AN INVESTIGATION INTO IMPLEMENTATION OF OUTSOURCING STRATEGY BY SELECTED MANUFACTURING FIRMS IN THE CHEMICAL AND ALLIED SECTOR IN KENYA

BY

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A management research project Submitted in partial Fulfillment of the Requirements for the Degree of Master of Business Administration of the School of Business, University of Nairobi

OCTOBER 2009

DECLARATION

I, the undersigned, declare that this research project is my original work and to the best of my knowledge it has not been submitted to any University for the award of a degree.

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Signed_______________

Date 7/11/2009

The research project has been submitted with our approval as the University of Nairobi supervisors.

Awino Zachary Bolo, PhD

Signed_______________

Date 7/11/2009

DEDICATION

I would like to dedicate this research project to:

My husband Fred Oyombe, my children, Bill, Lorraine, Felix and Anthony. There is no doubt in my mind that without their continued support, encouragement and joy I could not have completed this process.

My late parents Joan and Martin without whom this project would not have been possible. They paved the way for my education. My mother was a special source of inspiration for me. Although her demise in July 2007 left me devastated, I picked up the pieces and completed this project.

My sisters Jane & Evelyn and brother George all cannot go without mention. They gave me the necessary support.

I thank God for having all of you in my life.

ACKNOWLEDGEMENT

I wish to sincerely acknowledge the inspirational instruction and dedicated guidance of my supervisor Dr. Awino Zachary Bolo and the initial impetus for this study Prof. Martin Ogutu, all of the Department of Business Administration, University of Nairobi. Both of these men have given me a deep appreciation and detail of this project. Thank you.

I would also like to thank and acknowledge the support and assistance given to me by all the lecturers and staff in the Department of Business Administration, University of Nairobi and my co-workers. Their individual contribution made it possible for me to complete this project.

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ABSTRACT

Outsourcing has expanded considerably over the years. It involves the act of transferring some of an organization's recurring internal activities and decision rights to outside providers, as set forth in a contract. Whilst its merits continue to be debated by academicians and practitioners alike, and seen by many as a convenient way of minimizing costs and enhancing efficiency in the production process, the implementation process clearly remains unique to any given organization. This study attempted to investigate the implementation process of outsourcing as carried out by different firms in the chemical and allied sector in Kenya.

The study employed a survey research design to investigate the research problem. The sample frame was composed of operational mangers, accountants, production controllers, procurement officers, supplies and supply chain staff. The study posed a series of questions in relation to implementation of outsourcing strategy to respondents who informed the final results.

While outsourcing as a business strategy is highly practiced in most companies, there are attendant challenges and the need to identify and promote best practice as highlighted by the various respondents. Most companies outsource so as to increase productivity and hence profitability by freeing up management time and minimizing costs. Fluctuation in pricing, quality uncertainty and affordability of outsourcing are major challenges to firms in implementation of outsourcing strategy.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Outsourcing is a key business strategy that has been used by companies in various industries for many decades. Outsourcing is giving up the management of some parts of the company such as information systems, payroll, parts of production, transportation and entire logistics operations to firms which are better suited without owning the means of production. The firm is left with its core functions where it has competitive advantage and can perform better than its competitors. The option to transfer all or part of a company's business function to an external entity plays an increasingly important role in the strategic arsenal of organizations (Kakabadse and Kakabadse, 2003).

Traditionally organizations considered outsourcing to rapidly improve performance and reduce operating costs. In the present era companies are using strategic and transformational outsourcing to seek improved business focus, mitigate risks, build sustainable competitive advantage, and extend technical capabilities and free resources for core business purposes
(Bartell,1998). The argument is that all activities contributing to the value chain need to be subjected to a critical scrutiny in order to establish whether greater value could be obtained by conducting transactions through an external agent. Outsourcing of core functions like engineering, research and development (R&D), manufacturing and marketing are being considered by corporations. Developing the ability to control and leverage critical capabilities, irrespective of whether they reside within the organization or otherwise will be more vital than the ownership of capabilities (Gottfredson *et al.*, 2005).

Competitive pressures and the need for enhanced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide. Making right outsourcing decision requires a clear understanding of the broad array of potential engagement options, risks and benefits and the appropriateness of each potential arrangement for meeting

business objectives. In reality, outsourcing is an umbrella term that encompasses a spectrum of arrangements each with unique advantages and risks. Understanding the relative risks and benefits of each of the potential alternatives is critical in making the right outsourcing decisions. Competitive advantage can be gained when the most appropriate business processes are performed more effectively and efficiently by external suppliers
(Lankford and Parsa, 1999).

Outsourcing is viewed as a means to reduce costs, improve customer satisfaction and provide enhanced efficiency and effectiveness (Price Waterhouse Coopers 1999). PricewaterhouseCoopers (2000), confirm that at least eight out of ten America's fastest growing companies outsource at least one non-core function, delegating its day to day management to outside providers.

1.1.1 The concept of outsourcing

Outsourcing decision is a version of the make-or-buy decision in which an organization elects to purchase an item that previously was made or a service that was performed in-house (Monczka *et al.*, 2005). It involves sourcing and using a supplier who provides the completed item or service rather than buying the components and manufacturing them in-house. Outsourcing involves the act of transferring some of an organization's recurring internal activities and decision rights to outside providers, as set forth in a contract. Outsourcing today involves either information technology outsourcing (ITO) or business process outsourcing (BPO). Information technology outsourcing involves a third party who is contracted to manage a particular application including all related server networks and software upgrades. Business process outsourcing generally features a third party who manages the entire business process such as accounting, procurement or human resources.

There are three levels of outsourcing namely tactical, strategic and transformational (Brown and Wilson, 2005). Tactical outsourcing is used by organizations to resolve specific problems being experienced by the firm, viz. a lack of financial resources to make capital investments, inadequate in-house managerial competence or desire to downsize, etc. The tactical outsourcing results in visible benefits in the form of enhanced cash savings, minimizing the need for future investments and resolving staff issues. Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor (Hussey and Jenster, 2003).

Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions. Strategic relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers. Transformational outsourcing is commonly used to redefine the business (Linder, 2004). It enables an organization to retain leadership position, build sustainable competitive advantage and generate highest value for an organization. Some issues addressed by transformational outsourcing are good governance, maturity of business process knowledge and monitored Service Level Agreements (SLAs). The levels of risk in strategic and transformational outsourcing are higher than tactical form but are commonly shared by the strategic partner. The big risk of an outsourcing strategy is that a company will farm out too many or the wrong types of activities and thereby hollow its own capabilities. In such cases company loses touch with the very activities and expertise that over the long run determine its success.

1.1.2 Business Process Outsourcing (BPO)

Pearce and Robinson (2007, p.345) noted that business process outsourcing (BPO) is the most rapidly growing segment of the outsourcing services industry worldwide and it is expected to reach more than USD 200 billion in revenues in 2008. BPO include a wide array of administrative functions-HR, supply, procurement, finance and accounting, customer care, supply chain logistics, engineering, research and development, sales and marketing, facilities management and even management training and development.

Originally, BPO was associated with manufacturing firms such as Coca Cola that outsourced large segments of its supply chain (Tas & Sunder, 2004). In the contemporary text, it is primarily used to refer to the outsourcing of services. BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring country is called nearshore outsourcing.

One of the most important advantages of BPO is the way in which it helps increase a company's flexibility. However, several sources have different ways in which they perceive organizational flexibility. Most of the services provided by BPO vendors are offered on a fee-for service basis. This helps the company in becoming more flexible in transforming fixed into viable costs (Willocks, Hindle, Feeny & Lacity, 2004). Another way in which it contributes to organizational flexibility is that a company is able to focus on its core competencies, without being burdened by the demands of beauracratic restraints (Kakabadse, 2002). The key lies in knowing which of the main value drivers to focus on customer intimacy, product leadership or operational excellence.

1.1.3 The manufacturing sector in Kenya

A manufacturing industry has been defined by the Kenya Institute of Research and Development (KIRDI, 1997) as the sector of the economy concerned with the production of goods from raw materials using organized labor and production systems with the aid of machinery. Dilworth (1992) defines manufacturing as the operations where chemical and physical processes are performed. These include weaving, sewing, welding, grinding, blending, refining or assembling to transform their raw materials into tangible products.

Manufacturing organizations are complex combinations of social and technical features. Contemporary research into the management of these organizations has increasingly emphasized the need to find a 'fit' between the social, technical or technological aspects (Delbridge, 1997).

A model of contemporary manufacturing 'Best practice' by Delbridge et al (1993) indicates that there are three important items that a manufacturing firm should consider in order to be successful. First, that the technical systems must be in place these include just in time quality management systems. Secondly, they should try to increase efficiency and lastly that a firm must have the drive towards improvement and innovation of products.

While agriculture provides employment for 80 percent of Kenya's rural population, it only contributes 30 percent of the GDP (Kenya Economic Survey 1992). This means that the manufacturing sector has to develop at a faster rate than it is doing presently to help meet this challenge

The manufacturing sector has played a key role in national development only second to the agricultural sector in its contribution towards GDP. Kenya has the biggest formal manufacturing sector in East Africa (Abecor, 1988). This sector has grown over time both in terms of its contribution to the country's GDP and employment. It is evident from these trends that the sector makes an important contribution to Kenya's economy. The average size of this sector for tropical Africa is 8 percent. Despite the importance and size of this sector in Kenya, it is very small when compared to that of industrialized nations (UNIDO 1987).

The manufacturing sector in Kenya can be categorized into twelve sectors (Kenya Association of Manufacturers Directory, 2008):- (1) Food and Beverages sector which includes slaughtering, vegetable oils, dairy products, alcoholic beverages and spirits , juices /waters / carbonated soft drinks, bakers and millers, cocoa, chocolate and sugar confectionery, tobacco, (2) Leather and footwear sector includes tanneries, formal large footwear enterprises, informal enterprises, small scale shoe manufacturers medium scale and informal leather goods enterprises, (3), Paper and board sector. This includes manufacturers of pulp, paper and paperboard, manufacturers of pulp, paper and paperboard articles, printing / publishing and allied industries, (4) Timber, wood products and furniture sector, (5) Energy, electrical and electronics sector, (6) Textile and apparels sector, (7) Metal and Allied sector, (8) Pharmaceutical and medical equipment sector, (9) Building, construction and mining sector, (10) Plastics and rubber sector, (11) Chemical and allied sector, (12) Motor vehicle and accessories.

