THE OUTSOURCING STRATEGY AND PERFORMANCE OF OUTSOURCED ACTIVITIES IN CEMENT INDUSTRY IN KENYA

BY

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DECLARATION

This management research project is my original work and has not been presented for examination in any other Institution, College or University other than the University of Nairobi for academic credit.

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DEDICATION

This research study is dedicated to my family: my beloved wife Ruth who encouraged me to complete this program in time and constantly gave me moral support, my triple-lets who tirelessly waited for my late home arrivals gave me all the reasons for completing the program in time; my parents Mr. Edward Kenani and Mrs. Mary Kenani, who gave me the foundation upon which to further pursue my education.

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ABSTRACT

The cement manufacturing industry is a very vital sector in the development of the country. However the sector faces a number of challenges, principal among them include power problems, climate protection and responsible use of all fuel and raw materials. It therefore becomes important to develop strategies that will counter these challenges. It is against this backdrop that the study sought to find out outsourcing strategies in these cement manufacturing firms. Outsourcing is defined as the process by which a corporation, a governmental agency or another business entity subcontracts to a third party. Outsourcing strategy has become a common practice among both private and public organizations and is a major element in business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves. The cement manufacturing industry is not an exception to this regard and it is key component of the construction sector in Kenya and the region in general. The overall objective of the study was to determine the outsourcing strategy and performance of outsourced activities in the cement manufacturing firms in Kenya. This study was guided by various theoretical and literature reviews. This was a cross-sectional census survey research. The study had a total population of 6 cement manufacturing firms in Kenya. The study used primary data which was collected using questionnaires. Descriptive and inferential analysis (regression analysis) was used to analyze the quantitative data obtained. The key findings of the study are the need to focus on core competencies and enhance efficiency were the factors influencing outsourcing strategy adoption. The performance indicators in outsourcing were improved technical capacity and enhanced performance contract. The potential risks for outsourcing were found to be increased costs, low staff morale and disclosure of commercial secrets. In light of the findings, the study recommends that since most of the cement manufacturing firms have been successful in the adoption of outsourcing strategy, there is need to focus the change management especially to sensitize staff on outsourcing, also cost benefit analysis should be done so as to assess the impact of outsourcing to the firms. Corporate/commercial secrets should be safeguarded during the outsourcing process so as not to lose important information to outsiders.

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CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Outsourcing has been a global trend in business for several years. Some managers even consider it as a panacea for every company. Thomas and Mary (2009) observed that the beginning of outsourcing can be traced to the later part of the 20th Century when companies began to contract out some of the smaller aspects of their business to companies that provide specialized services. Before outsourcing was implemented, business organizations handled all of the components of their businesses themselves. Everything, from the sourcing of raw materials to manufacturing and shipping finished products and even selling them will be taken care of by the organization. The outsourcing strategy according to (Gottschalk 200l) is used as a precursor for performance in many companies. The persistence of many companies to continuously run business in this manner led to closure and firms such a model, especially when placed in a highly competitive environment is very inefficient. The inefficiency lead to resources such as time and money being wasted until it came to a point where the company could not sustain itself anymore, (Duhamel, 2003).

Learning from the errors of their earlier counterparts, Quelin and Duhamel (2003) argued that during the 1970s and 80s companies sub contracted some of the tasks in their businesses such as payroll, accounting, human resources, data encoding, among others, to specialized organizations and thus outsourcing as we know it began. Organization started to outsource jobs to local companies but as the world entered the era of globalization, ushered in with the help of developments in communication such as the Internet and telecommunication technology, organizations from developed countries turned to companies from developing parts of the world for the manpower needs. Outsourcing has been discussed in literature as a key enabler of business processes and various theories developed have confirmed it, (Gottschalk 200l).

Currently though, information technology tops the list of industries that utilizes outsourcing to save money and meet their business goals; it is also estimated that half of the top companies in the U.S. are outsourcing some or majority of their business processes. The Philippines, India and China are just some of the top offshore service providers primarily because of the cheap yet highly skilled workers that can be found in these countries. There is also no sign that the practice will end soon as proven by the increasing number of companies that outsource every year.

Quelin and Duhamel (1990s) stated that organizations began to focus more on cost-saving measures; they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance among others such as “good housekeeping”. The current stage in the evolution of outsourcing is the development of strategic partnerships. Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. Often a core competency is also defined as any function that gets close to customers. Wild et al (1990s) outsourcing some core functions may be good strategy. For example, some organizations outsource customer service, precisely because it is so important.

1.1.1 The Concept of Outsourcing

Byers and Rue (2000) defined outsourcing as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”, sometimes known also as “facilities management”. Dressler (2003) observed that outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners. Companies often hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own.

Quelin and Duhamel (2003) posited that outsourcing involves the sourcing of goods and services previously produced internally within the sourcing organization from external suppliers. The term outsourcing can cover many areas, including the manufacturing as well as services. The term ‘outsourcing’ is most commonly used in relation to the switching of the supply of product or service activities to external suppliers. Outsourcing involves the transfer of an entire business function to a supplier. Alternatively, outsourcing may lead to the transfer of some activities associated with the function whilst some are kept in-house. Outsourcing can also involve the transfer of both people and physical assets to the supplier. Serem (2003) stated that outsourcing is not just a straightforward financial or purchasing decision. In many cases, outsourcing is a major strategic decision that has implications for the entire organization. For this reason, it need to be monitored and evaluated, the evaluation and management of the outsourcing process involves a number of important elements. A starting point in the evaluation process involves analyzing whether outsourcing an activity is appropriate for the organization. This involves considering issues such as the capability of the organization in the activity relative to competitors, the importance of the activity to competitive advantage, the capability of suppliers to provide the activity, the level of risk in the supply market, potential workforce resistance and the impact upon employee morale. Where the decision to outsource has been made, a number of important issues have to be considered including supplier selection, contract negotiation and the transitioning of assets to the supplier. Significant attention should also be given to managing the relationship with the supplier to ensure that outsourcing meets its intended objectives.

Mintzberg (1991) noted that organizations often employed external product and service providers to carry out a range of business activities such as catering, security, distribution, accounting, information technology among others. However, many organizations are increasingly outsourcing a wider range of activities and a greater level of the value associated with these activities. In effect, organizations are no longer outsourcing peripheral activities alone but extending the scope of outsourcing to encompass more critical activities that contribute to their competitive position. Consequently, the evaluation and management of the outsourcing process has become increasingly complex. For example, contracts are more complex as agreements become more sophisticated in terms of measurement procedures, the financial management of transferred assets and the inclusion of clauses associated with bringing the activity back in-house (Quelin and Duhamel, 2003).

1.1.2 The Outsourcing Strategy

Quinn (1980) identifies strategy as a plan that puts together organizations major goals, policies and action sequences. A well formulated strategy enables an organization marshal and allocates its resources in a unique way on the basis of its relative internal competencies and limitations, expected changes in the environment and contingent actions by competitors. Porter (1980) states that strategy is basically about competition and the means by which an organization tries to gain a competitive advantage.

Hills and Jones (2001) conclude that the strategies an organization pursues have a major impact on its performance relative to the peers. Johnson and Scholes (1997), notes that strategy is the long-term direction and scope of an organization that facilitates the achievement of an advantage, for the organization, through the mode of arrangement of resources within a changing environment. Thus, the strategy is viewed as the matching of the activities of an organization to the environment to which it operates.

