EFFECT OF OUTSOURCING DECISION ON ORGANIZATIONAL PERFORMANCE IN THE MANUFACTURING INDUSTRY: A CASE OF UNGA GROUP LIMITED, KENYA

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DECLARATION

This research project is my original work and has not been presented for academic credit at any other university.

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This Research Project Report has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This Project report is dedicated to my beloved Family (Solomon, June, Julianne and Joseph) for their moral support during the time of writing this project.

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ABBREVIATIONS AND ACRONYMS

BPO - Business Process Outsourcing

CARS - Cost Affected Reductions

CR - Cost Reduction

EC - Employee Competence

HR - Human Resource

I - Innovativeness

IBM - International Business Machines

ICT - Information and Communication Technology

IT - Information Technology

NPD - New Product Development

RDT - Resource Dependence Theory

ROI - Return on Investment

ABSTRACT

Firms have always sought ways to gain a competitive advantage over their competitors; one avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage and heightened performance to these firms. However, Firms and Industries under the context of increasing use of outsourcing arrangements, as well as the unfamiliar complexity, are unaware of how to effectively utilize this strategy to improve their performance. The study therefore purposed to establish the effect of outsourcing decision on organizational performance of Unga Group Limited. It specifically sought to establish the effect of outsourcing for employee competence on organizational performance; find out the effect of outsourcing for cost reduction on organizational performance; examine the effect of outsourcing for innovativeness on organizational performance; and determine the effect of outsourcing to focus on core competencies on organizational performance of Unga Group Limited. This study employed the Resource-Based View theory and employed explanatory survey research design to target the 60 management staff of the four departments of HR, finance, procurement/purchase and marketing. Census method was used to get all the respondents. Questionnaires were used to collect data. To test the reliability of the instruments Cronbach coefficient Alpha formula was used and the score stood at 0.716 while validity of the instruments was measured by two experts at Nairobi University reviewing the instruments. Data was analyzed using descriptive, correlation and regression analysis then presented in tables. The findings of the study were: employee competence (β=.393, t=5.968, $p<0.000$), cost reduction (β=.193, t=2.593, $p<0.004$), innovativeness, (β=.324, t=4.383, $p<0.000$), and focus on core competencies, (β=.352, t=5.129, $p<0.000$), had a significant influence on organizational performance at Unga Group Limited, Kenya. The study therefore recommends: Unga Group Limited should offer better terms of service and proper training to help improve employee competence and reduce costs of outsourcing its HR functions for better performance; they should employ strategic and well thought out outsourcing to further reduce operating and overhead costs for further firm growth; Unga Group Limited should carefully consider the issue of outsourcing to ensure that while outsourcing helps in new innovations, no product quality is compromised and no money is lost; and should clearly ascertain the non-core functions to outsource and further review the potential cost and benefit to be garnered if the non-core functions are outsourced. This study proposes that further research be done in human resource factors influencing outsourcing decision in the textile industry in Kenya.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Firms have always sought ways to gain a competitive advantage over their competitors; however, with the increased movement towards a single globalized economy, this desire is even more prevalent for businesses today. One avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage and heightened performance to these firms (Monczka and Trent, 2008; Quinn and Hilmer, 2004).

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

Dwindling resources and market competitiveness have forced organizations to scrutinize their methods of producing goods and services and make changes in their processes in order to maximize economic returns. To survive and be profitable in current globalization era, organizations have pursued continuous improvement, leaned up production, reengineered business processes, and integrated supply chains (Brannemo, 2006). Over the past decades there is a growing realization of the important contribution of outsourcing strategy on organizational performance (Cousins et al., 2006).

While many firms have followed the pattern of outsourcing some part of their operations to improve their competitiveness, others have not, leading many to ask what factors influence the decision to use outsourcing and how such outsourcing improves organizational performance (Merino and Rodriguez, 2007; Nayak, 2007). Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers.

According to preliminary interview with management at manufacturing firms in Nairobi region, these companies are increasingly opting for outsourcing of non-core activities relating to human resource (HR), information technology (IT) and finance. The companies feel they will be able to focus on their core activity by outsourcing functions like promotions, payroll management, bonus, salary disbursement, provident fund, gratuity, recruitment, flexi-staffing, IT work, new product introduction, security and training to HR consultants. All these are in a bid to provide high service quality, improve on skills and experience and offer innovativeness that would consequently spur performance (Nayak et al., 2007).

In general, outsourcing is considered to be that part of an organization's process, which it sources from outside suppliers, regardless of the type of relation with these suppliers (Mol et al., 2005). As such, every firm engages in outsourcing to some degree, be it manufacturing, customer care, logistics, post sales technical support, finance, auditing, staffing, or design. The choice of what functions to outsource and which to keep in-house is based on the need to develop skills, invest in resources, and stay abreast of evolving technology in any areas kept in-house (Harris, 2008).

In studies examining the impact of outsourcing, there have been several key advantages of outsourcing identified, such as cost savings (Bardhan et al., 2006; Nayak, et al., 2007), reduced capital investment within the firm (Gilley and Rasheed, 2000), improved responsiveness to changes in the business environment and improvement on service delivery (Dess et al., 2005), an increased focus on core competencies (Kotabe and Murray, 2009; Saunders et al., 2007), increased competition among suppliers ensuring higher quality goods and services in the future (Kotabe and Murray, 2009), and a reduced risk of changing technology (Quinn, 2000).

Kenya is one of the top three Business Process outsourcing (BPO) destinations in Africa. In the BPO market, Kenya has a comparative advantage due to the low labour rates for quality services. Although Kenya already has a growing outsourcing sector with over 50 registered companies operational, a boom is expected (Kemibaro, 2011).

Unga Group Limited, founded in the early 1900s, is a flour milling company based in Kenya and is market leader in the manufacturing and provision of superior human nutrition, animal nutrition and animal health products and services within Eastern Africa. In the bid to enhance performance and maintain her competitive advantage the management staff makes some outsourcing decisions.

The Company is headquartered in Nairobi with flour mills in Eldoret, Nakuru and Mombasa. The Company has two business segments, namely Consumer, and Animal Nutrition and Health. The Consumer segment produces products for human consumption. The Animal Nutrition and Health segment produces animal feed and mineral supplement products, and distributes products for animal health. The Company, through its subsidiaries, is engaged in the milling of wheat and maize, and the manufacture of packaging materials and animal nutrition products.

A growing trend in work organization is for firms to outsource many activities that had been previously performed in-house. Outsourcing these activities, it is argued, will free up human and capital resources as well as allow for increased flexibility in the way labour is employed. Although the extent of outsourcing and other approaches to flexibility have been well documented in developed countries, little attempt has been made to evaluate such practices in the Kenyan context and specifically in the manufacturing industry to which Unga Group Limited is a part. The purpose of this study was to review the existing research and to evaluate the effect of outsourcing decision on organizational performance of Unga Group Limited.

1.2. Statement of the Problem

The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender 2009). Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn 2000). Firms and Industries under the context of increasing use of outsourcing arrangements, as well as the unfamiliar complexity, are unaware of how to effectively utilize this strategy to improve their performance (Bender, 2009).

On the basis of organizational estimate of total turnover, practicing managers in manufacturing firms are attempting to establish the nature and type of outsourcing required to reach goals of higher profitability and higher organizational performance (Uddin, 2005). The concept of outsourcing is one that according to Gilley and Rasheed, (2000) is currently being keenly considered based on the current business environment of high competitiveness.

However, although the extent of outsourcing and other approaches to flexibility have been well documented in developed countries (Gilley and Rasheed, 2000; Uddin, 2005; Quinn, Doorley and Paquette, 2000), little attempt had been made to evaluate such practices in the

Kenyan context, paving way for this study whose focus was specifically in the manufacturing industry and taking special focus of Unga Group Limited.

1.3 Purpose of the Study

The purpose of the study was to establish the effect of outsourcing decision on organizational performance of Unga Group Limited

1.4 Research Objectives

1. To establish the effect of outsourcing for employee competence as a strategy to enhance organizational performance of Unga Group Limited.
2. To find out the effect of outsourcing for cost reduction on organizational performance of Unga Group Limited
3. To examine the effect of outsourcing for innovativeness on organizational performance of Unga Group Limited
4. To determine the effect of outsourcing to focus on core competencies on organizational performance of Unga Group Limited

1.5 Research Questions

1. What is the effect of outsourcing for Employee competence on organizational Performance at Unga Group Limited?
2. What is the effect of outsourcing for cost reduction on organizational Performance at Unga Group Limited?
3. What is the effect of outsourcing for innovation on organizational Performance at Unga Group Limited?
4. What is the effect of outsourcing for focus on core competencies on organizational Performance at Unga Group Limited?

1.6 Hypotheses

H_{01}: There is no significant effect of outsourcing for employee competence on organizational performance of Unga Group Limited

H_{02}: There is no significant effect of outsourcing for cost reduction on organizational performance of Unga Group Limited

H_{03}: There is no significant effect of outsourcing for innovativeness on organizational performance of Unga Group Limited

H_{04}: There is no significant effect of outsourcing to focus on core competencies on organizational performance of Unga Group Limited

1.7 Significance of the Study

This study will be beneficial to the manufacturing industry in their bid to fully comprehend the issues that are particularly inherent in outsourcing decisions and this will help them improve on their performance and competitiveness. The study will also help outsourcing firms to understand the main drivers of outsourcing decision in the manufacturing industry and how they can then respond to the available opportunities. Finally the study will be helpful to fellow academicians to add the findings of this study to their body of knowledge.

1.8 Delimitations of the Study

The study focused on the effect of outsourcing decision on organizational performance of Unga Group Limited. It targeted the management and staff of the flour manufacturing industry in Nairobi Region. It was done between the months of February 2014 to May 2014.

1.9 Limitations of the Study

As a working student who needs to balance studies with full time employment, the researcher could not undertake an extensive and exhaustive research limiting the researcher to a small sample and less research. The researcher took leave and also trained research assistants to help carry out the research. The researcher also used ICT by emailing questionnaires to the target respondents.

1.10 Assumptions of the Study

The researcher assumed the following during the study.

Unga Group Limited outsourced some of its functions.

Unga Group Limited had put in place financial and project management procedures to support their outsourcing decisions.

That the information given by the respondents were true facts as per the status in Unga Group Limited.

Respondents in Unga Group Limited co-operated and submitted relevant documentations.

1.11 Definition of Significant Terms

Outsourcing- This refers to any task, operation, job or process that could be performed by employees within an organization, but is instead contracted to a third party for a significant period of time. In addition, the functions that are performed by the third party can be performed on-site or off-site.

Cost Reduction- This refers to the lowering or cutting of overhead operating expenses in a company.

Employee Competence- This refers to expertness, practiced ability, facility in doing something, dexterity and tact. Skill encompasses experience and practice, and the long standing fact that one has been doing work in the manufacturing industry for a considerable period of time with expertness and ability.

Innovativeness- This refers to the skill and imagination to create new things. A surprising new product from a company that has never been a wellspring of what has been used as product

Core Competencies- This refers to a specific factor and distinctive capabilities that a business sees as being central to the way it, or its employees, works. It fulfills three key criteria: it is not easy for competitors to imitate; it can be re-used widely for many products and markets and it must contribute to the end consumer's experienced benefits.

1.12 Organization of the study

Chapter one has addressed the importance of outsourcing as a powerful means of obtaining desirable organizational performance in manufacturing firms. The chapter clearly outlines the purpose of the study and the research objectives to guide the study within the specified geographical and time scope. The chapter explores the objectives of this study and outlines the research hypotheses to be addressed by the study. The chapter also gives the statement of the problem, the significance and scope of the study.

