well as loss of innovative capability. There should also be a continuous follow-up and monitoring of the service provider relationship as well as resolving disputes. The most important challenge is how to deal with the change in balance of power that turns in favor of the service provider (Weele, 2010).

Due to the fact that parties in an outsourcing contract engage in a long term relationship many things need to be taken into consideration. Some of the aspects are taken care of in the contract writing. According to Weele, (2010), the risks associated with outsourcing contracts can be summed up as either, technical risks, commercial risks, contractual risks or performance risks.

### **Organization Performance**

Organization performance is a wide concept and an open question with limited research studies on definitions and measures. Organization performance is an important parameter mostly defined as a dependent variable which seeks to produce variations of performance. Organization performance may be compared or measured in terms such as; production output, profitability, sales turnover, market share, and many other accounting ratios. Organization performance is the extent to which the organization achieves a set of pre-determined targets that are in line with its mission. The most common performance drivers include: customer value, team performance, talent management, and strategic focus all which are achieved through, proper planning, evaluation, implementation and control. The critical success factors

for organization performance consist of access to right knowledge and skills, proper planning, innovation and flexibility. Organization performance measures consists of return on equity, profit, return on assets, market share while non-financial performance measures consists of corporate social responsibility, innovation, responsiveness and employee development. From the study of Gathungu and Mwangi, (2012), sensing the capabilities of the firm is useful in the identification and assessment of opportunities within the firm's environment through exploring technology, probing markets and listening to customers.

Outsourcing success can be measured in terms of the impact outsourcing has on organization performance and customer satisfaction. Organization performance can be measured by assessing the degree of achievement of the strategic, economic, output and other technological benefits of outsourcing contract. Customer satisfaction can be viewed as the level of acceptance or fitness between a customer requirement and outsourcing outcome. However, Grover *et al.*, (1996) identified outsourcing success as the benefits from outsourcing gained by a firm as a result of adopting an outsourcing strategy. Outsourcing success can be measured by use of items such as; access to skilled personnel, economies of scale in human and technological resources, risk reduction in technological obsolescence and increased access to key information technologies.

The major factors that influence outsourcing are resources and capability. Capability is derived from all the firm resources, which are organized to achieve the objectives of the business functions (Stalk *et al.*, 1992). A firm which has the ability to exploit the right resources and turn them into capabilities is able to increase its competitive advantage while firms that lack resources and capabilities may outsource certain functions in order to optimize the performance and increase its competitiveness. Other reasons why firms outsource include obtaining resources unavailable internally, risk sharing and to gain world class capabilities.

When repair service and maintenance of equipment's is taken as an in-house activity the firm has to maintain (stock) all the relevant spare parts, train the maintenance personnel and upgrade their knowledge on changing technologies periodically (Murthy & Eccleston, 2002). All these activities lead to higher operating costs hence the need for outsourcing contract is to reduce the cost and idle time of equipment's by using efficient and effective maintenance strategies offered by the service provider which also improve equipment, availability and increases their lifespan, Tseng *et al.*, (2009). Outsourcing brings about flexibility, firms are free to reorganize and rationalize resources, and can become more innovative as it focuses on what it does best. The firm can improve efficiency by making sure the service provider adhere to the service level agreement.

According to Will Cocks, (2010) outsourcing has become one of the most broadly adopted strategies of this globalization era. Due to this business process outsourcing (BPO) has emerged to be a critical method/system used to deliver high quality services to customers in service industry (Revi *et al.*, 2011). Firms have continued getting tougher competition from other industry players, (Gewald, 2010). In order to maintain their competitive capabilities, the firms have been looking for ways to re-engineer their internal processes in order to improve their service levels. This has led to an increasing trend for firms to outsource some of their operations to other services providers in order to improve their business performance. Hence, many firms are now considering service outsourcing as a strategy to reinforce their core competencies and improve their performance (Quinn, 2000; Gewald, 2010).

However, outsourcing is now considered as an innovative strategy which makes use of latest technologies and management techniques to put firms in sustainable leadership positions (Bush & McIvor, 2008). Findings from research shows that the size of spending on outsourcing makes outsourcing decisions more strategic in an organization today more than it was before (Will Cocks, 2011). As far as way back in 1980s the outsourcing trends has been growing in firms with non-core functions increasing to a level of advanced strategic and transformational outsourcing (Schniederian *et al.*, 2007). Outsourcing decision can be seen as a rational decision by management, Lacity et al, (2009).