Quinn and Hilmer, (1994) noted that firms often sought ways to gain a competitive advantage over their competitors; however, with the increased movement towards a single globalized economy, this desire is even more prevalent for businesses today. One avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage to these firms, while many firms have followed this pattern of outsourcing some part of their operations to improve their competitiveness, others have not, leading many to ask what factors influence the decision to use outsourcing. In general, outsourcing is considered to be that part of an organization's process, which it sources from outside suppliers, regardless of the type of relation with the suppliers. As such, every firm engages in outsourcing to some degree, be it manufacturing, customer care, logistics, post sales technical support, finance, auditing, staffing, or design. The choice of what functions to outsource and which to keep in-house is based on the need to develop skills, invest in resources, and stay abreast of evolving technology in any areas kept in-house (Gottschalk 200l).

In studies examining the impact of outsourcing, there have been several key advantages of outsourcing identified, such as cost saving, reduced capital investment within the firm, improved responsiveness to changes in the business environment, an increased focus on core competencies increased competition among suppliers ensuring higher quality goods and services in the future, and a reduced risk of changing technology (Quinn, 1992). Coopers (1999) states that the above practices include a firm's customer relationship as "the entire array of practices that are employed for the purpose of managing customer complaints, building long-term relationships with customers, and improving customer satisfaction", postponement as "the practice of moving forward one or more operations or activities (making, sourcing, and delivering) to a much later point in the supply chain", information sharing (which refers to "the extent to which critical and proprietary information is communicated to one's supply chain partner" , or put another way, the access to private data between trading partners, thus enabling them to monitor the progress of products and orders as they pass through various processes in the supply chain, mass customization defined as the practice of producing customized products at costs and volume comparable to mass produced products (Kotler, 1989), supplier partnership defined as the long term relationship between the organization and its suppliers which leverages the strategic and operational capabilities of individual participating organizations to help them achieve significant ongoing benefits and product modularity defined as "the practice of using standardized product modules so they can be easily reassembled / rearranged into different functional forms, or shared across different product lines" practices.

1.1.3 Cement Industry in Kenya

The Kenyan Cement industry has mainly been dominated by Bamburi Cement Company Limited a subsidiary of Lafarge Company based in France. The indigenous cement companies in Kenya are Athi River Mining and East African Portland Cement Company Limited. Bamburi Cement Company derives tremendous advantages from being part of the Lafarge group, including access to cutting edge technologies for cement manufacture, management and technical support. The second largest player in the industry is Athi River Mining Limited (ARM) which is separated into two distinct divisions; ARM Cement Ltd which concentrates on cement, lime and related products and ARM Minerals and Chemicals for the manufacture and sale of minerals and specialty building and related products. East African Portland Cement Company Ltd (EAPCC) is the third largest cement manufacturer which concentrates on cement only. It is effectively government controlled through a direct government stake and indirectly through National Social Security Fund.

Several challenges confront the cement industry which include high cost of electricity due to high tariffs as well as inadequate power supply, costly imported coal, small capacities for clinker and cement production, lobbying for the introduction of concrete roads in Kenya that will require plenty of cement and inadequate support from the government on policy issues. The industry is also confronted by poor quality of power due to interruptions/outages leading to inefficiencies in production systems and breakdowns and high cost of transport caused by dilapidated roads.

The Kenyan cement industry has seen the entry of four new foreign investors who have established cement plants in the country in the recent past. One of this is Mombasa Cement which is a subsidiary of Tororo Cement Company in Uganda and is producing with the help of Taiheiyo Cement Corporation, the largest cement producer in Japan. This foreign based company is equipped with advanced technology which enables it to produce more efficiently hence offering lower prices. The other company is Cemtech Sanghi cement plant in Pokot which is a subsidiary of Sanghi Cement Group of India, National Cement Compnay Limited(Devki Group), and Savannah Cement Limited.

The demand for cement in Kenya is estimated to be about 3 million tons per year. The seven companies produce about 3.5 million tons, of which Bamburi Cement produces 2.3 million tons. These companies also export their products to other neighboring countries including Somalia, Democratic Republic of Congo, South Sudan, Mozambique, Rwanda and Burundi (Mumero, 2011). The increased purchase of cement is attributable to continued demand for housing and accommodation due to increase in Kenya's population. Increased private building projects and also increased government expenditure on roads and building projects caused the increase in cement consumption during the past 3 years (Kenya Economic Survey, 2010).

1.2 Research Problem

Business organization in their endeavor to compete effectively outsource rather activities that are not considered core in their operations so as to focus on attaining a sustainable competitive advantage and perfect in core competencies (Leavy, 2004; Cooper 1999). Outsourcing has become a common practice in the business field and managers have begun to understand that in some instances it is better to bring in services from outside to achieve quality services than to do everything on their own (Serem 1997). Outsourcing can have a direct impact on jobs and on the work done within an institution. When a function is outsourced the staffs that have traditionally done this work may be affected. Most organizations have adopted strategies to help them maximize profit. Cost reduction has become the key policy in many organizations to help improve production and overall performance of the organization. Outsourcing strategy has gained popularity over the world and has been widely embraced in many developed countries.

The operating environment of the cement industry in Kenya has changed considerably such that there is need to understand the outsourcing strategies of activities in the industry. The primary responsibility for an organization's success often rests with the range of activities a firm performs efficiently and effectively to maximize the organizational wealth and wellbeing. There has been intensified competition in the cement industry due to the entrance of new players whom have changed the game. Hill and Jones, (2001) noted that the concept of outsourcing is still developing as businesses grow and their particular needs expand and become more sophisticated. This is good because space exists for wings to flex and soar and creativity has no limit. This is probably another great reason why the concept and practice of outsourcing is considered valuable and necessary in business.

Studies conducted locally have mainly focused on determining the level of outsourcing among manufacturing industries. Rono (2011) did a study on the impact of outsourcing practices on performance of commercial banks in Kenya, the researcher found out that commercial banks perform better when they concentrate on their core business practices. Mutua (2012) did a research on achieving competitive advantage through outsourcing at National Bank of Kenya and concluded that business firms that need to compete effectively should outsource non-key business activities. Ochweri (2012) did a case study research on outsourcing strategy and performance of the Kenya Institute of Management and found out that outsourcing as a strategy in the learning institutions can be applied not only to gain the overall performance of the institution but also to increase student enrolment. Internationally, Khumalo (2006) did a study on critical success factors for an outsourcing strategy in the Mpumalanga Coal Mining industry in South Africa. From his findings, he suggested that the low impact of outsourcing stems from lack of knowledge of the critical success factors and the failure of companies to focus on these areas. From this review of past studies, it is clear that there is little research that has focused on the outsourcing strategy and performance of outsourced activities in cement manufacturing industry in Kenya which is a key sector contributing immensely to the economy of the country. Therefore there is need to formulate studies to provide an understanding on the outsourcing strategy and performance of outsourced activities in cement industry in Kenya to bridge the study gap that exists. The study addresses the research question: Does outsourcing as a business strategy affect the performance of outsourced activities in the cement industry in Kenya?

1.3. Objectives of the study

This study was guided by the following research objectives;

i. To determine the outsourcing strategy of outsourced activities in the cement industry in Kenya

ii. To establish the perceived performance of outsourced activities in the cement industry in Kenya

1.4. Value of the study

The study will generate information that will be used by various stakeholders interested in cement manufacturing industry performance. It will enable the board of directors and management of cement firms to identify areas of weakness that need attention and foster sound strategic choices to deliver maximum investment value. The findings will go a long way in identifying the challenges that are experienced in outsourcing by the cement manufacturing firms and how these challenges impact in the overall performance in the current fast growing and turbulent external environment and establish how outsourcing as a strategy can be applied in this context.