Chapter two includes review of opinions related to the planned study Mugenda and Mugenda (1999). It shares with the reader the results of other studies that are closely related to the study being reported (Fraekel and Wallen, 1990). According to Marshall and Rossman, (1989) the study relates the larger ongoing dialogue in the literature about outsourcing, filling gaps and extending prior studies. The chapter also provides a framework for establishing the importance of outsourcing, as well as a benchmark for comparing the results of the study.

Chapter three includes the methodology in terms of the research design, target population, sampling size and procedures, data collection instruments, reliability and validity of instruments and data analysis techniques.

Chapter four has data analysis, presentation, interpretation and discussion of findings as per the study variables. This is then followed by the summary of findings, conclusion and recommendations thereof together with suggestions for further review which constitute chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents reviewed literature on the concept of outsourcing, outsourcing decision and Human resource capabilities. It further reviewed literature on cost reduction, skills and experience, innovations and focus on core competencies on outsourcing decision. It finally presents both the theoretical and conceptual frameworks.

2.2 Empirical Review

This includes the concept of outsourcing and its decision and reviews the outsourcing decision aspects of employee competence, flexibility, cost reduction, innovativeness and focus on core competencies and how they affect organizational performance.

2.2.1 The Concept of Outsourcing

In the early 1980s, 'outsourcing' typically referred to the situation while organizations expanded their purchases of manufactured physical inputs, like car companies that purchased window cranks and seat fabrics from outside the firm rather than making them inside (Bhagwati, et al. 2004).

A number of writers have argued that enterprises will improve efficiency by concentrating on their core functions and outsourcing all peripheral activities to firms that specialize in such tasks (Cannon, 2009; Harrison and Kelley, 2003; Sharpe, 2007; Smith, 2001). The increasing use of contractors, for the supply of components and services, has been one of the notable trends in work organization over the past decade (Mayhew, Quinlan and Bennett, 2006). As Benson and Ieronimo (2006) reported most manufacturing firms surveyed had outsourced at least one activity with most planning further outsourcing within the next three years. This finding is supported by Wooden and Vanden Heuvel (2006) who found that 90 per cent of the 522 workplaces surveyed had used contractors in the past year.

The concept of outsourcing is not new. Firms have been outsourcing since the early 1900s, although under a variety of labels (Cappelli, 1995; Chandler, 2004). The activities outsourced, however, were not generally central to the core objectives of the firm and usually made a low contribution to the value chain. Conventional wisdom was that outsourcing core activities or technologies would threaten the firms' competitive advantage (Bettis, Bradley and Hamel, 2009). The success of companies like Microsoft, Benetton and Nintendo has, however, demonstrated that a competitive advantage can be achieved through outsourcing arrangements. These firms have outsourced many of the traditionally perceived core competencies including product design, software development and distribution. Many of these firms are new and so are free from historical practices and cultural restraints.

According to Quinn (2000) all firms must re-examine their entire value chain and outsource those activities found not to be at a 'world class' standard. Mature firms are now beginning to appreciate that their current organizational arrangements may no longer be suitable for their key competencies. Indeed, significant advantages, such as lower costs, lower production and market times, and improved innovation, may result from market-based relationships (Stalk, 2008). This has led to an increasing number of firms outsourcing their key competencies and capabilities (Piore and Sabel, 2004).

Yet despite these developments little is known about the long-term consequences of mature firms pursuing a flexibility strategy based on outsourcing. Evidence is now emerging which points to higher health and safety risks under an outsourcing strategy (Kochan et al, 2004; Mayhew, Quinlan and Bennett, 2006). Will a similar fate be bestowed on firm performance and will workers be disaffected in the process? These are important questions as unlike many of the other management strategies of the last decade it will be, in many cases, difficult for firms to reverse the process. In part, this is due to the nature of the contracts entered into and, in part due to the loss of the key skills necessary to perform the particular function.

2.2.2 Outsourcing Decision

Research on outsourcing has a long-standing history in economic research. Often, authors argue that cost differences between make and buy are crucial for the outsourcing decision. For example, (Burke and Ng 2006) discuss the outsourcing of HR functions in the context of companies’ cost pressures induced by the globalization of companies. Cánez et al. (2000) present a model of outsourcing decisions and ascertain that cost effects are the most important element in the decision.

Walker and Weber (1984) analyze transaction and production cost effects of 60 make-or-buy decisions in the U.S. automobile industry. While volume uncertainty and supplier market competition have a small, but significant effect, production costs are the strongest predictor of make-or-buy decisions in their analyses. Some authors argue that important benefits of outsourcing need to be assessed against an increase in transactional cost and a decrease in flexibility – the benefits being, first, the ability to focus on the core business and strategic issues, second, the utilization of expertise and economies of scale of the service provider, third, better management of the cost structure.

The general outsourcing model developed by Arnold (2000) illustrates that there are four components which need to be reviewed when making outsourcing decisions: outsourcing subject, outsourcing object, outsourcing partner, and outsourcing design initially, organizations should focus on outsourcing the subject, which involves the decision making process to determine if outsourcing is a viable option.

Organizations should then consider which internal activities might be outsourced. Outsourcing objects refers to the activity which might be outsourced and is linked to the degree of manufacturing penetration with respect to organization activities, including core activities, core-close activities, core-distinct activities, and disposable activities. Arnold (2000) states that if the activity is a core competency, highly specific and important for organizational strategy, it makes no sense to outsource these kinds of activities.

Next, organizations should consider an outsourcing partner from all possible outsourcing providers. Finally, when outsourcing internal activities, organizations need to formulate the most appropriate outsourcing design. In addition to this, Arnold (2000) suggests that organizations should focus on three major governance structures when making outsourcing decision. These include the price of external services, management control, and other governances, including contracts or strategic alliances. Despite addressing specific decision making with regard to outsourcing, this model places no regard on employee involvement.

2.2.3 Concept of Organizational Performance

Investorwords (2011) defines performance as the results of activities of an organization or investment over a given period. Lumpkin and Dess (2006) point out that it is essential to recognize the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms. This is consistent with the view of Zahra (2009) that both financial and non-financial measures should be used to assess organizational performance.

Chong (2008) declares that there are four main approaches to measure the performance of organizations. These are the goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owner's managers for the evaluation process.

According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with way the business is progressing.

2.2.4 Employee Competence and organizational Performance

As Greer, Youngblood, and Gray (1999) observe, outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for services. Downsizing and tougher competition mean that the HR functions is under increasing pressure to demonstrate value and competence, both in terms of efficiency and effectiveness (Roberts, 2001).

Although some elements of the HR functions may have always been performed by external service providers, Brewster observes that a new dimension "is this finance-driven idea connecting outsourcing to human resource management – the idea that you can save a lot of money by outsourcing in a bid to look for experts" (quoted in Turnbull, 2002, p. 10). In addition, outsourcing is seen as a way of liberating HR professionals within the client organization to perform the more consultative, competent and strategic role of designing and implementing programs aimed at retaining the workforce and enhancing its performance. This rationale is in line with Ulrich's (1998) influential thesis of the four roles of HR, in which he proposed that HR should be a strategic partner, an administrative expert, an employee champion, and a change agent.

In a similar vein, Greer et al. (2009) argue that outsourcing for employee competence is consistent with the business partner role that the in-house HR department is attempting to assume. These roles arguably are where HR can add the greatest value to the organization, but they are difficult to measure quantitatively.

Outsourcing for employee competence is also seen as an effective way to bypass organizational politics and improve efficiency.

For example, according to the sales and training manager of United Kitchen, a company that has outsourced for employee competence, the company's aim was to buy an expert who could maintain an objective view, would not get embroiled in office politics, and yet could call on the support of a wide range of other experts in their own organization (Pickard, 2008). In short, the main reasons for outsourcing for employee competence appear to be fairly consistent (Sisson & Storey, 2000). Typical reasons include seeking specialist services and expertise, cost reduction, and enabling HR specialists to take on a more strategic role. In general, most commentators are convinced that outsourcing is seen not only as a cost-cutting exercise but also as a strategic tool. As Oates (2008) suggests, the outsourcing decision is a strategic one and is generally taken at a senior level.

The theme underpinning many of the recent managerial approaches is the development of a more competent and flexible workforce. This search for improved flexibility had, according to Baglioni (2000), become employers' new frontier in the management of labour. The catalyst for the introduction of flexible forms of work was the introduction of enterprise bargaining in the late 1980s. A centralized wage system could not, it was contended, facilitate the improved competitiveness required by manufacturing enterprises (BCA, 1989). Enterprise bargaining not only allowed a variety of issues to be addressed that were seen as impediments to improved flexibility but hastened the development of a reform culture amongst management.

The term flexibility has been given a variety of meanings (Atkinson, 2007; Brunhes, 2009) although an often used typology breaks the concept into three forms (Harrison and Kelley, 2003). Functional flexibility refers to the ability of the enterprise to re-deploy labour to cover new work tasks or new production methods. The second form is wage flexibility, in which the enterprise attempts to link wage payments to productivity and product demand. Finally, numerical flexibility is the ability to adjust labour inputs to product demand. The introduction of these forms of flexibility has been well documented in Australia (Rimmer and Zappala, 2008; Stewart and Spatz, 2003). Australian enterprises have instituted all three forms of flexibility although the actual mechanisms have, in the main, been limited to multi-skilling, performance-related payment schemes and the greater use of part-time, contract and casual work.

Outsourcing contributes to all forms of flexibility; wage, functional and numerical. Outsourcing involves 'the purchase of goods or services that was previously provided internally' (Lacity and Hirschheim, 2003). Thus, management by outsourcing can achieve considerable flexibility as payment is made only for work undertaken and completed, the tasks undertaken are contract-related and not craft-related, and worker numbers can be adjusted to the requirements of the plant. This last issue is particularly relevant to those firms that experience fluctuations in demand for their major product or service. By outsourcing enterprises are free to direct the released physical, managerial and financial resources to producing a quality product or service at a competitive price. Outsourcing can thus be a form of strategic flexibility where the firm adopts a different form of workplace organization in an endeavor to improve enterprise performance.

Nevertheless, while outsourcing can improve flexibility, the arguments for adopting this practice have tended to focus on cost considerations (McCune, 2003; Rees and Fielder, 2002). Plunkett (2008) reported that outsourcing is usually implemented to save money rather than forming part of any coherent strategy. Tully (2003) contended, however, that outsourcing 'frees companies to direct scarce capital where they have a competitive advantage'. This raises the question of strategy, although Strassman (2007) concluded that for most companies 'strategy is not driving outsourcing' but rather 'they're in financial trouble'.

Abraham and Taylor (2006) found only limited evidence that the search for lower costs was driving outsourcing, although the outsourcing of lower skilled activities appeared to be motivated by a desire to reduce hourly labour costs. Similarly, Wooden and VandenHeuvel

(2006) found accessing specialized skills, coping with peak periods, and the ability to deal with one off tasks were the major reasons workplaces had used contract labour. As Sharpe (2007) argued 'outsourcing enables organizations to gain the benefit of state-of-the-art skills and technologies without investing directly in their development or exposing themselves to more risk than they care to take on'. Abraham and Taylor (2006) found support for this proposition in that smaller enterprises were likely to have outsourced more highly skilled activities.

Outsourcing may also be an impetus and agent for change. Contractors can bring to the organization more specialized and efficient ways of undertaking the given tasks (Bergstrom, 2003; Sharpe, 2007). This is particularly important if the enterprise has work practices that are no longer relevant or economically sustainable. In addition, outsourcing enables the benchmarking of activities across firms (Sharpe, 2007). Another advantage may be improved industrial relations that result from shifting industrial relations responsibility to a third party. This can be the case where the union representing the employees currently providing the service is militant or where workplace reforms are being resisted (Way, 1993). Unions, for their part, have expressed concern about the shift to market-mediated employment arrangements and as Kosters (2007) pointed out, these practices 'can make enforcement more difficult for requirements like those for minimum wages or overtime pay'. Nevertheless, Harrison and Kelley (2003) found 'no evidence that subcontracting is associated with union-avoidance per se'.