In order to improve organization performance, firms outsource others which have state of the art skills that are not currently available in the organization. They are therefore able to improve critical areas of the business which leads to improved organization performance. Also when non- critical business functions are outsourced the firm is able to focus on its core business which improves organization performance (Smith & McKeen, 2004).

## RESEARCH METHODOLOGY

The researcher used descriptive research design method in carrying out his study. Descriptive research design is preferred where the research aims at describing the features of a particular individual or group (Kothari, 2004). This method lays focus on eliciting subjective opinions from respondents. The opinions of the study population with regard to the subject of the research were collected through administration of questionnaires that asked questions concerning the effect of outsourcing on organization performance for a manufacturing industry.

The method was adopted because it gives information regarding the status of a phenomenon with respect to variables on conditions in the situation being studied.

The study targeted a population of 42 management staff from three major departments of DMKL, namely: Production, Transport and Agriculture, and Engineering. These are the departments which have outsourced some of their activities. The researcher used census survey method to pick his sample. According to Kothari (2004) census survey method is used when the population is a small one or when it is reasonable to include the entire population for some reasons, whereby one does not need to use a sample survey. Census survey collects information from all participants in the population. It was necessary to do this for this research because the population was small and also this was the only group of people who were directly or indirectly involved in outsourcing activities hence their views as respondents was relevant.

Data was collected from primary sources through survey method by use of questionnaires. The questionnaires were hand delivered by a research assistant to the respondents who were expected to answer the questions and return the questions back to the researcher later (i.e. drop and pick questionnaire). The questions were close ended where a number of alternative answers were to be chosen by the respondent using a five point Likert scale. The respondents were required to give their independent view on the effects of outsourcing on organization performance.

The pilot study was conducted by use of some selected staff from engineering department some few weeks before the actual research. The aim of the pilot study was to affirm the suitability and clarity of the design, importance of the information being sought, the language used and the content variety of the instruments from the responses received and the reliability of the

research instruments. The pilot study was also used to identify any item in the questionnaire that was ambiguous or unclear for the respondents. Such items were changed thereby improving the validity.

To establish the reliability of research instruments the Cronbach's Alpha coefficient was used and its figure stood at 0.706. Kothari (2004) argues that any score above 0.7 is reliable. The higher the number of items in the instruments the higher the chances of obtaining a consistent estimate of data reliability.

The data was edited, coded and tabulated for ease of analysis. The data was quantitatively analyzed based on research objectives. It was presented in form of tables and charts for easy interpretation and recommendation in decision making. The quantitative data was analyzed through descriptive statistics and inferential analysis by use of statistical package for social sciences (SPSS) version 21 software. Data analyzed descriptively was presented in tables because they gave a systematic record of analysis. Both Correlation and Multiple Regression analysis was used to test the relationship between the independent variables and the dependent variables.

Regression model: the equation was expressed as follows:

$$Y = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + e$$

Y – Organization Performance

$\alpha$ - Constant (coefficient of intercept)

X1 – Cost Reduction

X2 – Quality Improvement

X3 – Technology Adoption

X4 – Risk Reduction

e – Error term

$\beta_1, \beta_2, \beta_3, \beta_4$  – Regression coefficient for four variables.

## RESEARCH FINDINGS AND DISCUSSIONS

The study sought to investigate the effects of outsourcing on organizational performance in manufacturing sector in Kenya. Specifically the study looked at Cost, Quality, Technology Adaption and Risks. The experiential findings and outcomes of the application of the variables by use of descriptive research design were presented. Data collected was mainly ordinal in nature which captured the perception of the respondents in a 5- point Likert-type scale. Varied statistical methods were applied to provide answers to the research questions by investigating, interpreting and bringing forward implications drawn from the research findings. Data was analyzed, results interpreted on the basis of the overall objectives of the study. The researcher targeted 42 respondents from Del Monte Kenya Limited. However, 36 questionnaires were filled correctly and returned. This translates to 85.71%. This response rate was good and representative and conforms to Mugenda and Mugenda, (2003) stipulation that a response rate

of 50% is adequate for analysis, a response rate of 60% is good and a response rate of 70% and over is excellent.

