OUTSOURCING AND OPERATIONAL PERFORMANCE IN DIVERSEY EASTERN AND CENTRAL AFRICA LTD

BY

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DECLARATION

I declare that this research project is my original work and has not been submitted to any other University for assessment or award of any degree.

Signature…………………………….. Date………………………………

Lucy Nyaboke Omwange

D61/76951/2012

This research project has been submitted with my authority as the university supervisor.

Signature…………………………. ….. Date …………………………..

Supervisor

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DEDICATION

To The Almighty God for giving me strength and ability to be able to complete the course. To my husband David Wanjala, for his ever present support and motivation during the entire period and my lovely daughter Favour Amara for the inspiration. To my family, mum and dad, I am who I am because of your care and support.

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ABSTRACT

Internationally, organizations are experiencing increased competition as the consumers are becoming more demanding. This is pushing organizations to seek ways in which they can become more efficient as they utilize the limited resources available. One of the ways firms are adopting to the changing requirements in the market is by outsourcing. Many benefits are being gained by organizations that are choosing to outsource, examples of such benefits are access to improved technologies and lower costs of operations. On the other hand outsourcing is also leading to major challenges in organizations some of these are loss of control of the activities being outsourced and too much over dependence on suppliers. The research project aimed to establish how the decision to outsource influenced the operational performance of Diversey Eastern and central Africa limited. This is a company in Kenya that specialises in the manufacture and sale of detergents for commercial purposes. The research aimed to determine the extent of outsourcing, the drivers of outsourcing and how outsourcing has influenced the operational performance. The study showed that the organization had outsourced to a large extent, the decision to outsource was driven by a desire to reduce costs. In as much as outsourcing has led to reduced costs, some performance indicators such as flexibility, innovations, quality and customer satisfaction had been affected negatively. The study concludes that outsourcing is beneficial to organizations, however it is important for organizations to weigh the benefits that come out of the outsourcing decision. If there are any negative effects on the performance corrective actions need to be taken to ensure the process is managed well and any performance failure is corrected early.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The need to counter market changes on a regular basis and the difficulty of foreseeing the direction of such changes mean that organizations must pay keen attention to their core competences and abilities (Mclvor, 2008). Outsourcing occurs when activities that are normally done from within an organization are subcontracted out to external agents. Eventually, the supervision and development of inventions in outsourced activities changes into being the responsibility of a partner external to the organization. In the long run subcontracting allows organizations to be able to focus on their core abilities by transferring limited resources to reinforce their core products or services and to calculatingly use outside vendors to perform service activities that usually have been internal functions, Behara, Gundersen, & Capozzoli (1995). With a rise in globalization, outsourcing is increasingly becoming a vital business tactic; a lot of advantage is gained as external suppliers are able to supply products or services in a highly effective and efficient manner. According to (Elmuti, 2004) outsourcing is heading towards being very common and is mostly driven by international rivalry, greater need for flexibility, access to global resources and financial benefits.

1.1.1 Operational Performance

There are many ways of defining Operational performance; it is looked at as an organization’s output benchmarked against regular or agreed indicators of success. Performance can also be gauged in terms of environmental responsibility, parameters such like cycle time, the levels of waste reduction and how the organization is compliant to regulatory requirements can be applied. Manufacturing corporations look at operational performance as the results obtained from an organization, such as innovation, market share, management skills and cost control, these factors all contribute to the organizations performance and sustainability. Generally, an organization is considered to be performing if it can persistently maintain its position and survive in a competitive environment, (Fare, Grosskopf & Lovell, 1985).

According to Kotabe (1998) there are three types of routine measures that are needed for effective performance measurement of any subcontracting system, these are: strategic measures; quality measures; and financial measures. Other approaches utilized for performance measurement can be productivity, customer satisfaction, cycle time and cost savings, Malhorta, (1997).

The study will focus on Diversey Eastern & Central Africa Limited which is a subordinate of Sealed Air Corporation. Sealed Air is a packaging company with offering Food Care, Product Care and Diversey care. Diversey Eastern and Central Africa Limited is classified under the third category of Diversey care that offers products that is key in providing products used in Consulting, building care, fabric care, kitchen cleaning and prevention of contamination. Diversey targets markets are health organizations, retail businesses, hospitality industries and food service industries.

1.1.2 Diversey Eastern and Central Africa Limited Company

Diversey Eastern & Central Africa Limited operates as a subsidiary of Sealed Air Corporation, it was incorporated in October 1970 and it set up its operations which involve manufacture and distribution of detergents. It has a wide base of customers in food processing industries, hotels, hospitals, learning institutions, retail markets and individuals. It manufactures and markets cleaning detergents mainly for commercial purposes. The market share extends from local to regional markets which include Kenya, Uganda, Tanzania, Nigeria, Ethiopia, Rwanda, Djibouti and Burundi. The manufacturing, distribution and marketing of detergents are some of the core operations that are done from Kenya. (Company profile Diversey Eastern & Central Africa Company, 2012). Diversey Eastern & Central Africa Ltd is a good representative for this study because it commands a big market share and has a good share of experience in the business. This will be a case study aimed at determining the extent of outsourcing at Diversey Eastern and Central Africa Limited, the key drivers of outsourcing and establishing the outcome of subcontracting some key operations on the organizational performance.

1.2 Statement of the Problem.

There has been a dramatic growth in trend in the direction of outsourcing seen all over the developing economies. There is a need to specialize in a limited scope of key areas this is driven by the requirements of higher efficiencies and need for cost reductions. To accomplish performance improvements across the corporations, outsourcing is progressively being employed. Companies are greatly benefiting because of access to supplier's expertise capabilities in different business processes (Aron & Singh, 2005). It is much easier for suppliers specializing in different processes to achieve efficiencies as they are able to apply economies of scale and through their experience they are able to have more understanding. Organizations will benefit by utilizing the skills of the more proficient suppliers, this is because they can choose to outsource some business activities that are critical and focus on building internal core abilities (Mclvor, 2008).

Unfortunately organizations are failing to take advantage of the opportunities made available by outsourcing. Decisions on outsourcing are being made on a piecemeal basis by different organizations, this leads to failure in developing outsourcing strategies hence poor positioning in the global economy competitive market (Gottfredson et al, 2005). We find that in most cases instead of making outsourcing decisions based on the long term impact upon the organizational capabilities, the outsourcing decisions are mostly founded on the overhead costs savings. According to (Mclvor, 2008), outsourcing of critical activities that give organizations a competitive advantage, over time contributes to the loss of key knowledge and capabilities within the organizations.

As far as the 1980s outsourcing has been globally investigated, this has generated vast literature covering key issues like benefits, challenges and drivers, (Barbbar & Prasad (1998). Findings from outsourcing studies have been found to be inconsistent, the research studies have found positive, negative or insignificant relationships in variables being investigated, Lacity et al. (2010). Similar studies have identified a negative curvilinear relationship when looking at outsourcing in relation to operational performance, (Kotabe, 2012). Similar studies carried out have confirmed that outsourcing contributes to decreased costs of operations, (Jiang, 2007) or increased financial gains (Hayes, 2005), others studies did not find any relation between outsourcing and profitability (Jiang et al., 2007; Kimura, 2002).

In Kenya, several studies have been conducted focussing on different aspects of outsourcing. Magutu, Chirchir & Mulama (2013) investigated how Outsourcing of Logistics affected the performance of manufacturing organizations in Nairobi, Kenya. The study established that warehousing, transport and material handling in many organizations were the most common operations outsourced; the study concluded that as a survival tactic most manufacturing organizations had adopted outsourcing. Functions that were mostly being subcontracted were transport, warehousing and material handling, the conclusion of the study was that outsourcing exercise adopted by the large industrial companies will eventually lead the organizations to improve customer satisfaction, reduce working costs which will eventually lead to better returns for the organization. Maku & Iravo (2013) investigated how the organizational performance at Delmonte Kenya Limited had been impacted by the outsourcing decision. The findings showed a positive correlation between outsourcing and performance, they found that the organization had experienced improved access to technology, cost savings, improved expertise, and better organizational flexibility additionally; the organization was able to focus more on its core competence.

