A SURVEY OF BUSINESS OUTSOURCING PRACTICES AMONGST PRIVATE MANUFACTURING COMPANIES IN NAIROBI

BY:

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DECLARATION

This management project is my original work and has not been presented for a degree in any other University

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This management project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

Dedicated to my loving family and most of all, my daughter Sophie and Nadhira, sister and friend.

ACKNOWLEGEMENT

I am indebted to many special people who were instrumental in completing this project. Prof. Aosa, for his guidance, support and inspiration. My gratitude goes out to all participants in this study, for the co-operation accorded to me.

I am particularly indebted to my parents for their support and strong belief in continuos education and self-development. Last but not least to family, sisters, daughter Sophie and Ken for their never faltering patience and belief in my eventual success. Most of all, inspirational and ever-positive and energized - Connie, Onesmus and Sang.

ABSTRACT

Few management practices have attracted as much attention as outsoucing is enjoying at the present time. Over the last few years, outsourcing has become an important issue for many organizations. Many companies have finite resources and cannot always afford to have all manufacturing technologies in-house. This has resulted in an increasing awareness of the importance of outsourcing. The potential of outsourcing has moved from peripheral activities such as cleaning and catering to critical activities such as design and manufacturing. Organizations are thus focussing on outsourcing as a management strategy to delegate major non-core functions to specialized service providers. Outsourcing therefore represents a significant shift in the way organizations manage and staff their business support activities.

This study was an exploratory study that sought to determine the outsourcing practices used to gain competitive advantage in the private manufacturing industries operating in Nairobi. The objectives of the study were twofold. The first was to establish the extent of outsourcing within private manufacturing firms based in Nairobi. The second was to determine factors that influence outsourcing in the industry.
The data was collected by use of a structured and non-disguised questionnaire. The questionnaires were administered on by a "drop-and-pick-later" basis. One hundred manufacturing firms were surveyed of which fifty-two responded.

According to the findings of the study, all the manufacturing industries that were surveyed outsourced various activities. This was most prevalent in departments like Human Resources, Finance and Information technology. There is greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or non-strategic activities. The survey was able to find out the factors that are important in making the decision to use outsourcing as a strategy for competitive advantage. Firms need to evaluate their decisions based on the strategic implications of outsourcing. Also of importance is evaluation of vendors likely to create valuable partnerships intended to culminate in organizational success. The study clearly revealed that the sourcing debate has moved from whether to outsource, to what and how to outsource.

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CHAPTER ONE

1 INTRODUCTION

1.1 Background

The organization's *raison d'être* is to focus on consistently superior performance, or develop assets of high specificity that create value (Turner and Crawford 1992). In order for organizations to achieve their goals and objectives, they have to constantly adjust to their environment (Pearson and Robinson 1997). This environment is turbulent, constantly changing, and so it makes it imperative for organizations to adapt their activities in order to survive. Organizations that do not adequately adjust to meet environmental challenges will experience a big problem – the strategic problem. This problem arises out of the maladjustment of any organization to its environment (Ansoff 1990).

The major task of managers is therefore to ensure the continued existence of their organizations. Organizations have developed and adopted different techniques over time to help them cope with the threat posed by the strategic problem. One of the most recent and most comprehensive of the management approaches is strategic management (Pearson and Robinson 1997). Strategies that an organization pursues have a major impact on its performance relative to its peers (Hill and Jones 2001). The purpose of strategy is maximum goal achievement, i.e. "winning" with minimum resource use and risk. Strategic risk analysis and management starts by defining the specific goals, capabilities and organizational missions that make enterprise pre-eminent in selected markets (Quinn et al, 2000)

With increased turbulence and complexity in the business environment, companies are expanding globally to increase their profitability in ways not available to purely domestic enterprises (Hill and Jones 2001). As stated, in our increasingly uncertain economic climate and with an emerging globalization, accompanied by a lowering growth rate, world-wide proliferation of monopolistic (or oligopolistic) multinational corporations, capital utilization effectiveness and the rapid proliferation of information technology have caused organizations to re-evaluate how they operate in the marketplace (Sweezy, 1997). To cope with these environmental pressures, enterprises are attempting to reposition themselves higher on the value chain so as to gain competitive advantage in an uncertain world (Leatt et al., 1997). To do this, corporations are undergoing organizational change with the emphasis on flexible, "lean and mean" structures and a focus on "core competencies".

As part of the process of progressing up the value chain, organizations are striving to reduce costs and improve efficiency and thereby utilize a variety of outsourcing arrangements. Success defined by the ability to connect quickly and meaningfully with business partners and customers in order to rapidly improve the quality of goods and services, is becoming the competitive imperative. Consequently, companies are rapidly "devolving" from self-contained, vertically integrated organizations to more virtual entities that rely on business partners to fulfil major parts of their supply and value chain requirements (Kutnick, 1999).

Kenya has not been left out in the new wave of globalization. Globalization in international business may be defined as widespread establishment and operation in one or more countries of manufacturing and/or marketing procedures with ownership and supervision generally originating through a parent company housed in another country (Ball and McCulloch 1993). Globalization enables companies to earn greater returns from their distinctive competencies, realize location of economies, ride down the experience curve ahead of competitors thereby lowering the cost of value creation (Hill and Jones 2001). In 1992, the Kenya government prepared ground for globalization by initiating liberalization and privatization policies (Aseto and Akelo 1998).

As companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses (Sinderman 1995). The global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host country or third party nationals (Greer et al., 1999). Most corporations believe that in order to compete globally, they have to look at efficiency and cost containment rather than rely strictly on revenue increases.

There are several schools of thought on outsourcing which are closely related. One school of thought advocates that companies can leverage their skills and resources for increased profitability by assessing the relative costs and risks of making or buying. In support of this, Quinn and Hilmer (1994) put forward two strategic approaches that allow leaders to leverage their companies' skills and resources well beyond levels available with other strategies. First, concentrate the firms' own resources on a set of core competencies where it can achieve definable preeminence and provide unique value for customers. Second, strategically outsource other activities, (including many traditionally considered integral to any company) for which the firm has neither a critical strategic need nor special capabilities.

Quinn and Hilmer (1994) highlight that there are four main ways in which corporate leaders can unlock value within organizations. Firstly, through focusing investments and energies on what the enterprise does best. Secondly, well-developed core competencies provide formidable barriers against present and future competitors that seek to expand into the company's areas of interest, thus facilitating and protecting the strategic advantages of market share. Thirdly, through the full utilization of external suppliers' investments, innovations, and specialized professional capabilities. More often than not, these specialized capabilities are prohibitively expensive or even impossible to duplicate internally. Lastly, in rapidly changing marketplaces and technological situations, this joint strategy decreases risks, shortens cycle times, lowers investments, and creates better responsiveness to customer needs.

Jathanna (1992) and Willey (1993) present outsourcing as a technique for reducing costs and freezing out management time. Organizations divide activities into core and non-core activities. Core activities which enhance core competencies cannot be outsourced while non-core activities that usually require generalized skills practiced across the industry be considered for outsourcing. These non-core activities are further classified between those that can be done away with and those that cannot. To achieve maximum effectiveness within an organization, managers need to clearly address the issue of core competencies. Core equals key or critical or fundamental. Tampoe, (1994) asserts that core competencies are characterized as being invisible to competitors and difficult to imitate. They are a mix of skills, resources and processes unique to a corporation and offer capability that can sustain an organizations' competitive edge over time.

1.2 The Manufacturing Industry in Kenya

The manufacturing industry has been defined by the Kenya Institute of Research and Development (KIRDI 1997) as the sector of the economy concerned with the production of goods from raw materials using organized labour and production systems with the aid of machinery. Manufacturing organizations are complex combinations of social and technical features. Contemporary research into the management of these organizations has increasingly emphasized the need to find a 'fit' between social, technical or technological aspects (Delbridge (1997).

In the Kenyan economic scene, fundamental changes have taken place over the last ten years. These changes have affected the manufacturing firms and indeed other organizations operating in this environment. The most notable of these changes have been the accelerated reforms by the government.

The intended effect of these reforms has been to establish a free market and a competitive economic system in Kenya. The economy is now largely liberalized. There are no more price -controls and portions of the public sector are either privatized or commercialized. These changes and those occurring in the international scene have made organizations to compete aggressively on a global basis (Aosa, 1998). Delbridge et al (1993) indicates that there are three important items that a manufacturing firm should consider in order to be successful. These include the technical system, efficiency and drive towards improvement and innovation of products.

1.3 Statement of the Problem

Different organizations have adopted different strategies to attain competitive advantage. Outsourcing is one of these strategies that has become popular the world over. As organizations redirect valuable internal skills and capabilities to high value-added activities, the sourcing debate has moved from whether to outsource, to what and how to outsource (Venkatraman 1997). There is evidence of outsourcing mainly in developed countries. This study sets out to establish and document the use of outsourcing strategy among Kenyan private manufacturing firms based in Nairobi. PriceWaterhouseCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater share holder value across the enterprise. This study poses the question: Do manufacturing companies in Nairobi utilize the outsourcing strategy?

1.4 Objectives of the Study

The main objectives of the study are:

- To find out the extent of outsourcing within private manufacturing firms based in Nairobi.
- To determine factors that influence outsourcing in private manufacturing firms based in Nairobi.

1.5 Importance of the Study

Granting that the competencies of the firm and its essential reason for existence should be kept in-house, it is important to study what firms should then out-source. Outsourcing is a strategy that can allow managers to leverage their companies skills and resources well beyond levels available with other strategies. The benefits of successfully implementing it maximize returns on internal resources by concentrating investments and energies on what enterprises do best. Well-developed core competencies provide a formidable barrier against present and future competitors that seek to expand into the company's areas of interest. In a rapidly changing market place and technological situations, this strategy decreases risks, shortens cycle times, lowers investments, and creates better responsiveness to customer needs. (Quinn and Hilmer 1994.)

It was expected that the benefits of this study would accrue, among others, to those indicated below:

- Multinational Corporations, Non Profit Making Organizations and Local Firms

  This study will avail pertinent information on activities that can be out-sourced as well as the benefits and limitations of outsourcing.

- Management Consultants

  This study will benefit management consultants as they consult with an endeavor to assisting organizations focus on core business, and in evaluating which activities in the value chain to outsource. It will also highlight successful outsourcing relationships (partners/alliances).

- Academia.

  The study will stimulate lasting interest among academicians and encourage further research in the dynamic area of outsourcing. It will add to the existing body of knowledge in outsourcing.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Definition and Evolution of Outsourcing

As organizations redirect valuable internal skills and capabilities to high value adding activities, the sourcing debate has moved from whether to outsource, to what and how to outsource (Venkatraman 1997). To become truly competitive, corporations have been through downsizing, rightsizing, restructuring and re-engineering. Many organizations are working towards the concept of core organization dealing with core or strategic activities, surrounded by a network of smaller companies and individuals (associates) providing a range of supporting ancillary services on a contracted basis (Daniels 1998).

Strategic outsourcing occurs when companies realize they cannot afford to be best in world at all elements of their value chain supporting those markets. To the extent that they are not best-in-world at an activity (including transaction costs), they give up competitive edge by producing that activity in-house, rather than outsourcing it to a best-in-world supplier (Quinn et al 2000).

Different definitions on outsourcing have been coined by different authors. (Kaathawala and Elmuti 2000) defines outsourcing as a management strategy by which an organization delegate's major non-core functions to specialized and efficient service providers. Jathanna (1992) defines outsourcing as contracting out non-strategic operations to a third party. Pearce and Robinson (1997) define outsourcing as the use of a source other than internal capacity to accomplish some tasks or processes. It is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources.
(Corbett 1999) describes outsourcing as the wholesale restructuring of the corporation around core competencies and outside relationships. Pearce Robinson (1997) add that outsourcing is based on the notion that strategies should be built around core competencies or activities that add value. Activities that cannot be done cost effectively should be done outside the firm.

Emphasis is shifting from outsourcing parts, facilities and components, towards out-sourcing the intellectual based systems. Traditional outsourcing emphasis on tactical benefits like cost reduction – cheaper labor cost have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild et al 1999). Scholars adopting the strategic perspective and practitioners adopting conventional wisdom add that core activities should stay in-house whilst non-core activities can be outsourced, in order to preserve core competencies. Core competencies and distinct competencies are essentially a bundle of corporate skills that cut across traditional functions, such as product or service design, technology creation, customer service, and logistics (Prahalad and Hamel, 1996)

DiRomunualdo and Gurbaxani (1998) argue that firms use outsourcing in order to satisfy one or more of three strategic intents. The first is strategic improvement - this involves cost reductions and enhancement of efficiency. The second is strategic business impact - that is improving contribution to companies performance within existing lines of business and the third strategic commercial exploitation - that is focused on leveraging technology-related assets. Whatever reasons for outsourcing, a prime purpose still remains reduction of costs. Notably, unlike before, cost considerations have also been escalated to strategic levels of decision making, thus promoting new organizational forms and alliances. A study carried by PriceWaterhousCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater shareholder value across the enterprise.