**Table 4. 1: Response Rate**

Category	Frequency	Percent
Response	36	85.71
Non-response	6	14.29
<b>Total</b>	<b>42</b>	<b>100.0</b>

#### Reliability and validity Test

Reliability refers to the extent to which a research instrument brings out consistent results or data after repeated trials (Mugenda & Mugenda, 2003). The most common reliability is the Cronbach's Alpha which gives an estimation of internal consistency by determining how all items on a test relate to all other items and to the total test. Reliability is given as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

Cronbach's Alpha for each value was established by the SPSS application and gauged against each other at a cut off value of 0.7 which is acceptable according to Cooper and Schindler (2008). Cronbach's alpha values of 0.7 and above is considered adequate, the average Cronbach's Alpha value was 0.706 as shown in table 4.2 below meaning the items under each variable were consistent.

**Table 4. 2: Reliability Analysis**

Variable	Cronbach's Alpha	No of Items
Cost reduction	.634	6
Quality improvement	.768	6
Technology adaption	.688	6
Risk reduction	.779	6
Organizational performance	.662	6
<b>Average Cronbach's Alpha</b>	<b>.706</b>	<b>30</b>

The respondents profile constituted majority of the middle level managers (50%) followed closely by the lower level managers (44.1%) with few top managers. This is because both low level and middle level managers are directly involved in the implementation and oversight of outsourcing policies in DMKL. Top management are involved in strategic decision making related to outsourcing. Majority of management staff were holders of a bachelor's degree or diploma represented by 41.7% and 38.9% respectively. Sixteen point seven (16.7%) of the respondents were postgraduates. Hence they were well informed with outsourcing activities and furnished this study with better information which added value.

#### Descriptive Analysis

A descriptive analysis is the discipline of quantitatively describing the main features of a collection of information. The common methods that are used in describing a given data set includes measures of central tendency and measures of dispersion. Hence, it was necessary to use this analysis in order to come up with the frequency distribution tables, percentages, mean and standard deviation.

### Descriptive Analysis on cost

The study sought to establish the effect of cost reduction on organizational performance in DMKL. Cost minimization in DMKL is accomplished by reducing direct operating costs, eliminating overhead costs transforming fixed costs into variable costs through paying for a service instead of buying equipment and having a big inventory system.

From table 4.3 below it is crystal clear that DMKL has made efforts to reduce costs of operations. Majority of the respondents (Mean =3.53) adhere to the fact that the company has reduced overheads and fixed costs in the production. Majority (Mean=3.22) agree that Costs in the company has been reduced by adoption of strategic moves like the removal of unproductive assets hence income to the organization. Adoption of outsourcing at Del Monte Kenya Limited has reduced investment in assets and internal resources are redirected to core company activities hence overall efficiency in the company. This has being achieved by involvement of service providers. The use of outsourcing has made more funds available for other projects in Del Monte Kenya Limited as shown in the table 4.3 below. Generally the use of outsourcing has led to cost reduction in DMKL. The findings of this study support Baldwin *et al.*, (2001 ) that Cost reduction and efficiency improvement have frequently been reported as the major drivers of outsourcing hence concurring with a study by Smith and Mc Keen,(2004) entitled “outsourcing for operational efficiency” which is done with a clear objective of saving money through reductions in staff and other resources.

**Table 4.3: Responses on cost**

Cost	No extent	Small extent	Moderate extent	Great extent	Very great extent	Mean
Reduction in overhead and fixed cost	5.6%	8.3%	30.6%	38.9%	16.7%	3.53
Removal of unproductive assets	11.1%	13.9%	33.3%	25.0%	16.7%	3.22
Less investment in assets	0.0%	5.6%	38.9%	38.9%	16.7%	3.67
Redirection of internal resources	0.0%	5.6%	27.8%	41.7%	25.0%	3.86
Availability of capital funds projects	2.8%	13.9%	22.2%	41.7%	19.4%	3.61
Service provider has knowledge of cost reduction	5.6%	25.0%	38.9%	25.0%	5.6%	3.00