This study will avail pertinent information on activities that can be outsourced by the cement companies in the cement industry, the benefits and limitations of outsourcing, The study will benefit management of the cement companies as they consult in an endeavor to focus on core business and in evaluating which activities in the value chain to outsourcing and the study will stimulate further interest among future researchers and in this dynamic area of outsourcing.

The study will also assist the government through the relevant ministry in formulating appropriate strategic outsourcing policies that will improve decision-making processes in enhancing competitive advantage. These policies will also be appropriate in enhancing the performance of the organizations and the manufacturing industry at large.

This study will contribute to the literature in outsourcing especially about how the cement manufacturing firms can utilize outsourcing to benefit in the focus of core competencies, cost reduction, provision of benefit through economies of scale and scope among others and the overall return on investment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature on outsourcing strategy and how it contributes to organizational performance. It was informed by a review of relevant literature and guided by the theoretical review.

2.2 Theoretical Perspective

The study was guided by some major theories in outsourcing; the resource-based Value theory (RBV), dynamic capabilities and transactions cost theory.

2.2.1 The Resource-based Value Theory

The central premise of RBV theory addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. However, the founding idea of viewing a firm as a bundle of resources was pioneered by Penrose in 1959. Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give each firm its unique character. The notion of firm’s resources heterogeneity is the basis of the RBV.

The significance of the resource perspective as a new direction in the field of strategic management was broadly recognized with the path-breaking article by Wernerfelt (1984). Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights that differ from traditional perspectives and thus firms may opt to outsource resources that are not core to them.

2.2.2 Transaction Cost Theory

The outsourcing concept has been studied in various contexts such as "make-or-buy" (Hendrick and Moore 1985), vertical integration (Coase 1937) and transaction cost analysis (Williamson 1985; Heide and John 1990) (Sanders et al. 2007). Transaction cost theory is widely used in considering the outsourcing option in any kind of a task or a function (Wang 2002). Transaction cost theory examines the efficiency of choosing between different governance structures such as contracting out or vertical integration (Rindfleisch and Heide 1997). When a function is performed within the company, it is called vertical integration, hierarchy or in-house, whereas the function performed outside the company is named market governance or contracting out (outsourcing).

Transaction cost theory posits that the governance structure (outsourcing or in-house) which minimizes the sum of production and transaction costs is the one to be preferred (Rindfleisch and Heide 1997). The costs of developing specifications, designing the product, and performing the other activities involved in moving to a production-ready component are referred to as production costs (Rosenau 1990). The costs of performing development activities are referred to as production costs (Williamson 1991). For instance, the prophecies such as labor, capital and materials incurred while executing the marketing function can all be classified as production costs.

As suggested by general production theory, the costs of performing development tasks may be subject to economies of scale and to experience effects (Thompson and Formby 1993). The economies of scale are the most stressed factor in the production cost theory The firms operating under high economies of scale have lower average production costs as they have specialized human and technology capital (Harvey 1983). When a firm operates on a large production volume, the employees are efficient in reducing costs by focusing on a few tasks at a time (Bello et al. 1999). Therefore, companies while selecting their outsourcee consider and compare the outsourcee which will have the highest economies of scale providing reduction in costs.

Transaction cost theory defines transaction costs as those of managing the development process between the parties (i.e., outsourcer and outsourcee). For instance, the prophecies such as writing, monitoring, and enforcing contracts between the outsourcer and the outsourcee are named as transaction costs (Williamson 1985).

The basic premise is that if the transaction costs of contracting out to a third party (i.e., outsourcee) outweigh the production cost advantages then firms should execute the marketing function in-house. Transaction costs can be high due to three reasons: safeguarding, adaptation and measurement problems .They are the result of specificity of assets, environmental uncertainty and behavioral uncertainty, respectively (Rindfleisch and Heide 1997). First, highly specific assets may cause a problem as they have of little value outside the contractual relationship between the outsourcer and the outsourcee and may result in one of the two parties□ opportunistically exploitative behaviors.

Second, environmental uncertainties (i.e. volume and technological uncertainties) may cause increase in transaction costs due to difficulties in adapting contractual agreements ex ante .Third, behavioral uncertainty may affect transaction costs as measuring the contractual performance of the outsourcee ex post is difficult (Rindfleisch and Heide 1997).

Therefore, from a governance cost perspective, outsourcing is appropriate for a marketing function that does not pose any safeguarding, measurement and adaptation problem for the outsourcer in terms of applying contractual terms. For instance, a manufacturer may choose to outsource its routine call center function to an outsourcee that is based in a low wage country. Thus, it experiences a reduction in call center expenses (production costs) while not incurring monitoring expenses (transaction costs) for this easily measured marketing function.

2.2.3 The Dynamic Capabilities Framework

According to dynamic capability framework (Teece et al.1997), processes are the ways things are performed. Therefore, they are related to concepts such as knowledge sharing routines, learning, coordination, integration and reconfiguration. Dynamic capability framework does not only examine asset specificity as the sole determinant of competitive advantage but also considers the dynamic processes that are in effect to exploit these resources in an integrated and coordinated way.

According to this view, knowledge sharing routines, best practices and complementary resources will result not only in valuable outcomes but also the flexibilities in those processes will determine how the firm adapts to changing environments. Strategic decisions of managers as well as the mechanisms through which these processes are controlled and planned are important in this framework. Teece et al. (1997) stated that, unique combination of these resources through coordinated processes will generate outcomes that are difficult to imitate. Thus, this will, in return, provide sustained competitive advantage for the firm.

2.3 Core Competencies and Outsourcing of Services

According to Leavy (2004), many companies see outsourcing as a way to hire best in class companies to perform routine business functions and then focus corporate resources on key activities in their value chain where the impact will be felt the most by the customer. Gottschalk and Solli-Saether (2005) instead of focus, talk of the theory of core competencies. This theory suggests that activities which are not core-competencies should be considered for outsourcing with the best-in-class world suppliers.

Pearce and Robinson (1997) stated that significant changes within many segments of business have encouraged the use of outsourcing practices. These changes include globalization, change in technology diversification etc. they continue to state that in order for the organizations to achieve their goals and objectives, they have to constantly adjust to their environment. This environment is turbulent, constantly changing and so it makes it imperative for the 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. An organization sourcing strategy needs to be consistent with competitive conditions and the development of competitive advantage (Quinn and Hilmer, 1994). The short-term implications of the sourcing strategy can be assessed by use of porters (1980) model of industry analysis. The analysis of the implications of a particular in house strategy and combination of in house manufacture and retailing shows the effectiveness of the sourcing strategy in meeting the structure of the industry.

Quinn and Hilmer (1994) stated that outsourcing is the strategic use of outsiders to perform activities that are usually handled by internal organization staff and resources. Given the important role that cement companies play in any economy, it is crucial to understand the challenges that they face in outsourcing. Most cement companies cannot afford the time and financial resources to concentrate on every function or process necessary to run their business. Faced with an ever changing competitive business world, cement companies are finding that there is only time and resources to focus on what they can do best and we are also in a world driven by information technology which is certainly changing the way business transactions are being run. Byers and Rue (2000) noted that outsourcing has become an accepted business tool because companies of all sizes and shapes have recognized that they can become more profitable, build shareholder value and stay on the cutting edge of change by handing over the non-core tasks to companies that consider them their core competencies.