2.2 Outsourcing: a Paradigm Shift

Dyer and Ouchi (1993) and Helper and Sako (1995), argue that managers need to move from arm's length business relationships towards long-term, collaborative, strategic partnerships with external business partners. At the same time, many large firms are streamlining their operations and moving away from the traditional vertically integrated organization towards the provision of external contracts of key activities, thus generating a portfolio of relationships. Companies that previously focused on size, specialization, job descriptions and price, now emphasize speed, integration, job flexibility and value. This, in turn, has ignited an enormous trend of organizational change where corporate change is the rule of the day (Alevras and Frigeri, 1987; Gaucher, 1997). Some of the resulting consequences are visible and easily quantifiable, whilst others are subtle and less visible, such as the impact on organizational culture, values and ways of working. These less visible changes are more difficult to recognize and to communicate, as they represent a basic shift in the environment, such as alterations in management expectations or preferences towards an organizational service or product. It is held that these less visible, or qualitative changes, represent a paradigm shift, whereby one way of looking at the world is replaced by another, rather than by any slow process of rational re-appraisal (Kuhn, 1970).

As stated, in our increasingly uncertain economic climate and with an emerging globalization, accompanied by a lowering growth rate, world-wide proliferation of monopolistic (or oligopolistic) multinational corporations, capital utilization effectiveness and the rapid proliferation of information technology have caused organizations to re-evaluate how they operate in the marketplace (Sweezy, 1997). To cope with these environmental pressures, enterprises are attempting to reposition themselves higher on the value chain so as to gain competitive advantage in an uncertain world (Leatt et al., 1997). To do this, corporations are undergoing organizational change with the emphasis on flexible, "lean and mean" structures and a focus on "core competencies". As part of the process of progressing up the value chain, organizations are striving to reduce costs and improve efficiency and thereby utilize a variety of outsourcing arrangements. Success is defined by the ability to connect quickly and meaningfully with business partners and customers in order to rapidly improve the quality of goods and services, is becoming the competitive imperative. Consequently, companies are rapidly "devolving" from self-contained, vertically integrated organizations to more virtual entities that rely on business partners to fulfil major parts of their supply and value chain requirements (Kutnick, 1999).

2.3 Evaluation of activities to Outsource

The trend is for outsourcing relationships to function more and more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives (Sinderman 1995). Byrne (1996) reported that activities most frequently out-sourced are manufacturing (40 percent) and transportation and distribution (30 percent). A survey of US CEO's shows that 42 percent of communication firms, 40 percent of computer manufactures, and 37 percent semiconductor companies rely on outsourcing.

When the firm's strategy is overly dependent on creativity, personal dedication and initiative or on attracting top-flight professionals, the current wisdom is that core competencies need to be monitored within the enterprise (Quinn and Hilmer 1994). Scholars adopting the strategic perspective and practitioners adopting conventional wisdom argue that core activities should stay in-house, whilst non-core activities can be out-sourced, in order to preserve core competencies (Prahalad and Hamel, 1990). Prahalad and Hamel (1990) suggest that core competencies and distinct capabilities are essentially a "bundle" of corporate skills that cut across traditional functions, such as product or service design, technology creation, customer service, and logistics.

Outsourcing decisions should be driven by the nature of the sourcing contracts, the contractual and informal relationships between the purchaser and supplier, the use of market opportunities for competitive advantage, and the successful management of contracts (Willcocks and Fitzgerald, 1994). Other schools of thought propose matrix type models based on the inter-relationships of core competencies and organizational activities, to assist managers with outsourcing decisions.

However, defining what is core competency for any one organization is fraught with many ambiguities. Some regard core activities as core competencies, namely those activities that the firm is continuously engaged in, whilst peripheral activities are those that are intermittent and therefore can be outsourced (Quinn and Hilmer, 1994). Alternatively, Alexander and Young (1996) suggest that four meanings are commonly associated with "core activity": Those traditionally performed in-house; Those critical to business performance; Those that create current or potential competitive advantage; and Activities that will drive further growth, innovation, or rejuvenation.

Others argue along the lines of Porter's (1990) competitive advantage thinking, asserting that core competencies are those activities that offer long-term competitive advantage and thus must be kept in-house (Prahalad and Hamel, 1990; Quinn and Hilmer, 1994). This is exemplified by Sony's capacity to miniaturize components and Philips' optical media expertise and applications (Prahalad and Hamel, 1990). This view contends that many traditionally considered integral activities, for which the firm has no crucial strategic need, can be out-sourced. Quinn and Hilmer coined the term "strategic outsourcing" in order to provide a guide as to what is the strategic core of the firm and those other activities which are necessary to attain the firm's strategic goals (Quinn and Hilmer, 1994).

In contrast, when the firm's strategy is overly dependent on creativity, personal dedication, and initiative or on attracting top-flight professionals, the current wisdom is that core competencies need to be monitored within the enterprise (Quinn and Hilmer, 1994). The organization's raison d'être is to focus on consistently superior performance, or develop assets of high specificity that create value (Turner and Crawford, 1992). For some organizations with high- specificity, the significant nature of inseparable supplementary services may warrant the need for internal sourcing to ensure tighter quality control.

2.4 Benefits of Outsourcing

Quinn, Julien and Negrin; (2000) find a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin is four times as high as that of General Motors due to effective outsourcing through strategic alliances. Outsourcing offers several advantages, such as enabling existing staff to concentrate on core activities on organizational specialization, focusing on achieving key strategic objectives, lowering or stabilizing overhead costs, and thereby gaining cost advantage over the competition. It provides flexibility in response to changing market conditions, and reduces investment in high technology (Quinn 1999). Crucially, outsourcing can provide companies with greater capacity for flexibility, especially in the purchase of rapidly developing new technologies, fashion goods, or the myriad components of complex systems (Carlson, 1989; Harrison, 1994).

Many organizations the world-over, are burdened with having to bear headquarters and support costs of constantly managing in-sourced activities. One of the great gains of outsourcing is the decrease in executive time spent managing peripheral activities - freeing top management to focus more on the core of its business. Various studies have shown that when these internal transaction costs are thoroughly analyzed, they can be extremely high. Since it is easier to identify the explicit transaction costs of dealing with external suppliers, these generally tend to be included in analyses. Harder-to-identify internal transaction costs, however, are often not included, thus biasing results. One of the great gains of outsourcing is freeing top management to focus more on the core of its business (Aveni and Ravenscraat, 1973).

Small specialized suppliers often offer greater responsiveness through new technologies which have undermined the need for the vertically integrated organization and have also helped achieve economies of scale (Quinn and Hilmer, 1994). A network of suppliers can provide any organization with the ability to adjust the scale and scope of their production capability upward or downward, at a lower cost, to changing demand conditions and at a rapid rate. As such, outsourcing can provide greater flexibility than the vertically integrated organization (Carlson, 1989; Harrison, 1994. Furthermore, outsourcing can decrease the product/process design cycle time, if the client uses multiple best-in-class suppliers, who work simultaneously on individual components of the system, as each supplier can contribute greater depth and sophisticated knowledge in specialized areas and thus offer higher quality inputs than any individual supplier or client (Quinn and Hilmer, 1994).

Perhaps the greatest advantage of outsourcing is the full utilization of external suppliers' investments, innovations, and specialized professional capabilities than otherwise would have been the case, which for any one organization would be prohibitively expensive to replicate. However, transferring fixed costs into variable costs by selling assets to an outsourcing vendor is considered an advantage for many organizations. The company receives cash payment and transfers fixed costs into variable overheads (Willcocks, 1997).

2.5 Risks and Limitations of Outsourcing

Outsourcing does encounter some pitfalls and problems. First of all, outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposures. Companies that outsource should continue to monitor the contractor's activities and establish constant communication (Guterl, 1996). Another big problem with outsourcing comes from the workers themselves, as they fear loss of jobs. Malhorta (1997) argues that outsourcing can also lead to a decline in the morale and performance of the remaining employees. Furthermore, operation managers who embark on a reevaluation and comparison of internal operations with foreign options must be aware of the risks involved in dealing with firms that operate in different legal and cultural environments. Problems can arise regarding confidentiality, security, and time schedules (Ramarapu et al., 1997).

Organizations risk becoming dependent on outside suppliers for services, failing to realize the purported hidden cost savings to outsourcing, losing control over critical functions, having to face the prospect of managing relationships that go wrong and lowering the morale of permanent employees (Currie and Willcocks, 1997; Kliem, 1999). Moreover, outsourcing can generate new risks, such as the loss of critical skills or developing the wrong skills, the loss of cross-functional skills, and the loss of control over suppliers (Quinn and Hilmer, 1994; Domberger, 1998). These risks are especially pertinent when the supplier's priorities do not match client needs. Short-term contracts, based on the principle of the lowest winning bid, are claimed to stifle incentives to innovate because rewards for innovation cannot be captured by the contractor (Domberger, 1998).

Research also shows that under information asymmetry, where one party has more information or greater access to information with respect to supplier skill level, bonus schemes conditioned upon supplier performance may be sub-optimal (Geitzmann and Larsen, 1997). Research conducted on exploring information asymmetry between IT buyer and IT supplier and the effect on user benefits and development costs suggests that a viable contract produces the same equilibrium externally as an in-house IT development (Whang, 1992). Furthermore, although outsourcing is undertaken by many corporations in order to control or reduce costs, there is growing evidence that outsourcing does not decrease costs as expected and in some cases, costs increase. For example, a survey based on 1,000 managers world-wide by the PA Consulting Group (PACG) revealed that only 5 per cent of firms gained "high" levels of benefits from outsourcing (PACG, 1996). In contrast, the same study showed that 39 per cent of cases admitted to "mediocre" results.

As outsourcing leads to a re-definition of organizational boundaries and, by implication, structural adjustments involving human resources, these changes incur social as well as financial costs. Although these costs are transitory and can be mitigated by facilitating the adjustments through the re-training and re- deployment of staff within the organization, their transfer to the supplier organization and ensuing redundancy payouts, can still be considerable (Hall and Domberger, 1995; Domberger, 1998). Some scholars argue that although outsourcing represents state of-the-art management, the practice of lean production involves the explicit reinforcement or creation of sectors of low- wage contingent workers, frequently employed by small businesses (Harrison, 1994). What is clear is that the cost of outsourcing is not uniformly distributed among the stakeholders of the organization and that the effects of contracting out on overall employment levels in the economy is not well researched (Hall and Domberger, 1995). In effect, the social impact of outsourcing on social structures is not yet fully appreciated.

2.6 Process of Outsourcing

Once non-core activities to be outsourced are identified, there is need to define the objectives to be achieved. The outsourcing institute, (1998) recommends that implementation of outsourcing decisions be systematically conducted and documented through observation of the following phases:

Planning Phase: The objectives and scope of the outsourcing idea are defined and the feasibility of outsourcing is determined before a decision to proceed. The effort is planned in terms of time, budget and resources needed.

Analysis phase: Baselines are determined and service levels required of vendors are specified. Proper interface is laid down between functions to be outsourced and those to remain in-house. The request for proposal is developed, responses are collected from vendors and analyzed, and a vendor is chosen.

Design phase. Negotiations proceed with selected vendor and a contract is developed and signed.

Implementation phase. The transition from in-house provision of services to vendor is made.

Operations phase. The outsourcing relationship with the vendor is managed and any maintenance or changes in the outsourcing relationships are negotiated and implemented.

Termination Phase. At the end of the contracting period, the decision is made to negotiate another contract with the vendor or a new vendor and the cycle begins again. Alternatively, a decision may be made to perform the activity within the organization. The contract drawn must contain a detailed description of the services to be performed. This will avoid disputes that relate to the scope of the contracted services.

2.7 Selection of Outsourcing Partners

The outsourcing market is competitive; suppliers have to compete not only with each other but also with existing in-house services (large 1999). Jathanna (1992) notes important considerations in selection of vendor as:

(i) Going concem of the vendor. The vendor's life should be up-to a foreseeable future

(ii) Particular skills. The vendor should have particular skills required to perform activities to be outsourced

(iii) Sole supplier. If the vendor is the sole supplier of a particular skill, firm has to be careful in assessing the risk due to absence of competition

(iv) Size of vendor. A vendor whose numbers of employees are few may have strong skills vested entirely in one individual leaving the firm vulnerable.

A survey conducted by The Outsourcing Institute on companies that outsource in the United States of America revealed and ranked essential factors to consider when selecting vendors. These are shown on Table 1.

Table 1: **Factors Considered in the Selection of Vendors**

RANKING	FACTOR
1	Commitment to quality
2	Price
3	Reputation
4	Flexible Contract Terms
5	Scope of Resources
6	Additional Value-added capability
7	Existing Relationship

Source: The Outsourcing Institute, 1998

Two notable approaches in the selection of vendors include (1) sourcing and (2) procurement through request for a proposal. In sole sourcing, a client firm approaches a vendor and appoints it to perform a service after negotiation. There is no competitive bit in this case. Sole sourcing enables a client firm to seek vendors with culture compatibility not just size of the deal or the marketing value in competitive bidding. The firm negotiates with vendors sequentially until it gets the best fit. It proceeds from first choice to second choice until an agreement is reached (Young 1998). Young also advises firms to consider the three R's of references, relationships and reputations if sole sourcing is to be beneficial. Sole sourcing evaluation is carried out using Request for Information Forms (RFI) that enable a firm compare one vendor against another based on technologies, capabilities, processes and references.