The above summary shows that a lot of research has been done on the subject of outsourcing; Brannemo (2006) highlights that organizations are making outsourcing their choice of strategy believing that it will help them to, gain access to other companies competencies, reduce costs, concentrate on their core business specialization, w unfortunately this is done without considering all the implications of outsourcing. This study will seek to answer the question does outsourcing positively influence the performance of organizations specializing in detergent manufacture?

1.3 Research Objectives

The main objectives of the study are:

I. Establish the extent of outsourcing at Diversey Eastern & Central Africa's Limited

II. To determine the key drivers of outsourcing for Diversey Eastern & Central Africa's Limited

III. To establish the effect of outsourcing on Diversey Eastern & Central Africa Limited's performance

1.4 Value of the Study

Managers normally battle with the decision of whether to outsource or not, and after the outsourcing decision has been made most organizations will be left without facts that will help them to be sure whether the decision to outsource was a good one or not. This case study is important in that it will help inform whether the decision to outsource benefits organizations. From the findings of the study, other similar organizations will learn from it and will be able to confidently make the decision of whether to outsource or not. If indeed, outsourcing leads to improved firm's performance, the study can encourage the organization to consider outsourcing more functions that will lead to improved operations performance. In Academics, this research project will serve as a reference for other researchers and academicians in the field of operations management; it will help to develop themes for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

When an organization delegates non – core but major functions to service providers with expertise, it is considered to be an outsourcing strategy. Corbett (1999), states that outsourcing is simply the holistic restructuring of businesses by concentrating on their core competencies and partnering with partners that can offer expert services.

2.2 Theoretical Review

The practice of outsourcing entails a lot of activities that gives it a complex structure; this contributes to a lot of challenging managerial dilemmas. This has led to many theories have been suggested to help the professionals understand and manage the outsourcing process. On the other hand the many theories put forward have created confusion among the scholars handling the outsourcing practice, (McIvor, 2005). The study will build on the two theories below these are the Transaction Cost economic theory and the Agency cost theory.

2.2.1 Transaction cost economic theory

According to the transaction cost theory, organizations are considered to be economical players utilizing the most efficient mechanism for dealings (Williamson, 1981). This theory suggests when utilizing a market an organization experiences costs. Operational expenses such as search costs, inventory holding expenses as well as the charges of writing and enforcing an agreement are some of the costs experienced. To avoid transaction costs, an organization can make their own input which also enables it to gain economies of scale. However as the firm increases in size it will also require an increase in the co-ordination from within the organization (Grover et al 1996). Choosing to outsource will lead to increased transaction costs and more than likely a loss of its economies of scale (Grover et al 1996). On the other hand outsourcing can help to take advantage of the scope and economies of scale of the vendor while at the same time reducing internal coordination costs. However the external co-ordination costs the firm that outsources will more than likely increase. The increase or decrease of these costs will be dependent on the level asset specificity. An organization will experience high asset specificity when its products and services are highly customized and not easily transferable to alternative vendors (Williamson, 1985). Due to the distinctiveness or uniqueness the vendor will be unable to develop adequate economies of scale, this implies higher costs, in such a scenario it is prudent to develop the capabilities from within the organization (McIvor, 2008). The transaction cost approach gives a good framework that helps organizations decide what processes they should outsource and which they should maintain (Lacity & Hirschheim, 1993) it also helps in success prediction of outsourcing (Wang, 2002) in terms of financial benefits.

2.2.2 Agency cost theory

Agency theory is majorly concerned with challenges that arise during the outsourcing relationship between the principal and the (Eisenhardt 1989, Lassar & Kerr 1996). The procuring organization needs to embrace management efforts especially when supply ambiguity becomes a big factor. This will help to reduce the impact of a negative event that may be harmful to the organization.

The model suggests the importance of carrying out continuous monitoring and application of all efforts possible towards strengthening the connections amongst the two corporations (Barney & Hesterly, 1996). This is important to help counter any problems that may arise during the relationship (Arrow, 1985). The Agency theory is a key guide used as corporations start to prepare for outsourcing. It is useful especially when the organization is evaluating all the possible partners for the outsourcing process; this is because it helps to choose the relationship style it will apply.

2.3 Phases of Outsourcing

(Perunovic, 2007) put forward an overall classification of outsourcing procedure into five stages; he proposes that outsourcing goes through the stage of ground work (preparation stage), vendor selection, transition (change), relationship management and reconsideration. The phases are as shown below.

2.3.1. Preparation Phase

As per perunovic (2006; 2007) classification, the preparation stage is the phase where key questions to the corporation are asked. The main aim of the questions is to determine why the company is interested in outsourcing (Heywood, 2001; shepherd, 1999). At this stage, the firm needs to have assessed all possible or alternative strategies, using objective analysis and decision making models to help justify the decision to outsource. During this stage, the organization should be able to answer the three questions “what?”, “How?”, and “if”

2.3.2. Vendor Selection Phase

The phase of vendor selection is and important and crucial one as the chosen vendor automatically becomes a close partner to the firm for a period of time as will be determined by the agreement. (Perunovic & Christoffersen, 2005). According to Cullen & Willcocks (2003) it is very important to complete the preparation phase as it sets the platform for the outsourcing operations; it needs to be done before embarking on the vendor selection procedure. Proper preparation phase will guarantee that the firm will move into the outsourcing process with the most suitable service provider. The question addressed in the vendor selection phase is normally: “To whom”

2.3.3. The Transition phase

The transition phase follows after the completion of the vendor selection procedures, generally; contracts are put in place that will govern the outsourcing relationship. At this phase the planned activities agreed upon during the preparation and vendor selection phases, start to be applied. The main focus at this phase is to ensure smooth flow of operations from the old way of doing things to a new way as per the scheduled operations, the main focus should be to ensure the organization will remain functional and fruitful (Cullen & willcocks, 2003; Mclvor, 2010). During the transition phase, important issues addressed include, how to ensure the contact between the external and internal processes is sustained, how the human resources function will be distributed or adjusted, as well how the overall productivity of the organization will be readjusted (Greaver, 1999). A key delicate issue relates to the management of workers who may either require to be laid off or be taken up by the outsourcing partner, (Ordnanini & Silvestri, 2008; Miozzo & grimshaw, 2011; Picard &wildasin, 2011)

2.3.4. Relationship Management Phase

After the outsourcing process is in place, the relationship management phase enters. (Barthelemy, 2003) has referred to it as the “soft” approach to outsourcing, rather than management of contract. (Perunovic, 2006) however indicates that relationship management is far more intricate than contract management. For outsourcing to be a success, it will be highly dependent on the success of the relationship management at the business level between the two (Marinagi, et. 2014).

2.3.5. Reconsideration phase

When the process of outsourcing nears its end, the process goes through the reconsideration phase. There are various reasons that contribute to ending of an outsourcing relationship; the relationship can end as planned in the contract terms. A relationship can also end abruptly due to various factors such as changes in structures in the parent company, either party becoming bankrupt, out of mutual agreement, a violation or breach of contract terms by either of the partners (Cullen & willcocks, 2003). Despite the factors that have led to the end of an outsourcing relationship, an organization needs to review and analyse the cost benefits effect that resulted from the association, from there it will make a decision whether to continue with the association which positive aspects they will wish to maintain or negative ones they may need to change if they choose to use the same partner or a different one in the future. At this point the key question the management needs to ask at this stage is "Now what?" , is the organization going to renew the outsourcing contract with the same partner, is it looking to choose a new vendor or is it thinking of reverting back the operations back to the organization.

2.4 Outsourcing Strategy

As King (1994) explains that the most strategic decisions that can be made in organizations would be to outsource some of its key roles. These decisions are strategic because they will determine the choice of functions that the organization will choose to either develop internally or seek to purchase. For outsourcing to be successful there is a need for understanding the organizations capabilities and direction it intends to take in the future. Ellram et al. (2007), states that outsourcing will have implications on the day to day performance of the organization hence, corporations need to subcontract smartly. Long term competitive advantage, cost structures and risks experienced by organizations are among the key areas that will be affected by the decision to outsource (Brannemo, 2006). A clear conceptual framework for the outsourcing decision is therefore very important for any organization seeking to. Furthermore a company should also know the benefits and risks they are exposing their organization to before adopting the outsourcing strategy.

Yankelovih (2003) study has shown that at least one business process has been outsourced in at least two-third of companies globally. Countries mostly practicing outsourcing are Canada, United States of America and Australia. Javaligi (1998) noted that when the outsourcing strategy is successfully planned and implemented it will eventually contribute to reduced costs, capacity increase, capacity improvements and better quality products.