### Descriptive on Quality

The study sought to establish the effect of quality improvement on organizational performance in DMKL. Quality is the ability of product or service to consistently meet customer needs and



expectations by giving value for money. The growth in outsourcing practice has been contributed by the firms need for varied and excellent quality services in order not only for survival but also for excelling in the fast-paced external environment (Kok and Richardson, 2003)

From the findings in table 4.4 it is evident that DMKL has embraced quality delivery efforts. This is as per majority of respondents (Mean 2.67) who moderately agreed that the use of outsourcing has amounted to improved product quality. Quality improvement has moderately reduced wastage Mean (2.97) and also reduced the amount of repetitive doings termed as reworks.

Through outsourcing the company has moderately realized more customer satisfaction (Mean 2.53) and higher reliability and service competence resources (Mean 2.83). The findings of this study is supported by Lee and Kim, (1999) who found that successful outsourcing contract quality is influenced by business understanding, benefit and risk sharing, conflict and commitment.

**Table 4.4: Responses on quality improvement**

Quality	No extent	Small extent	Moderate extent	Great extent	Very great extent	Mean
Quality product improvement	11.1%	30.6%	41.7%	13.9%	2.8%	2.67
There is less wastage	8.3%	27.8%	30.6%	25.0%	8.3%	2.97
Reduced repeats and reworks	25.0%	25.0%	27.8%	13.9%	8.3%	2.56
Higher reliability and service competence resources	5.6%	27.8%	44.4%	22.2%	0.0%	2.83
More customer satisfaction	13.9%	38.9%	30.6%	13.9%	2.8%	2.53
Increase in product demand	19.4%	30.6%	30.6%	16.7%	2.8%	2.53

### **Descriptive on Technology adaption**

The study sought to establish the effect of Technology adaption on organizational performance in DMKL. With advancement in technology, manufacturing operations have continued to become more and more complex and challenging, hence more knowledge is required to diagnose, solve and manage problems associated with production. From the findings it is evident that DMKL has embraced the use of integrated systems in their production processes. This has been necessitated by the availability of supporting infrastructure in the company as shown by Mean of 3.22. The use of technology has fastened operations in the company Mean

3.42 hence increased overall efficiency. From the findings the company has access to emerging technologies Mean=3.28 which has enhanced flexibility to changing market dynamics.

**Table 4.5: Responses on technology adaption**

<b>Technology adaption</b>	<b>No extent</b>	<b>Small extent</b>	<b>Moderate extent</b>	<b>Great extent</b>	<b>Very great extent</b>	<b>Mean</b>
Adequate supporting infrastructure	8.3%	8.3%	44.4%	30.6%	8.3%	3.22
Fast job performance	0.0%	19.4%	36.1%	27.8%	16.7%	3.42
Improved machine performance	2.8%	41.7%	25.0%	30.6%	0.0%	2.83
Flexibility to changing market dynamics	8.3%	16.7%	38.9%	30.6%	5.6%	3.08
Access to emerging technology	5.6%	13.9%	33.3%	41.7%	5.6%	3.28
Improved overall efficiency	2.8%	25.0%	36.1%	27.8%	8.3%	3.14

### **Descriptive on risks**

Respondents were asked to indicate whether risks affect organizational performance at DMKL. Outsourcing is used as an avenue of risks in an organization. From the findings, DMKL has diversified risks where the risk of equipment is borne by the vendor exclusively (Mean 3.64). The headache of incurring expenses for machine breakdowns is therefore reduced. Majority of the respondent moderately (Mean 3.19) agreed that high risk ventures in DMKL are shared between various Parties in the organization. The company upon outsourcing non-core functions is able to concentrate on the core activities of the company (Mean 4.03) which is production and processing. Functions like maintenance, transport among others are given to service providers.