Request for Proposal (RFP) is the traditional approach that has been used in competitive bidding among potential vendors. An RFP is created in the format of the day and distributed to several service providers or placed in public information system. Service providers supply a response to the client firm who then does an evaluation and creates a short list. The client pays a visit to the service provider's facilities and reference sites, and makes a selection and work commences (Outsourcing Institute, 1998). RFP approach has been criticized by writers as being costly and time-consuming, (Young 1998). The specifications of the potential outsourced function must be captured in RFP to make it useful.

2.8 Current Studies in Outsourcing practices

Kirui (2000) reveals in his study that outsourcing of non-core logistics activities at BAT Kenya was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing within the organization. Outsourcing at BAT was also prompted by the need to have in place clearly defined process and a logistics function that is aligned to core company business. This contributed to a reduction in the logistics operating cost and improved working capital management. This study also revealed that besides enabling BAT Kenya to focus on its core business, outsourcing was considered the right strategy to drive the company forward and to achieve better customer service delivery.

Kinyuah (2000) asserts that outsourcing engagements like other contractual engagements are characterized with risks and rewards. To be successful, a company should have a portfolio of competencies rather than a portfolio of business. Companies need to conduct careful analysis before engaging in outsourcing. This will ensure that it is not transferring benefits that could have been realized had it in-sourced the activity. Performance level of external vendors should be agreed upon, explicitly disclosed and continuously monitored.

A study conducted by PriceWaterhousCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater shareholder value across the enterprise. In effect, emphasis is shifting from outsourcing parts, facilities and components, towards outsourcing the intellectual based systems. The outsourcing institute (1998) conducted a study on activities being outsourced or being considered for outsourcing. The results are summarized in Table 2.

Table 2: Summary of activities outsourced and those under consideration

ACTIVITY	CURRENTLY OUTSOURCED	TO BE CONSIDERED FOR OUTSOURCING
Operations (Administration)	1 Printing & Reprographic 2 Mailroom 3 Consulting & Training 4 Purchasing	1 Administration of and information systems maintenance 2 Supply/Inventory 3 Records Management
Finance	1 Payroll processing 2 Transaction processing 3 General Accounting	1 Taxes 2 Payroll processing
Human Resources	1 Relocation 2 Workers Compensation 3 Recruiting/Staffing	1 Consulting & Training 2 Human Resources Information Systems
Real Estate and Physical Plants	1 Food and cafeteria services 2 Facilities maintenance 3 Security	1 Facilities management 2 Facilities maintenance
Sales & Marketing	1 Direct mail 2 Advertising 3 Telemarketing	1 Field Sales 2 Reservations and sales promotions
Logistics (Distribution)	1 Freight Audit 2 Freight brokering 3 Leasing	1 Warehousing 2 Distribution & Logistics 3 Operations
Transport	1 Fleet management 2 Fleet operations 3 Fleet Maintenance	1 Fleet management 2 Fleet operations 3 Fleet maintenance
Information Technology	1 Maintenance/repair 2 Training 3 Applications development 4 Consulting and re-engineering	1 Clients/serve networks 2 Networks 3 Desktop system 4 End-user support 5 Full IT outsourcing

Source: The outsourcing institute membership, 1998

PriceWaterhousCoopers (2000) conducted a survey in United States among America's Fastest growing companies, "Trendsetters companies". Respondents were chief executive officers of 440 products and services companies with revenue/sales of one million and one hundred and fifty million US dollars. The conclusion arrived at was that businesses that outsource were growing faster, were larger and made more profits that those that did not. The results are shown in Table 3.

Table 3: Results of PriceWaterhouseCoopers Survey, March 2000

	Trendsetter companies	Product Companies	Service Companies
Firms using outside supplier	**80%**	**81%**	**79%**
Administrative or Financial Services	69%	70%	68%
Internal Operations services	50%	70%	44%
Sales & Marketing Service	30%	34%	25%
Firms not outsourcing in the past year	20%	19%	21%
% operating budget spend on outsourcing	8.18%	8.65%	7.70%

Source: PriceWatershouseCoopers (March, 2000)

The table below gives the detailed results

Table 4: Detailed results of PriceWaterhouseCoopers Survey, March 2000

	Percentage No Of Companies That Outsourced A Given Activity By Year		
ACTIVITY	1994	1997	2000
Administration & Finance	58%	65%	69%
Payroll		55%	45%
Employee Investment programs		-	30%
Tax Compliance		34%	22%
Internal Auditing		18%	13%
Human Resources Hiring		13%	5%
Asset Management		7%	4%
Billing		4%	3%
Internal Operation	42%	47%	50%
Maintenance equipment		19%	20%
Manufacturing/Processing/Assembly		17%	16%
Security		8%	9%
Research and development		8%	6%
Distribution/Warehousing		8%	6%
Sales and Marketing	9%	38%	30%
Websites Management		10%	13%
Market Analysis and planning		14%	2%
Customer Service		3%	2%

Source: PriceWatershouseCoopers (March, 2000)

With an increasing competitive business environment, companies are adopting different strategies specific to their unique needs. Clearly, one of these strategic options that have been implemented in the developed country context is outsourcing. A survey conducted in the USA in April 1999, revealed that, of companies that outsource, 70 percent claimed to save money and 25 percent had improved focus on core business. (PriceWaterhouseCoopers, 1999). Kenyan companies are not unique and are facing similar business challenges. It is therefore expected that they too are embracing outsourcing as one of their strategic options to improve their overall performance.

Corbett (1999) defines outsourcing as the wholesale restructuring of the corporation around core competencies and outside relationships. PriceWaterhouseCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater share holder value across the enterprise. Further more, Jennings, (1997) adds that the potential for outsourcing has moved from those activities that are normally regarded as of peripheral concern to the organization such as cleaning, catering security, to include critical areas of activity such as design, manufacturing, marketing, distribution and information systems with almost the entire value chain open to the use of outside supply.

CHAPTER THREE

3 RESEARCH METHOD

3.1 The Research Setting

The study was carried out in manufacturing firms in Nairobi. Most of the manufacturing firms are concentrated in the eastern part of Nairobi called industrial area. The firms within this industrial area are not only large in number but are also diverse in nature. They can be classified under two main sectors.

- The agro-based industrial sector consisting of firms manufacturing meat and dairy products, canned vegetables, fruits, grain milling and bakeries, sugar, beverages and tobacco, paper and paper products, wood and cork products.
- The Non-agro based manufacturing firms classified into two:-
  - The engineering and construction industrial sector
  - The chemical and mineral industrial sector. The manufacturing firms included in this sector are textiles and clothing, leather and footwear, petroleum and chemicals, plastics, clay and glass, non-metallic, mineral and metal industries (Kenya Manufacturing Directory, 1998/9).

3.2 Population of the Study

The population of the study comprised manufacturing firms located in Nairobi. There are 400 organizations in the manufacturing industry (Central Bureau of Statistics, 2001) in Nairobi. For purposes of this study, the list of names of the firms constituting the population was obtained from KIRDI's Directory of Manufacturing Industries 1997. The directory is more comprehensive and organized compared to other business directories. It has also categorized firms using various parameters such as number and sector. Cross checking was done to ensure existence of the firms with the more recent Kenya Association of Manufactures Directory (2001), and a listing of manufacturing firms in Nairobi obtained from the Central Bureau of Statistics (March 2001).

The choice of Nairobi as the area to be covered by the study is mainly due to convenience in terms of accessibility, time schedule and financial resources available. The area is easily accessible thereby reducing travel and other logistical expenses. Also, according to KIRDI's directory of manufacturing industries, most large manufacturing firms are located in Nairobi.

3.3 Sample and Sampling Design

Considering the diverse distribution of the large manufacturing firms in Nairobi, and the limited budget and the time available, a sample of 100 firms was considered appropriate focusing on private manufacturing firms in Nairobi cutting across firms of all sizes (small, medium and large). Judgmental sampling was used in the selection of the sample.

3.4 Data Collection

Being a cross sectional study and as Saunders et al (1997) suggests, a self-reporting, structured and undisguised questionnaire was used to gather primary data. The respondents to the study were mainly top managers in human resources, administration or operations departments of the organizations surveyed. In their absence, the deputy manager or any other senior manager responded to the questionnaire.

The questionnaire was administered on a "drop and pick later" basis. This method together with telephone follow up culminated in 52% response rate. The primary data was supplemented by secondary data from magazines, supplements and other write-ups on the firms surveyed. The questionnaire comprised both open and closed ended questions. Ordinal scale was used to rate the different variables that were used to measure the existence and extent of outsourcing practices. The questions were divided into 3 sections. Section A sought information on respondents and the identification or classification of data of firms in the study. Part B and C addressed aspects relating to outsourcing practices and selection of outsourcing vendors. A letter of introduction (see appendix) was given to each respondent prior to the research.

3.5 Data Analysis

The data analysis sought to establish the extent of outsourcing within private manufacturing firms in Nairobi and also to determine factors that influence outsourcing. Before analyzing responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into categories. Descriptive statistics were used to summarize the data. Frequencies, percentages and proportions were used to establish the number and proportions of firms outsourcing various activities. Tables were used to show extent of outsourcing practiced in industry, reasons for outsourcing, motivation compelling out-sourcing and factors influencing the decision to outsource. These tables were used to bring out these factors in order of importance. Tables and cross tabulations were also used to present the relationship between specified characteristics exhibited and to determine whether there was any relationship between ownership of the company and period firms had been outsourcing and also age of firm versus outsourcing practice. Factors that influence outsourcing decisions were also analyzed and then ranked in order of importance. These include making the decision to out-source, preferred attributes in selection of vendor and impact of outsourcing on the various firms surveyed.

CHAPTER FOUR

4 STUDY FINDINGS

4.1 PROFILE OF THE RESPONDENTS AND FIRMS.

The questionnaires were distributed on a "Drop and Pick-up later method". Fifty-two of the 100 questionnaires were completed. This represents a response rate of 52%. This was considered ample for the purpose of the study.

4.1.1 Profile of Respondents

A large proportion of the respondents to the survey were Human Resources managers / Administration Managers and Operations Managers. The two accounted for 25.5% of the respondents. The other respondents were spread uniformly at between 2.0% and 3.9%. The respondents had stayed with the firms for different periods of time. 30% of the respondents had stayed with the firms between 2 to 3 years, 16% for between 6 to 10 years, 12% between 4 – 5 years and 10 – 15 years each set of period. 8% for between 5 – 6 years, while those who had been with the firms for 1 year were 2% and less than 2 years were 3%. This implies that the respondents were knowledgeable about what was done in the organization, including outsourcing.

4.1.2 Ownership of Firms

Table 5: Ownership of Firms.

Ownership	Percentage
Wholly Foreign	25.0%
Wholly Local	26.9%
Largely Foreign	71.4%
Largely Local	28.6%
Jointly Owned	48.1%

Source: Response Data.

As illustrated in Table 5, there were three ownership forms of the firms surveyed. There were firms that were wholly foreign owned, those that were wholly locally owned and then there were those that were jointly owned by foreigners and locals. For those that were jointly owned there were those that were largely foreign owned and those that were largely locally owned.

4.1.3 Age of the Firm

The firms that participated in the survey were of various ages. The findings were that 80.8% had been in existence for more than 20 years, 9.6% for less than 10 years and 9.6% had been in existence for between 10 and 20 years. Of these firms, 75% had over 100 employees, 21.2% had 51-100 employees and 3.8% had less than 50 employees. All the respondents according to the findings had outsourced their services and activities during the period between 1998 and 2002 (period of study). Of these firms, 63.5% first outsourced their activities in 1998, 11.9% in 1999, 11.9% in 2000, 5.8% in 2001, 7.7% in 2002. The findings also showed that 80.8% of the firms had been involved in outsourcing for more 2 years, 11.5% for between 1 and 2 years and 7.7% for less than 1 year.

4.2 EXTENT OF OUTSOURCING.

4.2.1 Outsourced Activities and Services.

The firms that responded practiced outsourcing in the following fields: Human Resources, Finance, Information Technology, Sales and Marketing, Management Services and Administration, Logistics (Distribution), Transport, Real Estate & Physical Plants, Manufacturing and Final Product.

4.2.2 Human Resources Outsourcing.

In human resources, outsourcing was in several areas. The most outsourced service or activity was in the Administration of Medical Schemes with a rate of 87.5%, followed by Training with 82.9%, Administration of retirement plans with 74.4%. In total there were 14 activities within Human Resources that were outsourced. These are illustrated in table 6.

Table 6: Human Resources activities/Function Outsourcing.

Outsourced Activity	**Number of Firms**	**Proportion of respondents out-sourcing the activity - %**
Administration of Medical Services	46	87.50%
Training	43	82.90%
Administration of Retirement Plans	39	74.40%
Contract Employees Management	26	50.00%
Recruitment & Staffing	25	48.50%
Administration of Employee Loans	21	40.00%
Payroll Processing	20	39.40%
Administration of Benefits	18	35.50%
Transport	10	20.00%
Counseling and Health Information	10	20.00%
Staff Check	10	20.00%
Information Systems	8	15.60%
Relocation	4	7.40%
Administration of Entreprenuership Loan.	1	2.00%
Mean Score	**20**	**38.80%**

Source: Response Data.

