CHAPTER ONE

INTRODUCTION

1.0 Introduction

The researcher will discuss the background of the study, statement of the problem, the objectives of the study, research questions, and significance of the study in this chapter. Limitations, and the scope of the study will also be discussed.

1.1 Background of the Study

Outsourcing is a modern concept of having what is required to be done or achieved, attained through another party. It is the process of obtaining goods or services from an external supplier, in place of an internal supplier. It is a means of achieving organization objectives through other party’s other than through the organization staff or employees.

Growth in outsourcing has been happening both domestically and internationally in the recent past. The business environment is very competitive in today’s world and this acts as a catalyst for firms to consider outsourcing. The nature of business is global in nature, with opportunities spread all over the world. The firms are constantly searching for opportunities in the global market. The desire by firms to be globally present also drives them into outsourcing some of their activities instead of doing the same themselves. This purpose of outsourcing practices is evidence in the leading international consulting companies. Alexandrova, and Sarieva. (2007)

Other scholarly definitions of outsourcing include; ‘“to achieve…through contracting from an external firm or location; to contract … out” “Outsourcing”, also means contracting through agreements, Domberger (1998), defines it as the process of seeking out for and appointing of external service providers for the provision of goods and services and the implementation of the contractual obligations required to support the attainment of the agreed activities.
Outsourcing as “the practice of subcontracting manufacturing work to external and particularly to offshore or firms without unions,”, a recent “study of outsourcing” in The Economist avails a more elaborate meaning: “Giving out duties the firms previously performed internally to external firms” (Edwards, 2004).

Ender and Mooney (1994) define outsourcing as a way of privatization that means a strategic approach by the organization to contract with another organization for the provision of a traditional function or service. The external service provider or firm then takes up the work force of the firm in the outsourced function and pays the group per its standards, or replaces the firm’s workers with its own. Jefferies (1996) points that the increasing use of outsourcing portrays a general level of acceptance by the firms that it will reduce costs while continuing to offer key firms services. He continues that the desire to stay competitive and to better service delivery in the awareness of diminishing resources has forced institutions to turn to several management strategies, including outsourcing.

Outsourcing has been practised in the USA for over 30 years specifically the business process (BPO). The People’s Financial Institute, Mc Donald, Virgin Airlines, Firestone, Dell, the Ventures are all outsourcing HR function

The phenomenon of outsourcing in Kenya can be described as in its early stages. Although instances of Business Process Outsourcing, for instance in the financial sector (Barakoi and Gaterere, 2008) can be said to have reached maturity; manufacturing firms are still ‘trying out stage’ with the idea of outsourcing. Most manufacturing firms have not yet embraced the idea though it’s slowly evolving as one of the key strategies in cost optimization and eventual delivery of superior quality products and services to the customer.

In the Kenyan market, organizations have not been left out either as they seek to better manage costs, reduce risks associated with fixed assets in the face of a rapidly changing business environment and attain a lean and agile business model that embeds a flexibility culture.
Several Kenyan organizations have outsourced non-core operations, these include; Safaricom’s airtime Logistics & distribution which is outsourced to several third-party firms which offer the service on behalf of the organization.

East African Breweries and Coca Cola have equally given out their Logistics & distribution functions to third party logistics services firms, for example, to DHL and Bollere. This is the case with many more other organizations and it extends beyond logistics & distribution into Information Technology systems, Human resource in Kenyan banking sector amongst others.

The purpose of this study therefore is to assess the decision factors in outsourcing strategy. It is undoubtedly clear that outsourcing is a business growth catalyst and its evolution trend is moving from standard and simple activities such as management of information systems or client profiling (Business Process Outsourcing) to more complex activities such as Product profitability analyses and company merger studies (Knowledge Process Outsourcing) e.g. in the NSE, Barclays Africa and South African bank mergers.

1.2 Statement of the problem
Due to the rise in competition, organizations are forced to find new ways to improve business performance and to attain competitive advantage. Again, increasing number of outsourcing service providers come up with competitive advantage strategies (Hagel Babel & Singer Drew 2009). Firms may opt to outsource their operations to provide preferred services for customers, decrease the costs level, improve the quality services, performance development and focus on key and key potentials of the organization. Despite of the fact that outsourcing of important operations has various advantages for an organization, it also has different risks that require effective and crucial management and control. In the last twenty years, organizations found threats and dangers of central and strategic activities which tend to form competitive advantages for firms and tried to outsource their non-core activities. (Amaralal, Billingtones & Tsayes, 2004).

Firms seek third party service providers to optimize efficiencies and costs. The key element of outsourcing is that the outsourcing firm defines and keeps its core competencies and contracts out all other competencies. Underlying assumptions between competencies are well defined, and that
there exist many commercial players in the market place who will compete for a contract. Partnering and networking are the trends in the New Era Economy. The new economy is fast changing and needs high levels of agility – ability to adjust, refocus and reconstruct the development organization according to the shifts in the market place. This has not escaped unnoticed in the industry. The trend is for the firms to focus on their strategic competences and to somehow acquire from other firms’ competences they need but do not possess internally – and do not want to have them in-house after all. This gives the firms better prospects, although it comes with a price. A lot of studies conducted here in Kenya have mainly focused on the evaluating the level of outsourcing among private firms. Kinyua (2010) carried out a survey of outsourcing of selected financial activities of public quoted companies in Kenya.

Chanzu (2002) did a survey of business outsourcing practices amongst private manufacturing companies in Nairobi, while Seremey (2006) did a survey of the outsourcing of human resource services by banks in Nairobi. These studies did not explore the factors that influence Decision Factors, Benefits and Risks of Outsourcing among Manufacturing Firms in Kenya. Kenya has a huge manufacturing sector supplying both the local market and exports to the neighboring East African region. The sector, which is largely dominated by subsidiaries and off-shores of multi-national organizations, contributed approximately 13% of the Gross Domestic Product (GDP) in 2004.

Manufacturing can be defined is the process of producing goods for consumption or for sale to others using workforce, tools, chemical and biological formulation. The definition may mean a varied range of human activity, from simple handicraft to those applying high technology, and it is most commonly applied to industrial production, whereby raw materials are converted into finished goods on a large scale. The finished goods may be sold to other producers i.e. manufacturers to produce more superior goods, such as motor vehicle, aircraft, household appliances, furniture and sports equipment, or sold to wholesalers, who in turn sell them to retailers, who then sell them to end users and consumers.