Once a business invests in outsourcing of services like human resources, accounting services, information technology, transport, marketing among others will make the cement company to efficiently transform the business processes using a well crafted service level agreement. Most organizations have adopted strategies to help them maximize profits. Cost reduction has become the key policy in many organizations to help improve production and overall performance of the organization. Outsourcing is adopted as one such strategy to help in reducing cost as well as attaining a competitive advantage (Laabs, 2002). Outsourcing strategy has therefore gained popularity in the world over and has been widely embraced in many developed countries. However, keen interest is taken to assess the perceived performance of the outsourced activities in these organizations.

Mintzberg and Quinn (1991) stated that given today rapid technological advances, many enterprises find they can lower their risks and leverage their assets substantially by avoiding investments in vertical integration and managing intellectual systems instead of workers and machines. The core strategy of a co-coordinating or system company becomes, “Do only those things in house that contribute to your competitive advantage and try to source the rest from the world’s best suppliers. Dombeger (1998) added that before outsourcing a business function, management should develop a strategy detailing the organizations outsourcing intentions, the strategic rationale for outsourcing and key issues to be addressed. According to Scholes and Johnson (2002) successful outsourcing has its own implications for the company; it requires managers to be more competent at maintaining performance through their management of supplier relationships rather than through management control systems within their own organization. Suppliers will need to be educated about the organizations strategies, priorities and standards. According to Deloitte Consulting Outsourcing Study (2004), lower cost will be the most vital reason given by the respondents for choosing the outsourcing option.

Leatt et.at. (1998) noted that outsourcing involves getting work from an external firm which has limited knowledge about the customer’s internal processes and operations. Hence, a customer’s needs to pay attention to certain considerations, apart from selecting the right vendor, to achieve outsourcing success, the customer needs to set right expectations upfront about the services that it needs (and will get) from its vendor. It should also have a proper plan in place with well defined (outsourcing) goals and objectives, the customer should establish tools or criteria to benchmark the quality of output required from the vendor. Vendor's performance should be regularly monitored using these criteria and if the vendor and customer both have experience in handling outsourcing projects, the chances of making the outsourcing deal a success increase significantly. Adequate planning and back-up plans for any foreseeable pitfalls will help both the client and supplier maintain a successful relationship. Price water house coopers (1999) concluded from a study that outsourcing has moved markedly from attending to single function more efficiently to reconfiguring a whole process in order to attain greater shareholder value across the enterprise.

Emphasis is shifting from outsourcing parts, facilities and components towards outsourcing the intellectual based systems. Traditionally outsourcing emphasis on tactical benefits like cost reduction, cheaper labour cost have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, access to new technologies and skills (wild et al.1990). Survey carried out by outsourcing institute (1998) on companies that outsource in the USA identified the top 10 drivers behind today's outsourcing decisions. These included accelerate re engineering benefits, access to world class capabilities, cash infusion, free resources for other purposes, function difficult to manage out to control, improve company focus, make capital funds available, reduce operating cost, reduce risk and resource not available internally. Hill and Jones (2001) observed that by outsourcing a non core value creation activity to a supplier that has a distinctive competency in that particular activity, the company may also be able to better differentiate its final product.

2.4 Strategic Outsourcing

Outsourcing has become one of the most important and popular strategies in an increasingly competitive marketplace. Global success requires development of and recommitment to the core competencies of the company. Outsourcing allows companies to return to their most successful work and enjoy the benefits of allowing their outsourcing partners to do the same. The popular areas of outsourcing include information systems/technology (40 percent), real estate and physical plant (15 percent), logistics (15 percent), and administration, human resources, customer service, finance, marketing, sales, and transportation (30 percent). In strategic outsourcing, the idea of concentrating on core competencies or activities and outsourcing the rest is a key element. Perhaps the most famous proponents of strategic outsourcing are James Quinn and Frederick Hilmer. They suggest that companies should concentrate on their core competencies and strategically outsource most of the other activities. According to this logic, companies can achieve best possible success by concentrating on what they do best.

Outsourcing Institute (2000) notes that companies are realizing a 9 percent cost savings and a 15 percent increase in capacity and quality, on average, through outsourcing. There is enormous pressure on major corporations to establish competitive positions in a global marketplace. Executives of most corporations believe that, in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue increases. 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 business. Bill Concannon, CEO of Dallas-based Trammell Crow Corporate Services, says, “Outsourcing relationships have evolved from one dimensional contracts based on cost savings to multidimensional partnerships that support the core business of client corporations. 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”.

Quinn (2001) found that outsourcing is used mainly for downsizing and cost reductions at major corporations and also as a strategic tool to deliver a forceful impact on corporate growth and financial stability. By outsourcing non-essential work, the corporation can free valuable resources and focus on its areas of competitive advantage.

To achieve that result, the corporation must know its core competencies, the type of work within the organization, and manage the outsourcing process. Serem (1992) stated that managers are judged on their ability to identify, cultivate and use the core competencies that make growth possible, they believe that the concept of society to reinvent itself." Corporations have looked to outsourcers to provide core competencies in areas the corporations lacked expertise (or where it would have been too expensive to develop the expertise). Corporations that understand the strategic need to create a boundary-free model of business and the critical role outsourcing plays in reshaping the organization, as well as the importance of focusing on what the company does best, will make the most of its opportunities. Such an organization will succeed in building a collaborative partnership with its outsourcing suppliers resulting in a long-term continuum of rising productivity, competitive advantage, growth and shareholder value creation.

2.5 Determinants of Outsourcing of business activities

Outsourcing has a long-established feature of cost effective business practice. The necessity to review what to remain in house and what would be contracted to external vendors has been dramatically increased over time by two factors: the thrust for competitive advantage in the global economy and successful business focus on its core competencies (Sandra Ward, 2004). The attraction offered by significant wage differentials has therefore stimulated moves of in-house production facilities to lower wage economies, using both outsourcing and off-shoring approaches. From initial IT and software development, financial services, business process supports, the outsourcing approach was beginning to be seen in research, engineering design or development, production function and many others. Although cost savings was still a very important consideration factor (Sounders et al., 1997), companies were outsourcing for other reasons as well not only just due to lower operating cost.

According to the Outsourcing Institute executive survey (2006), the top ten reasons why companies would outsource are as follows: Reduce and control operating cost, Improve company focus, Gain access to world class capability, Free resources for other purposes, Resources are not available internally, Accelerate re-engineering benefits, Non-core function that is too complex to manage, Make capital funds available, Share risks, and Cash Infusion. There were also reasons companies outsource due to lack of technology capability, strategic advantage to the companies, better service quality vendor and sound contract, lack of internal capacity in meeting production ramp demand and also possible limited space for expansion.

However as a business development move, outsourcing comes with certain disadvantages which can be external or internal in nature. An external disadvantage is, for instance, the knowledge spillover flows from supplier to outsourcer can also be reversed, leading to a decrease in competitive advantage over competitors (Hoecht & Trott, 2006). In some cases this can even augment to a certain point where the supplier has gained that much knowledge, that it can produce the entire product itself, leapfrogging the original outsourcer (i.e. through vertical integration).