The period 1995-2000 has been characterized by poor business performance by manufacturing firms in Kenya mainly due to stiff competition from relatively high quality imports. The same period witnessed a dramatic shift in the government policy that has led to a change in the manufacturing sector in Kenya from predominantly protected business environment in the late 1980s to liberated business environment in the late 1990s. The government on recommendation by International Monetary Fund (IMF) has since realized major aspects of the economy heralding changes in foreign exchange regulations, imports and exports practices and even equity distribution. The emerging free market economy has exposed local manufacturing firms to an unpredictable business environment resulting in numerous corporate reorganizations involving changes in corporate business strategies (Kenya Investors Guide, 2001). The economic reforms brought with them increased domestic market through increased imports. This has consequently eroded the profitability levels of some companies. The growing concept of trading blocks which are turning the world into a global village presents enormous market opportunity for manufacturers. Such trading blocks include EAC and COMESA. Kenya Association of Manufacturers (2002) argues that the removal of price controls, foreign exchange controls and introduction of investment incentives have however not resulted in major changes in the overall economy. In particular they have not improved the manufacturing sector performance. Therefore to build a self sustaining industrial sector, it is necessary to establish strategic linkages within the domestic economy. Some efforts have to be made to promote strategic options among supply chains so as to enhance spread effects of industrial growth and to facilitate transfer of technology, skills and growth of small and medium scale subcontractors. Ihiga (2004) in the study of the Kenyan Manufacturing sector classified the contribution of Kenyan economic performance to employment, GDP, export revenue. The same study considered the following as goods of economic importance because of their significant contributions to employment, GDP, GoK revenue(taxes) and export earnings:- (1) goods of social importance such as sugar and maize, (2) goods of health importance such as human and animal, pharmaceutical products, (3) goods of cultural importance including livestock and livestock products and (4) products with potential for future development which embrace assembled motor vehicles, tobacco manufactured products, dairy products, electrical items, paints and resins, cotton and leather (hides and skins).

1.2 Statement of the Problem

Central to the arguments made on outsourcing is usually the focus on core competencies (Prahalad and Harmel, 1994) of an analyzed local company, which govern the supply chain and provides the link to the final customer (Schary and Skjott, 2001; Seuring, 2003). Most manufacturing companies cannot afford time or financial resources to concentrate on every functions or process necessary to run their business. Faced by an ever changing competitive business environment, manufacturing companies are finding that there's only time and resources to focus on what they do best. To solve this paradox, many organizations are turning to outsourcing. By divesting themselves of their non core processes, they are able to improve their level of service, cut down costs free uptime and capital to concentrate on what is most important in achieving competitive advantage. All business processes and functions are essential and important however not all create value to the business.

Research on outsourcing has been carried out worldwide on various activities and sectors. Research carried out by Davis and Tsucalas (2004) covering Europe and United States revealed that outsourcing of accounting services is a common phenomenon in developed world and is growing fast Kirui (2002) concentrated on outsourcing of logistics activities in a case study conducted at British American Tobacco, where he expounded the benefits accruing from outsourcing the transportation of raw materials and final product. Kinyua (2000) concentrated on outsourcing of selected financial activities, where he found out that several firms are following in the footsteps of worldwide trends in outsourcing certain financial processes hitherto considered core to the business. Ogachi (2002) did a survey on strategic outsourcing looking at the experiences of companies listed in the Nairobi stock exchange and found out that outsourcing is increasingly being central in enabling the organization gain higher profitability.

Academic researches carried out on outsourcing of non-core activities in the manufacturing sector are limited. Tarlochan (2001) did a survey of the outsourcing of human resource management services among manufacturing firms in Nairobi. Serem (2002) looked at outsourcing of human resource functions by banks in Nairobi. Hussein (2006) did a study on outsourcing of training services by commercial banks in Kenya. Kamau (2006) did a survey of outsourcing of accounting services in firms listed in the Nairobi Stock Exchange. Chebet (2005) did research on the extent of outsourcing of human resource management functions in the public sector in Kenya. Koori Njue (2006) studied outsourcing of human resources management services in micro finance institutions in Kenya. Kroes, James Raymond (2007) conducted a research study to shed light if the purported goal of outsourcing is usually to derive competition advantage in the market place.

It is noted from the introduction that implementation of outsourcing could clearly attract benefits. At the same time organizations face a myriad of challenges (risks and problems) in their implementation endeavors. Of equal importance is that outsourcing is implementable in many areas outside the core activities of organizations.

Previous studies and reports conducted show that outsourcing is taking root fast world over, Kenya included. However, it is evident that one could not know much about its implementation in non-core activities especially in the manufacturing sector, the accruing benefits, the associated risks and problems in the manufacturing sector and in which non-core activities it is commonly applied. On the other hand, the academic researches seem to have been piecemeal, touching on selected activities and not the entire non-core activities. What would be of interest is a research that would investigate implementation of outsourcing of the non-core activities in the manufacturing sector and unearth the accruing benefits, the associated risks & problems and confirm which non-core activities are commonly outsourced. This research aims to fill this gap by conducting an investigation on the implementation of outsourcing strategy by selected manufacturing firms in the chemical and allied sector in Kenya with a view of unearthing the benefits, risks & problems as well as the commonly outsourced non-core activities. Which non-core activities are commonly outsourced and can the implementation of outsourcing strategy accrue any benefits to the firm or is it just prone to risks & problems?

1.3 Objectives of the study

This study sought to investigate the implementation of outsourcing strategy by the manufacturing firms in the chemical and allied sector in Kenya.

1.4 Significance of the Study

The study results are of benefit to the following groups of stakeholders: (1) Researchers as the findings from this study add-up the literature on implementation of outsourcing strategy to the academicians and expose the gaps for further research; (2) Kenyan manufacturing firms; the findings help them to develop policies that enable implementation of outsourcing and optimize its benefits.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Outsourcing is substituting internal activities with external purchases. (Gilley and Rasheed, 2000). Outsourcing is not a new business concept (Friedman, 2006; Harland, Knight, Lamming & Walker, 2005). While outsourcing is not new, it has received greater attention since the 1990s. In the US, estimates of outsourcing grew from $ 100 billion in 1996 to $340 billion in 2000 (Outsourcing Institute, 2000). Outsourcing is a fashionable way of solving some business problems and there are numerous reports of its increasing use. Initially, academics and firms put more emphasis on outsourcing in manufacturing, although professional services are increasingly outsourced in whole or in part. Information technology (IT), a wide variety of business process is now outsourced. Literature on outsourcing includes theoretical concepts of vertical integration, vertical disintegration and 'make or buy' decisions. Earlier theoretical work focused on vertical integration (Bain, 1968; Jacquemin, 1987), especially acquisitions and mergers in the 1960-80s, that laid the stage for outsourcing theory. Based on the disintegration theory, outsourcing was considered a new organizational form (Coase, 1937; Porter, 1988; Williamson, 1975). Many studies have concluded that increasing profit is the key driver for outsourcing decisions, where firms can reduce assets, decrease operational and capital expenses and decrease overhead on personnel whose functions are outsourced (Harland *et al. 2005;* Uttley, 1993). Other firms see outsourcing as a business strategy where they can focus more effort on core competencies, leverage complementary assets and capacity for other firms or improve flexibility to respond to market changes. Firms report outsourcing as a strategy to improve quality of goods or services in situations where existing staff, technology or systems are under performing Lonsdale and Cox (2000) aptly summarized the history of outsourcing, noting that it is some kind of substitute for the once fashionable enthusiasms for conglomeration, horizontal integration, vertical integration, and internal integration. Outsourcing has a mixed record, especially in financial services with call centers and relationship banking. Further, outsourcing can be controversial at several levels including the firm, the industrial sector and the nation (Harland, Knight, Lamming & Walker, 2005).

Deciding whether to in-source or outsource depends on the relative long-term costs. An organization always outsource some activities (the supply of water and electricity) but in-source others such as employee assessment. Strassmann (1997) compared the present IT industry to medieval shoemaking. IT departments have a culture of attempting to produce from scratch complex information systems that exactly meet their organizations' sometimes ill-defined, complex and changing requirements.

2.2 Strategic management and outsourcing

According to Pearce and Robinson (2007, p.221), outsourcing is a rudimentary approach to strategic alliances that enables firms to gain a competitive advantage. Without a doubt, Outsourcing is a major part of the business strategy that drives organizations to success. Whether at its simplest version of buying raw materials from buying raw materials from a large supplier to its most complex variation of off shoring services, outsourcing is present in all business strategies.

Many managers have resisted outsourcing because they equate internal control with assurances of high performance. However there is ample evidence that internal operations do not always guarantee success. As Alexander and Young (1996, p.117) noted, "Retaining direct control in-house may offer managers psychological comfort, but it may not guarantee performance." Determining what to outsource may no longer be a question of whether a function is core or not. Instead the question may may be how the company can get the best and most efficient solution for a necessary function. Outsourcing is a powerful tool but if a company becomes merely a collection of outsourced activities, it will lose its unique value.

Chesbrough and Teece noted that virtual companies-those that develop partnerships with external suppliers-can "harness the power of market forces" to produce, market, disseminate and support their products "in ways that fully integrated companies need innovation, flexibility and sound business strategies to maintain a competitive advantage. Selective, strategic partnerships with world suppliers can strengthen that advantage.

2.2.1 Evolution of Outsourcing

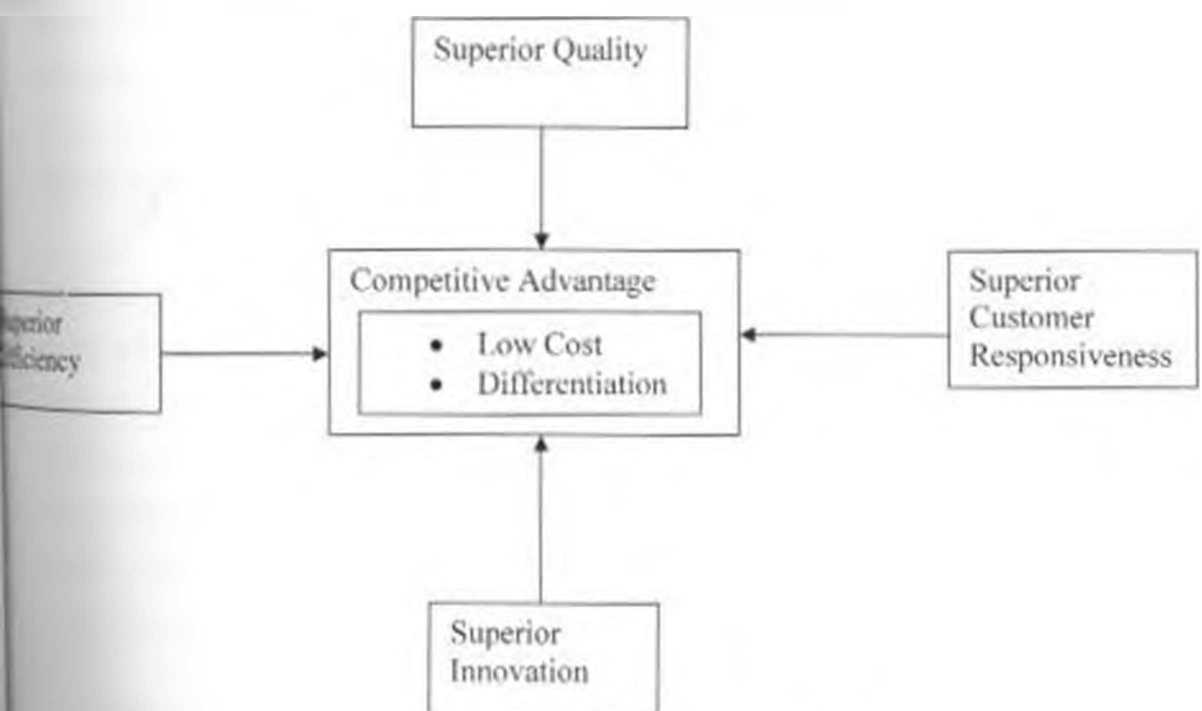
Outsourcing initially began with large organizations outsourcing all their data center operations with an objective of achieving significant cost arbitrage (Pfannenstein and Tsai, 2004). Then followed the era of transitional outsourcing in the early 1990s wherein host organizations sought expertise of the IT specialists in developing new client/server systems while still maintaining their legacy systems. As service providers understood the functions of data center, desktop support and other standard IT areas, they began in specializing in specific domain intensive functional areas. This marked the beginning of BPO.