Manufacturing companies can have presence in many parts of the world given their financial muscle and global market share in the products or services they offer (Stoy Hayward, 2009). A
manufacturing company is a company that is involved in huge volume processing for the many customers and consumers they must supply and satisfy. The capital of large manufacturing organizations can be in billions of dollars or pounds. Outsourcing is a transaction between two or more organizations that enable for a fulfillment or a defined objective, (William Brown, 2011)

Factors such as increase in supply of power and agricultural products, friendlier tax regimes and incentives, enhanced export promotion and free trade incentives to take advantage of the expanded market outlets. Such trade outlets available include AGOA, COMESA AND East African Community. All these blocks have all led to a modest and rapid expansion in the sector of 1.4% in 2004 as compared to 1.2% in 2003. This trend in growth continues into 2011 according to Kenya Association of Manufacturers and the Kenya National Bureau of Statistics with the manufacturing sector contributing significantly to the GDP over the period.

The reality that many manufacturing firms have a lot of processes from sourcing raw materials, processing/production, production planning, warehousing, marketing, finance, distribution and human resource looks complex, thus the motivation for the study to understand if outsourcing is a key strategy to enable optimization of the organizations synergies.

It is quite noticeable at both workplace and other interactions and relationships that outsourcing is indeed a reality to many organizations. The desire to deeply understand the drivers behind such decisions motivated the study to be considered. With proper understanding, it would be easy to advise and give opinions on outsourcing considerations. It quite common to notice that various products are normally moved to consumer destination by logistics experts, other than the producers themselves. The trend seems to be growing by every single day. It then means that it makes business sense to adopt this method of operating.

1.3 Objective of the study

The general objective of the study was to determine what factors influence the decision to outsource among manufacturing firms in Kenya.
1.3.1 **Specific Objectives**

The specific objectives of the study are:

i. To find examine how cost affects outsourcing decision in manufacturing firms

ii. To determine the extent to which skilled expertise affects the decision to outsource in manufacturing firms

iii. To investigate how risk transfer affects outsourcing decision among manufacturing firms

iv. To establish how the consideration to focus on core business areas affects outsourcing decision

1.4 **Research Questions**

The research questions for this study are:

i. How does cost affect the outsourcing decision in manufacturing firms?

ii. How has the need for skilled expertise affected the decision to outsource in manufacturing firms?

iii. How does a risk transfer consideration affect outsourcing decision among manufacturing firms?

iv. How has the need to focus on core business areas influence outsourcing decision in manufacturing firms?

1.5 **Significance of the study**

The results of this study will be important to the following:

1.5.1. **Manufacturing firms**

The findings would help manufacturing firms in understanding the role played by outsourcing in enhancing competitiveness and on how they can adopt strategic outsourcing as a long term competitive strategy and therefore will be able to pinpoint specific factors that lead to successful outsourcing contract initiation and implementation. It will help them identify factor to consider and order of their importance.
1.5.2 Researchers and academicians

The findings may be of interest to researchers and academicians seeking secondary data on outsourcing. It will also add to the existing body of knowledge on outsourcing. Researchers will be able to expand their knowledge on and of outsourcing as a subject. This would make them as better advisors and consultants.

1.5.3 Outsourcing services/goods providers and practitioners

Outsourcing services/goods providers and practitioners will also find the study useful as it will help them appreciate the key role they play and aid in their strategic decisions. It will aid them understand on the key factors to consider and how they would affect the outsourcing decision. This will help them appreciate the clients’ point of view and needs.

1.6 Scope of the study

The study was carried in Thika town in Kiambu County, industrial area. BAT Thika is located some 40 kilometers from Nairobi along Thika – Garissa road. The study was carried out between August and September 2017. Target population was 32 managers at BAT, and will comprise of low level, middle level as well as senior managers cutting across production/engineering, Finance/IT and Logistics and transport departments. The researcher believed that this would give enough ground to generalize the findings. The researcher also believed that this provided adequate population and sample for the study and therefore gave reliable results and findings.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter will present a review of the past related literature on the subject matter under study as presented by various researchers, scholars, analysts and authors. The research will draw materials from several sources, which are closely related to the theme and objectives of the study.

2.2 Theoretical Literature
In this section, the researcher will review the relevant literature in connection to the subject being investigated showing the linkage to the research questions. The researcher will focus on two theories: Transactional cost economics and relational view

2.2.1 Transaction cost economics
In general, transactional cost economics (TCE) has been defined as the most considered and applied theory of outsourcing. It is believed that it provides the best and the most superior decision-making application tools to guide in deciding whether to outsource and to adequately prepare themselves for eventual future outsourcing contracts and considerations. The guiding principles of this theory have been utilized during the study of the management of relationship stage.

Explanation of contractual complexity is another useful view for outsourcing arrangement provided by TCE. Despite this, this theory has not been fully used for studying the vendor section phase, it’s sub theory. Partial contracting theory has been used in researching the framework and composition of outsourcing contracts, and applicable preparations and contract agreements management activities. Although it has been applied extensively in outsourcing agreement considerations, the TCE has several involvements. Lacitiferer and Willocks (2007) found that the initial mapping to its framework only attempted to explain on a few sourcing decisional factors and generated much more and varied anomalies in their sample.
2.2.2 Relational view
Relational view is a view that attempts to develop and explain ways through which firms win and sustain competitive advantage in the inter-organizational interrelationships (McIvor, 2015). The key element – the concept of relational rents as it were having been exported to bring to understanding how companies select their future outsourcing partners and prioritized type of the engagement. As such relational view qualifies as the theory that has been made applicable in the research of all the key outsourcing process and stages.

2.3 Empirical Literature
The researcher will in this section indicate what has been done by other researchers in the past on the subject and identify gaps in the same.

2.3.1 Cost
Aggrey Creg Aladwani’s (2011), the biggest benefit manufacturers derive from outsourcing is the reduction in cost. Costs can range from labor costs to transport costs. Other costs can include selling costs as well as time factor costs. Many manufacturing organizations lack the financial muscle to comfortably take in all the related costs from production to distribution of the produce hence the need to outsource.

Cost effective business practice feature is a long-established consideration in outsourcing. Sandra ward (2004), the importance to assess and review what to retain internally and what would or should be outsourced to the external service providers has drastically grown over time by two reasons: the push for competitive advantage in the global economy and market, and successful business focus on its key and critical performance areas and competencies. The lure presented by the significant drop in wage bills has of course therefore catalyzed steps of company owned production facilities to reduce wage economies, using both outsourcing contracts and off-shore approaches.