Another disadvantage related to the behavior of the provider, is the hold-up problem (Milgrom & Roberts, 1992). This is especially relevant when high asset specificity functions are outsourced because then the outsourcer is highly dependent upon the supplier, also due contract incompleteness. The supplier can take advantage of his position by suddenly demanding a higher price or demanding more beneficial conditions (Aron & Singh, 2005). Yet probably of higher concern are the internal disadvantages. One of these downsides is that some firms might use outsourcing as a substitute for innovation or have a below optimal level of innovation because of outsourcing, as is mathematically shown by Plambeck & Taylor (2005). Another possible pitfall lies in the outsourcing spiral in which a firm can end up, eventually losing all competitive capabilities as a result of the hollowing of the organization (Ross & Westerman, 2004). The loss of control is especially difficult with offshoring, when the supplier / producer is far away. Moreover this distance creates extra logistical risks, time lags and perhaps even monetary fluctuation risks (Gilley & Rasheed, 2000). Finally, outsourcing encompasses the danger that firms lose their ability to provide the activity themselves. A problematic situation since it can contribute to a loss in control and, as a result, in increased danger of being held-up. Moreover, peripheral activities can become core capabilities in the future, besides that it is already hard to determine core capabilities on the long run (Quélin & Duhamel, 2003).

Not to mention the forgone future opportunities -‘options’- through activities which were once devaluated -and therefore outsourced- but that suddenly opened up new growth markets. The firm will then lack the necessary expertise because of their earlier made outsourcing decision. Firms also miss out on possible valuable networks by outsourcing certain activities, or can become isolated from this kind of networks (Hoecht & Trott, 2006). What comes to mind when reviewing the disadvantages of outsourcing is that the impact of the disadvantage is contingent on the situation: asset specificity, importance of the activity, imperfectness of contract etc.

2.6 Effect of Outsourcing on Performance

Cooper (1999) stated that outsourcing can be used to either maintain the competitive position of the organization or act as a source of competitive advantage. Normally, when organizations approach outsourcing for the first time they use it to reduce costs and improve performance in a particular activity. Clearly, outsourcing to reduce costs can deliver benefits for the organization and impact directly upon the bottom line. However, outsourcing employed primarily at this level is only likely to maintain the competitive position of the organization. Saunders *et al*. (1997) found that in many cases the major motives for outsourcing will be technological and strategic and not cost reduction.

It will be found that outsourcing allowed organizations to achieve a number of strategic benefits ranging from the more rapid adoption of new technologies to being more responsive to customer needs by better coping with variations in product demand. PriceWaterhouse Coopers (1999) found that outsourcing has moved from searching for efficiencies and improvements in a single process or activity, to reconfiguring entire processes in order to obtain greater value across the organization. Hill and Jones, (2001) noted that the concept of outsourcing is still developing as businesses grow and their particular needs expand and become more sophisticated. This is good because space exists for wings to flex and soar and creativity has no limit. This is probably another great reason why the concept and practice of outsourcing is considered valuable and necessary in business.

2.7 Empirical Studies

A study by Unal (2011) on the role of dynamic capabilities in outsourcing sales and marketing functions in the USA showed that the learning dynamic capabilities construct is the most important factor affecting in the outsourcing partnership performance in the context of headquarters selling task. The task-related resources of the outsourcer had a significant positive effect on potential complementarities. However, the positive effect of the outsourcee’s task-related resources on potential complementarities was not significant.

The findings of research done by (Parsa and Lankford, 1999) concluded that when outsourcing is used properly, it can boost performance in the following ways; cost reduction, productivity growth, profitability increase and value improvement. However the researchers recommend that before outsourcing is done, there has to be in place tight measures and control for quality and performance and a precisely defined scope of work, detailing the nature and extent of collaboration between the outsourcer and the outsourcee.

A study done by Khumalo (2006) on critical success factors for outsourcing strategies in the Mpumalanga coal mining industry in South Africa suggests that the low impact of outsourcing in most companies stems from lack of knowledge of the critical success factors and failure of the companies to focus on these areas in their outsourcing endeavors. Similar sentiments were echoed by Rono (2011) in his findings that managers are not very keen in the challenges posed by outsourcing as a business strategy but the rush into outsourcing activities.

A study done by Bolat and Yilmaz,(2009) on the relationship between outsourcing and organizational performance: is it myth or reality for the hotel sector? Provides strong support for the impacts of outsourcing on organizational performance. findings of the study suggests that cooperation with a vendor has led to significant improvement in organizational effectiveness, productivity , profitability, quality of work life, and social responsibility levels. Hotel managers think that organizational performance has increased after outsourcing.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights a description of the research design, target population, sample design, data collection methods, and data analysis techniques that were used by the study.

3.2 Research Design

The study adopted a cross-sectional survey research design. This research design was applied so as to collect data from a cross-section of cement manufacturing firms on the role of outsourcing and performance of the outsourced activities in these firms. The design was selected because it was deemed appropriate in collecting information from the entire spectrum of the population, (Kothari 2004).

Specifically this study utilized a census approach as all cement manufacturing firms were surveyed. Census surveys have been found to be most accurate in making comparisons and generalizations (Bryman and Bell, 2007).

3.3 Population of the Study

Population refers to an entire group of individuals, events or objects having common characteristics that can be observed and measured (Yin, 2003). The population of the study comprised all the cement manufacturing companies in Kenya, and according to the Kenya Association of Manufacturers (KAM, 2013) there are 7 cement manufacturing firms in Kenya as at July 2013.

3.4 Data Collection

The study used primary sources of data. Primary data was collected using semi-structured questionnaires which were administered to the senior managers of the cement manufacturing firms directly involved in outsourcing strategic issues. This cadre of staff has an overall perspective of the organizational culture and branch managers are normally implementers of the strategy. This approach enables more specific issues to be addressed.

A 5-point Likert scale was used in the design of the questionnaire in which the managers were asked how strongly they ‘agreed’ or ‘disagreed’ with some specific corporate cultural issues. The questionnaire was divided into two parts: Part I was designed to collect general information about the Cement Company and part II contained questions relating to identifying the outsourcing strategy and perceived performance of outsourced activities.

Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher designed the questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisors to ensure that fieldwork was conducted by use of high quality data collection.

3.5 Data Analysis

The data collected from the survey was edited for completeness, uniformity, accuracy and consistency. It was further coded to classify responses into meaningful categories to enable data to be analyzed. Quantitative data was analyzed using Microsoft Excel spreadsheet while qualitative data will be analyzed using content analysis.

Regression analysis was used as it provides a means of objectively assessing the degree of the relationship between the independent variables and the dependent variable: the regression coefficients indicate the relative importance of each of the independent variables in the prediction of the dependent variable. Descriptive statistics such as frequency distribution was used in order to examine the pattern of responses to each of the variables under description. Percentages, frequencies and arithmetic mean were used in order to facilitate comparison. Tables will be used in presentation of data findings.

Regression Model

Linear regression technique will be used to analyze the outsourcing strategy and the performance of the outsourced activities of the firm.

ROA_i=$ß_0$ +$ß_1$ (OP) + £

ROA_i: Return on Investment of a firm

OP: Organizational Performance, $ß_0$: The intercepts of equation, $ß_1$: Coefficients of variables, £: the error term

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents the research findings. Out of a target population of 6 manufacturing companies, 5 usable questionnaires were received and analyzed, indicating a response rate of 83%. This study analyzed 20 factors that influenced outsourcing strategy at the cement manufacturing industry in Kenya, 10 components for performance, 8 components for the selection criteria for outsourcing candidates and 17elements for potential risks of outsourcing were studied.