The mean scores show that on average for all the human resources activities, 38.80% of the respondents outsourced human resources activities.

4.2.3 Finance Outsourcing.

The most outsourced activity in Finance was auditing with a rate of 80%. Other activities outsourced included; General Accounting, 10.7%, Financial Reporting and Preparation of statements, 29%, Tax Compliance, 45.5%, Billing, 20.7%, cheque writing, 33.3%, specialized IT training, 1%, Insurance, 1%, Legal for customers, 1%. These are summarized in table 7 below.

Table 7: Finance Outsourcing.

Outsourced Activity	Number of Firms	Proportion of respondents outsourcing the activity
Auditing	42	80.00%
Tax Compliance	24	45.50%
Cheque Writing	17	33.30%
Financial Reporting	15	29.00%
Billing	11	20.70%
General Accounting	6	10.70%
Specialized Training (IT)	1	1.00%
Insurance	1	1.00%
Legal (for Customers).	1	1.00%
Mean Score	**12.83**	**24.69%**

Source: Response Data.

4.2.4 Information Technology Outsourcing.

In Information technology, the most outsourced activity was Maintenance and repair at 89.1%, Training, 81.6%, Web-site Management, 66.7%, Application Development, 61.4%, Contract programming, 60%, End user support, 41.9%, Full IT outsourcing, 26.7%, Desktop systems, 22.2%, Data Entry and simple processing, 13.8% and Computer Graphics and design, 1%.

These are summarized in table 8 below.

Table 8: Information Technology Outsourcing.

Outsourced Activity	Number of Firms	Proportion of respondents outsourcing the activity.
Maintenance & Repair	46	89.10%
Training	42	81.60%
Web-site Management	35	66.70%
Application and Development	32	61.30%
Contract Programming	31	60.00%
End-User support	22	41.90%
Full IT outsourcing	14	26.70%
Desktop systems	12	22.20%
Data Entry and Simple Processing	7	13.80%
Computer Graphic & Design	1	1.00%
MEAN SCORE	24	**46.43%**

Source: Response Data

4.2.5 Sales and Marketing Outsourcing.

Out of the eleven outsourcing activities surveyed under Sales and Marketing, Advertising accounted for, 89.5%, Field Sales, 10.3%, Sales promotion, 67.6%, Telemarketing, 4.0%, Direct Mail, 7.4%, Market Analysis and Planning, 44.1%, Customer service, 7.1%, Research (Market) and Brand Tracking, 28.6%, Customer Survey, 14.3%, Public Relations, 28.6%, and Block laying services, 28.6%. These are presented in a table 9 below.

Table 9: Sales & Marketing Outsourcing.

Outsourced Activity	Number of firms.	Proportion of respondents outsourcing the activity.
Advertising	47	89.50%
Sales Promotion	35	67.60%
Market Analysis & Planning	23	44.10%
Research (Market) & Brand Tracking	15	28.60%
Public Relations	15	28.60%
Block Laying Services	15	28.60%
Customer Survey	7	14.30%
Field Sales	5	10.30%
Direct Mail	4	7.40%
Customer Service	4	7.10%
Telemarketing	2	4.00%
MEAN SCORE	16	**30.01%**

Source: Response Data.

4.2.6 Management Services/ Administration

In the Management Services/ Administration, outsourcing ranged from Secretarial services, 29%, Reception/Telephone services, 10%, Tea/Refreshment, 54.3%, Supply/Inventory, 22.2%, Purchasing, 18.5%, Mailroom/Delivery services, 60.6%, Printing & Reprographic, 50%, to Photocopying services, 33.3%. Inventory & Data Base Functions and also Records Management, were not outsourced by any of the firms surveyed . Clearly, a large proportion of the firms 91.5% outsourced cleaning services. These are presented in table 10 below.

Table 10: Management Services/ Administration.

Outsourced Activity	Number of firms.	Proportion of respondents outsourcing the activity.
Cleaning	48	91.50%
Mailroom/Delivery services	32	60.60%
Tea/Refreshment	28	54.30%
Printing/Reprographic services	26	50.00%
Photocopying services.	17	33.30%
Secretarial services	15	29.00%
Supply/Inventory	12	22.20%
Purchasing	10	18.50%
Reception/Telephone services	5	10.00%
Inventory & Data Base Functions	0	0.00%
Records Management	0	0.00%
MEAN SCORE	17	**33.58%**

Source: Response Data.

4.2.7 Logistics, Transport, Real Estate Outsourcing

Logistics - Under Logistics, outsourcing of distribution was the highest accounting for 64.5%, followed by Freight Audit 42.3%, Customer service, 20%, and operations 11.5%. A mean score of 34.58% was obtained for logistics.

Transport - Under, transport the most outsourced activity was fleet maintenance 66.7%, followed by fleet management 35.7% and fleet operation 32.1% .

Real Estate - A large proportion of the firms outsource security 93% followed by food and cafeteria services 64.1%, facilities maintenance 48.6%. Only 29% outsource facilities management implying that most firms prefer to manage their own premises. All these are presented in table 11 below.

Table 11: Logistics, Transport, Real Estate outsourcing.

Outsourced Activity	Number of Firms	Extent of Outsourcing in Industry - %
Logistics		
Distribution	34	64.50%
Freight Audit	22	42.30%
Customer Service	10	20.00%
Operations	6	11.50%
MEAN SCORE		**34.58%**
Transport		**Extent of Outsourcing in Industry - %**
Fleet Maintenance	35	66.70%
Fleet Management	19	35.70%
Fleet Operations	17	32.10%
MEAN SCORE		**44.83%**
Real Estate & Physical Plants		**Extent of Outsourcing in Industry - %**
Security	48	93.00%
Food & Cafeteria services	33	64.10%
Facilities Maintenance	25	48.60%
Facilities Management	15	29.00%
MEAN SCORE		**58.68%**

Source: Response Data

4.2.8 REASONS FOR OUTSOURCING.

The survey established that there are varied reasons underlying the practice of outsourcing among manufacturing firms. This section sought to establish whether the firms strongly agreed, agreed, disagreed or strongly disagreed with the various reasons for outsourcing

Affirming strongly agree and agree, 87.8% of the respondents were of the opinion that, outsourced services were neither core nor strategic. The other 12.2%, ranged between disagreed to strongly disagreed. 82.4% of the firms strongly agreed and agreed that outsourcing reduces costs. The other 17.6% disagreed. A large proportion of the firms affirmed that out-sourcing aimed to take advantage of external expertise and experience, 82.1%. Only 17.9% disagreed and strongly disagreed. The summaries of the findings for the reasons why firms outsource are given in the table 12 below.

Table 12: Reasons for Outsourcing.

Reasons for Outsourcing	Strongly Agree	Agree	Disagree	Strongly Disagree.
Service are neither Core nor Strategic	63.30%	24.50%	4.10%	8.20%
Reduces Overhead costs	37.30%	45.10%	17.60%	0.00%
Takes advantage of External expertise & experience	52.90%	29.40%	15.70%	2.00%
Firms lack expertise to perform the services.	5.90%	31.40%	49.00%	13.70%
Cost is low	9.80%	47.10%	35.30%	7.80%
Cost of performing the services internally high	18.00%	66.00%	14.00%	2.00%
Lack of time to perform the services.	18.80%	37.50%	29.20%	14.60%
To avail more time for the other activities	49.00%	33.30%	15.70%	2.00%
No of outsourced services low.	12.00%	64.00%	22.00%	2.00%
There exist partners to offer these services.	28.00%	48.00%	22.00%	2.00%
MEAN SCORE	**29.50%**	**42.63%**	**22.46%**	**5.43%**

Source: Response Data

The mean scores show that 42.63% of the firms agreed with the statements about the reasons for out-sourcing while 29.5% strongly agreed. This therefore implies that majority of companies surveyed agreed to the above stated reasons for outsourcing.

4.2.9 MOTIVATION COMPELLING FIRMS TO OUTSOURCE.

Factors surveyed under Motivation compelling firms to outsource are summarized in table 13 below. It indicates that a large proportion of firms 87.8% outsource activities that are neither core nor strategic and that outsourcing also seeks to take advantage of external expertise and experience. 84% affirm that it is more cost effective to outsource than to perform the activity internally. 76% of the firms agree that there exist partners to offer the outsourced services.

Table 13: Motivation Compelling Outsourcing.

Motivation Compelling Outsourcing	Strongly Agree	Agree	Disagree	Strongly Disagree.
Enables firms to focus on core business.	64.70%	33.30%	2.00%	0.00%
Enhances quality improvement.	41.20%	52.90%	5.90%	0.00%
Improves service delivery.	19.60%	72.50%	7.80%	0.00%
Enables access to materials not internally available.	40.00%	54.00%	6.00%	0.00%
Enables access to materials available abroad.	0.00%	17.60%	49.00%	33.30%
Maintains flexibility to respond to market conditions.	30.60%	61.20%	8.20%	0.00%
Reduces overall costs.	12.20%	63.40%	22.40%	2.00%
Reduces staff and thus personnel costs.	32.00%	54.00%	14.00%	0.00%
Reduces overall amount of skill and knowledge needed.	16.00%	50.00%	30.00%	4.00%
Frees management to perform other functions.	43.10%	47.50%	9.80%	0.00%
Improves overall efficiency.	42.90%	51.00%	6.10%	0.00%
Reduces routine activity.	29.40%	47.10%	23.50%	0.00%
Enables better performance of activity by vendor.	20.00%	70.00%	10.00%	0.00%
Mean Score.	**30.13%**	**51.88%**	**14.98%**	**3.02%**

Source: Response Data

The mean scores show that those firms that agree with the statements of motivation compelling outsourcing are about 30.13% and those that strongly agree are about 51.88%. This therefore implies that majority of companies surveyed agreed to the above stated reasons compelling out-sourcing.

4.2.10 MAKING THE DECISION TO OUTSOURCE.

Making a decision to outsource depends on several factors. From the findings of the survey, factors that play a major role in making decision to outsource include the following;

- Ability to identify the activity to out-source
- Staff resistance to change,
- Cost/benefit analysis
- Outsourcing vendor
- Contract with the vendor.

The factors above drew diverse opinions from the respondents. The findings in summary are presented in table 14 below: The table indicates that it was not difficult to decide on activities to outsource, affirmed by 66.7% of the respondents. 66% of the respondent's decision to outsource would be influenced by staff's resistance to the new change. The majority 61% agree that cost benefit analysis as a basis for outsourcing was difficult. The results also indicate that for the majority 75.1%, selecting a vendor was not easy.

Table 14: Making Decision to Outsource.

Making Decision to Outsource.	Strongly Agree	Agree	Disagree	Strongly Disagree.
Identification of activities to outsource was difficult.	5.90%	27.50 %	60.80%	5.90%
Staffs were resistant to have a change.	14.90%	51.10 %	31.90%	2.10%
Cost/benefit analysis on whether or not to outsource was difficult.	4.30%	57.40 %	34.00%	4.30%
Selection of outsourcing vendor was easy.	2.10%	22.90 %	68.80%	6.30%
Drawing a contract with the vendor was easy.	4.20%	41.70 %	45.80%	8.30%
MEAN SCORE	**6.28%**	**40.12 %**	**48.26%**	**5.38%**

Source: Response Data

4.2.11 RESULTS OF OUTSOURCING

Table 15 illustrates the extent to which the respondents view the impact on their organizations as a result of outsourcing. These indicate that:

- There is no loss of control in decision-making as a result of outsourcing. Majority of the firms surveyed disagreed 61.2% and strongly disagreed 20.4%.
- 77.5% of the respondents affirm that there was no loss of control on outsourced services.
- 43.7% agree that Information leakage could occur from out-sourcing vendor. However the score of 52.1% and 4.2% disagree and strongly disagree respectively indicates that there is no fear that information will leak from the vendor as a result of outsourcing.
- Majority of the respondents agreed 57.8% and 4.1% strongly agreed that there could be over reliance on external parties as a result of outsourcing.

Table 15 below shows the degree of agreement with the above by the respondents.

Table 15: Results of Outsourcing.