The ability to convert routine fixed costs that absorb available to various costs is one of the key drivers of outsourcing. Companies employing this strategy significant economic benefit. In place of allocating scarce capital to employ potentially underutilized resources (and the facilities needed
to support them as a fixed asset), manufacturing organizations can employ a variable cost for the functional service when they need it.

According Gibbs, Tania. "Outsourcing Choices." Info Globe. (January 24, 2012) states that with accurate costs benefits of outsourcing decision, if the benefits are of a substantial saving, it will always be beneficial to go the outsourcing route.

Cost of implementation of outsourcing can be a serious barrier to adopting outsourcing strategy. Thus, the manufacturing firms’ initiatives aimed at increasing the benefits the outsourcing should be adopted. This will ensure that the overall objective to cut down on operating costs is attained (Dawn et al.2004)

Incremental costs are extra expenses that arise from outsourcing (Macgregor and Vrazalic, 2005). The critical cost is the buying price of the products or the charges of the services that are being offered by the service provider. Incremental costs savings are a reduction of the expenses that will not exist because of outsourcing decision. These are generally referred to as avoidable costs since if a firm outsources, it can ‘avoid’ certain costs. Variable product cost savings are largely incremental in nature. Since they lead to reduction in total costs, they trigger rise in profits. In some cases, a fraction of the fixed costs can be saved. Such saving can include equipment rental costs or supervisor salaries that can be eliminated.

ACCA (2011), usually the organizations to which activities are outsourced specialize in those activities and, therefore, are likely to enjoy economies of scale, whether from the use of machinery or the employment of expertise. In other situations, there may be extra cost savings if a function or process is outsourced to a foreign firm that is existing in a cheaper labor territory (off-shoring). In some types of outsourcing e.g. component production, there will a lower fixed costs vis a vis higher variable costs. When all components are bought in, then these costs are all variable, but should the components be made in-house, there would inevitably have been associated substantial fixed overheads.
2.3.2 Skilled Expertise

Core competences concept has been developed based on the resource-based consideration theory. Prairaz and Hamilton (2011) explained the core and key competences as the united learnings in the organization, particularly how to control and coordinate varied processing capabilities and unite multiple technology applications. The use of the concept of key competences in outsourcing engagements has become very popular with the learners and researchers. The principle has been applicable in most situations to come up with and to test different outsourcing options on the basis that the critical tasks shall remain to be performed internally. Learning and communication premises of the principal has made it also to be used in the application of Relationship Management phases. External service providers are capability levels is said to be one of the top considerations and factors that determine the success of an outsourcing relationship. that one (Levinachick and Rossiskcy, 2013; Feeneyoord et al., 2015).

As organizations refocus and redirect their valuable internal skills and capabilities to high value-creating tasks and roles, the sourcing deliberations and discussions have shifted from whether to outsource, to what and how to outsource (Venkatraman Agrey 2007). To attain real competitiveness, corporations and organizations have been through downsizing, rightsizing, restructuring and re-engineering (Kadima, 2012). Many organizations are moving in the direction of the concept of critical organization dealing with core or strategic activities, surrounded by a linkage of smaller businesses and individuals (partners) making available a range of supporting auxiliary services and goods on a contract agreements and arrangements basis (Daniellla.2009). Empirical studies have also revealed that one of the important ways to bring down development period is to rely on external sourcing and subcontractors instead of internally dedicated staff, especially in situations where product markets are dynamic or uncertain. (Rosenauweah,2008). Ulrichette (2009), summarizes the need for outsourcing by stating that the popularity and spread of outsourcing and the virtual corporation indicate the growing recognition and acknowledgement that it is difficult to internally execute all activities as productively as specialists. Service providers keep upskilling and updating their capabilities at the required rate and pace to keep on delivering the desired customer objectives. Change of technology or set of skills in any field will be reflected on how the service providers perform various tasks on behalf of the manufacturing firms. It is such
benefits that manufacturing organizations tap into even as they aim customer satisfaction (Allan Mutebei, 2006)

According to Cokolette et al (2007), correct set of skills is the backbone or the supporting complexes that are placed to promote implementation, communication and usage of latest technology needed to deliver business objectives. Vendors are always having their expertise being updated. Outsourcing organizations practice tighter supervision and labor control (Deakin and Michie, 2007. Fewer employees are required to do the same number of jobs generating as the level of experience is high

2.3.3 Risk Transfer

Risk transfer is about shifting risk from one party to another. Kodeck Kreg, (2006), risk transfer happens when one entity decides to trust another company to take care of it when the unprecedented happens, unforeseen losses due to various reasons such as drop in sales.

Transferring risks helps business partners, contractors, and contractors negotiate the responsibility and cost of protection (Pecker Graham, 2007). This consideration is a huge factor as it that the business entity transferring the risk maintains the status quo. Normally the organization transferring the risk will benefit by having it reinstated back to its position before the loss incident.

Most industries have the output and result of their processes and operations not being deterministic and it is influenced by many conditions and factors. Business process outsourcing (BPO) has increasingly been resulting to business risks being shared with and spread to service providers because of reduced need to capital investment on infrastructure and human resource development. Business Process Outsourcing clients are quite well part of today’s business operating environment that is fast changing and unpredictable in many ways (Gargeth et al., 2004) and as such arises the need to be minimally exposed to risks

Risk sharing refers to the clients' realization that they may not ever need full in-house ownership and control of an activity or operation. Examples include, the strategic decision of Swiss International Airlines and Austrian Airlines to outsource revenue and traffic collection and accounting, passenger interlines billing, and frequent flyer program administration to AFS was meant to share business risks (World Forum Investment Report, 2008).
Risk transfer in outsourcing is concern with the safety of the outsourced service being delivered to the expectation (Maureen Chacha, 2011), without any actual losses to the organization.

**2.3.4 Focus on Core Business**

Mintzberg and Quinn (1991) state that by virtue of today’s rapid technological advances, many enterprises find they can bring down their risks and leverage their assets substantially by eliminating investments in vertical integration and managing intellectual systems instead of workers and machines. The core strategy of a coordinating or systems company becomes; “Partake only those tasks in-house that contribute to your competitive advantage, and try to source the rest from the world’s renowned service providers”. 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 contracts arrangement. Success, defined by the ability to connect quickly and meaningfully with business partners and customers to rapidly improve the quality of goods and services, is becoming the competitive imperative. As a result, organizations are rapidly “devolving” from self-contained, vertically integrated organizations to more virtual entities that rely on business partners to fulfill major parts of their supply chain requirements. (Mintzberg and Quinn 1991).