A survey was carried out among business executives with an aim of establishing why they sought to outsource. The main reasons highlighted during the research were found to be to gain outside expertise, to gain technological access, to save on expenses, to improve services and to also focus on core competences and to gain access to technology. When asked about the future outsourcing trends and if they planned to carry out any outsourcing in the future, 35% of the respondents showed that they would increase and continue with outsourcing, 40% will also continue with outsourcing but will make changes in the agreements to gain more benefits from the relationship, 25% indicated that they would reduce the level of outsourcing or stop the outsourcing altogether. The study shows that a level of dissatisfaction was experienced among the business executives, (Goldsmith, 2003).

2.5 Drivers of Outsourcing

The most common drives for outsourcing globally comprise, cutting down operating cost, cultivating company focus, attaining access to world class proficiencies, allowing the companies resources for other uses, restructuring to improve on efficiency for time consuming functions, exploiting use of external resources and sharing risks with a partner corporation (McIvor, 2010)

2.5.1 Cost Reduction

Reducing costs is the most recognized motive for outsourcing according to (Do et al., 2006). Cost seems to be a consistent theme that drives outsourcing in most organizations (Quintens et al., 2006). Nevertheless organizations fail to realize cost savings during the outsourcing process (Jennings, 2002), and some companies even experience an increase in costs as a result of outsourcing (Embleton & Wright, 1998.

2.5.2 Focus on core competencies

Another strategic motivation for outsourcing is the choice to focus on core competences and hence outsource non-core competences (Arnold, 2000; McIvor, 2009). Management, human and financial resources are limited within corporations and therefore they should be utilised to focus on the organisation’s core business activities rather than be locked up in non-core business activities (Brannemo 2006).

2.5.3 Access to external competences and quality

Another key reason for outsourcing is to enable access to resources, competencies, technology and knowledge missing in an organization (Belso & Martínez, 2010). The trend is becoming a key strategic approach to outsourcing, which is less cost driven and more concerned with strategic positioning (Sartor, 2006)

2.5.4 Risky Business Environments

When a company outsources production (or another manufacturing activity) the risk associated to the outsourced function is shared with the supplier, who faces uncertainty in demand (Rolstadås et al., 2012).

2.6 Benefits of Outsourcing

Advantages are the positive effects that follow and are anticipated by companies from the decision of outsourcing. The most acknowledged paybacks of outsourcing are to reduced costs and increase efficiency (Lankford & Parsa, 1999). Suppliers commonly work with diverse customers and by doing so they can take advantage of economies of scale resulting in lower prices for outsourcing organizations. Because of the consolidation, outsourcing organizations can either offer their products to customers at a more competitive price or reduce costs and increase profits, (Holweg et al., 2011).

Exploiting outsourcing opportunities allows the outsourcing company to focus on its core activities (McIvor, 2010), which are fundamental to fulfil customer needs and to sustain the organizations viable gain. Outsourcing actions which are not critical for the organizations competitiveness releases valued resources, which can be transferred to the activities and functions that are critical instead (McIvor, 2009).

Outsourcing non-core activities possesses the theoretical benefit of getting them performed by a supplier in a more effective way and devoid of the need of investing capital to continuously improve them internally (Jiang et al., 2007). The outsourced activity becomes the core activity for the supplier, who is able to carry it out quickly, providing a short lead time to avail the product in the market (Jian et al., 2007). Companies that outsource production are thereby able to access resources that are not available in their organizations such as special technology and machineries, which in turn contribute to more flexibility (Dabhilkar, 2011). Besides, the experienced workforce enable any type of product customisation (Mohiuddin & Su, 2013a), which enables the outsourcing company to adjust products or services according with the dynamics of the changing market (Scully & Fawcett, 1994).

Another significant advantage is with regards to the possibility of lowering the uncertainty in demand, which can be decreased through the risk pooling effect at the supplier level (Romano & Danese, 2010). When production is outsourced, ambiguity in demand earlier faced by the outsourcing corporation is transferred to the external supplier. The risk pooling effect takes place when the supplier (who generally produces goods of the same nature of the outsourcing company) is able to combine the unevenness in demand from many clients. In such cases, there is a higher chance that a positive variation in demand from one client compared to the average can be balanced by a negative variation from another customer (Romano & Danese, 2010). Hence, the larger the production volume suppliers are handling at a time, the lower the uncertainty they will experience. If a supplier experiences lower uncertainty then the outsourcing organization can benefit from that, having less need for materials and stock items, which normally represent tied up assets which is a cost.

2.7 Risks of Outsourcing

The most dangerous decision for an organization will be the decision to outsource any of its core activities (McIvor 2010; Barthélemy, 2003), which may result to a loss of competitive advantage. Therefore, it is important for a company to comprehend which of its activities represent a competitive advantage (Young, 1996). Due to their vital importance, these activities ought not be outsourced since it would be problematic and costly to develop such capabilities once again within the organization (McIvor, 2010).

When production is outsourced, the company counts on an external provider for perform the production; it also transfers knowledge to that supplier (Gilley & Rasheed, 2000). This contributes to a loss of control over the outsourced activity and a risk of opportunistic behaviour from the supplier (Fredriksson et al., 2010). It normally happens when activities close to the core business are outsourced, which would cause a loss of intellectual property and an increased risk of vulnerability for the company. Due to this, an organization needs to consider that control over outsourced activities can be exerted only through a legal agreement. Hence, this agreement has to be written with a high level of detail in order to specify the role, duties, and responsibilities of the two parties (Barthélemy, 2003). A poorly written contract might cause undesirable effects in terms of throughput, incomes, customer satisfaction, brand image, and lead times to the market (Barthélemy, 2003).

Another criticism to outsourcing concerns the lack of internal development of competencies that are needed to make the company's competitive advantage sustainable in the long run (Jiang et al., 2007). Missing coordination between sources of knowledge and new product development might weaken the company's capability to innovate and develop cutting-edge products (Gilley & Rasheed, 2000).

Despite the possibility of reducing uncertainty through risk pooling effect, physical distance matters and thus increased lead-time becomes a disadvantage. Physical distance might reduce the ability of a company to respond quickly to radical changes in the market (Fredriksson et al., 2010). Therefore, outsourcing can make adjustments or rescheduling of activities more challenging or slower than in-house production (Fredriksson et al., 2010).

Over and over again, it is taken for granted that outsourcing reduces costs. Most of the time it does, nevertheless cost reduction might not always be achieved or it might be lower than expected (Berggren & Bengtsson, 2004). On the other hand the outsourcing process itself has additional costs that need to be taken into account (Barthélemy, 2003). Besides that, there are other factors that produce costs, such as increasing labour cost and wage inflation; customs taxes; logistics; quality problems (e.g. due to employee turnover at the supplier facility). Selecting outsourcing as the main strategy to minimise costs might cause poor manufacturing performance (Dabhilkar & Bengtsson, 2008). This might be the result of a feeling of uncertainty among employees, which leads to insecurity (Barthélemy, 2003). The personnel might be concern on their job security, this causes employees to have low productivity , de-motivation and reducing loyalty (Mazlan et al., 2006).

According to Weil (2014), outsourcing operations have contributed to a reduction in the quality of jobs and salaries paid, this is attributed to the fact that most outsourcing partners will tend to pay no regard to employment or labour laws. Reason being they may lack experience or are less knowledgeable on law requirements with regards to employment. Most of these organizations operate on a thin budget hence with a bid to improve their profit margins they will tend not to invest in experienced Human resources function. Ji & Weil (2015), found that greater violation on overtime regulations and minimum wages was more prevalent in franchisee companies than in company-managed outlets this is related to the different profit models adopted by the two entities.