Results of Outsourcing.	**Strongly Agree**	**Agree**	**Disagree**	**Strongly Disagree.**
There is a loss of control in decision making.	2.00%	16.30%	61.20%	20.40%
There is loss of control on outsourced service.	0.00%	22.40%	65.30%	12.20%
Information leakage occurs from vendor.	8.30%	35.40%	52.10%	4.20%
Growth of over reliance on external parties.	4.10%	57.10%	28.60%	10.20%
MEAN SCORE	**3.60%**	**32.80%**	**51.80%**	**11.75%**

Source: Resource Data

4.2.12 ATTRIBUTES CONSIDERED IN SELECTION OF VENDOR.

In the selection of vendor for the outsourced service or activity, the following were the suggested attributes are summarized in table 16. These include:

- All firms surveyed found the vendor's strategic focus to be very important.
- Quality of Service was found to be very important by the majority of firms 94.1%.
- 97% of the respondents would consider the vendors reliability
- Financial capability was found to be very important by 82% of the firms
- Commitment to quality and flexible contract terms is very important and important to 78% and 14% of the respondents respectively.
- A large proportion of the firms requires that the vendor understand their business. 92% of them affirm that this attribute is very important and important.
- A large proportion of the firms surveyed value the skills base that the vendor posses. 66.7% found this to be very important.
- 62% of the firms would decide to select a vendor based on whether or not the vendor performed business related to the firms prospective activity for outsourcing. Only 4.2% of the firms find this attribute of no importance.
- Out of all firms surveyed, 84.3% would consult on past performance on outsourcing activities handle by the vendors
- The results indicate that 85.4% of the firms consider it important that the vendor is willing to conform to the firms standards
- Duration which the vendor has been in operation was found to be important by the majority 68.6%
- Financial costs charged. 49% and 31.4% of those firms surveyed found this to be very important and important respectively.
- Only 1% considers it not important to get an opinion of other clients who have used the vendor. 79.4% find this important.
- Presence of other clients seeking similar services. 33.3% and 25.5% of those firms survey found this attribute very important and important respectively.

- Only 3.9% found the size of vendor's firm (based on no. of staff) to be important.

The findings on attributes considered in the selection of an outsourcing vendor are summarized in table 12 below:

Table 16: Attributes in Selection of Vendor

Attributes in selection of Outsourcing Vendor.	Very Important	Important	Fairly Important	Not Important.
Vendor's strategic focus.	100.00%	0.00%	0.00%	0.00%
Quality of Service.	94.10%	0.00%	5.90%	0.00%
Reliability	93.00%	5.00%	2.00%	0.00%
inancial capability of vendor	82.00%	14.60%	3.40%	0.00%
Vendor's commitment to quality/ flexible contract terms.	78.00%	14.00%	8.00%	0.00%
Vendor's understanding of clients business.	76.00%	16.00%	8.00%	0.00%
Internal skills the vendor posses	66.70%	25.50%	7.80%	0.00%
Vendor performs business related with outsourced service.	62.00%	23.5%	10.40%	4.20%
Performance on the past consultation.	58.80%	23.50%	9.80%	7.80%
Willingness to conform to clients standards.	54.00%	31.40%	14.60%	0.00%
Duration which the vendor has been in operation.	51.00%	17.60%	31.40%	0.00%
Financial costs charged.	49.00%	31.40%	19.60%	0.00%
Opinions of other clients who have used the vendor.	48.00%	31.40%	19.60%	1.00%
Presence of other clients seeking similar services.	33.30%	25.50%	19.60%	21.60%
Vendor's safety record.	4.90%	43.10%	34.40%	17.60%
Size of Vendor's firm (based on no. of staff).	3.90%	43.10%	35.30%	17.60%

Source: Response Data.

4.2.13 RELATIONSHIP BETWEEN OWNERSHIP AND OUTSOURCING

Cross tabulation was done to determine whether there was any relationship between the ownership and outsourcing during the last five years i.e. from 1998 to 2002 (present). The Findings were based on firms categorization as wholly foreign, wholly local or jointly owned firms.

The results indicate that all the firms that responded to the questionnaires (52 out of 100) outsourced services during the past five years. The wholly foreign owned firms, which comprised 25% of the respondents, outsourced services during the past five years. All the wholly locally owned firms, which comprised of 26.9% of all the respondents, outsourced services during the past five years. All the jointly owned firms, which comprised 48.1% of the respondents, also outsourced services during the past five years. This is summarized in table 17 below.

Table 17: Ownership Versus Firms which Outsourced between 1998 and 2002.

Ownership	Number of firms	Percentage %
Wholly Foreign	13	25.00%
Wholly Local	14	26.90%
Jointly owned	25	48.10%
Total Response	**52**	**100.00%**

Source : Response Data.

The findings for the relationship between ownership and when the firm first outsourced came up with the following findings. That, within the firms that first outsourced in 1998, 33.3% were wholly foreign owned, 27.3% were wholly locally owned and 39.4% were jointly owned. Within the firms that first outsourced in 1999, 16.7% were wholly foreign owned, 16.7% were wholly locally owned, and 66.6% were jointly owned. Within the firms that first outsourced in 2000, 16.7% were wholly foreign, 33.3% were wholly local, and 50% were jointly owned. Those that first outsourced in 2001, 66.7% were wholly locally owned, 33.3% were jointly owned. Those that first outsourced in 2002, all of them, 100%, were jointly owned.

The findings indicate that majority of the firms that have been outsourcing consistently between 1998 and 2000 are jointly owned. However his trend changed in the year 2001 when majority of the firms that 1st outsourced changed from jointly owned 33.3% to wholly local 66.7%. Findings on the relationship between ownership and the length of time the firm had been involved in outsourcing are illustrated in table 18.

Table 18: Ownership Versus Year The Firms First Engaged in Outsourcing.

	Year Firm First Outsourced				
Ownership	1998	1999	2000	2001	2002
Wholly Foreign	33.3%	16.7%	16.7%	0.0%	0.0%
Wholly Local	27.3%	16.7%	33.3%	66.7%	0.0%
Jointly owned	39.4%	66.6%	50.0%	33.3%	100.0%
Total Response	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Response Data.

Table 19 illustrates that, 100% of firms with less than one year in out-sourcing, were jointly owned. 33.3% of firms with between 1 and 2 years in outsourcing, were wholly foreign owned. 50.0% were wholly local, while 16.7% were jointly owned. The firms that had been outsourcing for more two years comprised wholly foreign, 26.2%, wholly local, 26.2% and jointly owned 47.6%. The cross tabulation findings for relationship between ownership and the length of time the firms had been out-sourcing is summarized in table 19 below. The results illustrate that, for the firms that had been involved in outsourcing, (100%) of them were jointly owned. The firms, which were in outsourcing for between 1 and 2 years, wholly foreign owned firms were 33.3%, wholly local were 50.0% and those that were jointly owned were 16.7%. The firms that had been in outsourcing for more than 2 years comprised of wholly foreign 26.2%, wholly local 26.2% and jointly owned 47.6%.

Table 19: Ownership Versus Duration in Outsourcing

	Duration Firm has been involved in outsourcing		
Ownership	Less than 1 year	Between 1 and 2 years	More than 2 years
Wholly Foreign	0.0%	33.3%	26.2%
Wholly Local	0.0%	50.0%	26.2%
Jointly owned	100.0%	16.7%	47.6%
Total Response	100.0%	100.0%	100.0%

Source: Respondents Data

The other cross tabulation findings were for the relationship between the ownership structure of the firm firms (jointly owned, wholly foreign, and local owned), and when the firm first outsourced any activity during the past five years (1998 to date). The findings were as follows and summarized in table 20.

Table 20: Ownership and Period Firm First Started Outsourcing.

	Year the Firm first started outsourcing				
Ownership	1998	1999	2000	2001	2002
Largely Foreign	73.3%	66.7%	50.0%	0.0%	71.4%
Largely Local	26.7%	33.3%	50.0%	100.0%	28.6%
Total Response	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Response Data.

The firms that had been outsourcing between during the past five years are largely foreign owned, 71.4%, and those that were largely locally owned were only 28.6%. A Comparison was made between the firms that were jointly owned, foreign and locally owned and the time that these firms first started outsourcing. The findings revealed that out of those that first started outsourcing in 1998, 73.3 were largely foreign and 26.7% were largely local. Of those that first started outsourcing in 1999, 66.7% were largely foreign while 33.3% were largely local. In 2000, 50% of those that started outsourcing were largely foreign and 50% were largely local.

Of the firms that had been involved in outsourcing for less than 1 year at the time of the survey, 50% were largely foreign and 50% were largely locally owned. Those that had been involved in outsourcing for between 1 and 2 years, 50% were largely foreign and 50% were largely local. Those firms that had been outsourcing for more than 2 years, 77.3% were largely foreign and 22.7% were largely local.

Cross tabulation was done for the duration of the firm's existence and whether the company had outsourced activities during the past five years – Table 21. This revealed that, of those firms that had been in existence for less than 10 years, 9.6% were involved in outsourcing during that period. Also, 9.6% of those involved in outsourcing were between 10 and 20 years. 80.8% of the firms that had been involved in outsourcing during that period were over 20 years old. Of those firms that first started outsourcing in 1998, 6.1% were aged between 10 and 20 years, and 93.3% were aged over 20 years old. Of those that started outsourcing in 1999, 16.7% were aged less than 10 years, 33.3% were between 10 and 20 years and 50% were aged over 20 years. Of those that first started outsourcing in the year 2000, 33.3% were aged less than 10 years, and 16.7% were aged between 10 and 20 years. Those over 20 years old were 50%. Of those that started in 2001, 66.7% were less than 10 years old, while 33.3% were over 20 years old. In 2002 all the firms which first started outsourcing that year were over 20 years old.

Table 21: Age of the Firm Versus When it First outsourced.

	Year the Firm first started outsourcing				
Age of Firm	1998	1999	2000	2001	2002
Less than 10 years old	0.0%	16.7%	33.3%	66.7%	0.0%
Between 10 and 20 years old	6.7%	33.3%	16.7%	0.0%	0.0%
Over 20 years old	93.3%	50.0%	50.0%	33.3%	100.0%
Total Response	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Response Data.

The cross tabulation to compare the length of the time the firm has been in existence and the length of time the firm has been outsourcing came up with the following findings. That, for firms that had been involved in outsourcing for less than 1 year, all of them had been in existence for more than 20 years. For firms that had been involved in outsourcing for between 1 and 2 years, 33.3% had been in existence for less than 10 years, 16.7% had been in existence for between 10 and 20 years, and 50% had been in existence for more than 20 years. Firms that had been involved in outsourcing for more than 2 years, 7.1% had been in existence for between less than 10 years, 9.5% had been in existence for between 10 and 20 years, and 83.3% had been in existence for more than 20 years.

Table 22 : When Firms First outsourced and the number of employees.

	When Firms First Outsourced				
No of Employees	1998	1999	2000	2001	2002
1-50	0.0%	0.0%	33.3%	0.0%	0.0%
51-100	24.2%	0.0%	16.7%	66.7%	0.0%
Over 100	75.8%	100.0%	50.0%	33.3%	100.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Response Data

Comparison to find out whether there is any relationship between the firms' number of employees and outsourcing during the last five years came up with the following findings summarized in table 22. That, the firms that outsourced between 1998 and 2002, 3.8% had employees between 1 and 50, 11% had between 51-100 employees, and 75% had over 100 employees. The comparison to find out whether there is a relationship between the number of employees and the length of time the firms first outsourced, the following findings were evident. That, for the firms that first outsourced in 1998, 24.2% had 51-100 employees and 75.8% had over 100 employees. Those that first outsourced in 1999, all of them had over 100 employees. Those firms that first outsourced in 2000, 33.3% had 1-50 employees, 16.7% had between 51-100 employees and 50 % had over 100 employees. For those that first outsourced in the year 2001, 66.7% had between 51-100 employees and 33.3% had over 100 employees. Those that began outsourcing in 2002, all of them had over 100 employees.

Comparison between time a firm has been involved in outsourcing and the number of employees, revealed that, for those firms that had been involved in outsourcing for less than 1 year, all of them had over 100 employees. Those that had been involved in outsourcing for between 1 and 2 years, 50% had 51-100 employees, 50% had over 100 employees. For those that had been involved in outsourcing for more than 2 years, 4.8% had 1-50 employees, 19% had 51-100 employees and 76.2% had over 100 employees. In the year 2001 the trend shifted from predominantly over 100 employees for companies that first outsourced to between 51-100 (66.7) of the companies studied.

4.3 FACTORS THAT INFLUENCE OUTSOURCING PRACTICES IN THE INDUSTRY.

Factor analysis was done to determine factors that influence outsourcing as the second objective stipulates (see appendix iii)

4.3.1 Reasons why Companies Outsource.

The reasons why companies outsource can be explained by factors extracted from the study. The findings were as follows.

Factor 1 named Convenience of Outsourcing illustrated that: Companies lack time to perform outsourced functions and that they practiced outsourcing to avail more time for other activities. One other reason for outsourcing was the fact that there existed partners to provide a better service.

Factor 2 named Cost of Outsourcing shows that an important reason for outsourcing amongst the majority is that it reduces costs. Cost of performing outsourced services internally is considered to be high amongst the respondents.

Factor 3 named Outsourcing Strategic Focus illustrated that: Outsourcing in the organization aims to take advantage of external expertise. The results indicate that some of the respondents (62%) consider outsourced services as being neither core nor strategic. They also indicated that they lack internal expertise to perform outsourced service.

4.3.2 Factors on Motivation Compelling Outsourcing.

The four factors extracted explain the motivation compelling the firms to outsource services and activities. The four factors' compositions are given below.

Factor 1 named Strategic Adaptability illustrated that: Outsourcing improved service delivery. It maintains flexibility to respond to market conditions and enhances quality improvement

Factor 2 named Performance Leveraging illustrated that: Outsourcing helps companies to improve overall efficiency; it reduces routine activity level, and reduces overall costs. Outsourcing non- core activities frees up management to perform other functions. Outsourcing enables better performance of the activity by outsourcing vendor.