Pearce and Robinson (1997) add 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 for organizations to achieve their goals and objectives, they must constantly adjust to their environment. This environment is turbulent, constantly changing and so it makes it imperative for organizations to adapt their activities 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. Sweezy (1997) concurs that in our increasingly uncertain economic climate and with an emerging globalization, coupled with a lowering growth rate, worldwide proliferation of monopolistic (or oligopolistic) blue chip corporations’ effective utilization of capital and the rapid proliferation of information technology have caused organizations to relook their business models in the market place. To cope with these operating environmental
pressures, enterprises are attempting to reposition themselves higher on the value chain to gain competitive advantage in an uncertain world (Leatellite et.al., 2007).

2.4 Summary of the literature review and knowledge gap

Large manufacturing firms are currently existing in a very competitive environment. At the same time, the technology is fast evolving. To cope and enhance efficiency and productivity, cost stands out as big concern to all the companies in the manufacturing sector, so to be able to compete with rivals in availing the best and affordable total lower cost to end customers and secure the market share chunk to increase value to the shareholders. Decision to invest heavily in capital investment such as machineries, buildings and land to increase operations space to aid production operations is a huge burden to most organizations particularly if the is not yielding profits.

Also, training and development to upgrade the internal resources skills and capabilities to be able to run and manage the operations efficiently, bringing up technical content expert specialist ability to execute research and development and to increase value will require significant investment in human capital. (Drinkwater Mackery and Kanye Thornes, 2013).

Thus, most of the companies began to explore available opportunities and ways to reduce operating costs and to improve profit margin to maintain competitive edge in the market place. One of the many identified opportunities was to outsource non-core business tasks and to some extent key roles to external service providers at a total lower operating cost. Previously, studies have tended to concentrate on outsourcing in the service industry, particularly information Technology services sector. This study is a survey the factors influencing the outsourcing practices in manufacturing firms in Thika Kenya.

2.5 Conceptual frame work

The conceptual framework is developed to hypothesize for factors namely; costs, skilled expertise/access to world class capability, shared risks/ risk transfer, company focus on core business in relation to influencing outsourcing decision in the manufacturing firms in Kenya.
2.6 Operationalization of variables

Cost

Cost is a key driving factor in any business decision, and outsourcing decision is no exception. Another cost factor to be considered will be whether it is beneficial to outsource in the long run. If the cost is favourable in the long run, it is likely to influence the outsourcing decision.

Skilled expertise

Changes in the specific skills requirement for task executions could be changing at a rapid rate. As such some organizations, may not be able to cope with the pace. In such situations organizations, may opt to look for such skills externally, thus this can influence outsourcing decision.
**Risk transfer**

The existence of risk transfer may influence the decision to outsource. The fact that an organization can pass some of its liabilities to a third party can encourage outsourcing.

**Focus on core business**

Perfect customer experience and satisfaction can be attained by high level dedication and focus on the areas for a given organization. Dedication and focus can be attained through letting go of non-key sections of the organisation. As such this objective, can influence the decision to outsource.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter comprises of the research design, target population, the sample and the sampling technique used in carrying out the research. In addition, it also presents the research instruments, data collection procedures and finally data analysis techniques used in carrying out the study.

3.2 Research design
Cooper and Schindler (2007) defined research design as a blueprint for fulfilling research objectives. The study will be carried out using descriptive research design, which is explained by Cooper and Schindler (2007) as a survey or ex-post research and it’s a fact-finding enquiry whose purpose is to describe the as they exist at the present. A descriptive research is therefore justified for this study as the researcher intends to make inferences on factors that influence the decision to outsource among manufacturing firms in Kenya, a case study of BAT Kenya, Thika.

3.3 Population of the study
Borg and Grall (2009) described target population as common set of study units that the research study uses to generalize results. Mugenda and Mugenda (2003) refer to target populations as units that have observable characteristics that the study uses to generalize the finding. The target population is managers working for BAT Thika. In total, there were 32 managers, and this constituted the sample size of the target population.
Table 3.1: Table showing Target population

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Sample size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance/IT</td>
<td>30</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td>Engineering/Production</td>
<td>20</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>Logistics &amp; Transport</td>
<td>24</td>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2017)

3.4 Sample
A survey of 32 various departments’ managers/employees in BAT Thika was carried out using a stratified sampling technique. It was important to incorporate supply chains with all the variables of the study for equal chances of being selected. A minimum of 10 percent sample of the population should be taken generally as an acceptable method of selecting samples in such a study (Stanley and Gregory 2011). In this study, the sample was stratified into Finance/IT, Engineering/Production and Logistics & Transport departments. The respondents in the study were located BAT in Thika town, Makongeni area.

The sample size is denoted by:

\[ n = n_1 + n_2 + n_3 \]

32 managers = 14 + 10 + 8

Where:

- \( n \) is the sample size
- \( n_1 \) is Finance/IT department
- \( n_2 \) is Engineering/Production department
n3 is Logistics and Transport department

Table 3.2: Table showing the distribution of the sample size

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample Size</th>
<th>% of sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance/IT</td>
<td>14</td>
<td>43.75</td>
</tr>
<tr>
<td>Engineering/Production</td>
<td>10</td>
<td>31.25%</td>
</tr>
<tr>
<td>Logistics &amp; Transport</td>
<td>8</td>
<td>25.00%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2017)

3.5 Data Collection

A questionnaire was the primary instrument chosen since this is a quantitative and exploratory research; questionnaire was used to collect data for the statistical research analysis.

This study collected both primary and secondary data. A semi-structured questionnaire comprising both open-ended and close-ended questions was used to collect data. The questionnaires were administered using the drop and pick later method. The respondents of this study were logistics, production/engineering and information technology departments of BAT Thika. The data collected was both qualitative and quantitative in nature. The questionnaires were three parts. Questions in section A will be of general nature mainly demographics/personal. Section B questions were structured and aimed at addressing the first objective of the study. Questions in section C and D addressed the third and fourth objective.