2.8 Conceptual Framework

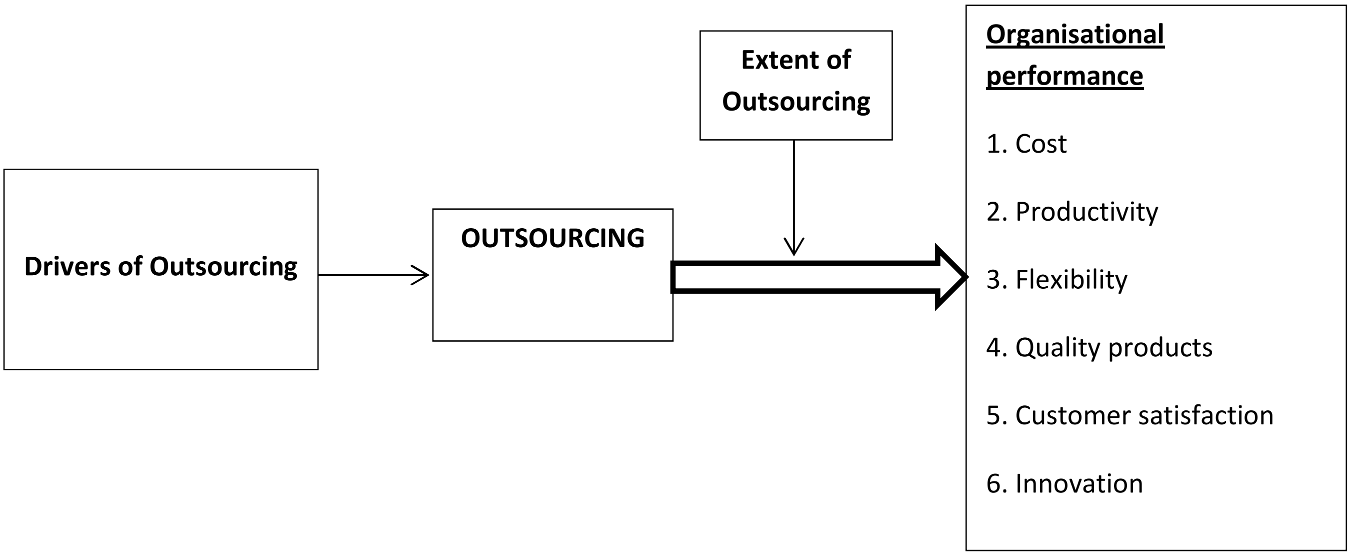

Figure 1: Conceptual Framework

There are several drivers that lead organizations to outsource; the main reason why an organization outsources is to improve the firm's performance. It is alleged that the higher the extent of outsourcing the better the act of the organization will be.

2.9 Summary

The review of literature above leads us to conclude that indeed a vast amount of outsourcing studies on different industries has already been done. They have revealed that benefits are derived from the outsourcing process, such benefits include but are not limited to reduction of costs, ability to be able to focus on the core business, availing opportunities for organizations to tap into technology that is superior, to grow in capacity, to become more flexibility etc. The study will focus on Diversey Eastern & Central Africa Ltd and will seek to get the views of company employees on the extent of outsourcing, the drivers of outsourcing and on how the decision to outsource has influenced the performance of the organization.

CHAPTER THREE: RESEARCH METHODOLOGY

The objective of this chapter is to explain the methods used in this research. The chapter will describe the type of research design, the target population, data collection methods, and data analysis methods that were used.

3.1 Research Design

Descriptive research approach was chosen for the study, this is because the study involved getting detailed information from public units and using numbers to analyze or determine the existing relationship (Kothari, 2004). A case study was applied, according to Donald (2006) a case study pursued will be useful in analysing a unit in detail and drawing generalizations from the unit surveyed. Thus, the study was a case study of Diversey Eastern and Central Africa Limited, a manufacturer of detergents situated in Nairobi, at Ruaraka area. This design was appropriate for this study, since the organization provided a conducive and natural environment for data collection.

3.2 Target Population.

The research was highly specific hence the non-probability sampling method was chosen for the selection of the respondents. This allowed for the researcher to be able to choose the respondents who held relevant information useful for the research. The choices of the respondents was made out of the fact that the respondents chosen have excellent experience or knowledge of specific issues associated with outsourcing and are accountable for controlling projects or teams with significant involvement in the outsourcing process. Total number of respondents used was thirty (30)

3.3 Data Collection

This study used both primary and secondary data. The information was acquired directly from the respondents; this was done using a well-structured questionnaire that addressed the objectives of the study. The questionnaire had both open and closed-ended questions. It comprised of four sections, section one addressed the employment profile of the respondents, section two addressed the extent of outsourcing, section three sought to find out the key drivers of outsourcing, section four sought to find out the employees perception about the effect of outsourcing on the firm's performance. Documentary secondary data was obtained from the company's records dates ranging from (2008 - 2015). The research also used three checklists for collecting the secondary data as sown in Appendix 11. The secondary data captured the varying costs and quality of products before and after the company started outsourcing.

3.4 Data Analysis

Data collected was prepared for analysis; this entailed checking the questionnaire for completeness and legibility. The data was edited, captured and tabulated for ease of analysis. Section one that covered the employment profile and general information of respondents will be analyzed using descriptive statistical analysis to provide a profile of the respondents. Tables and charts were used for visual representation of the key findings. Section two that covered the first objective that is to determine the extent of outsourcing in Diversey, section three that covers the drivers of outsourcing and section four that covered the effect of outsourcing on the performance of the organization were analyzed using descriptive tests. The research employed use of frequency analysis, cross tabulation and correlation analysis. Final data was presented in form of tables and charts for easy interpretation and recommendation in decision making.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter offers the analysis of the findings on Outsourcing and operational performance in Diversey Eastern and Central Africa limited. The findings are based on data collected from 30 respondents and secondary data obtained from the company records. The questionnaires were issued subjectively to employees to whom the researcher felt had the information that was relevant to the research. According to the responses received and secondary data collected the analysis and interpretation is hereby undertaken

4.2 Employees Profile and General Information

The research was carried out across all the departments of the organization. Out of 30 questionnaires issued out, 27 were successfully filled and returned on time.

Table 1: Category of Representation in the sample

Employees Department	**Frequency**	**%**
Customer Service	5	16.67
Technical	1	3.33
Procurement	1	3.33
Warehouse	4	13.33
Quality Control	2	6.67
Contract Manufacturing	2	6.67
Information Technology	1	3.33
Administration	3	10.00
Finance Department	4	13.33
Sales and marketing	4	13.33
No Response	3	10.00
Total	**30**	**100.00**

Source: researcher (2016)

4.3 EXTENT OF OUTSOURCING

From the study, majority of employees indicated Manufacturing and distribution as operations that have been outsourced to a large extent. Finance management, Customer service, Sales & Marketing and IT, were shown not to be outsourced. Human Resources and warehousing were identified as partially outsourced operations.

Table 2: Extent of outsourcing in the organization

Nos	Extent of Outsourcing	Large Extent	Fairly Large Extent	Somewhat Outsourced	To a small extent	Not at all	No response	Total %
		5	**4**	**3**	**2**	**1**	**0**	
1	Manufacturing	90	3	4			3	100
2	Distribution	87	7	3	3			100
3	Human Resources	7	10	46	17	20		100
4	Finance Management				13	84	3	100
5	Customer Service				10	90		100
6	Warehousing		7	20	17	57		100
7	Sales and Marketing			3	10	87		100
8	IT	3	3	14		80		100

Source: researcher (2016)

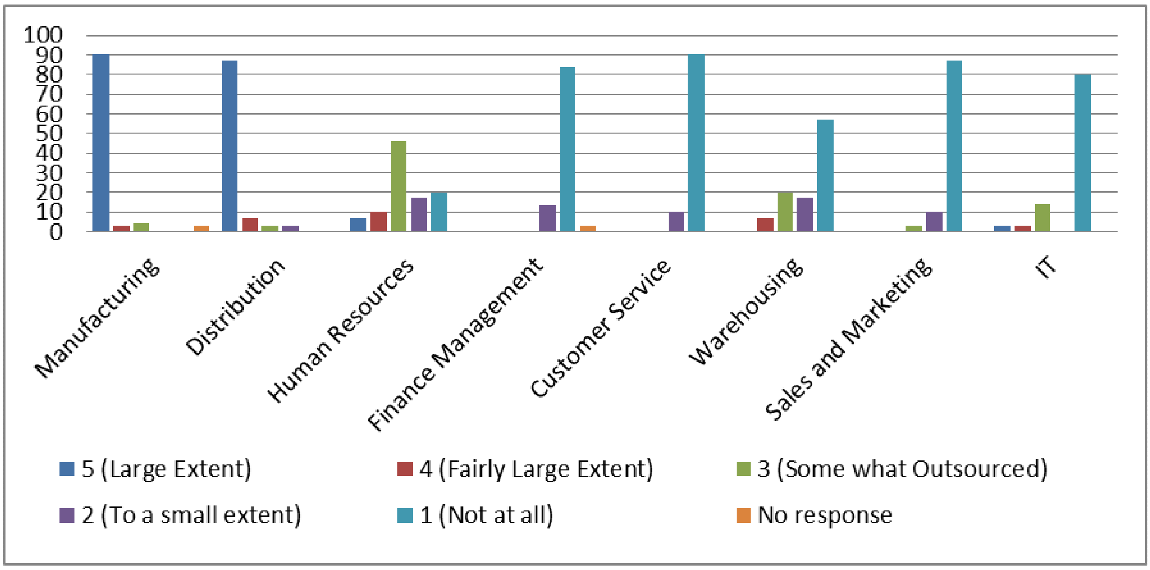

Chart 1 – Extent of outsourcing

The following areas were listed by employees of Diversey Eastern and Central Africa Limited as areas the organization can consider outsourcing. Procurement, Finance Housekeeping, Warehousing Finance areas were the key areas suggested for outsourcing consideration.