4.1 Demographic Profile of Cement Manufacturing Firms

The study sought to find out the number of years the firms have been in operation, the size in terms of number of plants in operation and the products manufactured.

4.1.1 Number of years in operation

From the findings in Table 4.0, 80% of the cement manufacturing firms have been in operation for over 3 years.

Table 4.0 Number of years in operation

Number of years in Operation	Frequency	Percentage%
Below 1 year	0	0
1-3 years	1	20
3-6 years	1	20
Above 6 years	3	60
Total	5	100

Source: Research Data

All the surveyed cement manufacturing firms adopted outsourcing strategy over 3 years ago. The outsourcing in these firms are limited to particular activities .

4.1.2 Types of products manufactured

The study sought to find out the type of products (brand) of the cement products manufactured. From the findings in Table 4.1., the cement brands manufactured are Nguvu, Blue Triangle, Simba, Nyumba and Savannah.

Table 4.1 Cement manufacturing companies

Cement Company	Mines	Cement Brand
Bamburi Cement	Mombasa	Nguvu
East African Portland Cement	Athi River	Blue Triangle
National Cement	Lukenya	Simba
Mombasa Cement	Athi River	Nyumba
Savannah Cement	Athi River	Savannah

Source: Research Data

4.1.3 Types of Outsourced Activities in the Cement Manufacturing Firms

The study sought to find out the type of activities outsourced by the cement manufacturing firms. From the findings in table 4.2, 80% of the cement manufacturing firms outsources their transport logistics activities.

Table 4.2 Types of Outsourced Activities

Activity	Frequency	Percent
Transport Logistics	4	80
Repair and Maintenances	2	40
Human Resources/Recruitment	2	40
ICT	2	40
Finance	1	20
Marketing	1	20
Manufacturing	0	0
Raw materials	0	0

Source: Research Data

4.1.4 Interpretations of Outsourced Activities in the Cement Industry.

Findings from the study saw that transport logistics is the most outsourced activity at 80%, repairs and maintenance, human resource and ICT are the second ranked activities in the cement manufacturing industry at 40%, finance and marketing were ranked third at 20% outsourcing while there is no outsourcing of manufacturing and raw materials**.**

4.2 Analysis of Performance of outsourced activities in the cement manufacturing firms in Kenya

4.2.1 Introduction

In total, 20 elements were subjected to ranking and a likert point of scale was used, with the strongest factor scoring five points, whereas the least scored one point. The mean and standard deviation scores were computed as shown in Table 4.3. Among the factors which affected performance of outsourced activities in the cement manufacturing firms are the need to enhance efficiency and the focus on core competencies were found to have the highest mean score of 4.6. The need to attain a competitive advantage in the industry follows with a mean score of 4.4.

The next ranked component was the need to reduce business costs and time saving which had a mean of 4.2. The others were the need to outsource to so as to develop technologically, get rid of problematic functions and for better accountability which all had a mean score of 3.4. The least ranked of the performance indicators of outsourced activities in the cement manufacturing firms are; gaining recognition around the cement manufacturing industry, legal compliance, establish strategic partnership and the aspect of copying what the competitors are doing having mean score of 2.4, 2.4, 2.4, , and 2.2 respectively.

Table 4.3 performance of outsourced activities in the cement industry.

Performance of outsourced activities	Mean	Std. Deviation	Coefficient of Variation%
Enhance efficiency	4.6	0.548	11.9
Improve and focus on core competencies	4.6	0.548	11.9
Competitive advantage	4.4	0.548	12.5
Reduce business costs	4.2	0.837	19.9
Save on time	4.2	0.837	19.9
Develop technological advances	3.4	1.8	52.9

Get rid of problematic functions	3.4	1.517	44.6
Better accountability	3.4	0.894	26.3
Achieve economies of production	3.2	0.837	26.2
Improve customer service delivery process	3.2	1.483	46.3
Lack of trained and qualified manpower	3.2	1.483	46.3
Develop manufacturing processes	3.0	1.87	62.3
Reducing risks	2.8	1.643	58.7
Organizational restructuring	2.8	0.837	29.9
Organizational policy	2.6	1.14	43.8
Irregular demand for personnel	2.6	1.342	51.6
Gaining recognition around the industry	2.4	0.894	37.3
Legal compliance	2.4	1.517	63.2
Establish strategic partnership	2.4	1.517	63.2
Copy competitors	2.2	1.095	49.8

Source: Research data

4.2.2 Interpretations of the performance of the outsourced activities in the cement industry.

The study sought to establish the performance of outsourced activities in the cement industry . the study indicated that enhancing efficiency and improving and focusing on core competencies as the highest benefit of the outsourcing. As result of outsourcing, the outsourced activities showed that there is reduced business costs, competitive advantage, and better accountability. There is a general improvement of the activities which leads to high productivity since of all the components taken into consideration subjected to statistical analysis ranked on a likert scale of 5 showed the highest at 4.6 and the least at 2.2 giving an average performance of 3.25 out of 5. This represents 65% score on the performance of the outsourced activities in the cement industry.

4.3 Analysis of determination of outsourcing strategy of the outsourced activities in Cement Industry

4.3.1 Introduction

Ten components of outsourcing strategy of the outsourced activities at the cement manufacturing industry were subjected to analysis using descriptive analysis with the use of a 5-point Likert Scale, with the strongest indicator scoring five points, whereas the least scored one point. The mean, standard deviation and coefficient of variation scores were computed as shown in Table 4.4

Among the elements which the results of outsourcing strategy at the cement manufacturing firms are improved technical capacity and enhanced performance contract were found to have the highest mean score of 4.0. Improving service quality and enhanced management advantage in the respective firms followed with mean scores of 3.8. The next ranked component of outsourcing strategy that affects performance is the need to reduce operational costs.

The least ranked of the components affecting outsourcing strategy at the cement manufacturing firms are; improve customer delivery process, improved cultural compatibility and improved market share with mean scores of 3.2, 3.0, and 3.0 respectively.

Table 4.4 Adoption of outsourcing strategy in the cement industry

Outsourcing strategy in the cement industry	Mean	Std. Deviation	Coefficient of Variation %
Improving technical capacity	4.0	0.00	0.0
Enhanced performance contract	4.0	0.707	17.7
Improving service quality	3.8	0.447	11.8
Enhanced management advantage	3.8	0.447	11.8
Reduced operational costs	3.6	1.14	31.7
Cycle time to asset turnover	3.4	0.548	16.1
High productivity	3.4	0.894	26.3
Improve customer service delivery process	3.2	0.837	26.2
Improved cultural compatibility	3.0	0.707	23.6
Improved market share	3.0	0.707	23.6

Source: Research Data

4.3.2 Interpretations of the determination of Outsourcing Strategy of Outsourced Activities in the Cement Industry.

The study sought to determine the outsourcing strategy of the outsourced activities in the cement industry and from the research of five out of six cement manufacturing industries the researcher analyzed the criteria which the organizations use in selecting the outsourcing by subjecting it to a statistical scale of 5. The ten components used for the determination of the outsourcing strategy showed that improving technical capacity, enhanced performance contract and improving service quality as among the reasons behind outsourcing strategy. All the indicators studied had a very strong score the least ranked being at 3.0. The average mean score of determining of outsourcing strategy of outsourced activities in the cement industry stood at 3.52 out of 5 from the research and this represents 70.4%. in the determination of the outsourcing strategy of outsourced activities in the cement industry.