Off-shoring and outsourcing have a synergistic relationship. The traditional model for insourcing keeps the work in-house and on-shore. Manufacturing moved from expensive urban areas to rural areas offering relatively cheaper land, tax incentives and holidays and skilled manpower at lower wages. In their quest to achieve a higher cost arbitrage, global corporations started moving their internal manufacturing, operations, and service functions such as call call centers and back-office processes to lower-cost countries while keeping them in-house as company-run operations. This move is motivated by a desire to be closer to and gain improved access to foreign markets in addition to pursuit of low-cost operations.

Companies also started to outsource non-core activities to local or regional suppliers who provided specialized expertise and lower costs. The rise in the IT outsourcing, contract manufacturing and third party logistics industries highlights this activity. The latest trend among multinationals is to get the work simultaneously outsourced and off shored to countries namely India and China, with other preferred destinations for outsourcing being Philippines, Brazil, Ireland and the Czech Republic (Monczka *et al.*, 2005). A well defined strategy is the key to maximizing the benefits of outsourcing while avoiding its pitfalls. In most outsourcing engagements the service provider agrees to execute the process at a cost lower than what the host organization is currently incurring and agrees to accept a service target in excess of what the host organization is achieving. These are called service level agreements (SLAs).

2.2.2 Outsourcing and competitive advantage

Porter (1998, p.174) was the early proponent of competitive advantage and he notes that "competitive advantage is the ability of the firm to outperform rivals on the primary performance goal, profitability." A competitive strategy therefore is the one that increases the organization's market share, increases corporate profitability, creates a new positioning that the competitors do not have and provides focus in making choices. Innovation, efficiency and customer responsiveness can be regarded as three of the main building blocks of competitive advantage, with quality being fourth (Figure 2.1). "A company has competitive advantage, when its profit rate is higher than the average for the industry and that it has sustainable competitive advantage when it is able to maintain this high profit rate over a number of years". (Hill and Jones, 2001:123).



Source: Hill and Jones (2001:127)

Figure 2.1: Generic Building Blocks of Competitive Advantage.

Hines (1996) argues that the very essence of business is to create competitive advantage that comes in a number of ways such as low cost production or market differentiation. In this regard, competitive advantage may be gained through several avenues: ability to coordinate the activities, management of the linkages between the value chain activities with those of suppliers, channels or customers, and finally reconfiguration of the value chain to reduce costs or increase effectiveness that may also mean deleting certain activities altogether.

The development of sustainable competitive advantage has long been the "holy grail" of western management. Companies have sought to achieve advantage by leveraging knowledge and skill within their complete supply chains (Hines and Rich, 2001). This "holy grail" has attracted widespread attention over the last few decades within the mainstream strategic thinking usually with advantage only being sought inside the organization (Porter, 1985); Mintzberg, 1983). More recently attention has shifted to supply chain as the unit of analysis rather than the firm, with this extended enterprise seen as the unit of competitive advantage with supply chains starting to compete each other rather than individual organizations as suggested within the traditional strategic management literature (Christopher, 1992).

Competitive advantage in future would come from effective networking of companies, and it will not be individual companies competing in the market place, but "value streams", in other words supply chains. Competitive advantage, whatever its source, ultimately can be attributed to the ownership of valuable resources that enables the company to perform activities better and or more cheaply than competitors (Collis and Montgomerry, 1995). The question then is: What strategic benefits should enlightened company executives expect to achieve in order to attain competitive advantage for themselves and their value streams alike?

2.3 Benefits of Outsourcing

As outsourcing has become more common, researchers, practitioners and governments have taken a harder look at the results. Initially firms may only focus on short-term benefits, especially since most firms lack an adequate decision framework to weigh tradeoffs involved in outsourcing (Lonsdale, 1999). Given the significant focus on improving profitability, financial benefits to outsourcing firms may be surprisingly lower than original expectations (McIvor, 2000). Firms report concerns with quality of the goods or services when outsourcing all or part of the value chain. Managing the outsourcing relationship requires new management competency, decision making processes, training and quality controls (Harland *et al*, 2005). Outsourcing can empower organizations to use global assets effectively and efficiently by using the industry best practices in enhancing their value chain and enter and create new markets (Farrell, 2004). By the very nature of their specialization, outsourcing providers bring extensive world class resources to meet the needs of their customers. Partnering with an organization with world class capabilities can offer access to new technology, tools and techniques that the organization may not currently posses; more structured methodologies, procedures and documentation; and a competitive advantage through expanded skills.

Outsourcing enables the organization to consistently perform functions better than its competitors and continually improve on the activity as markets, technology and competition evolves (Quinn and Hilmer, 1995). Host organizations are therefore empowered to deliver higher added value services to their customers. Manufacturing knowledge based organizations benefit in R&D, product design, process, logistics, market research, advertising, marketing, distribution and customer services. Outsourcing enables host organizations to build flexible long-term platforms capable of adaptation or evolution. Many organizations focus on building skills in narrow areas where they currently excel. To keep pace with the emerging market dynamics outsourcing allows host organizations to buy technology from vendor that would have been financially intensive and difficult to build internally (Lankford and Parsa, 1999). With changing market dynamics, outsourcing enables these organizations to continuously build dominating skills that the end customer will continue to value over time and also build unique sources of leverage in the value chain leading to intellectual advantages and greater profitability in highly competitive markets.

While a few years ago outsourcing might have been seen as an option for only certain mundane tasks, now practically every function is viewed as a candidate for it, including payroll, accounts receivable, IT support and fleet management, (Ellram, 1997). Outsourcing is growing at a faster rate throughout the world because organizations view it as a way to achieve strategic goals, reduce costs, improve customer satisfaction and provide other efficiency and effectiveness improvements.

By outsourcing a non-core activity to a supplier that is more efficient at performing that particular activity, the company may be able to reduce its own cost structure (Hill and Jones, 2001). With increased conviction, corporations have sought to reduce costs by contracting out services and activities traditionally provided in house. The main driving force in the 1990s had been increased competition brought about by liberalization of economies and pressure to create shareholder value (Hendry, 1995). Today, manufacturing focus means learning how not to make things-how not to make the parts that divert a company from cultivating its skills its suppliers could make more efficiently. (Venkatesan, 1992:98). What this portends for firms is that a lot of them may have joined the bandwagon expecting cost reductions in several areas but then one wonders whether these firms have actually benefited from it.

2.4 Risks of Outsourcing

In its enthusiasm to outsource, a company might go too far and outsource value creation activities that are central to the maintenance of its competitive advantage. By doing so, the company might well lose control over future development competence and as a result its performance might ultimately decline. Prahalad and Hammel (1990:78) have argued that "In fact concerned voices have been raised in the last few years about the hallowing of the corporation; that by [outsourcing], the company may lose its "essence" or, to use the fashionable expression, its core competence"". The final fear is that if companies increasingly outsource and are reduced to the role of being assemblers and marketers, their long term competitiveness jeopardized.

One fundamental risk envisioned in outsourcing is the worry that there aren't honest suppliers in the market place to whom the company may outsource. As most purchasing managers could testify there are many stories of suppliers who promise a lot but do not deliver as per the service level agreement. Unreliable suppliers would always be there but the ability to manage the outsourcing exercise including the legal and contractual issues calls for professional and realistic assessment of the partners before plunging into the exercise. In this respect also, the impact of legal system on outsourcing practices needs to be highlighted. This predicament makes senior managers wary of long term relationships they enter into for lack of an objective court system.

Unique quality requirements and design secrecy frequently represent a condition requiring control of the production process (Hill and Jones, 2001). Outsourcing introduces a new relationship, new culture and a different approach to handling client confidentiality and these experiences may portend serious problems that firms are expected to overcome. One main dilemma is that the incoming provider does not know all the company-specific intricacies that reside in the minds of the people who have been doing the work for many years. The issue then becomes how the companies could ensure knowledge transfer without disruption of company operations.

The way stakeholders such as trade unions and shareholders are handled may mean success or failure or adverse influence on the whole outsourcing exercise. A hostile union may seize the opportunity to derail management's decision to outsource (Hines, 1996). A steadfast, committed Chief Executive could be helpful in driving home the case of outsourcing. It could be seen therefore that the shareholders and union attachment to the activity may hinder the outsourcing exercise. "Tradition and pride make companies want to be the best to do everything themselves" (Ohmae, 1994:116). In essence companies often end up in-sourcing out of sense of corporate responsibility and desire to preserve jobs (Venkatesan, 1992).

Quinn and Hilmer, (1994) have identified some risks that outsourcing can pose for the organization and these include: the loss of critical skills or developing the wrong skills, the loss of cross-functional skills/synergy and the loss of control over suppliers. There is also the risk of the organization incurring higher inflated costs when it contracts out

Outsourcing can generate new risks such as: the loss of critical skills or developing the wrong skills, the loss of cross-functional skills, and the loss of control over suppliers (Quinn and Hilmer, 1994; Domberger, 1998). Routinely, the literature on outsourcing discusses the potential risks involved. A poorly conceptualized, developed or maintained outsourcing arrangement could mean loss of control, less flexibility, quality control problems, information security problems, problems with the provider and loss of skills (Harrison, 1996; Quinn and Hilmer, 1994). An outsourcing initiative must be carefully thought out and implemented to avoid problems of this nature. Other literature, cite the following limitations: (1) Low quality work (2) Lack of understanding of organization culture on the part of the contractor 3) Unmet timeframes 4) High cost (5) Difficulty in identifying competent contractor.