Table 3: Additional Areas where Diversey can outsource

Operation	**Frequency**	**Percentage**
Procurement	4	13.3
Financial Data Entry/ Petty Cash management	4	13.3
House Keeping & Front Office Management	4	13.3
Warehousing	3	10.0
Printing and IT services	3	10.0
Catering	2	6.7
Logistics	2	6.7
HR and Payroll	2	6.7
Sales and Marketing	2	6.7
Research and Development	1	3.3
Protective Gear Management	1	3.3
Staff Transport	1	3.3
Team Building	1	3.3
	30	**100.0**

Source: researcher (2016)

4.4 Drivers of outsourcing

The respondents were asked to rate the drivers that have led Diversey Eastern and Central Africa Limited to outsource some of its operations. They were given a list of common drivers to outsourcing and were asked to rank the drivers from the greatest driver to the least driver of outsourcing. Table 4.2 below presents the summary of how the respondents ranked the drivers of outsourcing, with one being the greatest contributor

Table 4: Ranking the drivers of outsourcing

Drivers of Outsourcing	Greatest	2nd Greatest	3rd Greatest	4th Greatest	5th Greatest	6th Greatest	7th Greatest
Cost Reduction	20	5	2	2	0	0	0
Cost Saving	14	8	4	2	1	0	0
Capital Investment reduction	14	1	4	5	2	2	2
Improved Company Focus on core activities	13	4	4	2	1	2	2
Increase flexibility	10	3	2	6	3	1	1
Improve product quality	6	2	4	2	2	2	2
Increase variability in Demand	1	3	4	2	5	1	3
Take advantage of suppliers greater innovation capability	3	2	2	4	6	1	9
To facilitate market penetration	5	2	2	2	4	6	6

Source: researcher (2016)

From the findings, it was observed that the greatest driver to outsourcing is Cost reduction at 23%, followed by cost saving and capital investment reduction, both at 16%, the least driver to outsourcing was found to be ”to increase variability in demand” at 1%.

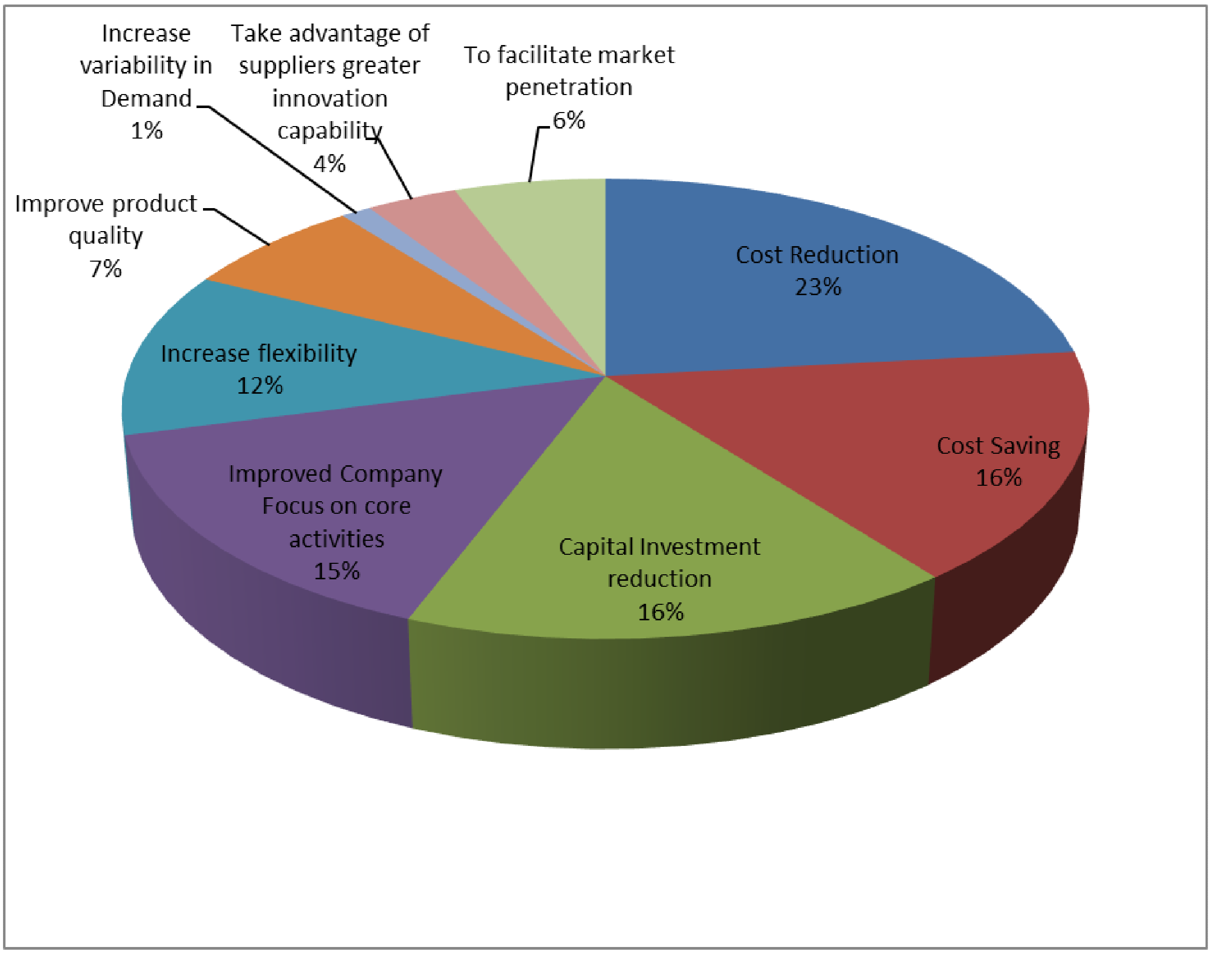

Chart 2: Drivers of Outsourcing

The respondents were asked if there were any other additional drivers of outsourcing, 33% of the respondents identified Head count reduction as a major driver and 15% felt that mitigation of risks also contributed to the decision, a further 11% felt that outsourcing was aimed at reducing safety hazards on employees.

Table 5 – Additional Drivers to outsourcing

Additional Drivers to Outsourcing	**Frequency**	**Percentage**
Human Resource Management / Head count reduction	9	33%
Share Risk with partner organizations / Mitigate Risks	4	15%
Reduce Safety Hazards on employees	3	11%
Time Management	2	7%
Access to Expert Knowledge and technology	2	7%
To Focus on core business of offering quality sales services	2	7%
Improved Efficiency	1	4%
Control Wear and tear	1	4%
Easy Exit strategy from Markets	1	4%
Reduction in inventory holding	1	4%
To gain global competitive advantage	1	4%
Total	**27**	**100%**

Source: researcher (2016)

4.5 Outsourcing and Operational Performance.

The respondents were given a list of operational performance measures and were asked to indicate using a scale of 1-5 to what extent they agreed that outsourcing had influenced the performance measures. The table () below represents a summary of the respondents views

Table 6 – Influence of outsourcing on operational performance

	Performance Indicator	**Strongly Agree**	**Agree**	**Neither Agree or Disagree**	**Disagree**	**Strongly disagree**	**No Response**	**Total Percentage**
		5	**4**	**3**	**2**	**1**		
1	Costs	77		17	6			100
2	Productivity		77	17	6			100
3	Flexibility		53	27	20			100
4	Quality		47	20		30	3	100
5	Service Delivery		74	23	3			100
6	Innovation		32	29	39			100
7	Production technique		48	40	12			100
8	Customer satisfaction		67	17		16		100

Source: researcher (2016)

From the results in the table above, 77% of the respondents strongly agree that Outsourcing will influence the costs of the organization.77% also agreed that productivity will be affected, Customer satisfaction and service delivery will also be affected by outsourcing. 30% of the respondents strong disagreed that Quality will be affected by outsourcing and 16% also strongly disagreed that customer satisfaction will be affected; the indications above show us that outsourcing does influence the performance measures and thus the study went further to find out if the influence is positive or negative, by comparing performance before and after outsourcing.