Factor 3 named Sticking to the Knitting illustrated that: Outsourcing enables firm to focus on core business and also reduces overall amount of specialized skill and knowledge needed to perform those activities within the organization.

Factor 4 named Resources Optimization illustrated that: Outsourcing reduces the number of staff thus reduces personnel costs. It also enables access to materials only available abroad and also enables the use of resources that are not available internally.

4.3.3 Factors Considered before Making the Decision to Outsource.

Factors considered in order to enable organizations achieve their objectives as results of out-sourcing were extracted. The two factors extracted explain outsourcing decision versus cost benefit analysis, selection of the vendor and drawing of the contract. It explained staff resistance to change and identification of the activities to outsource.

Factor 1 named Vendor Evaluation/Selection illustrated that: Cost/Benefit analysis on whether or not to outsource was difficult, Selection of outsourcing vendor was easy and also drawing contract with vendor was easy.

Factor 2 named Resistance to outsourcing illustrated that: Staff were resistant to have a change and Identification of activities to outsource was difficult.

4.3.4 Impact of Outsourcing.

The impact of outsourcing on the firms was analyzed using factor analysis and the factors extracted explain what happens to the firms as a result of outsourcing. The factors' components are given below.

Factor 1 named the Outcome of outsourcing illustrated that: There is growth on over reliance on external parties, there is loss of control on outsourced service, Information leakage occurs from vendor and that there is loss of control on decision making.

4.3.5 Factors on Attributes in Selection of Vendor.

Attributes in selection of outsourcing vendor also were analyzed using Factor analysis. The Three factors that were extracted explain the attributes that are used in the selection of the outsourcing vendor. The factors' components are given below.

Factor 1 named Character of Vendor illustrated that vendor selection should take into consideration that selected vendor performs business related with the outsourced service, vendor commitment to quality/flexible contract terms, quality of service, performance on the past consultation, and the internal skills the vendor possess.

Factor 2 named as Experience of Vendor illustrated that in selection of vendor, the buyer should tale into consideration the financial costs charged and the duration which vendor has been in operation.

Factor 3 named Profile of Vendor illustrated that the size of vendor (based on number of staff) and the presence of other clients seeking similar services should be taken into consideration in vendor selection.

CHAPTER FIVE

5 SUMMARY AND CONCLUSIONS.

5.1 Summary

The strategy of outsourcing has been practiced in businesses in both the developed and the developing world. Due to the recent changes in the local environment by way of liberalization, it became necessary to study the area of manufacturing industries to find out its extent. This was an attempt to bring out the strategy in view of an increasingly competitive environment. This chapter includes the conclusions drawn from the study, recommendations, and limitations of study and suggestions for further research.

5.1.1 The extent of outsourcing practices within the private manufacturing firms based in Nairobi.

The "extent" of outsourcing practices refers to how much of and the type of outsourcing activities firms are involved in. To achieve this, one hundred manufacturing firms were surveyed. Fifty-two of these responded and data was analyzed using the response of the firms. The objective to determine the extent of outsourcing in the private manufacturing firms in Nairobi came up with the findings that private-manufacturing firms in Nairobi practice outsourcing. The activities that are outsourced include; human resource activities, finance, information technology, sales and marketing, management and administration services, Logistics, Transport, Real Estate and physical plants, and manufacturing. From these activities, it was found that by comparing the mean scores of the factors in order of most widely outsourced to least outsourced were: real estate and physical plants, information technology, transport, human resources, logistics, management services, sales and marketing and finance. However within these activities the degree of outsourcing varied from one section of the activity to another. Summaries of the mean scores of the extent to which outsourcing is practiced in the private manufacturing industry are shown below.

- Real Estate and physical plants, 58.68%
- Information Technology, 46.43%
- Transport, 44.83%

- Human resources, 38.80%
- Logistics, 34.58%
- Management services, 33.58%
- Sales and marketing, 30.01%
- Finance, 24.69%

5.1.2 Factors that influence outsourcing practices in the industry.

Summary of factors that influence outsourcing indicates that there are several factors that are taken into consideration before firms decide to outsource.

Convenience of Outsourcing

The survey results revealed companies lack time to perform the functions that are outsourced and therefore by outsourcing they avail more time for other more value adding activities. Partners exist to provide a better service for certain activities indicating that for such activities, it is prudent to outsource.

Cost of outsourcing

This addressed the advantages that accrue in terms of reduced costs when a firm out-sources. The study revealed that the cost of outsourcing was relatively low and thus reduces overall organization's costs. This is because cost of performing outsourced services internally was affirmed to be relatively higher. Outsourcing Strategic Focus explained that outsourcing in the organization aims to take advantage of external expertise owing to the fact that outsourced services are neither core nor strategic. Internal Expertise also explains that outsourcing injects into the organization that expertise which the organization lacks. Organizations lack internal expertise to optimally perform outsourced service.

Motivation Compelling Outsourcing

There were four factors that attempted to explain what motivates organizations to outsource services and activities.

- Strategic Adaptability explained that outsourcing enhances an organization's ability to offer better services and also its ability to respond to changes within the market and general environment. It was found that: outsourcing improves service delivery, enhances quality improvement and also enables a firm maintain the flexibility required to respond to changing market conditions.

- Performance Leveraging explains that outsourcing leverages the performance of an organization. This is because outsourcing helps improve overall efficiency and reduces overall costs. It reduces the volume of routine activities and therefore frees up man frees up management to perform other functions that are of prime strategic importance. It also ensures better performance of an activity by outsourcing vendor who is best qualified to do it. Outsourcing enables firms to focus on its core business and outsource those services that are neither core nor strategic. It also reduces overall amount of specialized skill and knowledge required internally by the firm.
- Sticking to the Knitting explained that outsourcing enables firm to focus on core business and also reduces overall amount of specialized skill and knowledge needed to perform those activities within the organization.
- Resources Optimization factor addresses the resources optimization advantages that are brought about by outsourcing. Outsourcing reduces the number of staff required within an organization thus reducing personnel costs. It enables access to materials only available abroad thus access to resources that are not available internally.

The Decision to Outsource

In factors that organizations consider in making decisions to outsource, the study revealed that identifying activities to outsource was not a problem but carrying out a cost/benefit analysis on whether or not to outsource was difficult. Vendor Evaluation/Selection explained that cost/Benefit analysis on whether or not to outsource was difficult, Selection of outsourcing vendor was easy and also drawing contract with vendor was easy. Resistance to Outsourcing illustrated that: Staff were resistant to have a change and Identification of activities to outsource was difficult. Both the selection of, and the drawing - out of the contract with the outsourcing vendor was indicated to be easy by the respondents.

Outcome of Outsourcing illustrated some pitfalls of outsourcing, which include the growth of over reliance on external parties, and also loss of control on outsourced service. There may also be information leakage from the vendor. This is detrimental to certain critical activities including lack of control over decision making on such activities.

Important attributes companies seek in a prospective outsourcing vendor.

This addressed the character of the vendor which revealed that it was important to select a vendor who performs business related with the outsourced service. Of importance also was vendor commitment to quality/flexible contract terms, quality of service, performance on the past consultation, and the internal skills the vendor possessed.

Under experience of Vendor it was revealed that in selection of vendor, consideration should be given to the financial costs charged and the duration which vendor had been in operation. Under Profile of Vendor, the size of vendor (based on number of staff) and the presence of other clients seeking similar services should be taken into consideration in vendor selection.

5.2 CONCLUSION.

This study sought to determine the outsourcing practices used to gain competitive advantage in the private manufacturing industries operating in Nairobi. The objectives of the study were, first, the extent of outsourcing within private manufacturing firms based in Nairobi. Secondly, it was to determine factors that influence outsourcing in the industry.

The conclusions can then be summarized as follows.

(i) That all the manufacturing industries that were surveyed outsource. The extent of outsourcing is high in some departments like Human Resources, Finance and Information technology to name but a few. There is greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or non-strategic activities.

(ii) That the factors that influence outsourcing were determined in the survey. There are several factors that determine outsourcing and others that result from outsourcing. The survey was therefore able to find out the following factors that are important in deciding to use outsourcing as a strategy for competitive advantage in the industry and may be in other industries that may use outsourcing.

Several factors were found out in the survey. These factors determine or influence the success of outsourcing as a strategy and therefore prospective outsourcing firms should make sure that they evaluate their decisions based on the strategic implications of outsourcing and the characteristics of vendors likely to create valuable partnerships intended to culminate in organizational success.

These factors include convenience, costs, strategic focus, expertise and skills, strategic adaptability, performance leveraging, sticking to the knitting, resources optimization, vendor evaluation/selection, resistance, outcome of outsourcing and character, experience and profile of vendor.

5.2 LIMITATIONS OF THE STUDY

The major limitation of this study was time and money. This restricted the study from being conducted outside Nairobi and also to the service industry within and without Nairobi. With increased monitoring from VAT Department, Kenya Bureau of Standards and Industrial Espionage another major limitation of this study was the refusal by some manufacturers especially of Indian descent to participate in the study, mainly due to suspicion. Another limitation of the study was the strenuous time taken to collect the data because most of the prospective respondents were senior managers who simply did not have time to complete the questionnaire on time. Further more, there is an increase in the number of requests for Research Information putting a great deal of pressure on Respondents.

Given the breadth of the outsourcing activities, the questionnaire was very long and thus perceived to be time consuming to complete. As a result some respondents refused to fill in the questionnaire.
Another limitation is the fact that the study was limited to manufacturing firms only.

5.3 SUGGESTIONS FOR FURTHER RESEARCH.

Outsourcing continues to be one of the most dynamic trends within business today. This study was limited to manufacturing industries in Nairobi. Research could be extended to cover more manufacturing firms outside Nairobi. Research could also be done in other sectors such as the service industry.

From the findings of the study, it is recommended that further research should be done in the following areas.

- Competitive advantages gained due to outsourcing.
- Outsourcing Vendor Selection Strategies.
- Strategies to ensure that outsourcing actually adds value
- Performance levels of vendors/service providers
- The shift in trend in outsourcing from jointly owned companies to wholly locally owned companies in the year 2001
- Companies predominantly outsourcing before 2001 had over 100 employees. For some reason the trend in year 2001 shifted reduced numbers in employees of 51 to 100 employees. This needs to be explored.

APPENDIX 1

LETTER OF INTRODUCTION

Dear Respondent,

MBA RESEARCH PROJECT

This questionnaire is designed to gather information on outsourcing practices amongst private manufacturing companies in Nairobi. This study is being carried out for a management project paper as a requirement in partial fulfillment of the degree of Master in Business Administration.

All the information you disclose will be treated in strict confidence and in instance will your name or that of the firm be mentioned in the report.

Your co-operation will be highly appreciated

Thank you.

Yours faithfully,

______________________ ______________________

Chanzu Shamim
MBA Student

Prof. E. Aosa
Supervisor

APPENDIX II

Questionnaire

Please answer the following questions by placing the (√) in the appropriate box or by giving the necessary details in the provided spaces.

SECTION A:

PART I: RESPONDENTS PROFILE

1 Title or position of the respondent in the firm ....

2 How long have you been with this firm? ....

PART II: ORGANIZATION DATA

3 How would you classify your firm in regard to ownership?

Wholly foreign owned [ ]
Wholly locally owned [ ]
Jointly owned [ ]

4 If your firm is jointly owned between foreign and local investors, what is the proportion of ownership?

Largely foreign owned [ ]
Largely local owned [ ]
Equally owned [ ]

5 For how long has your firm been in existence?

Less than 10 years [ ]
Between 10 and 20 years [ ]
More than 20 years [ ]

6 Indicate the total number of employees in your firm

0 - 50 [ ]
50 - 100 [ ]
over 100 [ ]

SECTION B: Outsourcing Practices and activities

7 Has your company outsourced any activity during the past five years (starting 1998 to date)

Yes [ ] No [ ]

a) **If yes, go to section C**

b) **If no, kindly rank the extent of agreement with the following statements**

Key:
Strongly Agree SA
Agree A
Disagree D
Strongly Disagree SD

	SA	A	D	SD
The firm is not aware of Outsourcing	[ ]	[ ]	[ ]	[ ]
The firm is not aware of potential Benefits of Outsourcing	[ ]	[ ]	[ ]	[ ]
Outsourcing is expensive (financial costs)	[ ]	[ ]	[ ]	[ ]
The organization does not find outsourcing Necessary	[ ]	[ ]	[ ]	[ ]
There are no suitable vendors on The market	[ ]	[ ]	[ ]	[ ]
All activities are considered strategic	[ ]	[ ]	[ ]	[ ]

SECTION C. For firms that practice outsourcing.

8 Kindly tick when you first outsourced

(i) Before or in 1998 [ ]
in 1999 [ ]
in 2000 [ ]
in 2001 [ ]
In 2002 [ ]

ii) For how long has your firm been involved in outsourcing?

Less than 1 year [ ]
Between 1& 2 years [ ]
More than 2 years [ ]

9. For the last five years (1998 to now), tick services you have outsourced or currently outsourcing.

	Yes	No
Human Resources		
▪ HR information Systems	[ ]	[ ]
▪ Training	[ ]	[ ]
▪ Recruitment & staffing	[ ]	[ ]
▪ Relocation	[ ]	[ ]
▪ Payroll Processing	[ ]	[ ]
▪ Contract Employees management	[ ]	[ ]
▪ administration of retirement plans	[ ]	[ ]
▪ administration of benefits	[ ]	[ ]
▪ Administration of Medical Scheme	[ ]	[ ]

Others

- ....
- ....
- ....
- ....