Inability of management to manage supplier performance: Suppliers need to educated on the organization's strategies, priorities and standards and how their work influences the final performance of the company outsourcing. Kirui, (2001). Failure to motivate the supplier to consistently perform to required standards. There is need to develop relationships that suit both business. The outsourcing firm needs to evaluate the following factors when choosing the supplier, i.e short term or long term tie up, are others competing suppliers, is it a one off project or not. Then performance targets are set and rewarded accordingly once met as vendors are also in business and can go elsewhere, Thompson & Strickland, (2003).

In house staff has insider information that makes them well acquainted with organization's processes and problem solving. This drives efficiency and interfaces all the areas of the organization and synergizes decision-making process. Staff of the vendor may conflict with others in the organization. It is important also to keep secrets of the organization in a competitive world. Outsourced persons may chance such secret and leak it to the outside world and bring the business down, Njehuri (2005).

Limited Resources: The outsourced vendor may lack resources to match the current and future challenges of the business which leads to disagreements and termination of the contract. Ignorance of customer's unique needs due to lack of skills, knowledge and inability to focus on what create value to each customer. Ignoring the importance of leverage i.e access to scarce resources, ability to substitute expense resources for cheap ones, process expertise and access to capital, Lutta (2003). Outsourcing is becoming popular by the day because of its obvious advantages. Organizations should weigh the available options in selecting the firm to outsource from and what to outsource, otherwise wrong outsourcing can lead to business failure, Njehuri (2005).

2.5. Challenges in implementation of outsourcing

Most organizations are uncertain on sourcing hence have difficulties in making decisions on which activities in the value chain they should undertake themselves and which ones to outsource (Johnson &Scholes, 2003). There are great opportunities in some areas but significant tasks in others. Thus, the uncertainty inherent in outsourcing is one greatest barrier to outsourcing of accounting services. According to Kirui (2001), 95% of outsourcing cases failed. There are risks of choosing wrong outsourcing vendors and companies should outsource carefully to eliminate them

According to Samuel (1999), outsourcing relationships fail for many reasons, chief among them are unrealistic expectations; lack of formal bid process; so called rational contract that assume the vendor will act as a strategic partner but fail to spell out the details and failing to manage the relationship once the contract has been signed. As outsourcing takes hold as a powerful and strategic business management tool, the contract agreement between parties becomes more important and complex than ever before.

Improper tax analysis: Problems arise when an organization cannot adequately identify which of their competences are core competences and which are not. Core competences are those that are unique to the organization against which they derive competitive advantage e.g. research and development activities that bring about customer driven innovations and continuous improvements which place the organization ahead of competitors. It is important that core competences are owned by the organization and hence undertaken internally, Lackow (2000). Improper interface with other functions thus causing internal conflicts; where functions are involved in decision making process, outsourcing makes decision making process complicated due to supplier's failure to take responsibility of failure. Let the supplier take responsibility of the process and ensure clear accountability boundaries between the buyers and the suppliers for measures of success and failures, Samuel (1999).

Buyer's mistakes: Outsourcing without carrying out adequate research on areas to outsource and various outsourcing vendors available in the market. This enables the outsourcer to find the vendor that fits his needs instead of relying too much on executive contact, not the nitty gritty details of the relationships. Like mergers and acquisitions, top executives are not enough.

Allowing suppliers to lead the process: Outsourcing is two ways, transfer a process and buy the results, do not dictate to the suppliers as they should be the experts and will take the responsibility. External suppliers and consultants do not understand the business well to tailor their advice properly and serve the business strategic needs as required by the business and its environment. Buyer culture: Old culture syndrome of the buyer i.e can't let go, won't transfer ownership of the process to someone else.

Outsourcing appraisal: Signing a contract for too long that it becomes outdated. There is need to develop short-term relationships but also maintain a long-term relationship to accommodate natural changes in business cycle and environment. It is important to set and agree on key performance indicators that are reviewed at a specified period of time. Two-way business mentality need to be embraced which requires the suppliers treated well as investors. Reward them as agreed, expand their business, extend their contracts and market them. This motivates the parties to maintain their relationship, Samuel (1999).

2.6 Non-Core Activities Commonly Outsourced

Outsourcing has become a mega trend in many industries, most particularly in logistics and supply chain management (Feeney, Lacity and Wilxoc 2005). The overall scope of outsourcing is continuing to grow, as companies focus on their core competencies and shed tasks perceived as non core (Lindner, 2004). For example, recent data indicate that the outsourcing of human resources (HR) functions is pervasive with 94 per cent of firms outsourcing at least one major human resource activity and the majority of firms planning for outsourcing expansion (Gurchiek, 2005). Research assessing the outsourcing of sales, marketing and administrative functions provides parallel results, with at least portions of these functions now being outsourced in 15-50 percent of sampled firms (The Outsourcing Institute 2005; GMA 2006). Similarly, the third and fourth part logistics industries are booming, with between 65% and 80% of the US manufacturing firms contracting with or considering use of logistics service provider in the last year (Langley, Van Dort, Ross, Topp, Sykes, Strata and Dengel 2006). Thus managers are vendor that fits his needs instead of relying too much on executive contact, not the nitty gritty details of the relationships. Like mergers and acquisitions, top executives are not enough.

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Porter (1985) proposes the value chain as a tool for identifying ways to create more customer value and permit a highly disaggregated approach to appraising a firm's capabilities that is, especially useful in outsourcing decisions. It is recognized that these resources are of no value unless deployed into activities and organized into routines and systems, which ensure that products or services are rendered which are valued by the final consumer or user. The value chain identifies nine strategically relevant activities that create value and cost in a specific business. These nine value creating activities consist of five primary activities and four support activities, any of which is a candidate for outsourcing. The primary activities represent the sequence of bringing materials into the business (inbound logistics), converting them into final products (operations), shipping out final products (outbound logistics), marketing them (marketing and sales), and servicing them (service). The support activities including procurement, technology development, human resource management, and firm infrastructure (general management, planning, finance, accounting, legal, and governmental affairs) are borne by all the primary and support activities.

In this respect, Kotler (1999:45) comments: "the firm's success depends not only on how well each department performs its work but also on how well the various departmental activities are coordinated". The solution to this problem is to put more emphasis on smooth management of core business processes. To be successful, the firm also needs to look for competitive advantages beyond its operations, into the value chains of its suppliers, distributors, and customers.

If supplier markets were totally reliable and efficient, however, rational companies would outsource everything except those special activities in which they could achieve unique competitive edge, i.e their core competences. (Quinn and Hilmer, 1994).
The experiences in Kenya could be the same, but this need to be determined, especially in respect to risks for both buyer and seller in terms of price, quality, time, delivery, legal, or other key terms and these risks are to be weighed against the expected benefits.

The main areas of outsourcing are: 1) training, 2) recruitment, 3)Health and safety monitoring device, 4) Employee welfare and counseling activities,5) child care facilities, 6) payroll management, 7) specialist legal advisory services, 8) occupational health and fitness services, 9) performance appraisal facilitation, 10) retirement benefits/pension administration, 11) HR Information systems (HRIS), 12) Public relations.

The world over, companies are moving their non-core business processes to outsourced service providers. The list of functions or processes being outsourced is growing, such as: human resource administration, staffing, procurement, customer care, vendor management, tax compliance, order entry, channel support services, collections, payroll and marketing. The reasons for outsourcing range from strategic to tactical cost savings. The PricewaterhouseCoopers study mentioned earlier lists the business processes currently being outsourced worldwide as being benefits administration, application processes, human resources, internal auditing, claims administration, tax compliance, logistics and procurement in that order. For manufacturing company, warehousing, distribution and other supply chain functions are essential components of success; however, the infrastructure required for such functions is a costly investment for a manufacturer and is best handled through leveraging economies of scale and expertise to the outsourcer. Outsourcing enables a company to maintain agility as it grows, especially through mergers, acquisitions and divestiture.

2.7 Experiences of Kenya manufacturing companies with outsourcing

The effect of outsourcing could be beneficial or risky depending on the circumstances at corporate strategic level. In the case of Kenya Breweries Ltd. at the time of deciding to outsource their transportation needs. the question was not whether to continue with the service indoors or engage a service provider like Simba Colt Motors but how to implement the desired balance between independence and incentives for the supplier versus control and security for the buyer The company in this case saw benefits in extending outsourcing first in less critical areas such as transport rather than its production processes. As a company gains experience, it may increase profit opportunities greatly by outsourcing more critical activities to non-competing firms that can perform them more effectively. In a few cases. more complex alliances with competitors may be essential to garner specialized skills that cannot be obtained in other ways (Quinn. 1994). At each level, the company must isolate and rigorously control strategically critical relationships between its suppliers and its customers

But some companies may not have had it so lucky such as the closed Castle Brewing, which had outsourced its distribution function only to 'back-source' it after realizing little gain. The above outsourced activities could be considered by the firms as peripheral to their core business. But an interesting phenomenon is emerging at a strategic level as reported by Munaita (2002), who cites Kenyan companies such as Baver East Africa. Twiga Chemicals, and Orbit Chemicals having contracted with prime organizations to produce some of their products. He notes that "two thirds of Twiga's throughput of Kshs. 2 Billion in the year 2000 comprised 'outside' business". It concludes that outsourcing of manufacturing could be replicated in other capital intensive sectors such as steel manufacturing, vehicle assembly, and consumer products.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, population and sampling design, the data collection method, the research procedures and data analysis methods that were used in the course of the research. This section also indicates the research tools that were used to collect data, the data collection and the analysis procedures.

3.2 Research Design

In order to investigate the implementation of outsourcing strategy of non core activities by manufacturing firms in the chemical and allied sector of Kenya, a survey design was adopted. Bryman (1989:04) "we can assert that survey research entails the collection of data on a number of units and usually at a single juncture in time, with a view to collecting systematically a body of quantifiable data in respect of a number of variables, which are then examined to discern patterns of association".

3.3 Population of the Study

The population of the study was the total number of companies in the chemical and allied sector in Kenya as listed in the Kenya Association of Manufacturers directory of 2009. The manufacturing companies in Kenya especially those in the chemical and allied sector are exposed to the various environmental and strategic challenges and are therefore bound to react by implementing new strategies likely to place them above their competitors. One such strategy that can be implemented is outsourcing of non core activities.