Outsourcing can, however, create problems for the enterprise. Outsourcing decisions tend to be incremental. As Bettis, Bradley and Hamel (1992) concluded, 'a whole series of incremental outsourcing decisions, taken individually, may make economic sense, but collectively they may also represent the surrender of the business's capability to compete'. Core products or technology may be compromised and the firm could become dependent on a large range of suppliers. Furthermore, Teresko (2002) challenged the cost of outsourcing claiming that 'the economics are troubling at best and extremely costly at worst'. This view was shared by Cooper, who believed conventional accounting systems are incapable of providing the relevant cost information on which to base a decision (quoted in Davis, 2002).

In the long-term, McCune (2003) argued that outsourcing may not be the best strategy for every function. As Prahalad and Hamel (1990) argued, 'outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are necessary to sustain product leadership'. Deavers (2007) reject such an argument as there 'is little empirical evidence to support their concern'. An additional problem is the co-ordination and supervision required when a company outsources activities.

2.2.5 Outsourcing for Cost Reduction and Organizational performance

Studies from the Resource Based View perspective suggest that firms base their decisions on whether outsourcing reduces costs or builds strategic advantages (Sharpe, 2007). This has generated much research on how using outsourcing to cut costs or gain strategic advantages affects firm performance. A review of the literature reveals that most empirical research and discussion examine cost cutting and strategic advantages as mutually exclusive motives for outsourcing (Quinn, Doorley, and Pacquette, 2000). Moreover, news releases and the business press often cite both motives as influencing a firm's decision to outsource. In fact, 27.5% of the outsourcing announcements in Sharpe’s (2007) study's sample explicitly cite both motives for outsourcing. For example, Unilever announced outsourcing its data network operations to cut overhead and increase efficiency in the short run, while enhancing product development and marketing in the long run (Keller, 1992). Similarly, Kodak announced that it anticipated immediate cost reduction and long-term gain in market share by outsourcing certain components in digital camera manufacturing (McWilliams, 2005).

Further, firms cite specific reasons for how outsourcing motivated by cost reduction can improve short-term performance. As a baseline for assessing advantages, firms equate the cost of outsourcing to the cost of acquiring additional resources to do work internally (Kavan, Saunders, and Nelson, 1999). Leveraging a vendor's ability to reduce clients' operating costs provides a comparable level of service at lower cost. Vendors' relative cost advantages may arise from scale and scope economies, which they achieve, respectively, by aggregating expertise and capacity across a large number of clients and by simultaneously undertaking a variety of projects across which they share or transfer capabilities (Loh and Venkatra-man, 2001; McCarthy and Anagnostou, 2004).

Outsourcing can also generate needed cash when firms sell assets or transfer employees to vendors (Juma'h and Wood, 2003). Cost advantages may come from reducing or eliminating new investments or investment renewals (Gilley and Rasheed, 2000; Kakabadse and Kakabadse, 2005). This occurs, for instance, when vendors offer services using technologies that are more efficient than the client's or skills that are unjustifiably costly for client develop in house (Abraham and Taylor, 2006). In addition, outsourcing may reduce internal cost inefficiencies associated with administration, bureaucratic procedures, and politics (Gilley and Rasheed, 2000).

Empirical studies on the relationship between outsourcing to cut costs and its expected impact on a firm's value show mixed results. Farag and Krishnan (2003) tested the anticipated performance effect of outsourcing in which firms announced attempts to cut costs by automating an existing business function. Their findings showed significant negative CARs. In another study, Gallivan, and Kim (2006) found a marginally significant positive relationship between outsourcing motivated by cost cutting and CARs.

Outsourcing is never a fix for poor internal systems, Wright (2001) stressed. You have to fix your own processes within the company first, before outsourcing, or you will have a bigger headache on your hands than when you started.

Dissatisfaction with surprise additional costs were a powerful negative in an outsourcing review of 25 large companies by Deloitte Consulting's (www.deloitte.com) "Calling a Change in the Outsourcing Market Report, 2005". The study looked at both business process and information technology outsourcing: 70% of the companies said they have had significant negative experiences with outsourcing projects – and were dissatisfied with its costs and complexity. Also reported was the need for more senior management attention and skills than anticipated. Additional costs came from unexpected complexity of the outsourcing process and lack of transparency in vendor pricing or cost structures. 57% said they absorbed costs for services they believed were included in contracts with vendors or outsource providers. Many indicated there were "hidden" costs in managing outsourcing projects, as well.

One reason for the results, according to Ken Landis, a senior strategy principal at Deloitte, may be that vendors and the companies that hire them have "conflicting Objectives." Another observation: "The structural advantages envisioned do not always translate into cheaper, better, or faster services." As a result of the findings, he observed, "outsourcing will become less appealing for large companies because it is not delivering the value as promised."

2.2.6 Outsourcing for Innovativeness and Organizational performance

Outsourcing of innovativeness or New Product Development (NPD) or introduction refers to the outsourcing of development activities for developing new products (goods and/or service), where all or the innovative part of the NPD process is purchased externally according to a contract from organizational units separate from the outsourcing firm (Rundquist, 2006). This definition implies that (A) the activity shall be an innovative (strongly contributing to the newness) part of the NPD process, (B) the activity shall earlier have been conducted internally, and (C) the activity shall be purchased in a contractual agreement between the organizations.

The focus here is the outsourcing of activities in the NPD process, where an activity is a part of a process, with a limited scope, starting with an input and delivering an output. The unit to be outsourced is therefore the effort and competence needed to develop the substance from an input to an output. This is important to understand as most research on outsourcing deals with outsourcing of the production of the products (artifacts).

In the automotive industry 75% of the product development hours for a new Toyota are undertaken by suppliers (The Economist, 2008). Toyota is a multinational company and supplier involvement is a well-known phenomenon. However, not only in multinationals but also in medium-size firms, as many as 67% outsourced their product development activities (Rundquist 2006).

In the above study of medium-size Swedish firms, the partner was as often a consultancy firm or a university as it was a supplier. It could therefore be appropriate to pinpoint that outsourcing of NPD has a broader meaning than just collaborating with suppliers in the construction phase. The result from the study (67%) is likely to be lower when it comes to development of new products as opposed to minor improvements or re-engineering. For example, Wasti and Liker (1997) indicated that in automotive industry most activities in product development object to outsourcing were smaller designs for manufacturability improvements.

Medium-size firms in manufacturing industries in Sweden have difficulties staying competitive today. They often lack resources due, for example, to higher costs in comparison with competitors abroad or higher costs compared to larger firms. Therefore it is hard for medium-size firms to perform competitive product development on their own. To increase resources, to share risks or to lower costs, many firms choose to collaborate with other firms or organizations in product development. This collaboration can be in the form of, for example, partnership, joint ventures, networks, research contracts or alliances (Chiesa et al., 2000).

Outsourcing is one of many ways to reach the goals in NPD. Firms use outsourcing of NPD to lower costs, to cut peaks in NPD efforts, or to get access to resources which did not previously exist within the firm. NPD is a knowledge-intensive activity that requires a lot of ability to handle insecurities and which is very dependent on the individuals involved in the process. That makes it different from production, which (especially when producing standard items in large scale) is easier to control, monitor and to evaluate costs of. Therefore, some considerations connected with knowledge acquisition and insecurity needs to be addressed (Chiesa et al., 2000).

Cost reduction has been the dominant motive for outsourcing (Ford et al., 2010), and outsourcing of NPD can be a method to reduce costs for new product development. If, for example, a firm can find product development competence with an external partner at a cheaper price, the in-house product development department could be smaller and costs could be saved on salaries and appliances. A present example of this phenomenon is development of new software products that is today frequently outsourced to, for example, Indian companies while in-house software departments become less common (Wright, 2001).

2.2.7 Core Competencies Focus and Organizational performance

More recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility (Elmutiand Kathawala, 2000; Roberts, 2001; Wright, 2001). In general, the literature supports outsourcing as a strategy, which may offer improved business performance on numerous dimensions (Dekkers, 2000; Klopack, 2000).

Perhaps the most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies (Sislian and Satir, 2000; Quinn, 2000). Because of intense competition, organizations are forced to reassess and redirect scarce resources (Quinn, 2000; Razzaque and Chen, 2008).

Resources are typically redirected to where they make the greatest positive impact, namely the organization’s core functions. In addition to refocusing resources onto core competencies, other strategy issues which encourage the consideration of outsourcing are restructuring, rapid organizational growth, changing technology and the need for greater flexibility to manage demand swings (Kakabadse and Kakabadse, 2005). Flexibility appears to be an important driver not just from a scale perspective but also regarding the scope of product or service. Organizations need to react quicker to customer requirements and outsourcing is seen as a vehicle to accomplish this. Outsourcing may also be perceived as a way to reduce the organization's risk by sharing it with suppliers and at the same time acquire the positive attributes of those suppliers.

The partnerships that result from outsourcing may enable an organization to be a world-class performer for a whole suite of products and services where it could only be an average performer by itself. This strategy results in a so-called "virtual organization" where functions are outsourced to multiple vendors under one agreement.

Together the suppliers perform an integrated set of services. There are, however, potential pitfalls when outsourcing for strategic reasons. Organizations may "give away the crown jewels" if they are not careful. IBM is used as a frequent example of a company that outsourced the "wrong" things (the operating system). If organizations outsource the wrong functions they may develop gaps in their learning or knowledge base which may preclude them from future opportunities (Prahalad and Hamel, 1990).

Specifically, in highly integrated and evolutionary technologies, applying the traditional core competence tests may result in outsourcing too many or the wrong functions. Literature also indicates that in industries with complex technologies and systems, internal synergies may be lost when some functions are outsourced. This could result in less productivity or efficiency among the remaining functions (Quinn and Hilmer, 2004).

2.3 Theoretical Framework

There is need to identify and explain relevant relationship between facts Verma and Beerd (1981). This means that there is need to build a theoretical structure that can explain facts and the relationship between them.

2.3.1 Resource-Based View Theory

This study employed the Resource-Based View theory as argued by Wernerfelt, (1984). The theory argues that a firm has the ability to achieve and sustain competitive advantage if it possesses resources that are valuable, rare, imperfectly imitable and non-substitutable. Not all resources are strategically relevant within an organization.

The goal of an organization is to ensure it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. If a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. On the contrary, if the strategic value of target activities is low and no internal resources are available to perform such activities, it is beneficial for the company to outsource them. For the sustainable competitive advantages firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities (Langlois 1990). The argument here fits with the need and factors that lead to outsourcing decisions in firms, whether they are cost reduction, new product/services introduction, focus on core competencies or labour flexibility and how they improve organizational performance.

2.3.2 Resource Dependency Theory

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behavior of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. It was first argued by *Pfeffer and Salancik (1978).*

Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy (Deckers, 2000).

The basic argument of resource dependence theory can be summarized as follows:

Organizations depend on resources; These resources ultimately originate from an organization's environment; The environment, to a considerable extent, contains other organizations; The resources one organization needs are thus often in the hand of other organizations; Resources are a basis of power; Legally independent organizations can therefore depend on each other; Power and resource dependence are directly linked: Organization A's power over organization B is equal to organization B's dependence on organization A's resources. 8) Power is thus relational, situational and potentially mutual (Pfeffer and Salancik, 1978).

Organizations depend on multidimensional resources: labor, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must have to function. For example, a burger outlet can't function without bread. An organization may adopt various countervailing strategies it may associate with more suppliers, or integrate vertically or horizontally (Kloptick, 2001).

2.3.3 Diffusion of Innovation theory

The diffusion theory, also known as the diffusion of innovations theory, is a theory concerning the spread of innovation, ideas, and technology through a culture or cultures (Rodgers, 1962). Diffusion theory states that there are many qualities in different people that cause them to accept or not to accept an innovation. There are also many qualities of innovations that can cause people to readily accept them or to resist them.