	Yes	No
Finance		
▪ General Accounting	[ ]	[ ]
▪ Financial Reporting	[ ]	[ ]
(Preparation of financial statements)	[ ]	[ ]
▪ Tax compliance (VAT, Corporate tax, Import and excise duties etc	[ ]	[ ]
▪ Auditing	[ ]	[ ]
▪ Billing	[ ]	[ ]
▪ Cheque writing	[ ]	[ ]

Others

- ....
- ....
- ....
- ....

Information Technology		
▪ application development	[ ]	[ ]
▪ Maintenance/Repair	[ ]	[ ]
▪ Training	[ ]	[ ]
▪ End-user support	[ ]	[ ]
▪ Desktop system	[ ]	[ ]
▪ contract programming	[ ]	[ ]
▪ data entry and simple processing	[ ]	[ ]
▪ Web Site Management	[ ]	[ ]
▪ Full IT Outsourcing	[ ]	[ ]

Others

- ....
- ....
- ....
- ....
- ....

	Yes	No
Sales & Marketing		
▪ Advertising	[ ]	[ ]
▪ Field sales	[ ]	[ ]
▪ Sales Promotions	[ ]	[ ]
▪ Telemarketing	[ ]	[ ]
▪ Direct Mail	[ ]	[ ]
▪ Market Analysis & Planning	[ ]	[ ]
▪ Customer Service	[ ]	[ ]

Others

- ....
- ....

Management Services/Administration

▪ Secretarial Services	[ ]	[ ]
▪ Reception/Telephone Services	[ ]	[ ]
▪ Cleaning Services	[ ]	[ ]
▪ Tea/Refreshment Services	[ ]	[ ]
▪ inventory and data base functions	[ ]	[ ]
▪ Supply/Inventory	[ ]	[ ]
▪ Records management	[ ]	[ ]
▪ Purchasing	[ ]	[ ]
▪ Mailroom/delivery Services	[ ]	[ ]
▪ Printing & Reprographic	[ ]	[ ]
▪ Photocopying Services	[ ]	[ ]

Others

- ....
- ....

Logistics (Distribution)

▪ Distribution	[ ]	[ ]
▪ Operations	[ ]	[ ]
▪ Customer service	[ ]	[ ]
▪ Freight Audit	[ ]	[ ]

Others

- ....
- ....

Transport	**Yes**	**No**
▪ Fleet management	[ ]	[ ]
▪ Fleet operations	[ ]	[ ]
▪ Fleet maintenance	[ ]	[ ]

Others

- ....
- ....

Real Estate & Physical Plants

▪ Food and cafeteria services	[ ]	[ ]
▪ Facilities management	[ ]	[ ]
▪ Facilities maintenance	[ ]	[ ]
▪ Security	[ ]	[ ]

Others

- ....
- ....

Manufacturing of components for the Final product

Product Design	[ ]	[ ]
Engineering	[ ]	[ ]
Research & Development	[ ]	[ ]

Others

- ....
- ....

10. To what extent do you agree with the following statements as reasons why your company has outsourced some service?

Key:		
	Strongly Agree	SA
	Agree	A
	Disagree	D
	Strongly Disagree	SD

	SA	A	D	SD
Outsourced services are neither Core nor Strategic	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces overhead costs	[ ]	[ ]	[ ]	[ ]
Outsourcing in our organization Aims to take advantage of external expertise and experience	[ ]	[ ]	[ ]	[ ]
We lack internal expertise to Perform Outsourced services	[ ]	[ ]	[ ]	[ ]
Cost of outsourcing is low	[ ]	[ ]	[ ]	[ ]
Cost of performing outsourced Services internally are high	[ ]	[ ]	[ ]	[ ]
We Lack time to perform such activities	[ ]	[ ]	[ ]	[ ]
To avail more time for other activities	[ ]	[ ]	[ ]	[ ]
Number of Outsourced Services is low	[ ]	[ ]	[ ]	[ ]
There exist partners to provide a better Service	[ ]	[ ]	[ ]	[ ]

11. To what extent do you agree with following statements as motivation compelling outsourcing?

Key : As in Question 10

	SA	A	D	SD
Outsourcing enables firm to Focus on core business	[ ]	[ ]	[ ]	[ ]
Outsourcing enhances quality improvement	[ ]	[ ]	[ ]	[ ]
It improves service delivery and reliability	[ ]	[ ]	[ ]	[ ]
Outsourcing enables the use of resources that are not available internally	[ ]	[ ]	[ ]	[ ]
Outsourcing enables access to materials only available abroad	[ ]	[ ]	[ ]	[ ]
Outsourcing maintain sufficient flexibility to respond to market conditions	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces overall cost	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces number of staff Thus reduces personnel costs	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces the overall amount of specialized skill and knowledge needed	[ ]	[ ]	[ ]	[ ]
Outsourcing frees up management to Perform other functions	[ ]	[ ]	[ ]	[ ]
Outsourcing help improve overall Efficiency	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces routine activity level	[ ]	[ ]	[ ]	[ ]
It enables better performance of activity By outsourcing vendor	[ ]	[ ]	[ ]	[ ]

12. **In making the decision to outsource tick to indicate to what extent you agree with following:- (Key: As Question 10)**

	SA	A	D	SD
Identification of activities to Outsource was difficult	[ ]	[ ]	[ ]	[ ]
Staff were resistant to have a change	[ ]	[ ]	[ ]	[ ]
Cost benefit analysis on whether or not to outsource was difficult	[ ]	[ ]	[ ]	[ ]
Selection of outsourcing Vendor was easy	[ ]	[ ]	[ ]	[ ]
Drawing contract with vendor was easy	[ ]	[ ]	[ ]	[ ]

13. **As a result of outsourcing, to what extent do you agree with the following:**

Key: As in Question 10

	SA	A	D	SD
There is loss of control on Decision making process	[ ]	[ ]	[ ]	[ ]
There is loss of command on Outsourced service	[ ]	[ ]	[ ]	[ ]
Information leakage occurs from vendor	[ ]	[ ]	[ ]	[ ]
There is growth on over reliance On external parties	[ ]	[ ]	[ ]	[ ]

14. Rate the importance of each of the following attributes in selection of outsourcing vendor

Key:

Very Important	VI
Fairly Important	FI
Important	I
Not Important	NI

	VI	FI	I	NI
Strategic Focus				
Duration which vendor Has been in operation	[ ]	[ ]	[ ]	[ ]
Internal skills the vendor possess	[ ]	[ ]	[ ]	[ ]
Size of vendor's firm (based on No. of staff)	[ ]	[ ]	[ ]	[ ]
Quality of service	[ ]	[ ]	[ ]	[ ]
Vendors performs business Related with outsourced service	[ ]	[ ]	[ ]	[ ]
Performance on past consultation	[ ]	[ ]	[ ]	[ ]
Vendors commitment to quality Flexible contract terms	[ ]	[ ]	[ ]	[ ]
Financial costs charged	[ ]	[ ]	[ ]	[ ]
Presence of other clients Seeking similar services	[ ]	[ ]	[ ]	[ ]

Other important attributes, specify

- ....
- ....
- ....

THANK YOU VERY MUCH FOR YOUR VALUABLE TIME.

APPENDIX III

LIST OF MANUFACTURING FIRMS IN NAIROBI	
Name Of Firm	**Name of Firm**
Afri International	Abdul Quaid Framers
African Highland Produce	Afri Packagings
Africana Mnfrs	Afro Plastics Ltd
Ajay Garments Ltd	Afro Press Ltd
Anffi Ltd	Allied Electronics
Associated Stell Ltd	Associated Battery manufacturers
Avon Rubber Co.	Athi River Mining
Aziz Din Nabi Bux	Aurora Baking Co. Ltd
Bamburi Cement	Autoparts E.A. Ltd
Beta Healthcare International	B.A.T (K) Ltd
Bizari Industries	B.D.F (E.A.) Ltd
Brother Shirts Factory	B.O.C (K) Ltd
C. Dormans Ltd	Bachelors Bakery Ltd
C.P.C (K) Ltd	Banbros Ltd
C.P.C Industrial Prod.	Basco Paints co.
Car & General Automotives	Bhupco Textile Mills
Carbacid (C02) Ltd	Bonar (EA) Ltd
Carbon Brushes	Booth Manufacturers
Central Glass Works	Brollo Eng. Fabs
Chai Ltd	Brother Knitwear Factory
Charger Engineers	Brush Manufact Ltd
City Engineering Works	Bums and Blane Eng.
Concrete Pipes and Products	Cadbury Schweppes
Cosmic Megaplast	Canvas MNFRS Ltd
Cosmos Ltd	Ceramic Manufacturers
Datini Mercantile	Chandaria Industries
Denamal Garments Fact.	Clay Works Ltd
Diamond Concrete	Coats Bross (EA) Ltd
Dogra Engineering	Coca Cola (a) Ltd
E.A..Spectre Ltd	Colas (EA) Ltd
East Africa Paper Bag Manufact (closed)	Colgate Palmolive
Eldema (K) Ltd	Colour Printers
Ellam Products	Combined Industries Ltd
Elliots Bakery	Cosmos Plastics
Elsons Plastic (K) Ltd	Crescent Investments
Ely's Chem. Industries	Crown Berger Paints
Emco Steel Works (K) Ltd	Cussons & company
Empire Match Co	D.L. Patel Press

Euromica Ltd	Dawa Pharmaceauticals (Nrb)
Evangel Publishing	Delta Radiators Ltd
Firestone (E.A) Ltd	Didy Pharmaceuticals
Fulchand manek & Bros	Dipco Garments
Furniture International	E.A. Cables
General Motors	E.A. Leather Fact.
General Plastics	E.A. Metal Works
Glazo Wellcome (K) Ltd	E.A. Optical Co.
Gopitex Knitwear Mills	E.A. Packaging Industries
Haco Industries (K) Ltd	East Afica Portland Cement
Haria Cash Stores	Eastern Rift Saw Mill
Harries LG & co.	Elephant Soap Factory
Hartz & Bell	Elgeyo Saw Mill
Hira Industries	Eveready (K) Ltd
Intern Flavours Ltd	Ezzi Vinyl Products
Interproducts	Farmers Choice
Intersilk Garments	Fine Spinners Ltd
J.D. Sharma & Sons	Fine Wood Works
Jaydee Knitting Factory	Galaxy Paints Co.
Johnson & Johnson	Galsheet (K) Ltd
Johnsons Wax (EA) Ltd	Ganjivani Screw & Fasteners
K.C.C.	General Printers
K.P.C.U	H.Young Ltd
Kamco Eng. Works	Hari Singh Gill
Karibu Timber	Harman Singh & Bros
Karirana Estate Ltd	Henkel (K) Ltd
Kartasi Industries	House of Manji
Kenpoly Manufactures	Hymel Meters
Kenya Engineering Ind.	Impala Glass Industries
Kenya Litho	Insteel Ltd
Kenya Sunshine Produce	International Distillers
Kenya Tents Ltd	Ital products
Kenya Tread Ltd	Jackaria Packers
Kenyan canvas Ltd	Jagat Singh & Sons Ltd
Kerbrook Garments MNFRS	Jamanadas Ramji & Co. (closed)
Khetshi Dharmashi	Jambo Biscuits (K) Ltd
Labchem Ltd	Jambo Manufacturers
Laoratory & Allied Ltd	Kappa Oil Refineries
Leather Industries of Kenya	Kehar Singh & Co Ltd
Life Clothing Factory	Ken Wesfal Works Ltd
London Distillers (K) Ltd	Kenchic Ltd
M/S Patco Industries	Kenya Breweries
Madhu Paper Ltd	Kenya Idustrial Plastics
Malva Furniture	Kenya Nat. Fed of co-op