**Table 4.6: Responses on risks**

<b>Risk</b>	<b>No extent</b>	<b>Small extent</b>	<b>Moderate extent</b>	<b>Great extent</b>	<b>Very great extent</b>	<b>Mean</b>
Equipment risks handled by vendor	2.8%	8.3%	38.9%	22.2%	27.8%	3.64
High risk shared by both parties	5.6%	16.7%	41.7%	25.0%	11.1%	3.19

Quick equipment recovery	8.3%	19.4%	30.6%	30.6%	11.1%	3.17
Company concentration on other functions	0.0%	5.6%	22.2%	36.1%	36.1%	4.03
Alternatives in risk situations offered	0.0%	22.2%	30.6%	30.6%	16.7%	3.42
Better planning and control of services	5.6%	19.4%	41.7%	25.0%	8.3%	3.11

### Descriptive on organizational performance

Respondents were asked the extent to which the DMKL has realized benefits as a result of Outsourcing. From the findings in the Table 4.7 below, it's evident that the company has moderately realized a wide collection of benefits ensuing from the outsourcing activities in DMKL. Among the listed include; High sales growth observed, High market share, Increase in profit, more firm sustainability, Steady firm growth and Satisfactory return on investment.

The findings of this research are concurrent with Smith and Mc Keen, (2004), that In order to improve organization performance, firms outsource to others who have state of the art skills that are not currently available in the organization. They are therefore able to improve critical areas of the business which leads to improved organization performance. Also when non-critical business functions are outsourced the firm is able to focus on its core business which improves organization performance.

**Table 4.7: Responses on organizational performance**

Organizational performance	No extent	Small extent	Moderate extent	Great extent	Very great extent	Mean
High sales growth observed	16.7%	16.7%	47.2%	16.7%	2.8%	2.72
High market share	8.3%	27.8%	41.7%	16.7%	5.6%	2.83
Increase in profit	0.0%	19.4%	52.8%	16.7%	11.1%	3.19
Firm more sustainable	8.3%	22.2%	30.6%	33.3%	5.6%	3.06
Steady firm growth	8.3%	22.2%	41.7%	22.2%	5.6%	2.94
Satisfactory return on investment	0.0%	27.8%	50%	13.9%	8.3%	3.03

## Inferential Analysis

### Correlations of the Study Variables

Correlation analysis studies the joint variation of two or more variables for determining the amount of correlation between two or more variables (Kothari 2004). The term correlation refer to the strength of the relationship between two or more variables with coefficient ranging from -1.00 to +1.00 where -1.00 is a perfect negative correlation, +1.00 is a perfect positive correlation and 0.00 means there is no relationship between variables being tested (Kothari 2004). Pearson's coefficient of correlation is the most adopted way of measuring the extent of relationship between various given variables.

Table 4.8: illustrate the correlation matrix among the study variables. Correlation was used to explore the relationship among the group of the study variables. Since the independent variables were measuring the same dependent variable, it was expected that there existed some association between the predictor variables even if the relationship is not significant.

**Table 4.8: Correlation between the variables**

		Cost	Quality	Technology adaption	Risks	Organizational performance
Cost	Pearson Correlation	1	-0.253**	.532**	.509**	.701**
	Sig. (2-tailed)		.048	.001	.002	.006
Quality	Pearson Correlation		1	.530**	.079**	.525**
	Sig. (2-tailed)			.046	.647	.010
Technology adaption	Pearson Correlation			1	.494**	.670**
	Sig. (2-tailed)				.035	.012
Risks	Pearson Correlation				1	.140**
	Sig. (2-tailed)					.414
Organizational performance	Pearson Correlation					1
	Sig. (2-tailed)					

N=36

From the above table, it is shown that there was a significant weak negative relationship between cost reduction and quality improvement ( $r = -0.253$ ,  $p = 0.048$ ). The more the quality is improved the less the cost is reduced on the products and services and vice versa. Technology adaption and cost reduction have a significant positive moderate relationship as explained by the Pearson correlation coefficient of 0.532 and a p value of 0.001. This can be interpreted to mean that the more the company adapts to new technologies in production and delivery of its goods and services the more the cost is reduced. There was also a moderate positive but significant relationship between risk reduction and cost reduction ( $r = 0.509$ ,  $p = 0.002$ ). The implication of this is that the more the risk reduced the more the cost is reduced. Cost reduction

and organization performance have a significant strong positive relationship as implied by ( $r=0.701$ ,  $p=0.006$ ). The more the cost is reduced the more the organization performs.