According to diffusion theory, there are five stages to the process of adopting an innovation. The first stage is knowledge, in which an individual becomes aware of an innovation but has no information about it. Next is persuasion, in which the individual becomes actively interested in seeking knowledge about the innovation. In the third stage, decision, the individual weighs the advantages and disadvantages of the innovation and decides whether or not to adopt it. After the decision comes implementation, in which the individual actually does adopt and use the innovation. Confirmation is the final stage. After making adopting the innovation, the individual makes a final decision about whether or not to continue using it based on his own personal experience with it. These same stages apply, to varying degrees, to groups of people in addition to individuals (Rogers, 1962).

2.4 Conceptual Framework

In Fig 2.1, it presents the independent variables that constitute outsourcing decision. They are cost reduction, employee competence, innovativeness and focus on core competencies. These variables have a bearing on the dependent variable, namely, organizational performance.

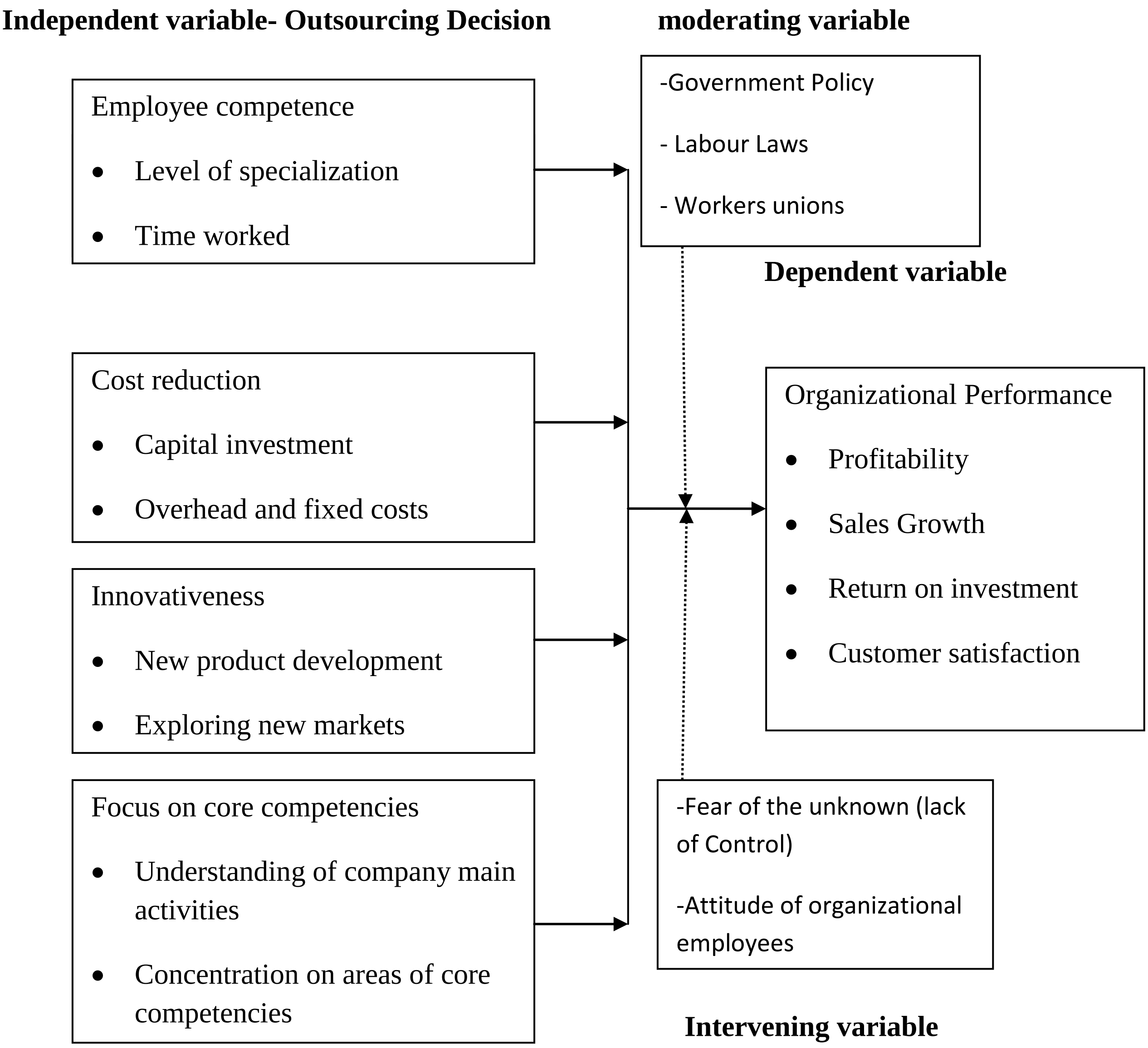

Fig 1 Conceptual Framework

In studies examining the impact of outsourcing, there have been several key advantages of outsourcing identified, such as cost reduction, improved innovativeness, an increased focus on core competencies, a robust employee competence index and flexibility all of which are this studies independent variables and which are assumed to exert some influence on the organizational performance (Dependent variable). However, even in such a link certain variables interrupt without necessarily being the main focus of the study and they include the intervening variables of fear and attitude and the moderating variables of government policy and labor laws.

2.5 Research Gaps

Author	Title	Major findings	What is missing
Abraham, K. and Taylor, S. (2006)	'Firms' Use of Outside Contractors: Theory and Evidence'	1. outsourcing is significant for competitive advantage 2. Outsourcing decision is a strategic tool	The interplay between outsourcing decision and organizational performance
Atkinson, J. (2007).	*'Flexibility or Fragmentation? The United Kingdom Labour Market in the Eighties*'	3. outsourcing allows for strategic flexibility of employees 4. outsourcing has however fragmented the labor market	The influence of employee flexibility on cost reduction and particularly overall organizational performance
Bender, J. (2009).	Firm resources and sustained competitive advantage	5. strategic resource allocation is the central focus of outsourcing	How such a resource based view can be viewed in the context of organizational performance; looking at sales growth and customer satisfaction
Chiesa et al (2000)	*Outsourcing and Offshoring*	6. outsourcing works better for international markets where labor and cost of doing business is cheaper	How outsourcing works in local companies and how such outsourcing affects organizational performance

2.6 Summary of the chapter

This chapter has presented reviewed literature on the concept of outsourcing, outsourcing decision and Human resource capabilities. It further reviewed literature on cost reduction, skills and experience, innovations and focus on core competencies on outsourcing decision. It finally presents both the theoretical and conceptual frameworks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examines the methodology that was used in treating the study from research design to target population and sampling. It also lays down the data collection methods, approaches and instruments. The chapter also puts down the validity and reliability tests together with the data analysis tools used and the ethical considerations.

3.2 Research Design

Explanatory research design was used in this study. According to Cooper and Schindler, (2000) explanatory research focuses on why questions. In answering the `why' questions, the study is involved in developing causal explanations. Causal explanations argue that phenomenon Y (organizational performance) is affected by factor X (outsourcing decision). This design was chosen because it applied closely to effect of outsourcing decision on organizational performance in the manufacturing industry. The dependent variable was organizational performance while the independent variable was outsourcing decision.

3.3 Target Population

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. Mugenda and Mugenda, (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. The study targeted the 15 management staff of the four main departments of Unga Group Limited, namely: financial, marketing, HR, and procurement/purchase managers. This brought the total target population to 60 respondents

Table 3.1 Target Population

Department	Target Population	Sample size
Finance	15	15
Marketing	15	15
Human Resource	15	15
Procurement/Purchasing	15	15
Total		60

Source: Unga Group Limited (2013)

3.4 Sample and sampling procedures

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. The sampling frame for any probability sample is a complete list of all the cases in the population from which a sample is drawn (Saunders et al., 2007). A sample is a smaller and more accessible sub set of the population that adequately represents the overall group, thus enabling one to give an accurate (within acceptable limits) picture of the population as a whole, with respect to the particular aspects of interests of the study. However, since the target population was small, census method was used where the entire target population was used as the sample size (Kothari, 2004).

3.5 Data Collection, Instruments

Questionnaires were the data collection instruments. Questionnaires are the primary sources of data. The study used both primary and secondary types of data. The data were both quantitative and qualitative data, which is a numerical measurement expressed not by means of a natural language description, but rather in terms of numbers while qualitative data is a categorical measurement expressed not in terms of numbers, but rather by means of a natural language description, respectively.

3.5.1 Questionnaire for departmental heads

The study employed questionnaires as data collection instrument. The researcher used a five-point likert scale questionnaires to collect the data from the manufacturing firms' departments staff. Questionnaire is a research tool that gathers data over a large sample (Kombo 2006). The questionnaire was the most appropriate research tool as it allowed the researcher to collect information from a large sample with diverse background; the findings remained confidential, saved time and since they were presented in paper format there were no opportunity for bias.

3.5.2 Interview guide for customers

An interview guide to solicit in-depth information about customer satisfaction was given to randomly selected customers. Kombo (2006) argues that an interview schedule is necessary for qualitative measurements that are necessary for a study.

3.6 Validity and Reliability of the Instruments

For reliability and validity to exist in the data, the data collection techniques must yield information that is not only relevant to the research hypothesis, but also correct Mugenda et al (1999)

3.6.1 Validity of the Instruments

Validity indicates the degree to which instruments measure what they are supposed to measure (Kothari, 2004). Content validity was most relevant for our present study. This was because it was concerned with how well the content of the instrument samples the kinds of things about which conclusions were to be drawn. Joppe (2000) further argues that content validity refers to the extent to which a measure represents all facets of a given social construct. To establish content Validity of the instruments, two experts on the topic from Nairobi University examined the content of the instruments and advised the researcher on the content validity. Their feedback was used to revise the instruments.

3.6.2 Reliability of the instruments

Reliability refers to the level to which the measuring instruments provides consistent results (Kothari, 2004).To establish reliability of research instruments the Cronbach's coefficient alpha was used and its figure stood at 0.716. Kothari (2004) argues that any score above 0.7 is reliable. The higher the number of items in the instrument, the higher the chances of obtaining a consistent estimate of the reliability of the data (Kothari, 2004).

3.7 Data collection procedure

The researcher secured a research permit and authorization letter from the National Council of Science and Technology in Nairobi before proceeding to the field for data collection. The researchers with the help of a research assistant then visited Unga Limited and administered the questionnaires. The researcher scrutinized and analyzed relevant documents to ascertain their credibility.

3.8 Data Analysis

Quantitative data was analyzed using descriptive analysis in form of percentages and frequencies. Qualitative data obtained was transcribed, organized into categories, sub categories and themes as they emerged from the field and presented in prose form and peoples quoted words according to the themes and objectives of the study. Data analyzed descriptively was presented in tables because they gave a systematic record of analysis in an easy to understand format. The Social Package for Statistical science (SPSS) software aided in data analysis. Both correlation and Multiple Regression analyses were used to test for relationship between the independent variables and the dependent variable, given that they were normally distributed, error was constant and there was a linear relationship between the dependent and independent variables.

Regression Model

$y_{od} = \alpha + \beta_1 (EC) + \beta_2 (CR) + \beta_3 (I) + \beta_4 (CC) + e$

Where the variables are defined as:

y_{od}- Organizational Performance

EC- Employee Competence

CR-Cost Reduction

I- Innovativeness

CC- Focus on Core Competencies

e- Error term

3.9 Ethical considerations

The researcher exercised utmost caution to ensure that the respondents were informed of the purpose of the research in language they understand, duration, and benefits of the study. Privacy, confidentiality, and anonymity of the data collected were assured to the respondents through coding of the questionnaires instead of using names. The research findings were given without any manipulation and no one was forced to fill in the questionnaires.