3.3.1 Sampling

The researcher considered the fifty five firms for the study. The sample was expected to be representative of the population of fifty five firms. As the primary goal in sample survey is representativeness, the sample must represent the population. This way, the results can be reliably projected from the sample to the large population (ASA, 1997). The sampling method is preferred to a census since it is cost effective, the quality of the study is better and it produces much quicker results (Cooper and Emory, 1995). The choice of this sample size was influenced by Cooper and Emory (1995:206) who assert that "the absolute size of a sample is much more important than its size compared with the population. How large a sample should be a function of the variation in the population parameters under study and the estimating precision needed by the researcher". The most important factor in determining the size of the sample needed for estimating a population is the population variance in the population. the larger the sample must be to provide estimation precision (Cooper and Emory, 1995). According to the ASA (1997:2), "there is no simple rule for sample size that can be used for surveys. Much depends on professional and financial resources available. Analysts, though, often find that a moderate sample size is sufficient statistically and operationally".

3.4 Data collection

The researcher collected primary data from the sample size identified. Primary data was preferred since few researches have been done in this area (in the manufacturing sector of Kenya) that could be utilized. The primary data collection also ensured relevance of the data collected although the cost is higher than secondary data collection method. Both open-ended and structured mail questionnaires were addressed to senior managers, essentially managing directors or general managers in the firms selected. The questionnaires were administered through the "drop and pick later" and email for those firms within Nairobi and its environs. This was then followed by telephone follow-up in order to increase the response rate. The questionnaire was designed to measure the four variables of the survey namely, the implementation of outsourcing of non core activities, the benefits accruing from the implementation, the problems and risks encountered and which non core activities are commonly outsourced.

3.5 Data Analysis

Descriptive statistics were used. The mean, proportions and frequencies were used to analyze categorical data, while content analysis was used for responses on open ended questions. Percentages, Ratios, Rates and Distribution tables were done to obtain values for further analysis to establishing the magnitude and the nature of relationship among the various variables.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

Presented in this chapter are findings of the data analyzed together with their interpretations. The data presented in this chapter was analyzed using the Windows based Statistical Package for Social Science version 15.0.The output was then processed thematically and organized into subtopics that reflect the different questions that were posed to respondents in the questionnaires. Demographic and other general background information about respondents who participated in the study are presented first, followed by findings on the research objectives as given by respondents who participated in the study.

4.2 Response rate

The researcher distributed 55 questionnaires and got back 46 filled questionnaires which is a response rate of 84%. The results are therefore generalizable.

Table 4.1: Response rate

	Number	Percentage
Questionnaires distributed	55	100
Questionnaires received	46	84
Questionnaires not received	9	16

4.3 Background information

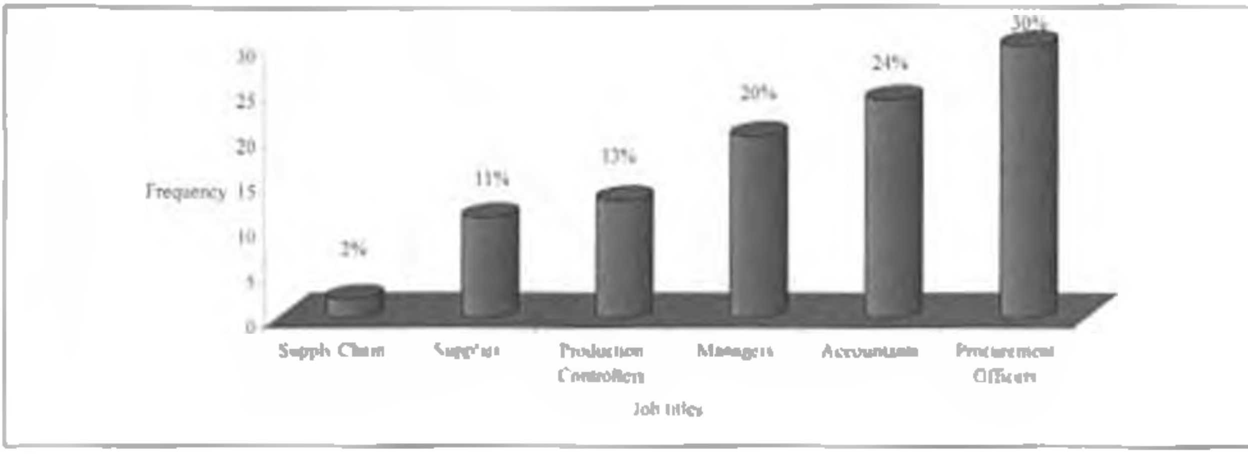

Fig.4.1: Job title of respondents

The majority (30%) of respondents in the study came from the procurement departments of companies under study. This group was followed by accountants (24%) and closely after by mangers who comprised (20%). The other groups of respondents were as shown in figure 4.1 above.

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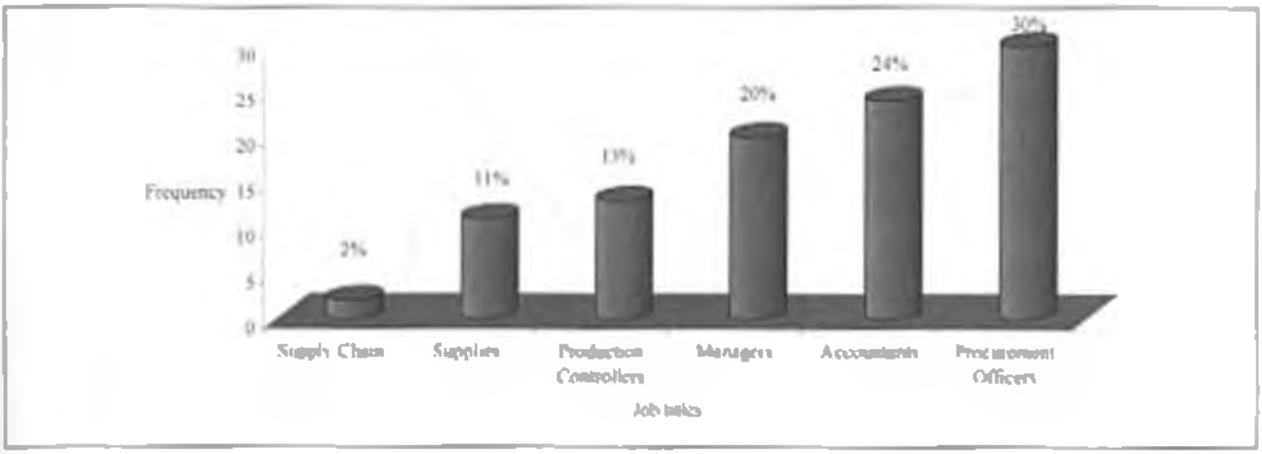

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4.4: Levels of education among respondents

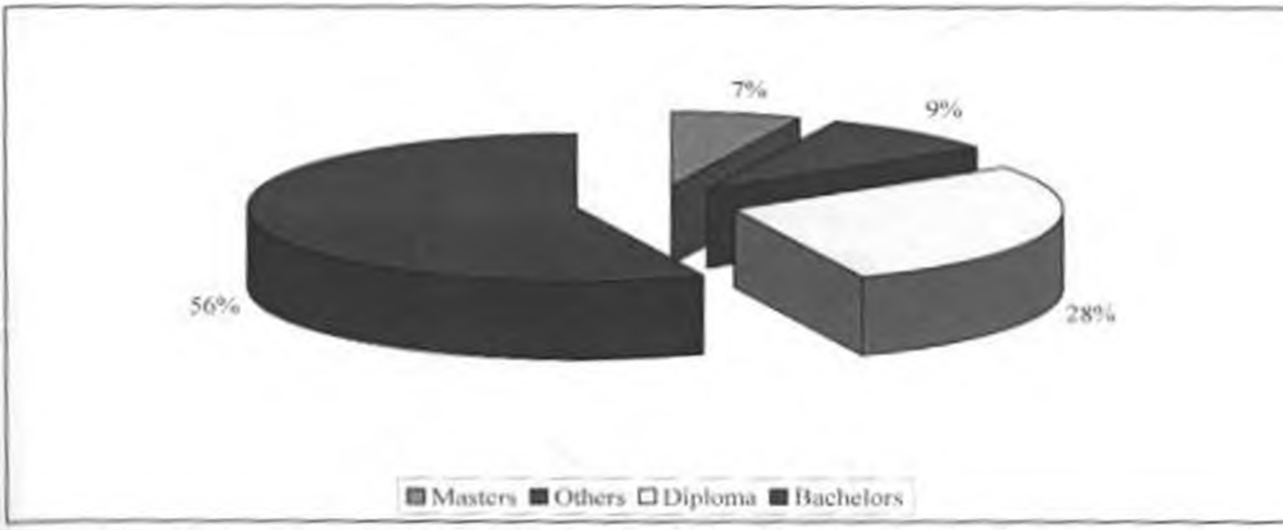

Fig. 4.2: Levels of education among respondents

There were more holders of a bachelor's degree (56%) in the target population than any other group in terms of qualifications. The diploma category followed with a frequency of (28%) and only (7%) having done a master's degree.

4.5 Company ownership

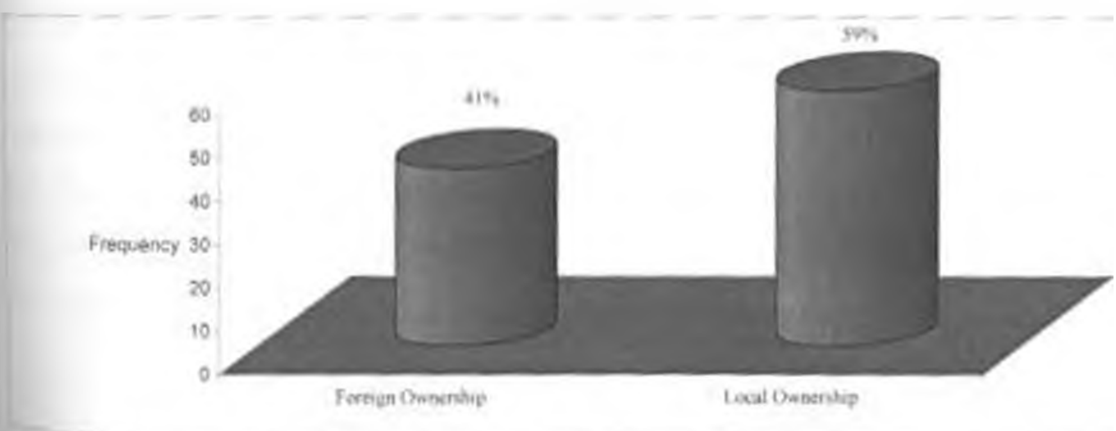

Fig.4.3 Company ownership

A majority of companies studied were owned locally with an exception of about (41%) of the companies having foreign ownership.