Mamson Hart (K) Ltd	Kenya Paperbags MNFRS
Manchester Outfitters	Kenya sweets Ltd
Mann Manufacturers	Kenya Trout & Salmoa Files
Mareba Enterprises	Kenya Uniforms Ltd
Marshal Fowler Eng.	Khimji Clothwear
Mecol Ltd	Kiwi Brands Ltd
Metroxide (A) Ltd	Labh Singh Harnam Singh
Midco Textiles (EA) Ltd	Long Horn (K) Ltd
Mrao Ltd	Malva Furniture House
Nairobi Home Bakeries	Maridadi Fabrics
Nairobi Trousers & Shirts	Mastermind Tobacco (K) Ltd
Nanak Body Builders	Mini Bakeries
Nightrose Cosmetics	Mughal Eng
Nova Chemicals	Mwea Rice Mills
Orbitsports Ltd	Nairobi Bottlers Ltd
Oven Door Bakeries	Nairobi Flour Mills
Packaging Africa Ltd	Nation Printers
Paper Converters Ltd	National Concrete
Pelican Sighns Ltd	Nestle foods (K) Ltd
Pigeon Slide	Optical Manufactures
Pleated Industries	Orbit Chem. Industries
Polythene Industries	Pan African Enterprises
Prudential Printers	Paper Bags Ltd
Refactories Ltd	Phillips E. Lamps
Regal Printers	Premchand Mepa & co. Ltd
Ritz Enterprises	Premier Flour Mills
Rolmill (K) Ltd	Premium Drums
Rose Brothers Wholesalers	Project Furniture Ltd
Rubani Eng. Works	R.H. Devani Ltd
Rubber Products	Rasco Food Products
San Pack Ltd	Reckitt & Colman
Santowels Ltd	Regal Pharmaceuticals (Nrb)
Shamco Industries Ltd	Rhone Poulenc (K) Ltd
Shanty Perfumery	Sadoline Paints Co.
Signode Packaging Systems Ltd	Sarco Co.
Silentflow Exh. Manu.	Seracoatings (EA) Ltd
Sing Retread Ltd	Setlact Manufat.
Slabs Systems Ltd	Shah Timber Marts
Solai Mawa Factory	Silentnight (K) Ltd
Standard Ltd	Smithkline Beecham Ltd
Tarpo Industries Ltd	Sotik Highland Tea Estate
The Paper House	Stainless Steel Products
Tigra-Knit	Sunflag Spinning Mills
Timesales Ltd	T.S.S. Spinning & Weaving

Tobina Ltd	Taws Ltd
Troika Ltd	Tee Pee Industries
Trolex Garments MNFRS	Teita Estate (1972) Ltd
Twiga Stationers & Printers	The Kenya Times
Umoja Manufacturers	Treadsetters Ltd
Unga Feeds Ltd	Trufoods
Unga Ltd	Twiga Chem. Industries
Uniplastics	United Chemical Industry
Uzuri Manfrs. Ltd	Universl Garments Factory
Vacuulug Tyre	Venepro Ltd
Vajas Manufacts	Virani Curry Powder
Virji Vishram Patel and Sons	Warren Eng.
Vitafoam Products	Werrot & Co.
Wambari Saw Mill	Wire Products
Wananchi Clothing	Wood Cham
Westlands Bakery	Wyco Paints
Wriggley (E.A) Ltd	

APPENDIX IV

TABLES OF FACTOR ANALYSIS.

Table 20: Convenience of Outsourcing.

Factor 1 – Convenience of Outsourcing	Loading
The companies lack time to perform such functions	81.20%
To avail more time for other activities	76.70%
Number of outsourced services are low	54.60%
There exists partners to provide a better service	52.70%

Table 21: Costs of Outsourcing.

Factor 2 - Costs of Outsourcing	Loading
Cost of Outsourcing low	77.80%
Outsourcing reduces costs	70.20%
Cost of performing outsourced services internally high	58.20%

Table 22: Strategic Chaff.

Factor 3 – Strategic chaff	Loading
Outsourcing in the organization aims to take advantage of external expertise	81.70%
Outsourced services are neither core nor strategic	62.00%

Table 23: Expertise of Outsourcing.

Factor 4 – Expertise Injection	Loading
We lack internal expertise to perform outsourced service	90.10%

Table 24: Strategic Adaptability.

Factor 1 – Strategic Adaptability	Loading
Outsourcing improves service delivery	87.90%
Maintains flexibility to respond to market conditions	79.10%
Enhances quality improvement	70.10%

Table 25: Performance Leveraging.

Factor 2 – Performance Leveraging	Loading
Helps improve overall efficiency	80.20%
Reduces routine activity level	74.20%
Reduces overall costs	64.20%
Frees up management to perform other functions	59.30%
Enables better performance of activity by outsourcing vendor	57.20%

Table 26: Sticking to the Knitting.

Factor 3 – Sticking to the Knitting	Loading
Enables firm to focus on core business	89.00%
Reduces overall amount of specialized skill and knowledge	72.40%

Table 27: Resources Optimization.

Factor 4 – Resources Optimization	Loading
Reduces number of staff thus reducing personnel costs	79.30%
Enables access to materials only available abroad	67.90%
Enables the use of resources that are not available internally	64.50%

Table 28: Vendor Evaluation/Selection.

Factor 1 - Vendor Evaluation/Selection.	Loading
Drawing contract with vendor was easy	90.40%
Selection of outsourcing vendor was easy	76.80%
Cost/Benefit analysis on whether or not to outsource was difficult	59.30%

Table 29: Resistance to Outsourcing.Factor 2 – Resistance to Outsourcing.	Loading
Staff were resistant to have a change	84.10%
Identification of activities to outsource	66.10%

Table 30: Outcome of Outsourcing.

Factor 1 – Outcome of Outsourcing	Loading
There is growth on over reliance on external parties	79.80%
There is loss of command on outsourced service	75.30%
Information leakage occurs from vendor	71.80%
There is loss of control on decision making	66.80%

Table 31: Character of Vendor.

Factor 1 – Character of Vendor	Loading
Vendor performs business related with the outsourced service	82.30%
Vendor commitment to quality/flexibility contract terms	81.90%
Quality of service	75.00%
Performance on past consultation	72.10%
Internal skills the vendor posses	63.30%

Table 32: Experience of Vendor.

Factor 2 – Experience of Vendor	Loading
Financial costs charged	85.60%
Duration which vendor has been in operation	78.40%

Table 33: Profile of Vendor.

Factor 3 - Profile of Vendor	Loading
Size of Vendor (based on number of staff)	87.00%
Presence of other clients seeking similar services	53.40%

APPENDIX V

FACTOR ANALYSIS EXTRACTION TABLES

Factors for Reasons why Companies Outsource.

Figure 1: Initial Extraction: Reason for Outsourcing.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.373	23.735	23.735	2.373	23.735	23.735	2.009	20.087	20.087
2	1.925	19.247	42.982	1.925	19.247	42.982	1.897	18.970	39.056
3	1.125	11.246	54.228	1.125	11.246	54.228	1.433	14.332	53.389
4	1.016	10.155	64.384	1.016	10.155	64.384	1.099	10.995	64.384
5	.938	9.378	73.761						
6	.732	7.315	81.076						
7	.680	6.804	87.880						
8	.553	5.528	93.408						
9	.371	3.710	97.118						
10	.288	2.882	100.000						

Extraction Method: Principal Component Analysis.

Figure 2: Rotated Component Matrix: Reasons for Outsourcing.

Rotated Component Matrix[a]

	Component			
	1	2	3	4
Reason why company has outsourced - We lack time to perform such activities	.812	-.110	-.154	-5.853E-02
Reason why company has outsourced - To avail more time for other activities	.767	.211	.280	.241
Reason why company has outsourced - Number of Outsourced services is low	-.546	-.169	-.277	-.100
Reason why company has outsourced - There exist partners to provide a better service	.527	-.439	.137	-9.552E-02
Reason why company has outsourced - Cost of outsourcing is low	-.212	.778	-.168	-.225
Reason why company has outsourced - Outsourcing reduces overhead costs	.319	.702	-9.904E-02	-.221
Reason why company has outsourced - Cost of performing outsourced services internally high	.119	.582	.384	.196
Reason why company has outsourced - Outsourcing in our organization aims to take advantage of external expertise and experience	.115	2.836E-02	.817	.112
Reason why company has outsourced - Outsourced services are neither core or strategic	-7.786E-02	.396	-.620	.238
Reason why company has outsourced - We lack internal expertise to perform outsourced services	7.795E-02	-.157	6.867E-03	.901

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 10 iterations.

Figure 3: Initial Extraction: Motivation Compelling Outsourcing.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.926	30.197	30.197	3.926	30.197	30.197	2.529	19.454	19.454
2	1.788	13.752	43.949	1.788	13.752	43.949	2.394	18.415	37.869
3	1.578	12.139	56.088	1.578	12.139	56.088	1.826	14.045	51.914
4	1.273	9.789	65.877	1.273	9.789	65.877	1.815	13.963	65.877
5	.896	6.892	72.769						
6	.796	6.121	78.890						
7	.753	5.796	84.687						
8	.534	4.104	88.791						
9	.460	3.536	92.326						
10	.338	2.599	94.925						
11	.293	2.255	97.180						
12	.212	1.634	98.815						
13	.154	1.185	100.000						

Extraction Method: Principal Component Analysis.

Rotated Component Matrix [a]

	Component			
	1	2	3	4
Motivation Compelling Outsourcing -Outsourcing improves service delivery	.879	3.514E-02	.245	.157
Motivation Compelling Outsourcing -Outsourcing maintain sufficient flexibility to respond to market conditions	.791	3.709E-02	-.296	.140
Motivation Compelling Outsourcing -Outsourcing enhances quality improvement	.701	.208	.325	-5.603E-03
Motivation Compelling Outsourcing -Outsourcing help improve overall efficiency	.139	.802	.190	.101
Motivation Compelling Outsourcing -Outsourcing reduces routine activity level	.246	.742	1.289E-02	.206
Motivation Compelling Outsourcing -Outsourcing reduces overall costs	.233	-.643	.106	.166
Motivation Compelling Outsourcing -Outsourcing frees up management to perform other functions	9.104E-02	.593	.418	.413
Motivation Compelling Outsourcing -Outsourcing enables better performance of activity by outsourcing vendor	.502	.572	-9.766E-02	.131
Motivation Compelling Outsourcing -Outsourcing enables firm to focus on core business	.192	.139	.890	1.796E-02
Motivation Compelling Outsourcing -Outsourcing reduces the overall amount of specialized skill and knowledge needed	-4.445E-02	-4.552E-02	.724	8.584E-02
Motivation Compelling Outsourcing -Outsourcing reduces number of staff thus reduces personel costs	.162	4.544E-02	.131	.793
Motivation Compelling Outsourcing -Outsourcing enables access to materials only available abroad	-8.833E-02	.190	-4.037E-02	.671
Motivation Compelling Outsourcing -Outsourcing enables the use of resources that are not available internally	.416	-5.475E-02	7.158E-02	.645

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Figure 5: Initial Extraction: Making Decision to Outsource.

Total Variance Explained

Componen	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.051	41.024	41.024	2.051	41.024	41.024	1.878	37.553	37.553
2	1.283	25.654	66.678	1.283	25.654	66.678	1.456	29.125	66.678
3	.736	14.720	81.398						
4	.610	12.191	93.588						
5	.321	6.412	100.000						

Extraction Method: Principal Component Analysis.

Rotated Component Matrix[a]

	Component	
	1	2
Making decision to Outsource - Drawing contract with vendor was easy	.904	6.236E-02
Making decision to Outsource - Selection of outsourcing Vendor was easy	.768	-9.371E-02
Making decision to Outsource - Cost/benefit analysis on whether or not to outsource was difficult	-.593	.547
Making decision to Outsource - Staff were resistant to have a change	.227	.841
Making decision to Outsource - Identification of activities to outsource was difficult	-.260	.661

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Figure 7: Initial Extraction: As a result of Outsourcing.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.164	54.110	54.110	2.164	54.110	54.110
2	.847	21.164	75.274			
3	.569	14.237	89.511			
4	.420	10.489	100.000			

Extraction Method: Principal Component Analysis.

Figure 8: Component Matrix: As a result of Outsourcing.

Component Matrix [a]

	Component
	1
As a result of outsourcing - There is growth on over reliance on external parties	.798
As a result of outsourcing - There is loss of command on outsourced service	.753
As a result of outsourcing - Information leakage occurs from vendor	.718
As a result of outsourcing - There is loss of control on decision making	.668

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Figure 9: Initial Extraction: Attributes in Selection of Vendor.

Total Variance Explained

Componen	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.255	36.171	36.171	3.255	36.171	36.171	2.867	31.853	31.853
2	1.583	17.588	53.759	1.583	17.588	53.759	1.791	19.905	51.758
3	1.135	12.606	66.365	1.135	12.606	66.365	1.315	14.607	66.365
4	.901	10.013	76.378						
5	.720	7.997	84.375						
6	.524	5.824	90.199						
7	.330	3.669	93.868						
8	.313	3.475	97.343						
9	.239	2.657	100.000						

Extraction Method: Principal Component Analysis.

Figure 10: Rotated Component Matrix: Attributes in Selection of Vendor.

Rotated Component Matrix[a]

	Component		
	1	2	3
Attributes in selection of outsourcing vendor -Vendors performs business related with outsourced service	.823	.183	-.150
Attributes in selection of outsourcing vendor -Vendors commitment to quality/ flexible contract terms	.819	4.432E-02	-2.943E-02
Attributes in selection of outsourcing vendor - quality of service	.750	.361	-.190
Attributes in selection of outsourcing vendor -Performance on past consultation	.721	8.429E-02	.336
Attributes in selection of outsourcing vendor - Internal skills the vendor possess	.633	-5.330E-02	.247
Attributes in selection of outsourcing vendor -Financial costs charged	.110	.856	-6.414E-02
Attributes in selection of outsourcing vendor - Duration which vendor has been in operation	.154	.784	.186
Attributes in selection of outsourcing vendor - Size of vendor's firm (based on number of staff)	4.587E-02	3.574E-02	.870
Attributes in selection of outsourcing vendor -Presence of other clients seeking similar services	-3.536E-03	.517	.534

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

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