3.10 Operational Definition of variable

Objective	Variables	Measurements	Data Collection Tool	Measuring Scale	Type of Analysis	Tool of Analysis
1. effect of outsourcing for employee competence as a strategy to enhance organizational performance	Employee competence	• Level of specialization • Time worked	Questionnaires	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis. Correlation and regression	SPSS
2. effect of outsourcing for employee flexibility as a strategy to enhance organizational performance	flexibility	• Numerical • Functional	Questionnaires	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis and correlation and regression	SPSS
3. effect of outsourcing for cost reduction on organizational performance schools	Cost Reduction	• Capital investment • Overhead and fixed costs	Questionnaires	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis. correlation and regression	SPSS
4. effect of outsourcing for innovativeness on organizational performance	innovativeness	• New product development • Exploring new markets	Questionnaires	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis Correlation and regression	SPSS

5. effect of outsourcing to focus on core competencies on organizational performance	Focus on core competencies	• company main activities • areas of core competencies	Questionnaires	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis Correlation and regression	SPSS
6. Organizational Performance	performance	• Profitability • Sales Growth • Return on investment • Customer satisfaction	Questionnaires Interview Schedule	Nominal, ordinal, interval and ratio Scales	Descriptive Analysis Correlation and regression	SPSS

3.11 Summary

Chapter three describes the nature of the study as explanatory in order to enable the researcher to learn more about the problem. The study chapter also refers to the population of interest. Data collection method will be through questionnaires. Reliability of instruments will be measured using Cronbach coefficient alpha and the data analyzed using descriptive statistics, correlations and regression and presented in on tables, bar charts and line graphs.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter deals with data analysis, presentation, interpretation and discussion of the findings of this study. This chapter is divided into the following sections: Questionnaire return rate, General characteristics of the respondents; organizational performance, effect of employee competence on organizational performance, effect of cost reduction on organizational performance, effect of innovativeness on organizational performance and effect of focus on core competencies on organizational performance. It also offers both the regression and correlation analysis.

4.2 Questionnaire Response Rate

The study sample was 60 subjects, 15 from each of the departments (Finance, HR, Procurement/Purchasing and Marketing) In order to answer the research questions; the study administered all the 60questionnaires to the Management Staff of Unga Group Limited. The study sample size of 60 respondents was realized. The response rate was therefore 100 % hence adequate for analysis and conclusion. According to Frankel and Wallen (2004), a response rate of above 95% of the respondent can adequately represent the study sample and offer adequate information for the study analysis and thus conclusion and recommendations.

4.3 Demographic characteristics of the respondents

The study was informed by key Unga Group Limited managers/Staff who are critical in determining the effect of outsourcing decision on organizational performance in their respective departments. There were 60 respondents comprising of procurement, finance, marketing and HR managers. All the targeted respondents gave their responses in all questions asked. Respondents were asked to give general information regarding their background.

4.3.1 Gender and Age Distribution of Respondents

The respondents were asked to give their gender and age distribution. The response is as seen in table 4.1.

Table 4.1 Gender of Respondents * Age of Respondents Cross tabulation

			Age of Respondents					
			18-25 years	26-35 years	36-45 years	46-55 years	Over 55 years	Total
Gender of Respondents	Male	Count	5	24	19	0	0	48
		% within Age of Respondents	100.0%	96.0%	90.5%	.0%	.0%	80.0%
		% of Total	8.3%	40.0%	31.7%	.0%	.0%	80.0%
	Female	Count	0	1	2	5	4	12
		% within Age of Respondents	.0%	4.0%	9.5%	100.0%	100.0%	20.0%
		% of Total	.0%	1.7%	3.3%	8.3%	6.7%	20.0%
Total		Count	5	25	21	5	4	60
		% within Age of Respondents	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	8.3%	41.7%	35.0%	8.3%	6.7%	100.0%

Source: Survey Data (2014)

From the Table, majority of respondents at 80.0% were male while only 20.0% were female. This implies a male dominated management at the Manufacturing industries in the wider western region. This agrees with Arnold (2000) and Barthèlemy, (2004) who asserted that most outsourcing decisions are made by male managers because of their domination in decision making positions. On the age of the respondents, majority at 41.7% were aged between 25-35 years followed by 35.0% between 36-45 years, 8.3% for those between 18-25 years and 46-55 years and only 6.7% over 55 years of age. This is an indication that majority of respondents were adequately exposed to issues of outsourcing, having created the impression from their ages that they were mature enough to comprehend the issues of outsourcing.

4.3.2 Level of Education and Work Experience

Education is important for the acquisition of necessary skills and competencies for proper work (Bardhan et al, 2006). Further, the respondents had served for varied number of years at their work stations at varied positions in the company. The result is as seen in Table 4.2.

Table 4.2 Level of Education * Level of Experience Cross tabulation

			Level of Experience				
			Below 5 years	5-10 years	10-15 years	Over 15 years	Total
Level of Education	Diploma	Count	0	1	1	3	5
		% within Level of Experience	.0%	11.1%	8.3%	9.7%	8.3%
		% of Total	.0%	1.7%	1.7%	5.0%	8.3%
	Degree	Count	0	1	8	24	33
		% within Level of Experience	.0%	11.1%	66.7%	77.4%	55.0%
		% of Total	.0%	1.7%	13.3%	40.0%	55.0%
	Masters degree	Count	5	7	3	1	16
		% within Level of Experience	62.5%	77.8%	25.0%	3.2%	26.7%
		% of Total	8.3%	11.7%	5.0%	1.7%	26.7%
	PHD	Count	3	0	0	3	6
		% within Level of Experience	37.5%	.0%	.0%	9.7%	10.0%
		% of Total	5.0%	.0%	.0%	5.0%	10.0%
Total		Count	8	9	12	31	60
		% within Level of Experience	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	13.3%	15.0%	20.0%	51.7%	100.0%

Source: Survey Data (2014)

From the Table, it is evident that majority at 55.0% were first degree holders, 26.7% were master’s degree holders, 10.0% were PHD holders and only 8.3% were Diploma holders. This implies that there had been efforts by the respondents to further their studies. As a result the respondents who had First Degree and above were more knowledgeable compared to the others. More so, we can infer that the respondents had a quest to further their studies and therefore become more suitable to the changing requirements of the job market. Moreover, the fact that majority of the respondents had degree qualification and above implies that they were qualified to reliably answer questions about effect of outsourcing decision on organizational performance in their respective departments.

On work experience, it is clear that majority at 51.7% had worked for over 15 years, followed by 20.0% who had worked for between 10-15 years, 15.0% for between 5-10 years and 13.3% for below 5 years. This implies that majority of respondents were fairly experienced. The level of experience indicated above is significant because Chandler, (2004) argues that the credibility of the information gathered in any study is informed by the many years of the respondents’ service to the company. The experience proves the validity and reliability of the information obtained. Their skills, knowledge and expertise had been tested for a long period hence their perception on the matter under study had been influenced by their experience. From the Table you would notice that the respondents seeking higher education was proportionate with the number of years worked, basically, implying a need to improve on education as years go by.

4.4 Organizational Performance

The study sought to find out the concept of organizational performance exercised by Unga Group Limited. The results are as seen in table 4.3

Table 4.3 Organizational Performance

	SA		A		N		D		SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
We have a high sales growth, averagely above the 1 million mark	15	25.0%	23	38.3%	8	13.3%	10	16.7%	4	6.7%	3.79	.84
We have a markedly high market share of averagely over 40%	9	15.0%	27	45.0%	8	13.3%	11	18.3%	5	8.3%	3.06	.95
Our profitability is high and has reached the 1 million mark and above	4	6.7%	31	51.7%	9	15.0%	12	20.0%	4	6.7%	3.89	.85
The owners are not satisfied with the performance of the business.	8	13.3%	30	50.0%	8	13.3%	8	13.3%	6	10.0%	2.06	1.1
Generally, the growth of the firm has not been steady and very satisfactory in terms of return on investment and sales	6	10.0	28	46.7%	10	16.7%	8	13.3%	8	13.3%	1.89	.93

Source: Survey Data (2014)
Maximum=5 Minimum=1

From Table 4.3 it is evidently clear that majority at 63.3% agreed that their company had a high sales growth, averagely above the 1 million mark. Only 23.3% disagreed and 13.3% were neutral. This implies that the company had a high sales volume indicative of high business performance. Lumpkin and Dess (2006) point out that it is essential to recognize the multidimensional nature of the performance construct. Such measures could include traditional accounting measures such as sales growth, market share, and profitability.

The respondents were asked if they had a markedly high market share of averagely over 40%. On this, 60.0% agreed, 26.7% disagreed and only 13.3% were neutral. This implies that Unga Group had a considerable market share in spite of the stiff competition indicative of favorable performance. This agrees with Arnold (2000) who suggested that organizations with a market share above 40% in a highly competitive market is on its way to high performance and that with strategic outsourcing decisions that share could undoubtedly go up.

When asked whether the company profitability was high and had reached the 1 million mark and above, 58.3% agreed, 26.7% disagreed and 15.0% were neutral. According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Therefore with high profitability, high business performance is indicated.

When asked if the managers were satisfied with the performance of the business, 63.3% disagreed, 23.3% agreed and 13.3% were neutral. This implies that in spite of indications of high business performance, the managers were not satisfied with the performance further implying that something needed to be done, hence the inclusion of outsourcing decision.

Finally, the respondents were asked if generally, the growth of the firm had been steady and very satisfactory in terms of return on investment and sales. On this, 56.7% disagreed, 26.7% agreed and 16.7% were undecided. This is an indication that despite positive indications of high profitability and considerable market share, the managers felt that growth had not been steady as far as sales and ROI was concerned. Zahra (2009) in agreeing with this result noted that both financial and non-financial measures should be used to assess organizational performance and when this is done, even in situations where market share and profitability are significantly favorable, other indicators may slow business performance.

From the responses obtained, profitability was a reality as it had the highest mean score of 3.89. All the above data was reliable.

4.5 Effect of Outsourcing for Employee Competence on Performance

One factor that has been found to influence the outsourcing decisions of firms is employee competence which consequently influences organizational performance. To find out if it was also true for Unga group, this study's first objective sought to establish the effect of outsourcing for employee competence on organizational performance. The result is as seen in table 4.4.

Table 4.4 Effect of Employee Competence on Organizational Performance

									SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
The company has highly skilled labor	9	15.0%	16	26.7 %	3		SA	A	N	D	3.18	.81
The company has workers with long standing experience	8	13.3%	12	20.0 %	3	5.0%	31	51.7%	6	10.0%	3.28	.82
Company has experts in the manufacturing industry in all sectors, ie IT, Operations etc	12	20.0%	24	40.0 %	4	6.7%	12	20.0%	8	13.3%	2.67	.87
Outsourcing has become necessary because of the unskilled labour and lack of specialists	14	23.3%	26	43.5 %	2	3.3%	14	23.3%	4	6.7%	2.47	1.1
Company is not as competitive as it should be due to unskilled labour and therefore needs to outsource	6	10.0%	33	55.0 %	2	3.3%	14	23.3%	5	8.3%	2.65	.93
lack of employee competence has lowered our performance over time	8	13.3%	36	60.0 %	3	5.0%	8	13.3%	5	8.3%	2.60	.84

Source: Survey Data (2014)

Maximum=5 Minimum=1

From Table 4.4, it is clear that majority at 53.3% disagreed with the assertion that the company had highly skilled labor. Only 41.7% agreed and 5.0% were undecided. This implies that a significant number of Unga group staff groups were short on skilled labour and overall competent employees. Outsourcing has been viewed as an impetus and agent for change. Competent and skilled workers can bring to the organization more specialized and efficient ways of undertaking the given tasks (Bergstrom, 2003; Sharpe, 2007). This is particularly important if the enterprise has work practices that are no longer relevant or economically sustainable.