4.6 Implementation of outsourcing strategies

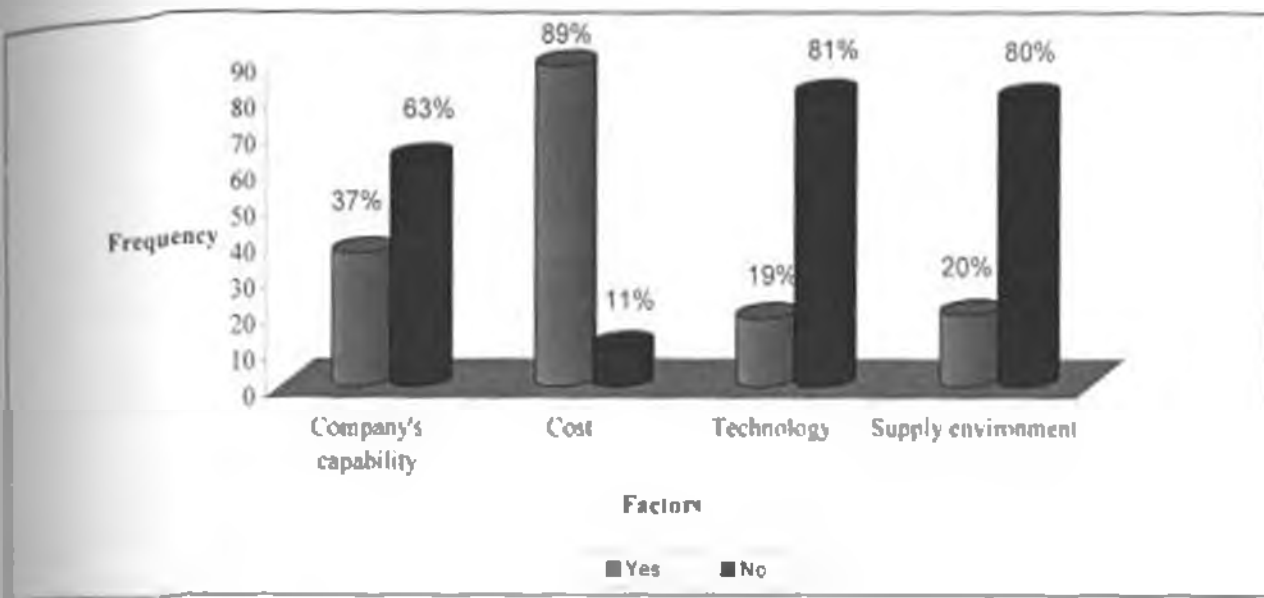

Fig. 4.4 Factors with the greatest influence on the firm's outsourcing decisions

In regard to the company's capability as a factor of influence, (37%) of respondents agreed that it has the greatest influence on their firm's outsourcing decisions while (63%) were of the opposite opinion. The cost of outsourcing the service was also sited as a factor and a whole (89%) of the respondents agreed that it had a great impact on whether the firm will outsource the service or not. Technology as a factor did not seem to drive a firm's decision according to respondents since (81%) of them disagreed. Finally, the supply environment which was thought to be one of the factors was disputed by a majority (80%) of respondents.

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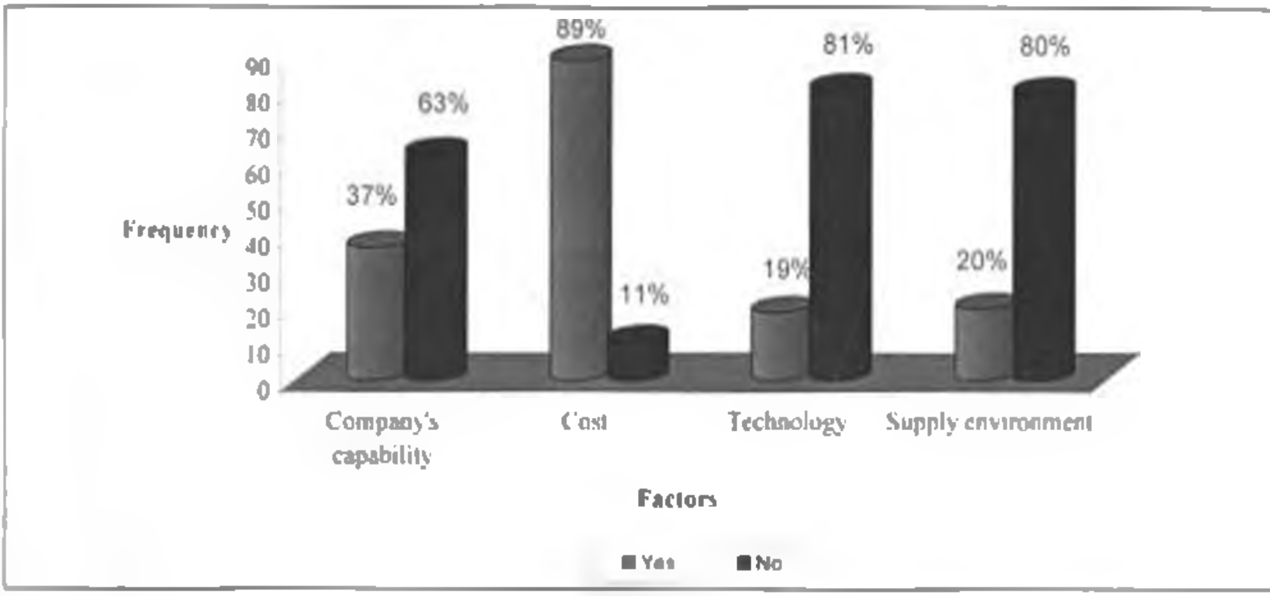

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4.7 Delegation of operational responsibility to an external agent

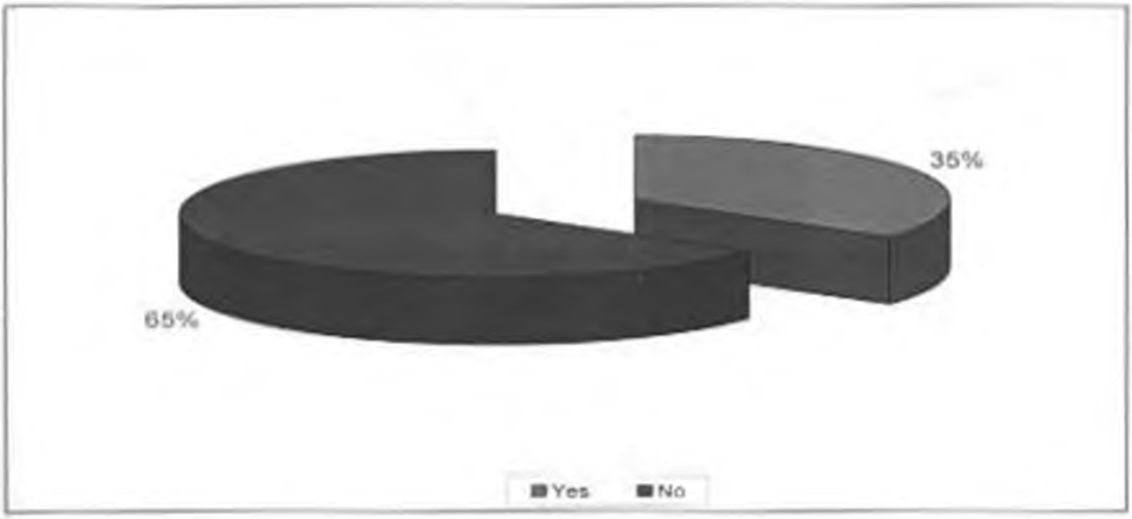

Fig. 4.5 Delegation of operational responsibility to an external agent

Most of the firms (65%) under study did not have a management approach that allows delegation of operational responsibility for processes or services previously delivered by their organization to an external agent. Only (35%) of respondents claimed that such a management approach exists in their companies. Additionally, the entire sample of respondents claimed that their organization views outsourcing as a fashionable/ current way of solving some business problems.

4.8 Processes currently being outsourced

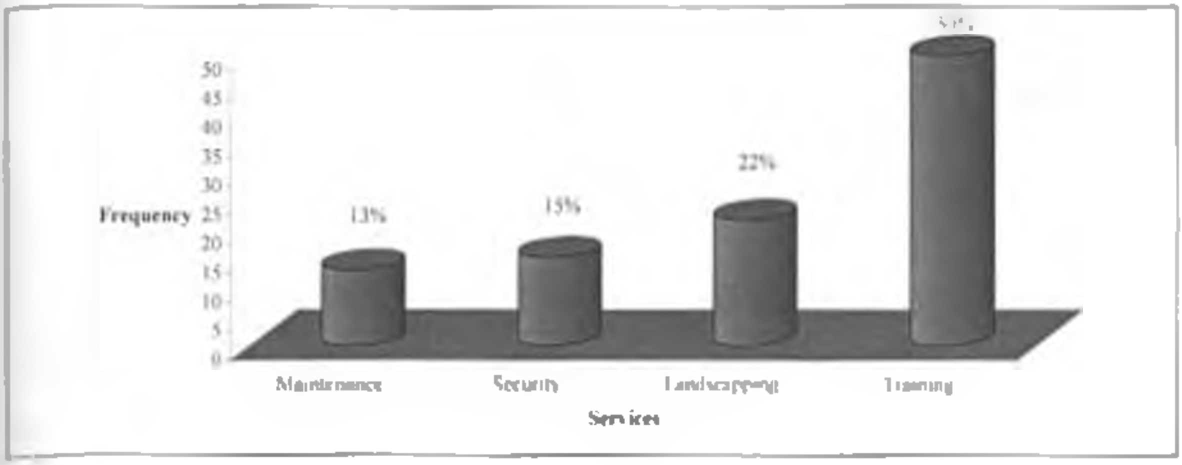

Fig.4.6: Processes currently being outsourced

Among the services investigated by the researcher, training emerged as the most outsourced service (50%) by organizations under study. This was followed by landscaping at (22%) while security and maintenance had (15%) and (13%) respectively.

4.9 Factors that have highly influenced the choice of activities/services outsourced

Table 4.2 Factors that have highly influenced the choice of activities/services that are outsourced

Factors	Responses	
	Yes	No
The potential for competitive advantage in the activity	44%	56%
The degree of strategic risks involved in outsourcing the service	0	100%
The control measures needed to reduce vulnerability with suppliers	80%	20%
The technical competency of the supplier	54%	46%
The total buying cost	20%	80%
End-user involvement	65%	35%
Freeing up of managerial time	35%	65%
Nearness of the outsourced activity to the organization's core competencies	35%	65%
Safety of the people and the machines involved in the outsourcing process	28%	72%
Reservedness : guarantees the security of confidential information	0	100%
Monitoring process: easiness of activity control	100%	0
Internal human resources: skills and knowhow	65%	35%

More respondents (56%) claimed that the potential for competitive advantage determines the kind of services to be outsourced by their organization as compared to (44%) which felt otherwise. The degree of strategic risk involved in outsourcing a service does not influence at all the choice of services to be outsourced by a company. This was according to all (100%) of respondents in the study. A large number of respondents (80%) stated that the control measures needed to reduce vulnerability with suppliers will definitely influence the choice of activities which their companies will outsource. The technical competency of the supplier of a service according to (54%) of respondents will influence the choice of service to be outsourced. The total buying cots of the service plays an insignificant role in terms of which service will be outsourced as stated by (80%) of respondents. The study revealed that end-user involvement is also an important factor in determining which service should be outsourced where (65%) of respondents were in agreement. Other very essential factors considered by firms on which service to outsource were easiness of activity control and internal skills and knowhow with agreement level of (100%) and (65%) respectively. The other factors scored as shown in table 4.2 above.