The structured questionnaire instrument applied for this research is borrowed from a research by Stanley and McGregory Edwin (2007) but customized to fit the objectives of this study. It has been used in a past research of attaining supply chain alignment for the large private processing and manufacturing firms in many parts of the United States.
3.6 Data analysis
The researchers ensured that as many as possible of questionnaires were completely answered. The information will be categorized in topics. Data that was collected from the participants was passed through the SPSS (Statistical Package for Social Science) software to evaluate and determine the factors or independent variables influencing outsourcing strategy decisions in manufacturing industry in Kenya, a case study of BAT Thika. Factor analysis procedure was used to evaluate and validate factors influencing outsourcing in the various manufacturing firms in Thika Kenya.

For descriptive analysis, Percentages and frequency distributions will be used. Qualitative data will be coded and organized into themes and used description of behavior and context in which it occurs. For quantitative data, percentage (%), means and frequency distributions will be used. Qualitative data will partly be used to generate quantitative data. Both will finally be integrated to form the report.

3.7. Pilot Study
This is a mini version of the larger study and it was performed in preparation for the study. It involves pre-testing research tool (Julie Stachowiak, 2008). Five questionnaires were administered in Production/Engineering department, BAT Thika to test validity and reliability of the same and corrections were made thereafter for the main study.
CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 INTRODUCTION

This chapter discusses data findings, analysis, presentation and interpretation from the sampled respondents based on the research objectives.

4.2 Presentations of Research Findings

4.2.1 Response rate

This refers to response by the respondents which was administered through questionnaires from each stratum, as per the sample size as shown in the below. The response rate determination was important because it clearly invested to determine the number of questionnaires that would be valid for analysis.

A total of thirty-two questionnaires were administered to the sampled respondents where only twenty-six were returned while six were not returned. The table below represents the response rate.

Table 4.2.1 Table showing Research Response rate

<table>
<thead>
<tr>
<th>Response rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned</td>
<td>26</td>
<td>81</td>
</tr>
<tr>
<td>Not Returned</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017
Figure 4.2.1 Figure showing Research Response rate

Source: Author 2017

Table 4.1 and Figure 4.1 above indicate that a total of 32 questionnaires were issued and a response rate of 81% was attained with 19% not being returned. This is favorable to the study.

4.2.2 Years of service

This question aimed to clarify for how long the picked manager/respondent has been in the organization.

Table 4.2.2 Years of service

<table>
<thead>
<tr>
<th>No. of years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 4</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>5 to 9</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>10 to 14</td>
<td>9</td>
<td>28%</td>
</tr>
<tr>
<td>15 and above</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017
From the table 4.2.2 and figure 4.2.2 above, it is clarified that 13% of respondents had worked for their organization for zero to four years, 16% for between five to nine years, 28% between 10 to fourteen years and another 25% for fifteen years and above.

### 4.2.3 Management level

Management level of the respondents will aid in knowing the level of decisions the manager can take or be involved in.
Table 4.2.3 Table showing Management level of the respondents

<table>
<thead>
<tr>
<th>Classification</th>
<th>Occurrence</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Middle Level</td>
<td>11</td>
<td>34%</td>
</tr>
<tr>
<td>Low Level</td>
<td>9</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.3 Figure showing Management level of the respondents

Source: Author 2017

From the table 4.2.3 and Figure 4.2.3 above, it was revealed that most the managers are low-level managers who are 47%, followed by middle-level managers at 28% while the top-level managers constitute 19%

4.2.4 Period of organization existence

This sort to establish for how long the organization’s departments/sections had been in existence
Table 4.2.4 Table Showing Period of Existence of the Organization

<table>
<thead>
<tr>
<th>Duration of existence</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 5 years</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>11 to 15 years</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Over 15 years</td>
<td>11</td>
<td>34%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

As shown from table 4.2.4 above, 16% of the respondents have been existence for period of between 1 and 5 years, 13% between 6 and 10 years, 19% between 11 and 15 years and 34% for over 15 years. The same is shown in Figure 4.2.4 below

Figure 4.2.4 Figure Showing Period of organization departments Existence

4.2.5 Reliance on external service providers

This sorts to address the number of the respondents that rely on the external service providers to deliver on their or some of their key performance indicators

Out of the 26 respondents, 20 which is 77% stated that they rely external service providers, while 23% stated that they don’t rely on external service providers. This is illustrated in table 4.2.5 and Figure 4.2.5 below

25
Table 4.2.5 Table Showing reliance on external service providers

<table>
<thead>
<tr>
<th>Reliance on external service providers</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>77%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.5 Figure Showing reliance on external service providers

Source: Author 2017

4.2.6 Period of reliance on external service providers

This sets to explain for how long has the respondent/or organization department relied on the external service providers
### Table 4.2.6 Table Showing Period of reliance on external service providers

<table>
<thead>
<tr>
<th>Period of reliance of external service provider</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last 5 years</td>
<td>15</td>
<td>58%</td>
</tr>
<tr>
<td>Last 10 years</td>
<td>7</td>
<td>27%</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

A total of 15 respondents constituting 58% have relied on external service providers for the last 5 years, 7 which is 27% have relied on external service providers for the last ten years while 4 making up 15% have relied on the eternal service providers for over ten years. This is shown in table 4.2.6 above and figure 4.2.6 below

**Figure 4.2.6 Figure showing period of reliance on external service providers**

![Period of Reliance on External Service Providers](chart)

Source: Author 2017

### 4.2.7 Outsourced operations/services

This question highlights what/which services or operations are outsourced...
Table 4.2.7 Table showing outsourced operations

<table>
<thead>
<tr>
<th>Operation/Department</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics</td>
<td>11</td>
<td>55%</td>
</tr>
<tr>
<td>Information technology</td>
<td>4</td>
<td>20%</td>
</tr>
<tr>
<td>Security</td>
<td>3</td>
<td>15%</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Table 4.2.7 above indicates in order what percentages the various services are outsourced. This is derived from the operations indicated by the respondents. The most outsourced service is the logistics at 55% as 11 out of the 20 respondents who had said that they depend on outsourced services have their logistics operations outsourced. Information technology has respondents say that 20% while security is at 15%. Other included 10%. The same is shown is figure 4.2.7 below.

Figure 4.2.7 Figure showing Reliance on External Service Providers

Source: Author 2017

4.2.8 Costs involved in adoption of outsourcing strategy

This question sort to find out what percentage of the respondents are aware of the costs involved in the outsourcing decision.
Table 4.2.8 Costs involved in adoption of outsourcing strategy

<table>
<thead>
<tr>
<th>Awareness of Costs involved in adoption of Outsourcing</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>77%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.8 Awareness of costs in outsourcing decision

Source: Author 2017

This question was meant to clarify if indeed the managers are aware of the costs involved in the adoption of the outsourcing strategy.