The respondents were asked to compare how the flexibility before and after outsourcing was. 60% of the respondents felt that flexibility had improved after outsourcing, with 10% of respondents saying flexibility has reduced. 30% felt the flexibility has remained constant.

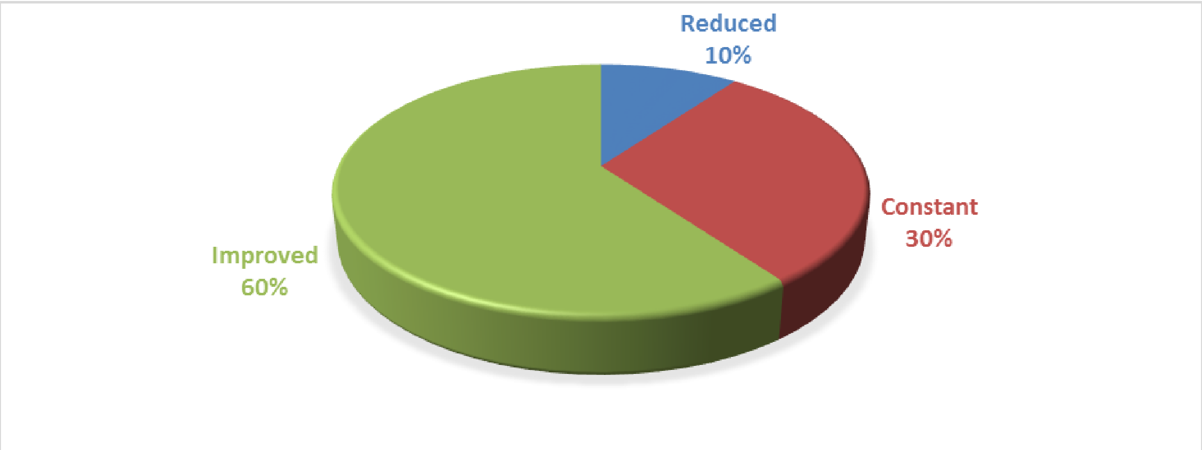

Chart 3 – Flexibility Performance

The respondents were also asked to rate the performance of service delivery before and after outsourcing. 79% of the respondents felt that service delivery had improved after outsourcing.13% felt the service delivery had greatly improved. On the other hand 8% felt the service delivery had reduced.

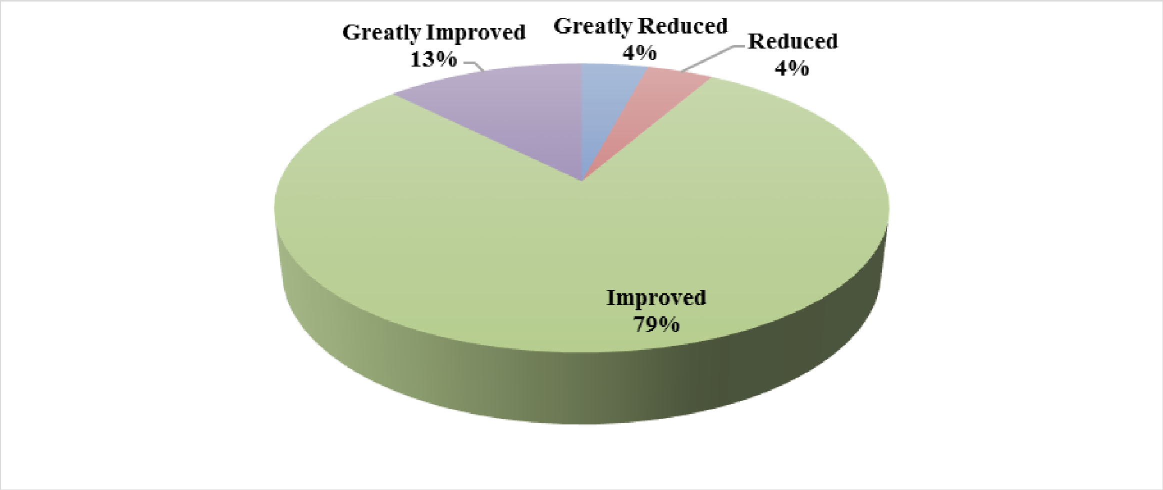

Chart 4 – Service Delivery performance

On innovations 68% of the respondents felt that innovation had remained constant after outsourcing whilst 18% felt that the innovation had greatly improved, while 5% felt innovation had reduced.

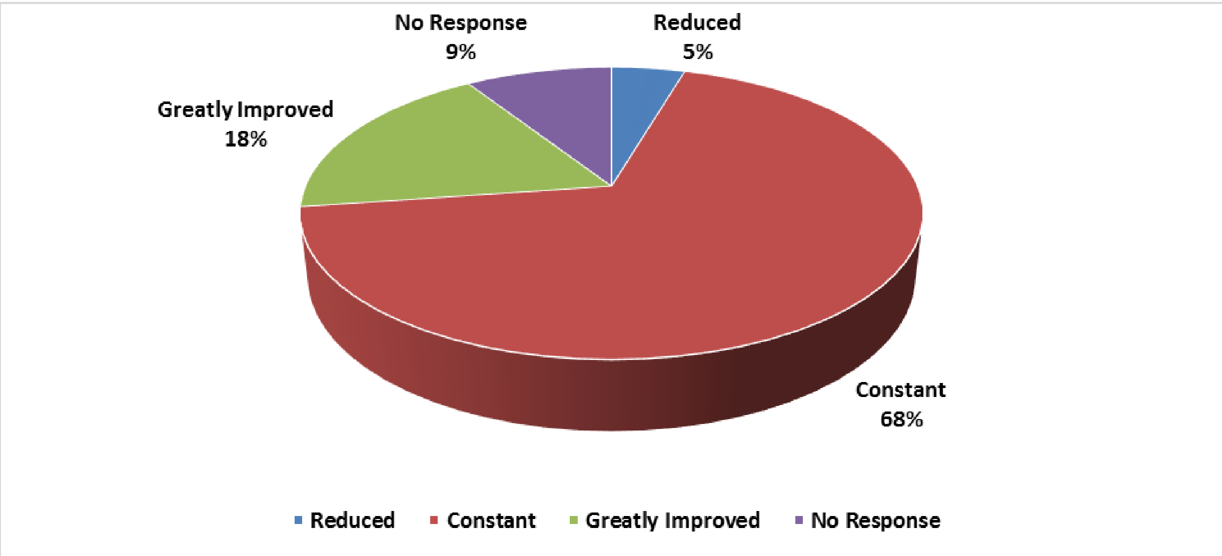

Chart 5: Innovation Performance

36% of the respondents felt that the production technique has remained constant after outsourcing while 37% felt Production technique has improved after outsourcing. 27% felt that the production technique has reduced.