4.4 Analysis of potential Risks of Outsourcing activities at the Cement Manufacturing Firms

4.4.1 Introduction

Seventeen potential risks for outsourcing strategy adoption were subjected to descriptive analysis. The findings reveal that among the factors that pose as potential risks of outsourcing strategy at the cement manufacturing firms, increased costs, and low staff morale were ranked highest with mean scores of 3.8. The next ranked components were the disclosure of commercial secrets and loss of core knowledge with mean scores of 3.6, this was followed by the risks of overdependence on outsiders/outsourcers, the loss of customers or business opportunities, and the weakening of corporate culture with mean scores of 3.4 each.

From the findings, the respondents least associated themselves with the risk of difficult to bring in-source after conflicts with the outsourcer, conflict of interest, creating a competitor, power shift to suppliers, with mean scores of 2.8, 2.8, 2.6, 2.6.

Table 4.5 Potential Risks of Outsourcing strategy

Potential Risks of Outsourcing strategy	Mean	Std. Deviation	Coefficient of Variation %
Increased costs	3.8	0.447	11.8
Low staff morale	3.8	0.837	22.0
Loss of core knowledge	3.6	1.14	31.7
Disclosure of commercial secrets	3.6	1.949	54.1
Overdependence on outsiders/outsourcers	3.4	1.14	33.5
Losing customers/Business opportunities	3.4	1.14	33.5
Weakening culture	3.4	1.34	39.4
Uncertainty/Changing environment	3.2	1.095	34.2
Skill erosion	3.2	0.837	26.2
Loss of synergy	3.0	0.707	23.6
Legal disputes	3.0	1.871	62.4

Loss of control	2.8	0.837	29.9
Conflict of interest	2.8	1.095	39.1
Unrealized savings or hidden costs	2.8	1.095	39.1
Difficult to bring in-source after conflicts	2.8	1.483	53.0
Creating a competitor	2.6	0.894	34.4
Power shift to suppliers	2.6	1.14	43.8

Source: Research data

4.4.2 Interpretations of the potential risks of outsourcing strategy in the cement industry

The study sought to determine the extent to which outsourcing strategy posed risks in the cement manufacturing firms by subjecting seventeen risks components to research. The researcher used a statistical scale of 1-5 to analyze the potential risks. The highest ranked in the scale stood at 3.8 and the least stood at 2.6 giving an average of 3.16. this represents 63.29% of the potential risks of outsourcing strategy in cement industry.

4.5 Regression Analysis

In finding out the direction of relationship of how the outsourcing strategy affects the overall organizational performance and hence efficiency, regression analysis was conducted. The researcher wanted to find out how the reduction of operational costs (independent variable) was affecting organizational efficiency (performance.)

From table 4.5.1, $ß_0$ (constant) = 5.846, $ß_1$ (variable) = -0.346. From the linear regression model, an increase in operational costs reduces the efficiency of the organization and hence reduction in performance.

Table 4.5.1 Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.846	.720		8.125	.004
	Reducing Operational Costs	-.346	.192	-.721	-1.800	.170

a. Dependent Variable: Efficiency

4.6 Discussion of findings of the study

The findings reveal that 80% of the cement manufacturing firms that is four of the surveyed firms have been in operation for over 3 years. This shows that the firms had operated long enough to be resourceful in the topic under study. Further, the cement manufacturing firms have mines concentrated in Athi River and each firm produces and sells its own brand. These firms adopted outsourcing over three years ago and they mainly outsource transport logistic services.

From the findings, outsourcing as a strategy in the cement manufacturing firms is adopted to enhance business efficiency, focus and improve on core competencies and the need to attain competitive advantage. These findings are agreeing with similar studies done by Bolat and Yilmaz (2009).

The findings also revealed that the factors perceived to influence performance of outsourced activities in the outsourcing strategy are improved technical capacity, enhanced performance contract, improving service quality and enhanced management advantage. Studies done by Parsa and Lankford (1999) revealed similar findings on outsourcing strategy and performance.

The respondents in the surveyed cement manufacturing firms identified themselves with the risks of increased business operational costs, low staff morale, disclosure of commercial secrets and loss of core knowledge in outsourcing activities.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the summary, conclusions, recommendations, suggestions for further studies and limitations of the study.

5.1 Summary

A cross-sectional survey research was conducted to establish the outsourcing strategy and performance of outsourced activities in cement industry in Kenya, specifically to find out the factors that influenced its adoption and the associated benefits and challenges. Data was collected using questionnaire, Appendix II.

This study had a response rate of 83% which was considered sufficient for analysis. From the findings, 80.0% of the respondents firms have been in operation and adopted outsourcing strategy over 3 years ago. This shows that the data obtained from the respondent firms was good and reliable for analysis. It was further established that 80% of the respondent firms mainly outsource transport logistic services.

From the analysis of the 20 factors that influenced outsourcing strategy adoption at the cement manufacturing firms, the need to enhance operational efficiency, the need to focus and improve on core competencies and the need to attain a competitive advantage were the drivers for outsourcing strategy adoption while the need to outsource so as to copy competitors and establish strategic partnership were the factors that least influenced the adoption.

Respondents identified themselves with the need to improve technical capacity, enhanced contract performance, improving service quality and enhanced management as the performance factors for outsourced activities. The improved cultural compatibility and improved market share as performance factors in the adoption of outsourcing strategy at the cement manufacturing firms were not of benefit to these firms.

The challenges or potential risks of outsourcing strategy mostly associated with outsourcing strategy adoption at the cement manufacturing firms were staff-cost related.

5.2 Conclusion

The cement manufacturing firms being key players in the country's economy adopted outsourcing strategy in order to maximize value for money on their operational processes and increase business performance. The firms have attained this as they have benefited in enhanced efficiency, improved focus on core competencies and enhanced competitive advantage. The greatest challenge for the cement manufacturing firms in their endeavor to attain full potential of outsourcing strategy adoption lies with competitors and suppliers. The suppliers and competitors pose a threat as they may steal business secrets from these firms and use them to their benefit.

Therefore since for this case the attainment of greatest potential of outsourcing is two way then the cement manufacturing firms should embark on outsourcing strategy that is well calculated so as not to hurt their competitive niche.

5.3 Recommendations

Though the cement manufacturing firms in Kenya have so far been successful with outsourcing strategy adoption in enhancing organizational performance, there is need to focus on the aspect of creating a competitor in the name of outsourcing, power shift to suppliers and the exposure of business/trade secrets during outsourcing as these seem to be the major challenges prohibiting the organization from fully achieving the full potential of outsourcing strategy adoption. Since cement manufacturing firms are operating in a very competitive business environment, sound business strategies will play a paramount role in the overall performance of the organization.

Outsourcing strategy adoption at the cement manufacturing firms has enabled the organizations to redesign and improve business work processes radically but there is still need for initiatives that emphasize incremental improvement in the whole outsourcing process and output to cope with the ever changing business environment.

5.4 Suggestions for further research

Since this study used firms that have been successful with outsourcing strategy adoption, it would be interesting to study firm(s) that have not had good results with outsourcing strategy adoption and much more a firm that has had disastrous results. Probably by so doing, the conclusions of the study would help in indicating to the approaches/tactics that don't work for new strategy adoption. More insight could be derived from that and help in understanding some of the reasons that have led to some firms failing in new strategy adoption.