Table 4.2.8 and Figure 4.2.8 above indicate that a majority of the managers, 77% of the respondents are indeed aware of the costs involved in the adoption of the outsourcing strategy, while another 23% are not aware of the said costs.

4.2.9 Level of awareness of the costs of adoption of outsourcing

This question establishes the degree of awareness of the costs in outsourcing decision
From Figure 4.2.9 and Table 4.29 above it is reported that there is very high level of awareness among the managers on the costs of adoption of outsourcing. 20 respondents are very much aware of the costs. This is 77% of the respondents. Another 6 respondents have little level of awareness of the costs in adoption of outsourcing strategy. This represents 23%.

**4.2.10 Description of cost of adoption of outsourcing**

The question addressed the description of the adoption costs involved in the outsourcing.

It was revealed that 58% felt that the costs were very fair, 23% felt that costs were not fair while another 5 respondents 19% felt that it was fair.
Table 4.2.10 Description of cost of adoption of outsourcing

<table>
<thead>
<tr>
<th>Description of the cost</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Fair</td>
<td>15</td>
<td>58%</td>
</tr>
<tr>
<td>Not Fair</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td>Fair</td>
<td>5</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.9 Description of cost of adoption of outsourcing

Source: Author 2017

4.2.11 Cost consideration

This question was to establish if cost consideration is a factor in outsourcing decision.

Table 4.2.11 reveals that indeed cost is a major consideration in the adoption of the outsourcing decision with 77% of the respondents saying so. It is only 23% that say cost is not a consideration. The same is shown in Figure 4.2.11.
4.2.12 Extent of cost consideration

This question was used to establish the level of consideration when it comes to cost.

It was discovered that most of the respondents, up to 85% consider this to a large extent when it comes to outsourcing decision. Only 15% do consider cost to small extent.

This is shown in tabulated in Table 4.2.12 and shown in figure 4.2.12 below
4.2.12 Extent of Cost Consideration

<table>
<thead>
<tr>
<th>EXTENT OF COST CONSIDERATION</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To a large extent</td>
<td>22</td>
<td>85%</td>
</tr>
<tr>
<td>To a small extent</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

4.2.13 Other cost consideration that influence the outsourcing decision

All the respondents said that they overall costs of operations e.g. labor will come down by way of outsourcing and as such it is another major consideration

4.2.14 Sets of skills required awareness

This question was to establish if the organizations are aware of the necessary set of skills for their staff to enable them to perform their objectives. Of the 26 respondents, 22 said they are aware of the latest set of skills. This represents 85%. Another 4 (15%) said that they are not aware of the latest set of skills that their employees should possess. This is as illustrated in table 4.2.14 and figure 4.2.14 below
Table 4.2.14 Set of Skills Required Awareness

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>85%</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 4.2.14 Set of skills required awareness

Source: Author 2017

4.2.15 Level of awareness of required set of skills

Table 4.2.14 and Figure 4.2.14 below indicate that 46% of the respondents have very good level of awareness of the required set of skills required to perform the business objectives, 31% are only but adequately aware while 19% are a little aware of the same
Table 4.2.15 Table showing level of awareness of required set of skills

<table>
<thead>
<tr>
<th>Level of awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very conversant</td>
<td>12</td>
<td>46%</td>
</tr>
<tr>
<td>Adequately conversant</td>
<td>8</td>
<td>31%</td>
</tr>
<tr>
<td>A little conversant</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.15 Level of awareness of required set of skills

Source: Author 2017

4.2.16 Skills possessed internally

Four of the respondents, 15% said that they have the skills internally, 14 of the respondents representing 54% said no, while another 8 of the respondents, 31% said just a few of the required set of skills are possessed internally as shown in Table 4.2.15 and Figure 4.2.15 below.
Table 4.2.16 Table showing frequency of internally possessed skills

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>54%</td>
</tr>
<tr>
<td>A few</td>
<td>8</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.16 Figure showing internally possessed skills

Source: Author 2017

4.2.17 Trust on other service providers to offer services

13 of the respondents said that they trusted service providers to provide services to them, while another 13 saying that they do not trust the service providers to provide services to them. This results in a 50% for yes and 50% for no as shown in Table 4.2.17 and Figure 4.2.16 below. The question was important as it clarified if indeed the organization would trust external service providers to provide services given internal employees lack the adequate skills.
Table 4.2.17 Table showing trust on service providers

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>50%</td>
</tr>
<tr>
<td>No</td>
<td>13</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.17 Figure showing trust on service providers

Source: Author 2017

4.2.18 External Service Providers skills and knowledge influence on outsourcing decision

This question wanted to establish the level of which the service providers’ skills and knowledge influence the outsourcing decision.

It revealed that 18 of the respondents, 69% confirmed that indeed skills and knowledge of the service providers’ greatly influence their outsourcing decision. 19% said it moderately influenced their decision while 9% said it did influence their decision only in a little way. This is shown in table 4.2.18 below
Table 4.2.18 External Service Providers Skills and Knowledge

<table>
<thead>
<tr>
<th>Level of influence</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatly</td>
<td>18</td>
<td>69%</td>
</tr>
<tr>
<td>Moderately</td>
<td>5</td>
<td>19%</td>
</tr>
<tr>
<td>A little</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.18 Figure Showing External Service Providers Skills and Knowledge

Source: Author 2017

4.2.19 Level of benefit from skilled expertise of the service provider of the outsourced services

92%, 24 respondents said that they had benefited a lot from the skills of the service providers, while 8% said that they had benefited only a little from the same. This is shown in Figure 4.2.19 below
Table 4.2.19 Table showing level of benefit from skilled external expertise

<table>
<thead>
<tr>
<th>Level of benefit</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A lot</td>
<td>24</td>
<td>92%</td>
</tr>
<tr>
<td>A little</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.19 Figure showing level of benefit from skilled external expertise

Source: Author 2017

4.2.20 Awareness of business risks

20 respondents stated that they are well aware of the business risks. This is 77% of the respondents. Only 6, 23% stated that they were only a little aware of the business risks. See table 4.2.20 and Figure 4.2.20 below

Table 4.2.20 Awareness of business risks

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>77%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017
**Figure 4.2.20** Figure Showing Awareness of business risks

![Pie chart showing awareness of business risks with 77% A lot and 23% A little](image)

Source: Author 2017

### 4.2.21 Awareness of the risk transfer methods

This was to clarify if the respondents are aware of the risk transfer methods.