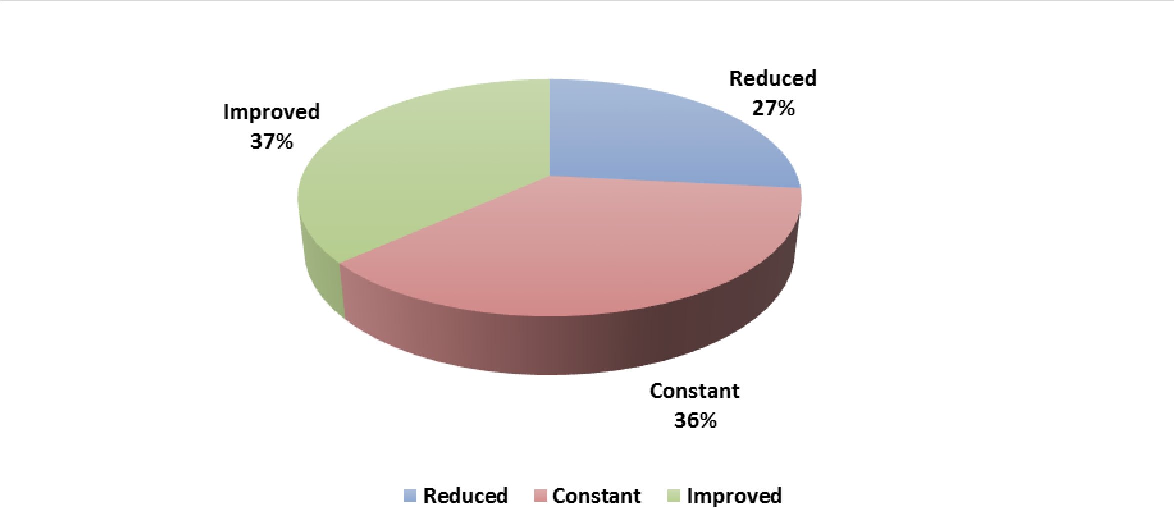

Chart 6 – Production technique performance

57% of the respondents felt that customer satisfaction has improved after outsourcing but 33% feel that customer satisfaction has reduced a further 10% felt that customer satisfaction has remained constant.

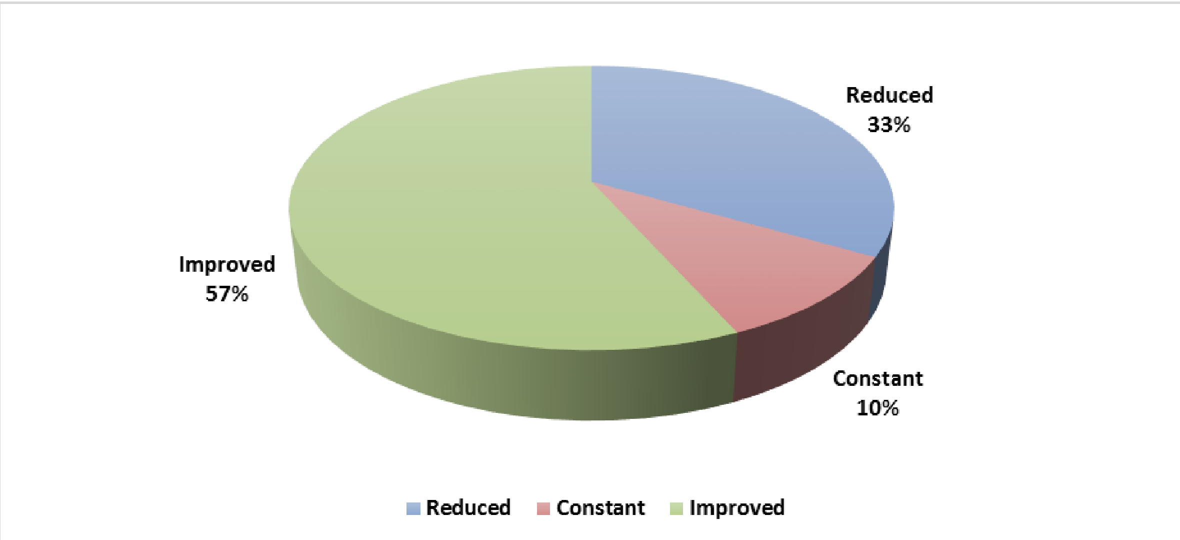

Chart 7 – Customer Satisfaction Performance

When asked for further comments, 3% of the population sampled felt that product quality had reduced, 3% also felt a loss of control over operation, and additional 3% also felt the safety performance had also greatly reduced. On the other hand another 3% felt that costs had reduced.

4.6 Secondary Data Review

To support the findings on the primary data collected, secondary data was collected from company records from 2008 to 2015, the findings are recorded below.

Table 7 – Summary of secondary data collected

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Distribution Costs as a percentage of Company Sales	1.49	1.65	1.68	1.84	2.10	1.43	0.94	1.15
Product quality complaints as a percentage of total company complaints	76	73	53	43	65	54	51	77

Source: researcher (2016)

From the results above, we see that the cost of distribution was rising up until 2012, when the distribution was fully outsourced, from the year 2012 the distribution costs drastically reduced, thus proving that outsourcing has led to reduction of distribution costs. The complaints on Quality have gradually been reducing from 2008 to 2011, but after outsourcing the manufacturing function in 2012, we see that the quality complaints have started to gradually increase heating the highest percentage of 77% in 2015.

4.7 Conclusion of the Findings

From the data analysis, it can be concluded that Diversey Eastern and Central Africa Limited has indeed outsourced. Some operations including manufacturing and distribution have been fully outsourced. Other operations like human resources and warehousing have been partially outsourced. The study also found out that some operations have not been outsourced at all; these include finance, sales & marketing and Information technology. The major drivers of outsourcing are cost reduction, followed by cost saving and capital investment reduction; to focus on core business was also found to have been one of the major drivers of outsourcing. From the findings, we also see that outsourcing has impacted positively on the performance of the organization. There has been notable improvement on the reduction of distribution costs. A lot of the employees felt that costs, productivity and service delivery had improved, but there were some concerns on the flexibility, innovations, quality and customer satisfaction.

CHAPTER FIVE: KEY FINDINGS, CONCLUSIONS and RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research findings it also presents the summary, conclusions and recommendations of the study. The conclusions were based on the survey objectives and proposed findings of the study.

5.2 Summary of Findings

The study sought to establish the extent of outsourcing, the drives of outsourcing and the result of outsourcing on the performance of Diversey Eastern and Central Africa Limited. The research established that Manufacturing and Distribution functions were outsourced to a large extent, finance management; customer service, sales and marketing were found not to be outsourced. Human resources and warehousing were found to have been partially outsourced. The respondents were also asked to suggest additional areas where they felt the organization could also outsource. 13.3% suggested outsourcing of procurement activities, 30% suggested outsourcing of housekeeping, warehousing and financial data entry. Other operations which were proposed for outsourcing were Human resources & payroll, research & development, petty cash management, protective gear management, front office management, staff transport and team building activities.

From the findings of the study, the major driver that led to outsourcing was found to be Cost reduction at 23%, Cost savings and capital investment reduction were found to be the second greatest contributors both scoring 16%, The next driver of outsourcing was to improve company focus on core activities, aim to increase flexibility which came at 12%, improving product quality at 7%, to facilitate market penetration at 6%, to take advantage of suppliers greater innovation capability at 4%, the least driver was found to be to increase variability in demand that came in at 1%. Further questioning of the respondents on what other factors they thought drove the organization to outsource, 33% felt that human resource management and reduction of headcount contributed to the outsourcing decision, a further 15% thought sharing risks or mitigating risks, contributed to the outsourcing decision. 11% suggested that the organization had outsourced in order to reduce safety hazards on the employees. Other drivers to outsourcing were time management, to gain expert knowledge and technology, to focus in offering quality sales services, to control wear and tear, as an exit strategy form markets, to reduce inventory holding and to gain global competitive advantage.

On the effect of outsourcing on the operational performance, the respondents were asked to indicate if they agreed that outsourcing influenced the performance measures listed. 77% of the respondents strongly felt that outsourcing influenced the costs of operations in the organization, 77% also agreed that productivity was influenced by outsourcing. 53% felt outsourcing will influence flexibility but 20% felt disagreed with it. On quality, only 47% agreed that outsourcing will influence it, but 30% felt outsourcing will not contribute to quality. 74% agreed that service delivery will be influenced by outsourcing. 74% agreed that service delivery will be influenced by outsourcing, while 23% neither agreed nor disagreed. According to the results, innovation and production technique did not change due to outsourcing. 67% of the respondents agreed that outsourcing will affect customer satisfaction while 16% felt that customer satisfaction will not be influenced by outsourcing.