4.10 Critical stages in the implementation process of outsourcing decisions

Table 4.3 Critical stages in the implementation process of outsourcing decisions

Stages	Responses	
	Yes	No
Defining the core activities of the business	50%	50%
Evaluation of relevant value adding activities	54%	46%
Performing a total cost analysis of core activities	100%	0
Performing the relationship analysis	20%	80%

Although there are several critical stages to be considered by firms in the process of outsourcing decision making, only performance of a total cost analysis of core activities came out as being of great importance to companies studied as shown by an agreement of (100%) of the sample. Evaluation of relevant value adding activities was also important to the firms studied although not strongly as evidenced by a lower agreement of just (54%) of respondents.

4.11 Costs that have highly impacted on the implementation of outsourcing

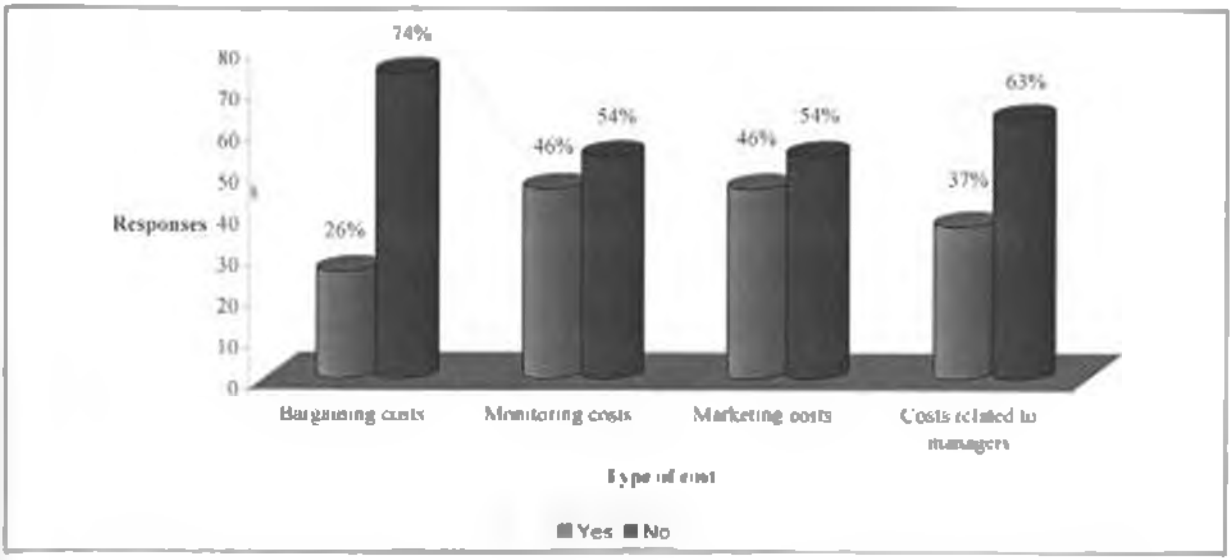

Figure 4.7: Costs that have highly impacted on the implementation of outsourcing

Implementation of outsourcing is accompanied by costs which are shown in chart 4.7 above. Bargaining costs according to respondents account for the greatest impact (74%). Costs related to managers came in second with (63%) of respondents agreeing while marketing and monitoring costs were both given 54% each.

4.12 Selection of suppliers in the activities to be outsourced

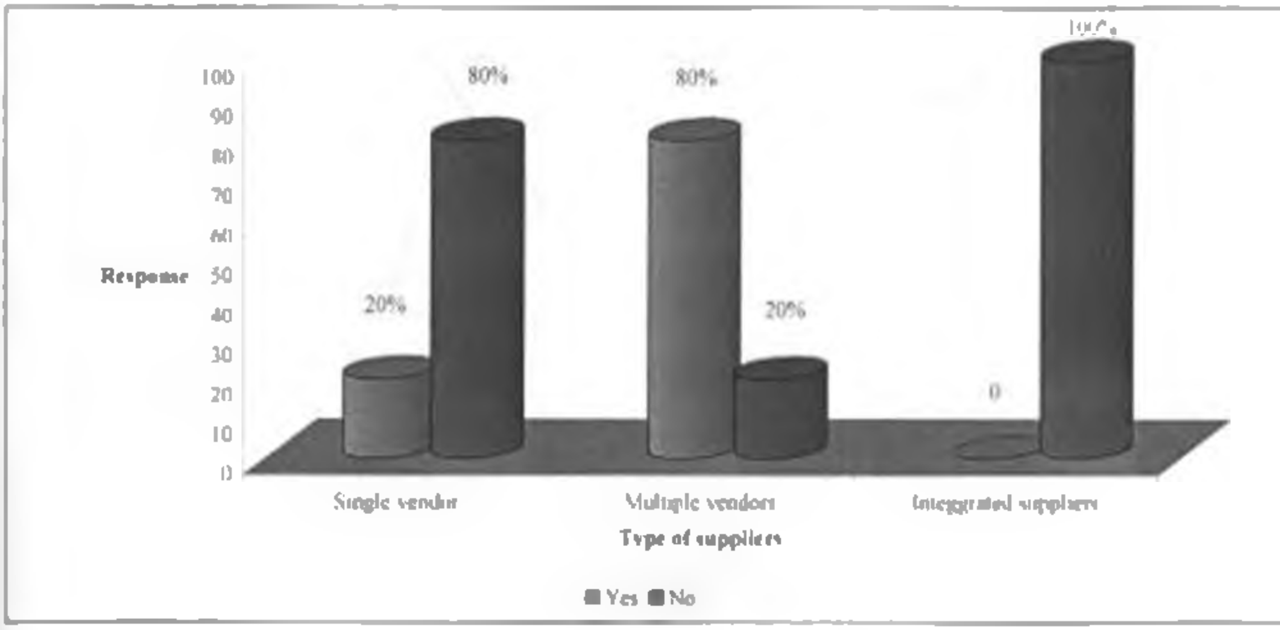

Fig.4.8: Selection of suppliers in the activities to be outsourced

This study showed that most firms (80%) selected their suppliers from multiple vendors as opposed to integrated or single vendors who received a "no" response of (100%) and (80%) respectively

4.13 Impacts of implementation of outsourcing on the firms studied

Table 4.4 Impacts of implementation of outsourcing on the firms studied

Stages	Responses	
	Yes	No
Access to superior services	46	54
Flexibility/ avoiding the constraints of the productive capacity	100	0
Diversification/increased responsiveness to market change	20	80
Focus/Provides increased focus upon a set of core activities	37	63
Leverage/reduction in the functional scope of the organization	44	56
Loss of critical skills and knowledge	35	65
Strategic commercial exploitation	37	63
Core competency exploitation	35	65
High value creation	65	35
Appropriating final product value	65	35
The need to develop the organization's own sourcing strategy	0	100

Although outsourcing was hypothesized by the researcher to guarantee access to superior services by firms involved, only (46%) of respondents shared the view. Avoiding the constraints of the productive capacity was sited as the most pronounced impact a claim by 100% of respondents. High value creation and appropriating final product value were sited as other impacts of implementation of outsourcing strategy to the firms with both getting a "yes" response of 65% respondents.

4.14 Examples of performance achievements from implementation of outsourcing strategy

Table 4.5 Some of the performance achievements from implementation of outsourcing strategy

Stages	Responses	
	Yes	No
Increased productivity	83	17
Increased firm profitability	100	0
Reduced overtime budget	44	56
Enhanced the comparability with standard costs	35	65
Enhanced just in time performance	100	0
Enhanced quality	48	42
Reduced shortages	48	52
Led to sound inventory management	0	100
Enhanced supplier performance	59	41
Enhanced cost estimation	80	20
Made easy use of statistical process control	35	65

Evidence from the studied firms point to several achievements that are associated with outsourcing. Increase in a firm's profitability was supported by a hundred percent of respondents who participated in the study. Another (83%) of respondents stated that outsourcing increased a company's productivity. All the respondents agreed that outsourcing also enhanced the "just in time performance of their companies. Majority of respondents (80%) claimed that's Costs accrued to a service were easier to estimate when a company outsources the service.

4.15 Challenges encountered by firms under study in outsourcing

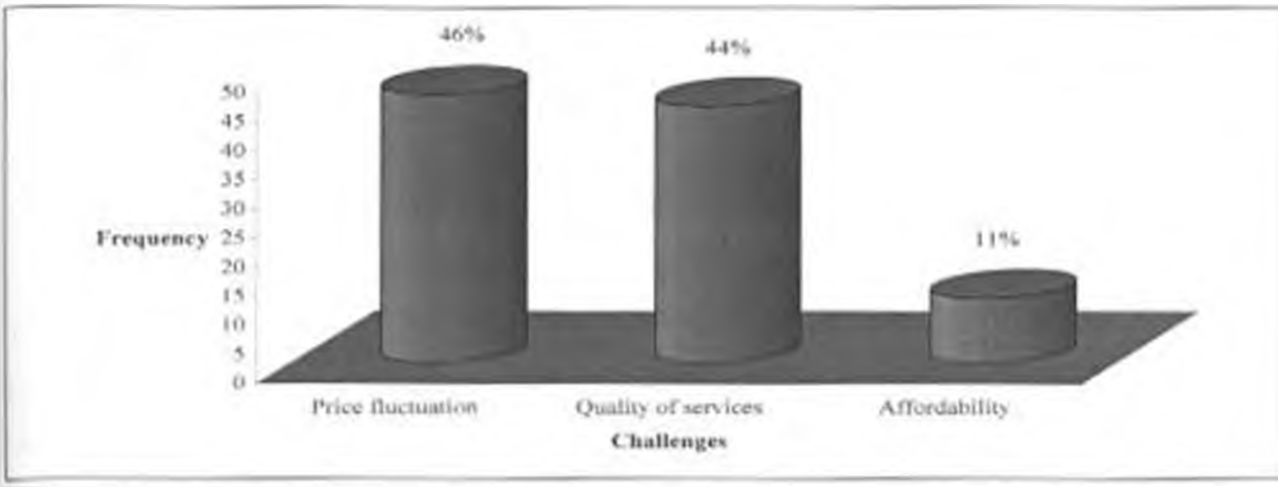

Fig.4.9 Challenges encountered by firms under study in outsourcing

Despite its benefits, outsourcing has its challenges as revealed by respondents in the study. On top of the list was price fluctuation which majority (46%) of respondents claimed poses the greatest challenge. Another 44% of respondents stated that the quality of service outsourced was a challenge. Only 11% viewed affordability of the service as being a hindrance to the practice of outsourcing to their firms.