When asked whether the company had workers with long standing experience, 61.7% disagreed, 33.3% agreed and 5.0% were neutral. This implies that majority of workers were not experienced mainly due to the high turnover of experienced workers to other workstations or careers. Arnold (2000) had argued that the lack of experience by workers affects their competence consequently creating the need for outsourcing for a company that wants to retain its high competitiveness and performance.

The respondents were then asked if the company had experts and specialist in the manufacturing industry in all sectors, like IT and Operations. On this, 60.0% of respondents agreed, 33.3% disagreed and 6.7% were undecided. This is a positive indication that every sector in the manufacturing firm has an expert or specialist to guide the others in performing important tasks. This may further imply that with such experts and specialists, there would be no need to outsource HR functions. However, According to Teresko (2002), outsourcing is still necessary as despite the presence of experts and specialists, a predominant number of functional employees still remain incompetent due to lack of consistent training and the high turnover of the few trained employees.

When asked if outsourcing had become necessary because of the unskilled labour and lack of specialists, 68.3% agreed, 28.3% disagreed, and 3.3% were undecided. This implies that employee competence is one of the reasons for outsourcing in Unga group and improves performance in the process. This seems to go against review by Prahalad and Hamel (1990) who argued that, ‘outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are necessary to sustain product leadership. Deavers (2007) however, reject such an argument as there 'is little empirical evidence to support their concern.'

The respondents were asked if the company was not as competitive as it should be because of unskilled labour and therefore create need to outsource. The result shows that 65.0% agreed, 31.7% disagreed and 3.3% were neutral. This implies that firms have a deep need to remain competitive in a highly cutthroat market and that outsourcing of HR functions has become a strategic option for Unga Group to remain or introduce competitive advantage for higher business performance. Such an option, it has been seen, cannot be effectively used if firms maintain their incompetent employees and as a result, outsourcing to firms that can offer such a competence has become necessary.

When the respondents were finally asked if lack of employee competence had lowered performance over time, 73.3% agreed, 21.7% disagreed and only 5.0% were neutral. This implies that lack of employee competence had dipped on the long run, business performance. Such a situation is argued in literature with majority noting that business performance is often directly proportionate to employee competence (Uddin,2005; Gilley and Rasheed, 2000). From the responses obtained, Unga Group did not have workers with long standing experience as it had the highest mean score of 3.28. All the above data was reliable as most of the respondents indicated that outsourcing was done taking the lack of employee competence to keen consideration.

4.6 Effect of Cost Reduction on Outsourcing Decision

The second objective sought to find out the effect of outsourcing for cost reduction on organizational performance. The results are clear in table 4.5

Table 4.5 Effect of Cost Reduction on Organizational Performance

	SA		A		N		D		SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Outsourcing reduces costs overhead,fixed costs	12	20.0%	29	48.3%	6	10.0%	7	11.7%	6	10.0%	2.70	1.0
Outsourcing for cost reduction creates better short term performance	5	8.3%	33	55.0%	7	11.7%	8	17.3%	7	11.7%	3.05	.87
Outsourcing for cost reduction creates better long term performance	12	20.0%	28	46.7%	7	11.7%	8	13.3%	5	8.3%	2.67	.83
firm equate cost of outsourcing to cost of acquiring more resources to do work internally	10	16.7%	27	45.0%	6	10.0%	13	21.7%	4	6.7%	2.87	.94
Outsourcing generates cash for sell assets or transfer employees to vendors	5	8.3%	32	53.3%	10	16.7%	8	13.3%	5	8.3%	2.69	.74
Cost reduction is a major contributor to improved performance	10	16.7%	33	55.0%	5	8.3%	8	13.3%	4	6.7%	3.16	.81

Source: Survey Data (2014)

Maximum=5 Minimum=1

From Table 4.5 it is clear that majority at 68.3% agreed that outsourcing reduced costs, both overhead and fixed costs. Only 21.7% disagreed and 10.0% were neutral. This is an indication that cost cutting is a factor influencing outsourcing decision in Unga Groups. A review of the literature reveals that most empirical research and discussion examine cost cutting and strategic advantages as mutually exclusive and important motives for outsourcing and improved business performance (Quinn, Doorley, and Pacquette, 2000). Further, studies from the Resource Based View perspective suggest that firms base their decisions on whether outsourcing reduces costs or builds strategic advantages (Sharpe, 2007).

When asked whether outsourcing for cost reduction created better short term performance, 63.3% agreed, 25.0% disagreed and 11.7% were neutral. This implies that firms where outsourcing to grow a high short term performance needed for daily operations of the firm mainly through working capital management. This study agreed with a Unilever action of outsourcing its data network operations to cut overhead and increase efficiency in the short run, while enhancing product development and marketing in the long run (Keller, 1992). Further, firms cite specific reasons for how outsourcing motivated by cost reduction can improve short-term performance (Arnold, 2000).

When asked whether outsourcing for cost reduction created better long term performance, 66.7% agreed, 21.7% disagreed and 11.7% were neutral. This is an indication that part of the outsourcing decision was driven by the need to improve long term performance in form of profits, sales, product innovation and overall firm growth. Kavan et al (1999) had mentioned that outsourcing was helpful in improving long term performance as it reduced cost while improving the overall operations of the firm.

When asked if firms equated the cost of outsourcing to the cost of acquiring additional resources to do work internally, 61.7% agreed, 28.3% disagreed and 10.0% were neutral. This is in agreement with literature which argues that as a baseline for assessing advantages, firms equate the cost of outsourcing to the cost of acquiring additional resources to do work internally (Kavan, Saunders, and Nelson, 1999). Leveraging a vendor's ability to reduce clients' operating costs provides a comparable level of service at lower cost. Vendors' relative cost advantages may arise from scale and scope economies, which they achieve, respectively, by aggregating expertise and capacity across a large number of clients and by simultaneously undertaking a variety of projects across which they share or transfer capabilities (McCarthy and Anagnostou, 2004). This then creates a situation where cost is reduced via outsourcing for better business performance.

When asked if outsourcing also generated needed cash when firms sold assets or transferred employees to vendors, 61.7% agreed, 21.7% disagreed and 16.7% were neutral. This implication agrees with reviewed literature that argued that outsourcing can also generate needed cash when firms sell assets or transfer employees to vendors (Juma'h and Wood, 2003). Cost advantages may come from reducing or eliminating new investments or investment renewals (Gilley and Rasheed, 2000; Kakabadse and Kakabadse, 2005). This occurs, for instance, when vendors offer services using technologies that are more efficient than the client's or skills that are unjustifiably costly for client develop in house (Abraham and Taylor, 2006).

Finally, the respondents were asked if cost reduction was a major contributor to improved performance. On this, 71.7% agreed, 20.0% disagreed and 8.3% were neutral. This is an indication that cost reduction was a major factor influencing organizational performance in Unga Group Limited. Wright (2007) had argued that a major factor that firms consider before any major outsourcing decision is the need to reduce costs and consequently improve profits and maintain firm competitiveness and performance.

From the responses obtained, Unga Group considered cost reduction as an influence on outsourcing decision for organizational performance as it had the highest mean score of 3.16. All the above data was reliable as most of the respondents indicated that outsourcing helped to both manage and reduce much needed fixed and operation costs.

4.7 Effect of Outsourcing for Innovativeness on Organizational Performance

The third objective of the study sought to examine the effect of outsourcing for innovativeness on organizational performance. The result is as seen in table 4.6.

Table 4.6 Effect of Innovativeness on Organizational Performance

	SA		A		N		D		SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
We develop new products once every year	10	16.7 %	31	51.7 %	5	8.3%	12	20.0%	2	3.3%	2.42	.61
company needs new products and services to maintain its competitiveness	6	10.0 %	31	51.7 %	5	8.3%	14	23.3%	4	6.7%	2.65	1.0
company is keen on new product development	10	16.7 %	27	45.0 %	7	11.7%	13	21.7%	3	5.0%	2.53	.94
innovativeness has become hard because of lack of funds	11	18.3 %	29	48.3 %	6	10.0%	8	13.3%	6	10.0%	2.40	.85
Outsourcing innovativeness to other companies that can do the work	6	10.0 %	29	48.3 %	7	11.7%	13	21.7%	5	8.3%	2.62	1.1
Outsourcing is the only way the company can innovate and remain competitive	10	16.7 %	26	43.3 %	5	8.3%	14	23.3%	5	8.3%	2.72	.94 98
innovativeness is a major contributor to improvedperformance	13	21.7 %	29	48.3 %	5	8.3%	7	11.7%	6	10.0%	3.17	1.1

Source:Survey Data (2014)
Maximum=5 Minimum=1

From the Table, majority at 68.3% agreed that they developed new products once every year, 31.7% disagreed and 5.0% were neutral. This implies that Unga Group was spending a lot of money as innovativeness demanded a lot of investment (Rundquist, 2006). As a consequence, outsourcing decision is inherent in this scenario to help effectively manage the high costs that accompany new product development.

The respondents were asked if the company needed new products and services to maintain its competitiveness. On this 61.7% agreed, 30.0% disagreed and 8.3% were undecided. This is an indication that the firm had no option but to develop new products if they wanted to remain in business. This is especially important considering that the manufacturing firms had to conform to emerging trends to remain competitive. Therefore, the high costs of investment in innovativeness are inevitable, opening a window for outsourcing among other high cost mitigating strategic options.

When asked if in the same vein, innovativeness had become hard because of lack of funds, 61.7% agreed, 11.7% were neutral and 26.7% were neutral. This is an indication of similarities with earlier interpretations that innovativeness required big investment and as a result certain strategies to try and offset the high costs, including an outsourcing decision, was relevant.

When the respondents were asked if therefore, the company needed to outsource its innovativeness to other companies that can do the work, 66.7% agreed, 23.3% were undecided and 10.0% were neutral. This is an indication that when the firm was faced with the high cost of developing new products internally, it chose the option of outsourcing to help create quality products while reducing costs at the same time. According to Quinn et al (2000), many firms in manufacturing industries have difficulties staying competitive today. They often lack resources due, for example, to higher costs in comparison with competitors abroad or higher costs compared to larger firms to engage in a much needed innovation and as a result require strategic outsourcing to keep up.

The respondents were asked if outsourcing was the only way the company could innovate and remain competitive and improve profits, 60.0% agreed, 31.7% disagreed and 8.3% were undecided. This is an indication that innovativeness was a significant factor influencing outsourcing decision in Unga Group to help them improve business performance. To increase resources, to share risks or to lower costs, many firms choose to outsource, collaborate with other firms or organizations in product development. This collaboration can be in the form of, for example, partnership, joint ventures, networks, research contracts or alliances (Chiesa et al., 2000). Manufacturing firms seem to prefer outsourcing because as Arnold (2000) it among other benefits, provide for higher short term performance that firms in an ever changing environment really needs.

Finally, the respondents were asked if innovativeness was a major contributor to improved performance. On this, 70.0% agreed, 21.7% disagreed and 8.3% were neutral. This is an indication that innovation is one of many ways to reach the goals of organizational performance. Firms use outsourcing of new innovation to lower costs, to cut peaks in NPD efforts, or to get access to resources which did not previously exist within the firm. NPD is a knowledge-intensive activity that requires a lot of ability to handle insecurities and which is very dependent on the individuals involved in the process and the need to thus outsource it (Dekkers, 2000;Klopack, 2000). From the responses obtained, Unga Group considered innovativeness as an influence on organizational performance as it had the highest mean score of 3.17. All the above data was reliable as most of the respondents indicated that the high cost associated with producing new products created a need for outsourcing.