Quality and technology adaption have a significant moderate positive relationship since the Pearson correlation coefficient is 0.530 and p value is 0.046. This implies that more adaption to technology leads to more improvement in quality. There is an insignificant positive weak relationship between quality improvement and risk reduction ( $r=0.079$ ,  $p=0.647$ ), an indication that risk does not necessarily mean an increased quality improvement. Quality and organization performance have a significant moderate positive relationship as shown by correlation coefficient of 0.525 and a p value of 0.010. The interpretation of this relationship is that an increase in quality moderately increases the organization performance.

Technology adaption and risk were found to have a significant positive relationship ( $r=0.494$ ,  $p=0.035$ ). This is interpreted to mean that the more the technology is adapted the more the risk is reduced. There was a significant positive relationship between technology adaption and organization performance ( $r=0.670$ ,  $p=0.012$ ). More adaption to technology implies an increased organization performance. Finally, the results shows that there is an insignificant positive weak relationship between risk and organization performance as the correlation coefficient was found to be 0.140 and p-value was 0.414. This is interpreted to mean that an increased risk does not necessarily imply an increased organization performance.

### Regression Analysis results

Regression is the determination of a statistical relationship between two or more variables (Kothari, 2004).

This study utilized multiple linear regression analysis to examine the relationship of the predictor variables with the dependent variable. Adjusted  $R^2$  which is known as the coefficient of determination was used to explain how organization performance varied with cost, Quality, technology adaption and risk. The model summary table shows that 60.5% of change in organizational performance can be explained by four predictors namely cost, Quality, technology adaption and risk an implication that the remaining 39.5% of the variation in Organizational performance could be accounted for by other factors not considered in this study.

**Table 4.9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806 <sup>a</sup>	.650	.605	.465

a. Predictors: (Constant), Cost, Quality, Technology adaption, & Risks

Analysis of variance (ANOVA) was done to establish the fitness of the model used. The ANOVA table shows that the F-ratio ( $F=9.301$ ,  $p=.000$ ) was statistically significant. This means that the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

**Table 4.10: ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	21.759	4	5.440	9.301	.000 <sup>b</sup>
Residual	18.130	31	.585		
Total	39.889	35			

a. Dependent Variable: organization performance

b. Predictors: (Constant), Cost, Quality, Technology adaption, Risks.

**Table 4.11: Regression coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.828	.701		2.609	.014
1 Cost	.118	.148	.142	.797	.007
Quality	.225	.153	.277	1.474	.036
Technology adaption	.134	.176	.149	.763	.042
Risks	.211	.148	.242	1.423	.165

a. Dependent Variable: organization performance

The above table gives the results for the regression coefficient for the multiple linear equation.  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$  which by supplying the coefficients becomes:

$$Y = 1.828 + 0.118X_1 + 0.225X_2 + 0.134X_3 + 0.211X_4$$

Where:

$Y$  = Organization performance

$X_1$  = Cost reduction

$X_2$  = Quality improvement

$X_3$  = Technology adaption

$X_4$  = Risk reduction

According to the regression equation established, holding all independent factors a constant then organization performance will be 1.828 units. From the regression equation holding all other independent variables a constant, a unit increase in cost will lead to a 0.118 improvement in organization performance; a unit change in quality will lead to a 0.225 increase in organization performance; a unit increase in technology adaption will lead to a 0.134 increase in organization performance and a unit increase in risks will lead to a 0.211 increase in

organization performance. However, at 5% level of significance and 95% level of confidence, cost reduction, technology adaption and quality has a significance influence on the organizational performance with p-values of 0.007, 0.036 and 0.042 respectively and therefore their coefficients should be retained in the final model. The P-value associated with the coefficient for risk is 0.165 an implication that though risk has an influence on the organizational performance, its effect is insignificant and so it may be dropped in reporting the final model.

The results further infers that of all the predictors considered in this study quality improvement contributes the most to the organizational performance followed by technology adaption as implicated by their larger coefficients.