The researcher proposes that a study be conducted to determine the extent to which outsourcing strategy adoption has impacted on the staff turnover in an organization. A study can also be done to establish the relationship between outsourcing strategy adoption and organizational effectiveness. Another area of interest would be to find out if there is competitive advantage derived from outsourcing strategy adoption in one cement manufacturing company compared to the other.

Finally, this study is limited to the extent that its focus is on a specific country and industry/sector, Kenya and the cement manufacturing firms respectively. It is recommended that for a start, a similar study be undertaken within a region wide context and findings compared to the Kenyan context. This will provide a basis upon which the industry in Kenya can be rated for its outsourcing strategy adoption against the other countries in the region.

5.5 Limitations of the study

The findings of this study should be viewed in light of a few limitations. The use of questionnaires to gather relevant information on the extent of outsourcing strategy adoption should be noted. The use of additional data collection methods such as observation in order to enhance the richness and depth of future studies should be considered.

In addition, access to internal organization documents like board minutes, policies and procedures which could provide more insight into the strategic thinking of the management would greatly have contributed towards a more pragmatic review and analysis. Also most of the senior managers were not available for interview.

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APPENDICES

Appendix I: Introductory Letter

June 2013

Dear Respondent,

I am a postgraduate student at the School of Business, University of Nairobi, currently carrying out a research titled **'The Outsourcing Strategy and Performance of Outsourced Activities in Cement Industry in Kenya**. This is in partial fulfillment to the award of Master degree in Business Administration (Strategic Management).

You have been selected as one of the respondents in this study. I therefore request you to kindly facilitate the collection of the required data by answering the questions herein. This questionnaire is purely for academic purposes and the data collected will be treated with utmost confidentiality. A copy of the completed project report shall be availed to you upon request.

Your assistance and cooperation will be highly appreciated. Thank you in advance.

Yours faithfully,

______________________ ________________________

Kenani Justus Dr Jackson Maalu

Student Supervisor

Appendix II: Questionnaire

Please spare a little of your time to fill in this questionnaire. Your answers will remain anonymous and in no incidence will your name be mentioned in this report.

Section 1: Demographic Details

1. Name of your organization (optional)
2. What is the age bracket of your organiaztion? (Tick appropriate box)

a) 26-30 [ ]

b) 31-35 [ ]

c) 36-40 [ ]

d) 41-45 [ ]

e) 46-50 [ ]

f) Above 51 [ ]

3. For how long has your company been in existence?

Less than 1 Year [ ]

1-3 Years [ ]

3-6 Years [ ]

Above 6 Years [ ]

4. What products do you manufacture?

5. Your position within the organization (Tick appropriate box)

   CEO [ ]

   Top Management [ ]

6. Length of service at the company (Tick appropriate box)

   Less than 1 Year [ ]

   1-3 Years [ ]

   3-6 Years [ ]

   Above 6 Years [ ]

7. Length of service at your current position (Tick appropriate box)

   Less than 1 Year [ ]

   1-3 Years [ ]

   3-6 Years [ ]

   Above 6 Years

PART 2: Outsourcing Strategy Questionnaire

A. Outsourcing

1.a) Is there any outsourcing in your company?

[ ] Yes, there is. [ ] No, there isn't

b) If yes, in what year did you first outsource? ………………………………

2. a) Which of the following activities has your company outsourced? (Tick where applicable)

Manufacturing [ ] Repair [ ] Maintenance [ ]

Finance/Accounting [ ] Marketing [ ] Human Resources [ ]

Logistics [ ] Technical Development [ ] ICT [ ]

Cleaning [ ] Recruitment process [ ]

Others ……………………………………………………………………….

b) In future do you believe the number of activities you outsource will

Increase [ ] Stay constant [ ] Decrease [ ]

3.a) To what extent did the following factors influence adoption of outsourcing strategy in your organization? Rate these factors on a scale of 1-5 (1-least important, 2-less important, 3-neutral, 4-important, 5-most important). Tick where applicable.

Adoption of Outsourcing Strategy	**Least Important**	**Less important**	**Neutral**	**Important**	**Most Important**
To enhance efficiency in the business operations					
To reduce business operation costs					
To achieve economies of production					

To develop the technological advances					
To develop manufacturing processes					
To improve customer service delivery processes					
To focus on and improve core competence areas					
Lack of trained and qualified manpower					
It’s an organizational policy requirement to outsource certain business operations					
Irregular demand for personnel (like work done only during projects)					
To get rid of problematic business functions					
Gaining recognition around the industry					
Legal compliance					
Sharing and reducing risks					

Establishing strategic partnership					
Copy competitors					
Better accountability/management					
To save on management time					
To attain a competitive advantage					
Organizational restructuring					
Any other? Please add					

b) Outsourcing strategies (Please select outsourcing modes which you are using in your organization)

Purchasing Outsourcing [ ]

Selective Outsourcing [ ]

Total Outsourcing [ ]

Purchasing outsourcing- outsources some implemented task temporarily to supplement an in-house labor force during times of heavy work load.

Selective outsourcing – outsources one part of the specific activities

Total outsourcing- outsources all of the specific activities

B. Outsourcing and Performance

4. a) How have the following outsourcing performance affected the results of the outsourced activities? Rate these factors on a scale of 1-5 (1-Very poor, 2-poor, 3-neutral, 4-Good, 5-Very good)

Perceived Performance for outsourced activities	**Very poor**	**Poor**	**Neutral**	**Good**	**Very good**
Reducing operational costs					
Improving service quality					
Improving technical capacity					
Enhanced performance of contract					
Improved cultural compatibility					
Enhanced management advantage					
Cycle time to asset turnover					
Market share compared to past years and to competitors					
Productivity e.g. efficiency rate, percentage of hours spent on production.					
Customer service e.g. retention rates					

Repeat, purchase, customer Satisfaction Rates					

b) Which criteria does your organization use in selecting outsourcing candidate?

Rate the following factors on a scale of 1-5 (5-very important, 4-important 3-Neutral, 2-Not very important, 1-Not at all important)

Selection criteria for outsourcing candidates	**1**	**2**	**3**	**4**	**5**
Lower costs					
Good reputation					
Previously cooperated					
High quality y of services					
Advanced technology and management experience					
Similar culture					
Location advantages (local outsourcer)					
High mutual trust					
Any other? Please add					

C. Potential Risks of Outsourcing

5. To what extent did the following risks of outsourcing strategy in your organization? Rate these factors on a scale of 1-5 (1-least important, 2-less important, 3-neutral, 4-important, 5-most important). Tick where applicable.

Potential Risks of Outsourcing Strategy	**Least Important**	**Less important**	**Neutral**	**Important**	**Most Important**
Loss of core knowledge					
Increased costs					
Low staff morale					
Overdependence on outsiders/outsourcers					
Loss of control					
Losing customers, business opportunities or reputation					
Uncertainty/Changing environment					
Creating a competitor					
Conflict of Interest					
Loss of synergy					
Skill erosion					
Unrealized savings or hidden costs					

Weakening culture					
Legal disputes					
Difficult to bring in-source after conflicts					
Disclosure of commercial secrets					
Power shift to supplier					
Any other? Please add					

Appendix III: List of Cement Manufacturing Firms in Kenya

1. Bamburi Cement Ltd
2. Athi River Mining Cement Ltd
3. East African Portland Cement Ltd
4. Mombasa Cement Ltd
5. National Cement Company Limited
6. Savannah Cement Ltd