69% which is 18 of the respondents said that they are aware of the risk transfer methods. 31% which is 8 of the respondents said that they are not aware of the business risk transfer methods as shown in table 4.2.21 and Figure 4.2.21 below

**Table 4.2.21 Table showing awareness of risk transfer methods**

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>69%</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017
4.2.22 Risk transfer level awareness

15%, 58% of the respondents said that they were very conversant with the methods of business risk transfer methods, 8 respondents constituting 31% stated that they are adequately aware of the business transfer risks while 3 respondents equivalent of 9% stated that they were a little conversant with the business risk transfer methods as shown in table 4.1.22. The same is illustrated in Figure 4.2.22.

Table 4.2.22 Table showing risk transfer level awareness

<table>
<thead>
<tr>
<th>Risk transfer level awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very conversant</td>
<td>15</td>
<td>58%</td>
</tr>
<tr>
<td>Adequately conversant</td>
<td>8</td>
<td>31%</td>
</tr>
<tr>
<td>A little conversant</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017
4.2.23 Awareness to the extent to transfer business risks to other parties

There is a limit as to what extent business risk transfer can be done, and this question addresses the fact that the managers are aware of such extents. It was revealed that 65% of the respondents are aware of the extents, while 35% are not aware of such extents as shown in table 4.2.23 shown and figure 4.2.23 below.

Table 4.2.23 Awareness to the extent to transfer business risks to other parties

<table>
<thead>
<tr>
<th>Extent of Risk transfer to other parties</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17</td>
<td>65%</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>35%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017
Figure 4.2.23 Figure showing Awareness to the extent to transfer business risks to other parties

Source: Author 2017

4.2.24 Risk Transfer influence

69% of the respondents said risk transfer would largely influence their decision to outsource and 31% said it would only influence their decision in a little way as shown in Table 4.2.24 and Figure 4.2.24 below

Table 4.2.24 Table showing risk transfer influence

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>69%</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>31%</td>
</tr>
<tr>
<td>Totals</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017
4.2.25 Understanding organization’s core business

This question was to find out if the managers and employees are indeed aware of the organization’s core business.

It was established that 24 respondents were aware while only 2 were aware representing 92% and 8% respectively as shown in table 4.2.25 and figure 4.2.25 below.

Table 4.2.25 Table showing awareness of core business of the organization

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes - aware</td>
<td>24</td>
<td>92%</td>
</tr>
<tr>
<td>No – not aware</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author2017
4.2.25 Figure showing awareness of core business of the organization

Source: Author 2017

4.2.26 Level of awareness of the organization core business

Out of the 24 respondents it was important to establish their level of awareness of the organization core business. 21 out of the 24 said that they were highly aware of the organization core business; while only 3 said that they were lightly aware of constituting 87.5% and 12.5% respectively as shown in table 4.2.25 and figure 4.2.25

Table 4.2.26 Table showing level of awareness of the organization’s core business

<table>
<thead>
<tr>
<th>Level of Awareness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly aware</td>
<td>21</td>
<td>87.5%</td>
</tr>
<tr>
<td>Slightly aware</td>
<td>3</td>
<td>12.5%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>24</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

4.2.26 Figure showing level of awareness of the organization’s core business

Source: Author 2017
Source: Author 2017

### 4.2.27 Employees in core business activity skills

The employees in core business activity have the right set of skills as shown in table 4.2.26 and figure 4.2.26 below

**Table 4.2.27 Table showing skills level of core business employees**

<table>
<thead>
<tr>
<th>Employee in core business activity skills</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have the right skills</td>
<td>26</td>
<td>100%</td>
</tr>
<tr>
<td>Do not have the right skills</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

**Figure 4.2.27 Figure showing skills level of core business employees**

Source: Author 2017

### 4.2.28 Outsourcing assisting focus on core business activities

24 out of the 26 respondents said that outsourcing has assisted them focus more on the core business activities while only two said no. This represents 92% and 8% respectively as indicated in table 4.2.27 and figure 4.2.27 below
Table 4.2.28 Table showing outsourcing assisting in focus on core business

<table>
<thead>
<tr>
<th>Focus on core business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>92%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.28 Figure showing outsourcing assisting in focus on core business

![Bar chart showing outsourcing assisting organization focus on core business]

Source: Author 2017

4.2.29 Extent to which outsourcing has aided focus on core business

Out of the 24 respondents who said that outsourcing has assisted the organization focus on their core business, the whole number again said that it had highly helped them focus on the core business as shown in figure 4.1.12 below

Table 4.2.29 Extent to which outsourcing has aided focus on core business

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A large extent</td>
<td>24</td>
<td>92%</td>
</tr>
<tr>
<td>A small extent</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>24</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author 2017
Figure 4.2.29 Figure showing Extent to which outsourcing has aided focus on core business

![Pie chart showing Extent which outsourcing has assisted organization focus on core business]

Source: Author 2017

4.2.30 Employee skills in core business activity

92% of the employees in core business activity do have the right skills while only 8% do not have the right skills as shown in table 4.2.29 and figure 4.2.29 below

Table 4.2.30 Employee skills in core business activity

<table>
<thead>
<tr>
<th>Employee skills in core business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have the right skills</td>
<td>24</td>
<td>92%</td>
</tr>
<tr>
<td>Do not have the right skills</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

4.2.31 Improved performance

96% of the respondents said that outsourcing has improved performance in key business area while 4% said no as shown in table 4.2.30 and figure 4.2.30 below
Table 4.2.31 Improved performance

<table>
<thead>
<tr>
<th>Improved Performance</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>96%</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017

Figure 4.2.31 Figure showing improved performance

Source: Author 2017

4.2.32 Extent of consideration to free resources to focus on key business

88% of the respondents indicated that they considered the fact to free resources to focus on key area. This is shown in table 4.2.31 and figure 4.2.31 below

Table 4.2.32 Extent of consideration to free resources to focus on key business activity

<table>
<thead>
<tr>
<th>Extent to free resources consideration (to focus on key business)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatly</td>
<td>23</td>
<td>88%</td>
</tr>
<tr>
<td>A little</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author 2017
4.3 Summary of data analysis

From the data obtained from the respondents it was revealed that most manufacturing companies’ (in this a case study of BAT K Thika plant) departments or functions are adopting or have adopted outsourcing as strategy. A majority of the said relied on the initial cost as well as the cost saving that will be derived from the decision. Another major consideration is the benefit of freeing resources to focus on core business. Ranking low, although still factors considered are skilled expertise and risk transfer.