The study also sought to compare how some performance measures differed before and after outsourcing, from the findings, flexibility was found to have improved by

60% of the respondents, while 30% felt the no change on flexibility. 79% of the respondents felt service delivery had improved but 8% felt that it had reduced. 68% felt the innovation had remained constant. On the production technique, 36% felt it had remained constant, 37% felt it had improved while 27% felt it had reduced. 57% felt that customer satisfaction had improved but 33% felt it had reduced. Additional areas of concern were that outsourcing had led to reduced product quality, reduced costs, and reduced safety performance.

The secondary data confirmed that Outsourcing has contributed to reduced costs of distribution, this is evidenced by the fact that, distribution costs as a percentage of company sales were increasing while using the company's distribution vehicles up to 2012, but after outsourcing, the costs have gradually been decreasing. On product quality the secondary data showed quality performance had reduced, as a matter of fact, the highest level of complaints were experienced during the time the manufacturing had been fully outsourced in 2015

5.3 Conclusions

The study established that Diversey Eastern and Central Africa limited had indeed outsourced some of its operations. These were evidenced from the participants from different departments of the organization that responded. On the other hand, the study established that the organization could also outsource other operations that the employees suggested, especially procurement and finance operations. The main drivers to outsourcing were found to be Cost reduction, cost savings and capital investment reduction. The least drivers to outsourcing were found to be to increase feasibility in demand and to take benefits of supplier's greater innovation capability. On operations performance, the study confirms that outsourcing does indeed contribute positively to cost savings, productivity, service delivery and customer satisfaction. However from the study we find that the respondents have noted that the flexibility, quality, production technique and customer satisfaction to some extent have been affected due to the outsourcing decisions. According to Brannemo (2006) many organisations are choosing outsourcing as a strategy believing it will help them to reduce costs, gain access to other companies competencies, and permit them to concentrate on their own main abilities, while Diversey Eastern and Central Africa have experienced a lot of this benefits according to the study, we see that the quality of products, customer satisfaction, flexibility and innovation have not benefited much.

5.4 Recommendations

The benefits of outsourcing are tremendous but for the outsourcing organizations to work well, Proper research should be carried out to ensure the service providers are capable of delivering the required services before engaging them for any business. Standard operating procedures should be agreed upon and communicated early preferably before the start of any outsourcing relationship. For the organizations outsourced to regular supplier audits should be carried out to ensure they comply with the standard operating procedures set. This is in accordance with the Agency cost theory that suggests that the organization that is outsourcing needs to continuously seek to monitor and strengthen the ties with the outsourcing partner (Barney & Hesterly, 1996). During the outsourcing relationship both parties should ensure communication lines are open. So that if the supplier experiences any challenges they can be able to communicate to the organization, and if the organizations needs any clarity, they should be able to reach the service providers fast. Payment terms should be agreed upon and adhered to, this will ensure the relationship is not strained hence leading to a committed supplier who shall not compromise on quality of service or product delivered.

On innovations, Thompson's (1965) defines Innovation as the generation, acceptance and implementation of new ideas, processes, products or services. The study showed that by outsourcing the organizational innovation had remained constant to a large extent. Organizations seek opportunities for change through innovation in the current volatile and uncertain business environments. Innovation will not only help the organization to survive but it will also help it successfully compete. This implies that the organization when making an outsourcing decision should also consider partners who will support it to become more innovative by offering superior ideas, services and flexibility to enable adaptation to changes.

The organization needs to critically re-evaluate the quality performance of the organization, if not addressed promptly, the decrease in quality performance will lead to loss of customers and demotivation of staff. The cost of replacing a profitable customer can be significant; therefore the organization needs to continuously work on improving the quality in an effort to retain the customers.

5.5 Limitations of the study

This study focused on one organization the limitation arising from this is that the findings may not be applicable to other companies in other industries in Kenya because these findings are specific to the organization or organizations in the same business. The primary data collected by the Likert scale may have biases of the respondent reflected in the results. This might therefore lead to results being dependent on the attitudes of the respondent. It may have been possible to receive different responses from different respondents depending on the exposure of the respondent and the length of time the respondent has worked for the organization. Manufacturing costs could not be obtained from the company financial records, this is because the cost of goods sold was combined to include cost of goods manufactured and costs of imported products. Hence the researcher could not be able to ascertain if outsourcing the manufacturing function had actually led to reduced manufacturing costs.

5.6 Suggestions for further study

This study can be carried out using a wider population of study across a mix of industries in Kenya so as to get findings that are applicable to all industries in Kenya where outsourcing is evident.

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Appendix 1: Questionnaire.

The questionnaire seeks to obtain data from Diversey Eastern and Central Africa Limited employees. It will seek to determine the Extent of outsourcing within the organisation, the key drivers of outsourcing, and the general effect of outsourcing on the firm's performance. The findings of the research will be useful to manufacturing organizations for the planning, implementing and improving of the outsourcing practice. Please give your honest opinion as freely as possible.

SECTION I: EMPLOYMENT PROFILE & GENERAL INFORMATION

1.1 Name (Optional)……………….……………………………………………...

1.2 Designation (where applicable)………….. ………………………………

1.3 Department…………………….……………………………………….....

SECTION II: EXTENT OF OUTSOURCING

a) To what extent has Diversey Eastern and Central Africa limited outsourced the following activities, (With **5** being to a Large Extent and **1** being Not at all)

Nos	**Extent of Outsourcing**	**5**	**4**	**3**	**2**	**1**
1	Manufacturing					
2	Distribution					
3	Human Resources					
4	Finance Management					
5	Customer Service					
6	Warehousing					
7	Sales and Marketing					
8	IT					

Other………………………………………………………………………………

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b) In the space provided below, please suggest additional areas where you feel Outsourcing can be applied in Diversey Eastern and Central Africa Ltd

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SECTION 111: DRIVERS OF OUTSOURCING

a) Rank the following in terms of being the greatest contributor to outsourcing, with 1 (One) being the greatest contributing factor to outsourcing

Drivers of Outsourcing	
Cost Reduction	
Cost Saving	
Capital Investment reduction	
Improved Company Focus on core activities	
Increase flexibility	
Improve product quality	
Increase variability in Demand	
Take advantage of suppliers greater innovation capability	
To facilitate market penetration	

b) In the space provided below, please list any other factor that you think drives Diversey Eastern and Central Africa Ltd to outsource

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SECTION 1V: OUTSOURCING AND OPERATIONAL PERFORMANCE

a) Below are some performance indicators, indicate using a tick (√) to what extent do you agree that outsourcing has influenced the performance of the firm. Rate using a scale of 1-5, where: **1** strongly disagree, **2** Disagree, **3** neither agree nor disagree, **4** agree, **5** strongly agree

	Performance Indicator	**Strongly Agree**	**Agree**	**Neither Agree or Disagree**	**Disagree**	**Strongly disagree**
		5	**4**	**3**	**2**	**1**
1	Costs					
2	Productivity					
3	Flexibility					
4	Quality					
5	Service Delivery					
6	Innovation					
7	Production technique					
8	Customer satisfaction					

Other ……………………………………………………………………………………

b) In your own opinion how would you rate the performance indicators below before and after outsourcing some of the operations of the organization.

	Performance Indicator	**Greatly Improved**	**Improved**	**Constant**	**Reduced**	**Greatly Reduced**
		5	**4**	**3**	**2**	**1**
1	Flexibility					
2	Service Delivery					
3	Innovation					
4	Production technique					
5	Customer satisfaction					

Others…………………………………………………………………………………

……………………………………………………………………………………..

Thank you for your valued input.

Appendix 111: Check Lists for Secondary data collection

The researcher will collect data from the company records from the year 2008 to 2015. The table below will guide on data to be collected

Section 1: Costs

Distribution Costs as percentage of Company Sales

Year	2008	2009	2010	2011	2012	2013	2014	2015
Distribution Costs as a percentage of Company Sales								

Table (i)

Cost of goods Manufactured as a percentage of Company Sales

Year	2008	2009	2010	2011	2012	2013	2014	2015
Cost of goods Manufactured as a percentage of Company Sales								

Table (ii)

Section 11: Quality of Products

Complaints related to product quality as a percentage of Total Company complaints

Year	2008	2009	2010	2011	2012	2013	2014	2015
Product quality complaints as a percentage of total company complaints								

Table (iii)