4.8 Effect of Focus on Core Competencies on Outsourcing Decision

The fourth objective sought to determine the effect of outsourcing for focus on core competencies on organizational performance. The result is as seen in table 4.7

Table4.7 Effect of Focus on Core Competencies on Organizational Performance

	SA		A		N		D		SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
I am sure of what the core competency of my company is	11	18.3%	27	45.0%	6	10.0%	12	20.0%	7	11.7%	2.72	.63
My company does a lot of things many unnecessary	8	13.3%	18	30.0%	7	11.7%	25	41.7%	6	10.0%	2.67	.59
The company needs to concentrate on its core functions to remain competitive	9	15.0%	26	43.3%	7	11.7%	15	25.0%	6	10.0%	3.01	.84
My company does outsourcing to ease it from many other functions	13	21.7%	23	38.3%	6	10.0%	13	21.7%	8	13.3%	2.80	.64
The best way to concentrate on core functions is to outsource the non-core functions	11	18.3%	21	35.0%	10	16.7%	15	25.0%	8	13.3%	2.47	.1.0
Focus on core competencies is a major contributor to improved performance	14	23.3%	26	43.3%	5	8.3%	10	16.7%	6	10.0%	2.92	.83

Source: Survey Data (2014)
Maximum=5 Minimum=1

From the Table, it is clear that majority at 63.3% agreed that they were sure of what the core competency of their respective company was. Only 31.7% were not sure and 5.0% were undecided. This is an indication that the respondents were aware of what was core and what was non-core and in the process implying that they were aware what to outsource and what not to.

When asked if their company did a lot of things many unnecessary, majority at 51.7% disagreed, 43.3% agreed and only 5.0% were neutral. This is an indication that a significant number of manufacturing companies did not consider any of their functions unnecessary, only non-core. Arnold (2000) had mentioned that non-core functions are not unnecessary only that they are functions that are assumed to supplement the core functions and can therefore be outsourced.

The respondents were asked if the company needed to concentrate on its core functions to remain competitive. On this, 58.3% agreed, 35.0% disagreed and only 6.7% were neutral. This implies a long standing opinion in business management that companies need to focus on and specialize in core functions to remain competitive. This opinion is held by Gilley and Rasheed, (2000) among others.

When asked whether the company did outsourcing to ease it from many other functions, 60.0% agreed, 35.0% disagreed and 6.7% were neutral. This implies the central place that outsourcing has began to play in refocusing of business functions. Literature supports outsourcing as a strategy, which may offer improved business performance on numerous dimensions (Dekkers, 2000;Klopack, 2000).Perhaps the most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies (Sislian and Satir, 2000; Quinn, 2000).

When asked if the best way to concentrate on core functions was to outsource the non-core functions, 53.3% agreed, 38.3% disagreed and 8.3% were neutral. This implies that refocusing to core functions is an aspect considered in firms and particularly the reason why outsourcing is hence considered. In outsourcing, resources are typically redirected to where they make the greatest positive impact, namely the organization’s core functions (Kakabadse and Kakabadse, 2000).

Finally, the respondents were asked if focus on core competencies was a major contributor to improved performance. On this 66.7% agreed, 26.7% disagreed and 6.7% were neutral. This is an indication that focuses on core competencies affects organizational performance in Unga Group. This is in agreement with literature that argues that more recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility (Elmuti and Kathawala, 2000).

From the responses obtained, Unga Group considered the option of outsourcing non-core functions to help improve their competitiveness and performance as it had the highest mean score of 3.01. All the above data was reliable as most of the respondents indicated that focus on core competencies was a major influence on organizational performance.

4.9 Data Analysis of Interview Schedule with Selected Customers

An interview was done on selected customers to get their opinion about the product and services of Unga Group Limited. Majority of the Customers used Unga Group products at least once a month and the overall quality of the product, the overall experience, was basically satisfactory. However, they felt that there were other products that were more than satisfactory. These flour products were manufactured by competing industries, like Afya.

In addition, the customers had not contacted Unga Group customer care services citing no need for such interaction. This is so because the customers argued that as soon as they were dissatisfied with any Unga Group product, they simply replaced it with another company product. They further considered other brands as being similar with Unga Group products indicating that the company needed to innovate more to come with a much better, highly competitive product.

4.10 Correlation Analysis

As part of the analysis, Pearson's Correlation Analysis was done on the Independent

Table 4.8 Correlation Analysis

		Organizational Performance	Innovativeness	Employee Competence	Core Competencies	Cost Reduction
Organizational performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	60				
Innovativeness	Pearson Correlation	.655**	1			
	Sig. (2-tailed)	.000				
	N	60	60			
Employee Competence	Pearson Correlation	.635**	433**	1		
	Sig. (2-tailed)	.000	.000			
	N	60	60	60		
Core Competencies	Pearson Correlation	.578	.410**	.127**	1	
	Sig. (2-tailed)	.000	.000	.002		
	N	60	60	60	60	
Cost Reduction	Pearson Correlation	.712**	.205**	.038	.557**	1
	Sig. (2-tailed)	.000	.005	.000	.000	
	N	60	60	60	60	60

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

Variables and the dependent variables. The results is as seen on Table 4.8

Source: Survey Data (2014)

Pearson correlation analysis was conducted to examine the relationship between the variables. The measures were constructed using summated scales from both the independent and dependent variables. As cited in Wong and Hiew (2005) the correlation coefficient value *(r)* range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. However, according to Field (2005), correlation coefficient should not go beyond 0.8, to avoid multicollinearity. Since the highest correlation coefficient is 0.712 which is less than 0.8, there is no multicollinearity problem in this research (Table 4.7).

All the independent variables had a positive correlation with the dependent variable with cost reduction having the highest correlation of ($r=0.712$, $p< 0.01$) followed by innovativeness with a correlation of ($r=0.655$ $p< 0.01$) and then employee competence with a correlation of ($r=0.635$ $p< 0.01$), focus on core competence has the least correlation of($r= 0.578$ $p< 0.01$). This indicates that all the variables are statistically significant at the 99% confidence interval level 2-tailed. This shows that all the variables under consideration have a positive relationship with the dependent variable.

4.11 Regression Analysis

Since the measures that are used to assess the primary constructs in the model are quantitative scales, regression analysis can be used to achieve this end. Regression analyses are a set of techniques that can enable us to assess the ability of an independent variable(s) to predict the dependent variable(s). As part of the analysis, Regression Analysis was done. The results are as seen on Table 4.9, 4.10 1nd 4.

Table 4.9 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882[a]	.848	.841	.196

a. Predictors: (Constant), Employee competence, Cost reduction, Innovativeness, Focus on Core Competencies

b. Dependent Variable: Organizational Performance

From Table 4.9 it is clear that the R value was .882 showing a positive direction of R is the correlation between the observed and predicted values of the dependent variable. The values of R range from -1 to 1 (Wong and Hiew, 2005). The sign of R indicates the direction of the relationship (positive or negative). The absolute value of R indicates the strength, with larger absolute values indicating stronger relationships. Thus the R value at .882 shows a stronger relationship between observed and predicted values in a positive direction. The coefficient of determination R^2 value was 0.841. This shows that 84.1 per cent of the variance in dependent variable (organizational performance) was explained and predicted by independent variables (employee competence cost reduction, innovativeness and focus on core competencies)

Table 4.10 ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	242.743	3	47.046	114.491	.000[a]
	Residual	12.888	237	.684		
	Total	255.630	240			

a. Predictors: (Constant), Employee competence, Cost reduction, Innovativeness, Focus on Core Competencies
b. Dependent Variable: Organizational performance

The F-statistics produced (F = 114.491.) was significant at 5 per cent level (Sig. F< 0.05), thus confirming the fitness of the model and therefore, there is statistically significant relationship between employee competence, cost reduction, innovativeness, focus on core competencies, and organizational performance.

Table 4.11 Regression Coefficients Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.767	.361	.287	7.668	.000
	Employee Competence	.385	.078	.393	5.968	.000
	Cost Reduction	.168	.065	.193	2.593	.004
	Innovativeness	.284	.065	.324	4.383	.000
	Focus on core Competencies	.329	.064	.352	5.129	.000

a. Dependent Variable: Organizational performance

The t-value of constant produced (t = 7.668) was significant at .000 per cent level (Sig. F< 0.05), thus confirming the fitness of the model. Therefore, there is statistically significant relationship between employee competence, cost reduction, innovativeness and focus on core competencies and organizational performance.

Cost reduction was significant ($p<0.05$) in organizational performance. Most empirical research and discussion examine cost cutting and strategic advantages as mutually exclusive and important motives for outsourcing and improved performance (Quinn, Doorley, and Pacquette, 2000). Further, studies from the Resource Based View perspective suggest that firms base their decisions on whether outsourcing reduces costs or builds strategic advantages making cost reduction as a major outsourcing decision motivator (Sharpe, 2007).

Employee Competence was significant ($p<0.05$) in organizational performance. Outsourcing has been viewed as an impetus and agent for change. Competent and skilled workers can bring to the organization more specialized and efficient ways of undertaking the given tasks (Bergstrom, 2003; Sharpe, 2007). This is particularly important if the enterprise has work practices that are no longer relevant or economically sustainable. Further, Arnold (2000) had argued that the lack of experience by workers affects their competence consequently creating the need for outsourcing for a company that wants to retain its high competitiveness.

Focus on core competencies was significant ($p<0.05$) in organizational performance. This implies that focuses on core competencies affects organization performance in Unga Group. This is in agreement with literature that argues that more recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility (Elmuti and Kathawala, 2000).

Innovativeness was significant ($p<0.05$) in organizational performance. This is an indication that outsourcing is one of many ways to reach the goals of new innovation. Firms use outsourcing of new innovation to lower costs, to cut peaks in NPD efforts, or to get access to resources which did not previously exist within the firm. NPD is a knowledge-intensive activity that requires a lot of ability to handle insecurities and which is very dependent on the individuals involved in the process and the need to thus outsource it (Dekkers, 2000;Klopack, 2000).

From: Regression Model

$y_{od} = \alpha + \beta_1 (EC) + \beta_2 (CR) + \beta_3 (I) + \beta_4 (CC) + e$

Thus;

$y_{od} = 2.767 + 0.393 (EC) + 0.193 (CR) + .324 (I) + 0.352 (CC)$

Thus, the four hypotheses:

Table 4.12 Hypotheses Testing

Hypothesis	Test	Results	Remarks
H_{01}: There is no significant effect of outsourcing for employee competence on organizational performance of Unga Group Limited	Regression .000	Significant	Rejected
H_{02}: There is no significant effect of outsourcing for cost reduction on organizational performance of Unga Group Limited	Regression .004	Significant	Rejected
H_{03}: There is no significant effect of outsourcing for innovativeness on organizational performance of Unga Group Limited	Regression .000	Significant	Rejected
H_{04}: There is no significant effect of outsourcing to focus on core competencies on organizational performance of Unga Group Limited	Regression .000	Significant	Rejected

Source: Survey Data (2014)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of findings, the conclusions drawn and the recommendations made thereof. It finally offers the suggestions for further research.

5.2 Summary of Findings

The first hypothesis stated that there is no significant effect of outsourcing for employee competence on organizational performance of Unga Group Limited. On this employee competence had a correlation of ($r=0.635$ $p< 0.01$) and regression results of ($\beta=.393$, $t=5.968$, $p<0.000$). This is an indication that employee competence was a major influence on the organization performance firms made. The second hypothesis stated that there is no significant effect of cost reduction on organizational performance at Unga Group Limited. On this cost reduction had a correlation of ($r=0.712$, $p< 0.01$) and regression results of ($\beta=.193$, $t=2.593$, $p<0.004$). This is an indication that cost reduction was a major influence on the organizational performance.

The third hypothesis stated that there is no significant effect of outsourcing for innovativeness on organizational performance of Unga Group Limited. Innovativeness had a correlation of ($r=0.655$ $p< 0.01$) and regression results of ($\beta=.324$, $t=4.383$, $p<0.000$). This is an indication that innovativeness was a major influence on the organizational performance. The fourth hypothesis stated that there is no significant effect of outsourcing to focus on core competencies on organizational performance of Unga Group Limited. Focus on core competence had the least correlation of($r= 0.578$ $p< 0.01$) and regression results of ($\beta=.352$, $t=5.129$, $p<0.000$). This is an indication that focuses on core competencies was a major influence on organizational performance.