CHAPTER FIVE:

CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of results

The majority (30%) of respondents in the study came from the procurement departments of companies studied. Majority of respondents (56%) had a bachelor's degree. A company's capability has the greatest influence on the firm's outsourcing decisions (63% of respondents). The cost of outsourcing the service is also a factor (89% of respondents agree). Technology as a factor did not seem to drive a firm's decision according to respondents since (81%) of them disagreed. The supply environment which was thought to be one of the factors was disputed by a majority (80%) of respondents.

Most of the firms (65%) under study did not have a management approach that allows delegation of operational responsibility previously delivered by their organization to an external agent. Training emerged as the most outsourced service (50%) by organizations under study. More respondents (56%) claimed that the potential for competitive advantage determines the kind of services to be outsourced by their organization. A large number (80%) stated that the control measures needed to reduce vulnerability with suppliers definitely influence the choice of activities to outsource. Buying costs of the service plays an insignificant role in terms of which service to (80% of respondents agree).

Only performance of a total cost analysis of core activities was of great importance to companies studied as shown by 100% of the sample. Most firms (80%) selected their suppliers from multiple venders as opposed to integrated or single vendors. Increase in a firm's profitability was supported by a hundred percent of respondents who participated in the study. Another (83%) of respondents stated that outsourcing increased a company's productivity. Majority of respondents (80%) claimed that costs accrued to a service were easier to estimate when a company outsources the service.

Despite its benefits, outsourcing has its challenges especially price fluctuation which majority (66%) of respondents claimed poses the greatest challenge.

5.2 Conclusions

Outsourcing has tremendous positive impacts in many areas of a company's operation. Firstly, this study proved that companies that outsource services improve production and increase productivity. Secondly, it frees up management time so that a company's management can concentrate on more important areas of its core business. Thirdly, companies are able to use technologies and know how that is not internally available. In addition outsourcing training leads to knowledge transfer to the sourcing organization.

5.3 Recommendations

Companies should design management approaches which allow delegation of operational responsibilities so as to access superior external services and cut on operational costs and also safeguard against interruption of production in case of problems arising internally and hampering normal operation.

Firms should adhere to critical stages in the implementation process of outsourcing decisions in order to avoid failure.

5.4 Suggestion for further research

The business of outsourcing has grown tremendously is recent times giving businesses the opportunity to enjoy superior services from external vendors at a reasonably cheaper cost albeit the inherent risks. Further research in the area of strategic risks involved in outsourcing should be undertaken in order to clearly inform decisions by organizations that wish to outsource as part of their business strategy.

5.5 Limitations of the study

There are two limitations that need to be acknowledged and addressed regarding this study. The first limitation has to do with the extent to which the findings can be generalized beyond the cases studied. The number of cases is too limited for broad generalizations as it involved the total number of companies in the chemical and allied sector in Kenya as listed in the Kenya Association of Manufacturers directory of 2009. Second, time and budget limitations made it impractical to assess the implementation of outsourcing by companies under study over a longer time stretch like over multiple months or years.

5.6 Policy and practice implication

This study forms a potential future reference material for both academicians and management practitioners in the field of outsourcing. Academicians may use these study findings as a platform for further research and as teaching material. Managers on the other hand will find this research as a useful guide in their day to day management functions in the area of implementation of outsourcing.

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APPENDICES

Appendix I: Questionnaire

PART A: Organizational Details

Questionnaire Number .... Date ....

Please provide the following information regarding your company.

1. Name of company ....Date of Establishment ....Job Title.............................. Educational Qualifications.......................

2. Ownership of the company:

Foreign Ownership [ ] Local Ownership [ ]

3. What is your company's basic service dimension?

a) Service factories [ ]
b) Service shops [ ]
c) Mass services [ ]
d) Professional services [ ]
e) Others ______________________________

PART B: Implementation of Outsourcing Strategy

Please provide the following information regarding your organization's outsourcing strategy and its implementation.

1. Which factors have a great influence on your firm's outsourcing decisions?

a) Capability/the company's long term strategy and profit base [ ]
b) Cost/make or buy decisions/switching costs [ ]
c) Technology [ ]
d) Supply Environment [ ]
e) Others ______________________________

2. Do you have a management approach that allows delegating to an external agent operational responsibility for processes or services previously delivered by your organization?

a) Yes [ ] b) No [ ]

3. Does your company hold outsourcing as a fashionable/current way of solving some business problems?

a) Yes [ ] b) No [ ]

4. What are some of the business processes/activities/services that are being outsourced currently in your company?

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5. What are some of the factors that have highly influenced the choice of activities/services that are outsourced in your company?

a) The potential for competitive advantage in the activity [ ]
b) The degree of strategic risks involved in outsourcing the activity[ ]
c) The control measures needed to reduce vulnerability with suppliers[ ]
d) The technical competency of the supplier [ ]
e) Total buying cost [ ]
f) End-user involvement [ ]
g) Freeing up of managerial time [ ]
h) Whether the outsourced activity is nearer the organization's core competencies[ ]
i) Safety of the people and machines involved in the outsourcing process [ ]
j) Reservedness: guarantees the security of confidential information[ ]
k) Monitoring process: easiness of activity control [ ]
l) Internal human resources: skills and know-how [ ]

6. What are the critical stages of your company's implementation of outsourcing decision?

a) Defining the core activities of the business [ ]
b) Evaluation of relevant value adding activities [ ]
c) Performing a total cost analysis of core activities [ ]
d) Performing the relationship analysis [ ]

7 Which costs have highly impacted on the implementation of outsourcing in your company?

a) Bargaining costs [ ]

b) Monitoring costs [ ]

c) The general opportunistic behavior of the contractor during the preliminary phases[ ]

d) Marketing costs [ ]

e) Costs related to managers [ ]

Others____

8. How do you select supplies in the activities to be outsourced?

a) Single vendor (single "outsourcer") [ ]

b) Multiple vendors (more suppliers managed by the "outsourced") [ ]

c) Integrated suppliers (more suppliers managed by a single "outsourcer")[ ]

d) Others ____

9. What are some of the effects of implementation of outsourcing on your firm?

a) Access to Superior "best in the world" Quality [ ]

b) Flexibility/ avoiding the constraints of the productive capacity [ ]

c) Diversification /increased responsiveness to market change [ ]

d) Focus /Provides increased focus upon a set of core activities [ ]

e) Leverage/ reduction in the functional scope of the organization[ ]

f) Loss of Critical Skills and Knowledge [ ]

g) Strategic commercial exploitation [ ]

h) Core competency exploitation [ ]

i) High value creation [ ]

j) Appropriating Final Product Value [ ]

k) The Need to Develop the Organization's Own Sourcing Strategy [ ]

10. What are some of the performance achievements from implementation of outsourcing strategy?

a) Increased productivity [ ]

b) Increased firm profitability [ ]

c) Reduced the overtime budget [ ]

d) Enhanced the comparability with standard costs [ ]

e) Enhanced just-in-time performance [ ]

f) Enhanced quality [ ]

g) Reduced shortages [ ]

h) Led to sound inventory management [ ]

i) Enhanced supplier performance [ ]

j) Enhanced cost estimation [ ]

k) Made easy use of statistical process control [ ]

11 What are some of the challenges facing your firm in its outsourcing ventures?

Thank you for taking the time to complete this survey questionnaire.

Appendix 2: List of manufacturing firms in the chemical and Allied Sector in Kenya

1. Basco Product (K) Ltd
2. Bayer East Africa Ltd
3. Beiersdorf East Africa Ltd
4. BOC Kenya Limited
5. Buvline Industries Limited
6. Carbacid (CO2) Limited
7. Central Glass Industries Ltd
8. Chemicals and solvent (E.A) Limited
9. Coates Brothers (E.A) Limited
10. Colgate Palmolive (E.A) Limited
11. Continental Products Limited
12. Cooper Kenya Limited
13. Crown Berger Kenya Limited
14. Delux Inks Limited
15. Desbro Kenya Limited
16. Eastern Chemicals Industries Ltd
17. Elex Products Limited
18. Galaxy Paints & Coating Co. Ltd
19. Grand Paint Ltd
20. Henkel Kenya Ltd
21. Interconsumer Products Limited
22. JohnsonDiversey East Africa Limited
23. Kapi Limited
24. Kel Chemicals Limited
25. Kemia International Limited
26. Ken Nat Ink & Chemicals Ltd
27. Magadi Soda Company Limited
28. Match Masters Limited
29. Metal Refinery EPZ Ltd
30. Metoxide Africa Limited
31. Milly Glass Works Ltd
32. Murphy Chemicals East Africa Ltd
33. Oasis Limited
34. Odex Chemicals
35. Orbit Chemical Industries Ltd
36. Osho Chemicals Industries Ltd
37. Pan Africa Chemicals Industries Ltd

38. PolyChem East Africa Ltd
39. Procter & Gamble East Africa Ltd
40. Pyrethrum Board of Kenya
41. PZ Cussons & Company Limited
42. Rayat Trading Co. Limited
43. Reckitt Benckiser (E A) Ltd
44. Sadolin Paints (E.A) Ltd
45. Sam Lee Kenya Limited
46. Saroc Limited
47. Soilex Chemical Limited
48. Strategic Company Limited
49. Supa Brite Limited
50. Supa Form Limited
51. Synresins Limited
52. Tri-Clovers Industries Limited
53. Twiga Chemical Industries Limited
54. Unilever Kenya Limited
55. Vita foam Products Limited

Source: Kenya Association of Manufacturers Members Directory, 2009

Appendix 3: Letter of introduction

UNIVERSITY OF NAIROBI

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9th April, 2009

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

INTRODUCTORY LETTER FOR RESEARCH
GRACE GEORGINE OYOMBE – REGISTRATION NO. D61/P/9149/2004

The above named is a bona fide Master of Business Administration (MBA) student in the School of Business, University of Nairobi. In partial fulfilment of the requirements of the MBA Degree She is conducting research

We request your organisation to assist the student with necessary data, which forms an integral part of the research project. The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**. A copy of the research project will be made available to your organization/firm upon request.

Your co-operation will be highly appreciated

Thank you

KIBAGENDI NYACHIEO
FOR DEAN, SCHOOL OF BUSINESS

KN/rm