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

From the study findings, the view of the respondents was that cost reduction through outsourcing affects organization performance to a great extent by creating room for internal resources to be redirected to perform core activities, reducing overhead and fixed costs, less investment in assets and giving an opportunity for capital funds to be used in boosting core activities. From the correlation analysis, Cost reduction and organization performance had a significant strong positive relationship as implied by ( $r=0.701$ ,  $p=0.006$ ). The more the cost is reduced the more the organization performs. The findings of this study support Baldwin *et al.*, (2001 ) that Cost reduction and efficiency improvement have frequently been reported as the major drivers of outsourcing hence concurring with a study by Smith and Mc Keen,(2004) entitled “outsourcing for operational efficiency” which is done with a clear objective of saving money through reductions in staff and other resources.

The study found that quality improvement as a result of outsourcing affected organization performance only to a small extent. Majority of quality improvement indicators had an average mean of 2.6. The implication was that the service provider in that organization was not offering quality services that could justify an improvement in organization performance. From the correlation analysis, quality improvement and organization performance had a significant moderate positive relationship as shown by correlation coefficient of 0.525 and a p value of 0.010. As for the effect of technology adoption achieved from outsourcing on organization performance, the view from respondents was that this was only to a moderate extent. This implied that the outsourced firms did not always match their services to the emerging technologies. However results from correlation analysis showed that there was a significant positive relationship between technology adaption and organization performance ( $r=0.670$ ,  $p=0.012$ ). Results from the respondent views indicated that risks from outsourcing had a moderate effect on organization performance with a mean of 3.2. This implied that service providers need to take more risks on the outsourced services if there has to be an impact on organization performance. From the correlation analysis the results shows that there was an insignificant positive weak relationship between risk and organization performance as the correlation coefficient was found to be 0.140 and p-value was 0.414.

## CONCLUSIONS

As per the regression equation established, holding all independent factors constant, then organization performance will be 1.828 units. From the regression equation holding all other independent variables a constant, a unit increase in cost will lead to a 0.118 improvement in organization performance; a unit change in quality will lead to a 0.225 increase in organization performance; a unit increase in technology adaption will lead to a 0.134 increase in organization performance and a unit increase in risks will lead to a 0.211 increase in organization performance. However, at 5% level of significance and 95% level of confidence, cost, technology adaption and quality have a significance influence on the organizational performance with p-values of 0.007, 0.036 and 0.042 respectively and therefore their coefficients should be retained in the final model. The P-value associated with the coefficient for risk is 0.165 an implication that though risk has an influence on the organizational performance, its effect is insignificant and so it may be dropped in reporting the final model.

The results further infers that of all the predictors considered in this study quality contributes the most to the organizational performance followed by technology adaption as implicated by their larger coefficients.

## RECOMMENDATIONS

Based on the objectives and conclusions this study recommended as follows: based on the first objective on cost, organizations should not expect guaranteed cost reduction in all the year marked areas. Even though respondents agreed there was cost reduction, this was only moderate in some areas. Therefore organizations should not outsource an activity fully until they have confirmed beyond doubt that the service provider is capable of handling the activity. Based on the second objective on quality, it turned out that it was very difficult to measure quality. It is therefore recommended that organization should engage the service provider on the quality standards which are expected before entering into the contract. Based on the third objective on technology adoption and in line with the ever changing technology it is believed that manufacturing operations will continue to become more and more complex and challenging. It is therefore recommended that when outsourcing organizations should select the service provider on the basis of consistent technical and managerial capabilities. The study finding show that technology has a significant influence on organization performance. Based on the fourth objective focusing on risks, organization ought to know that risk is a very sensitive issue which if wrongly handled can bring many problems for the firm. It was recommended that service providers should only handle particular risks which even if they occurred would not affect the entire organization performance. Organizations should never hand over all the responsibilities to service providers. Lastly the general recommendation was that organizations should outsource with a clear picture in mind as to why they want to outsource. When organizations outsource they should have measurable indicators in form of Key Performance Indicators (KPI) for the service provider.

### Suggestion for further research

Based on the study findings, the researcher recommends that: Research should be carried out on procedures which can be used to measure outsourcing performance with more emphasis on



Key Performance Indicators (KPI). More research is also needed to evaluate and analyze the risks associated with outsourcing arrangements as most outsourcing contracts are full of conflicts and some of them end prematurely. Lastly, since the current research was carried out in one manufacturing firm, more research needs to be done in other areas in order to compare the results.

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