5.3 Conclusion of the study

Based on the objectives and findings of the study, the following are the conclusions

Based on the first objective, the company had no highly skilled labor with long standing experience. However, the company had experts and specialist in the textile industry in all sectors including IT and Operations. Moreover, outsourcing had become necessary because of the unskilled labour and lack of specialists. Further, the company was not as competitive as it should be because of unskilled labour and therefore created a need to outsource. This agrees with literature earlier reviewed (Arnold, 2000; Roberts, 2001; Wright 2001; Teresko, 2002) which argued that for firms to remain competitive and improve performance they needed to provide high level of employee competence and where they cannot, outsourcing becomes a viable option. It can therefore be concluded that outsourcing for employee competence was a significant influence on organizational performance in Unga Group Limited.

Based on the second objective, outsourcing reduced costs; both overhead and fixed costs. Outsourcing for cost reduction created better short and long term performance. Further, firms equated the cost of outsourcing to the cost of acquiring additional resources to do work internally and it also generated needed cash when firms sold assets or transferred employees to vendors. Cost reduction was a major factor considered for performance. Most empirical research and discussion earlier reviewed examine cost cutting and strategic advantages as mutually exclusive and important motives for outsourcing for improved business performance (Quinn, Doorley, and Pacquette, 2000). Further, studies from the Resource Based View perspective agrees with this conclusion by suggesting that firms base their decisions on whether outsourcing reduces costs or builds strategic advantages making cost reduction as a major outsourcing decision motivator (Sharpe, 2007; Stalk, 2008; Monczka and Trent, 2008). It can therefore be concluded that outsourcing for cost reduction was a significant influence on organizational performance in Unga Group Limited.

Based on the third objective, Unga Group developed new products once every year. The company needed new products and services to maintain its competitiveness, a factor that is in agreement with Chiesa et al (2000). In the same vein, innovativeness had become hard because of lack of funds and therefore, the company needed to outsource its innovativeness to other companies that can do the work. Moreover, outsourcing was the only way the company could innovate and remain competitive and improve profits. The conclusions here are in agreement with studies (Dekkers, 2000; Arnold, 2000; Quinn et al, 2001) who basically noted that while firms need to innovate to remain competitive, they often need to outsource because of the huge investment associated with such new innovations. It can therefore be concluded that outsourcing for innovativeness was a significant influence on organizational performance in Unga Group Limited.

Based on the fourth objective, managers were sure of what the core competency of their respective company was. Their respective departments needed to concentrate on its core functions to remain competitive and therefore did outsourcing to ease it from many other functions. Finally, one of the main reasons why the company outsourced was because of need to focus on core functions or competencies. This agrees with literature which asserted that outsourcing has been viewed as an impetus and agent for change and that focus on core competencies has become a major driving force for strategic options, a major part of which is outsourcing (Bergstrom, 2003; Sharpe, 2007). It can therefore be concluded that outsourcing for focus on core competencies was a significant influence on organizational performance in Unga Group Limited.

5.4 Recommendations of the study

Based on the objectives and conclusions this study recommends;

Based on the first objective on employee competence, Unga Group Limited should offer better terms of service and proper training to help improve employee competence and reduce costs of outsourcing its HR functions for better performance.

Based on the second objective on cost reduction, Unga Group Limited should employ strategic and well thought out outsourcing to further reduce operating and overhead costs for further firm growth.

Based on the third objective on innovativeness, Unga Group Limited should carefully consider the issue of outsourcing to ensure that while outsourcing helps in new innovations, no product quality is compromised and no money is lost.

Based on the fourth objective on focus on core competencies, Unga Group Limited should clearly ascertain the non-core functions to outsource and further review the potential cost and benefit to be garnered if the non-core functions are outsourced.

5.5 Suggestions for further research

This study proposes that further research be done in the following area:

Human resource factors influencing outsourcing decision in textile industries.

Human Resources are critical for the success of any organization and a deeper study into how to effectively outsource this function is necessary as it has not been an area of concentration in past studies, especially in the textile industry in Kenya.

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APPENDICES

APPENDIX 1: LETTER OF TRANSMITAL

Caroline N, Mung’ala
P. O. Box 2134 – 00505
Nairobi
29th January, 2014

The Managing Director
Unga Group Limited
P. O. Box 30096 - 00100
Nairobi

Dear Sir,

RE: EFFECTS OF OUTSOURCING DECISION ON ORGANIZATIONAL PERFORMANCE OF UNGA GROUP LIMITED

I am a Master of Arts student at Nairobi University Garisa Extra Mural Centre – Machakos Sub Centre carrying out a research on the effect of outsourcing decision on organizational performance of Unga Group Limited as a partial fulfillment for the requirement for an award of Master of Arts Degree in Project Planning and Management.

This is a request for participation of the management staff of your company in responding to the attached questionnaire. Their truthful response will help facilitate this study.

The findings of this study will be purely used for academic purposes. Any information given will be confidential and only for the purpose of this study.

Thank you in advance for your participation.

Yours Faithfully,

Caroline Mung’ala

APPENDIX II: Questionnaire for Staff

Instructions

Kindly answer all questions and tick

PART A-DEMOGRAPHIC DATA

Tick where appropriate [√]

1. Gender

   Male [ ] Female [ ]

2. Age

   [ ] 18-25 years [ ] 26-35 years [ ] 36-45years

   [ ] 46-55years [ ] Over 55 Years

3. Highest level of education attained

   [ ] Diploma [ ] Degree [ ] Masters [ ] PHD

   Any other specify

4. How many years have you worked at your work?

   [ ] Below 5 [ ] 5-10

   [ ] 10 -15 [ ] 15, and above

PART B: Information on Organizational Performance

5. Kindly indicate the extent to which you agree or disagree with the following statements. Please indicate by ticking [√] your view. The Value of Scale is given below

SA-Strongly Agree (5), A-Agree (4), U-Undecided (3), D-Disagree (2), SD-Strongly Disagree (1)

	SA 5	A 4	U 3	D 2	SD 1
We have a high sales growth, averagely above the 1 million mark					
We have a markedly high market share of averagely over 40%					
Our profitability is high and has reached the 1 million mark and above					
The owners are satisfied with the performance of the business.					
Generally, the growth of the firm has been steady and very satisfactory in terms of return on investment and sales					

6. Part C: Information on Employee Competence

	SA 5	A 4	U 3	D 2	SD 1
The company has highly skilled labor					
The company has workers with long standing experience					
The company has experts and specialist in the manufacturing industry in all sectors, i.e. IT, Operations etc					
Outsourcing has become necessary because of the unskilled labour and lack of specialists					
The company is not as competitive as it should be because of unskilled labour and therefore needs to outsource					
lack of employee competence has lowered our performance over time					

6. PART D: Information on Cost Reduction

	SA 5	A 4	U 3	D 2	SD 1
Outsourcing reduces costs, both overhead and fixed costs					
Outsourcing for cost reduction creates better short term performance					
Outsourcing for cost reduction creates better long term performance					
Our firm equate the cost of outsourcing to the cost of acquiring additional resources to do work internally					
Outsourcing also generates needed cash when firms sell assets or transfer employees to vendors					
Cost reduction is a major contributor to improved performance					

7. Part E: Information on Innovativeness

	SA 5	A 4	U 3	D 2	SD 1
We develop new products once every year					
The company needs new products and services to maintain its competitiveness					
The company is keen on innovativeness, in new product development					
However, innovativeness has become hard because of lack of funds					
The company needs to outsource its innovativeness to other companies that can do the work					
Outsourcing is the only way the company can innovate and remain competitive and improve profits					
innovativeness is a major contributor to improved performance					

8. PART F: Information on Core Competencies

	SA 5	A 4	U 3	D 2	SD 1
I am sure of what the core competency of my company is					
My company does a lot of things many unnecessary					
The company needs to concentrate on its core functions to remain competitive					
My company does outsourcing to ease it from many other functions					
The best way to concentrate on core functions is to outsource the non-core functions					
Focus on core competencies is a major contributor to improved performance					

APPENDIX III: Interview Schedule for Customers

How often do you typically use the Unga product?

- Once a year
- Daily
- Weekly
- Once a month
- Every 2-3 months
- 2-3 times a year less often
- Do not use

How did the product perform?

	Miserably	Somewhat Satisfactory	Very Satisfactory	Delightfully
Overall quality	○	○	○	○
Value	○	○	○	○
Purchase experience	○	○	○	○
Installation or first use experience	○	○	○	○
Usage experience	○	○	○	○
After purchase service (warranty, repair, customer service etc)	○	○	○	○

How important was performance on these attributes?

	Not Important	Somewhat Important	Important	Very Important
Overall quality	○	○	○	○
Value	○	○	○	○
Purchase experience	○	○	○	○
Installation or first use experience	○	○	○	○
Usage experience	○	○	○	○
After purchase service (warranty, repair, customer service etc)	○	○	○	○

Overall, how satisfied were you with your new [PRODUCT]?

- ○ Not at all satisfied
- ○ Somewhat Satisfied
- ○ Satisfied
- ○ Very Satisfied
- ○ Delighted

Have you ever contacted customer service?

- ○ Yes
- ○ No

If you contacted [COMPANY] customer service, have all problems been resolved to your complete satisfaction?

- Yes, by the company or its representatives.
- Yes, by me or someone outside the company
- No, the problem was not resolved

Based on your awareness of [PRODUCT/SERVICE],is it better, the same, or worse than other brands of [ENTER CATEGORY}?

- Much Better
- Better
- About the same
- Worse
- Much Worse

APPENDIX IV: NACOSTI RESEARCH AUTHORIZATION LETTER

NACOSTI

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349, 310571, 2219420
Fax: +254-20-318245, 318249
Email: secretary@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No.

Date:

6th May, 2014

NACOSTI/P/14/6282/1328

Caroline Ndindi Mungala
University of Nairobi
P.O.Box 30197-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Effects of outsourcing decision on organizational performance in the manufacturing industry: A case of Unga Group Limited, Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for a period ending **4th July, 2014.**

You are advised to report to **the Managing Director, Unga Group Limited, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

SAID HUSSEIN
FOR: SECRETARY/CEO

Copy to:

The Managing Director
Unga Group Limited.

National Commission for Science, Technology and Innovation is ISO 9001: 2008 Certified

APPENDIX V: RESEARCH PERMIT

THIS IS TO CERTIFY THAT:
MS. CAROLINE NDINDI MUNGALA
of UNIVERSITY OF NAIROBI, 0-505 NAIROBI,has been permitted to conduct research in *Nairobi County*

on the topic: *EFFECTS OF OUTSOURCING DECISION ON ORGANIZATIONAL PERFORMANCE IN THE MANUFACTURING INDUSTRY: A CASE OF UNGA GROUP LIMITED, KENYA*

for the period ending:
4th July,2014

Permit No : NACOSTI/P/14/6282/1328
Date Of Issue : 6th May,2014
Fee Recieved :Ksh 1,000.00

....
Applicant's Signature

....
FOR: Secretary
National Commission for Science, Technology & Innovation

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit
2. Government Officers will not be interviewed without prior appointment.
3. No questionnaire will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two(2) hard copies and one(1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice

REPUBLIC OF KENYA

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

Serial No. A 1507

CONDITIONS: see back page

APPENDIX VI: RECEIPT APPLICATION FOR PERMIT FEE

ORIGINAL

AC: 01323

OFFICIAL RECEIPT

Station: NAIROBI   Date: 14/4/17

RECEIVED from: Caroline Adhiambo Nyangile

Shillings: One thousand only

cents

on account of: Research fee

Vote Head: R-93

NACOSTI

USD	
Kshs	1,000
AC No.	

Item: A-I-A

Cash Cheque No.: Direct deposit

Signature of Officer receiving remittance