Quantitative analysis

4.3.1 Cost

Most of the respondents indicated that departments or the organization adopted outsourcing after considering cost. Costs to set up are considered. Operating cost benefits derived from the decision are also given a great emphasis as the decision is made.

4.3.2 Skilled Expertise

From the study, skilled expertise was the major consideration for outsourcing. Most respondents under the study gave the reason that the service providers have expert skills in various fields being outsourced therefore they are preferred.
4.3.3 Risk transfer

The study established that risk transfer is not a major factor in the decision to outsource. This is due to the fact there are other ways of risk transfer apart from outsourcing.

4.3.4 Focus on core business area

The study revealed that after skills consideration the next big consideration is the focus on key business areas. This is driven by desire for customer satisfaction and experience and to have a competitive advantage over competition.

4.4 Study Limitations and Delimitations

The researcher highlighted the limitations of the study in this section. The researcher also listed the ways through which he overcame the stated limitations

4.4.1 Non-response

Some respondents were not being in a capacity of answer some questions due to the fear that they may be intimidated by their seniors. The researcher mitigated this by giving an assurance that the information will be treated with ultimate confidence and used for academic purposes only and that it not be leaked to the competitors

4.4.2 Busy Managers

Some managers were just too busy and thus found it difficult to fill the questionnaires. The researcher administered questionnaires to such a group of managers during tea, lunch breaks or even weekends to overcome this challenge.

4.4.3 Delayed Response

There was likelihood of delayed response by some of the respondents given that the study might have appeared not as important to them. To avoid delayed response, the researcher persuaded the staff and managers involved on the urgency of the study by making them understand and appreciate the project timelines
4.4.4 Lack of adequate information

There was a concern of lack of adequate information from managers fearing information was classified. The researcher emphasized to the concern managers that the information needed and that was to be given was for academic purposes only.
CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter gives a summary of research findings according to the objective of the study. The conclusions provide the answers to the research questions and the recommendations are made for further actions would be taken as result of the findings in the study. The main purpose of the study was to find out factors considered in adopting outsourcing among manufacturing firms.

5.1 Summary of findings

A response rate of 81% was attained out of the distributed questionnaire having duly been filled. This signals a good level of participation from the respondents. The study revealed that most of the respondents had worked for the organization for between 10 to 14 years. This is the period in which outsourcing has had a tremendous growth. This is good for the study as it makes the information collected more accurate and reliable. Further it was established that most of the managers were low level managers. Further, the research disclosed that up to 77% of the respondents stated that they depend on external outsourced services in their work. This explains that outsourcing has high level of entrenchment in the manufacturing firms.

The respondents agreed that the benefits to free resources to focus on organization core business greatly influenced the decision to outsource the non-core operations. This reason was rated at 92%. Skilled labor/expertise provided another strong reason for outsourcing and this was rated at 85%.

The study revealed that cost would influence up to 77% of the decision to outsource while the desire to share risks contribute up to 69%.

5.1.1 How does cost affect the decision to outsource in manufacturing firms?

From the study, it’s realized that the respondents who said that they were aware of the costs involved in outsourcing were 77% as compared to 23% who said that they were not aware of the costs. Again 77% said that they were very much of the costs while 23% said that they were only a little aware of the costs. On describing the cost of adoption of outsourcing, 58% of the respondents...
felt that the costs were very fair, 23% said that the costs were unfair while 19% felt that the costs were fair. This explains the fact that 77% said that they would consider cost as a factor in outsourcing decision. Therefore, cost is a factor in adopting outsourcing decision. High costs negatively affect the adoption of outsourcing. On the flip side, benefits in terms of cost savings as a result of outsourcing encourage outsourcing decisions.

5.1.2 How does skilled expertise affect the decision to outsource in manufacturing firms?

85% of the respondents disclosed that they were well aware of the required set of skills required to perform particular tasks in their departments. Only 15% said that they were not aware of necessary set of skills for tasks performance. It was also established that only 15% of the required set of skills were internally available in the organization. 54% of the respondents said that skills were not internally available while another 31% confirmed that only a few of the required set of skills were internally available. There was a split in the level of trust on the external service providers with 50% saying they had a lot of trust in the service providers and 50% also saying that they did not trust the service providers. These point the finding that up to 69% said they would consider service providers in the outsourcing decision. 92% of the respondent stated that they had largely benefitted from the skilled expertise of the service providers. Therefore skilled expertise of the service provider is a key factor considered in outsourcing decision.

5.1.3 How does risk transfer affect outsourcing decision in manufacturing firms?

The study revealed that 77% of the respondents were aware of the business risks as compared to only 23% who were not aware. 69% said that they were aware of the various ways to transfer risk to other partners. This supports the finding that only 69% said that risk transfer would affect the decision to outsource. This means that whereas risk transfer can be a factor to consider in outsourcing decision, it is not one of the key factors as there are other methods of risk sharing and transfer.

5.1.4 How does the need to focus on core business influence the decision to outsource manufacturing firms?

The study established that 92% of the respondents understood the core business of the organization, while only 8% do not understand the core business of the organization. It was also revealed that 100% agree that outsourcing has helped free resources for optimization in the core
areas of operations. 92% of the respondents stated that the employees in the core business area of the organization possessed right set of skills. 96% of the respondents confirmed that outsourcing has helped improve performance in the core business. This position is further confirmed by the fact 88% of the respondents stated that they would consider the factor to free resources to focus on core business as they make outsourcing decision.

5.2 Conclusions

From the study, it was revealed that manufacturing firms are adopting outsourcing as a business strategy and model. Cost is a major factor in any business decision. The study revealed that firms would adopt outsourcing once they clearly understood the cost of adoption as well as the cost savings that will be derived from the decision. Therefore, the research concludes that without a proper and clear understanding, firms would not adopt outsourcing.

There is a major benefit being derived from the expertise of the service providers. Many respondents found these benefits in their interactions with the service providers and said that it is a key consideration. It is therefore correct to state the service providers have a pool of experts in various fields and this affects the outsourcing decision.

Customer satisfaction is the top most objective of any organization, and manufacturing firms are no exemption. The respondents confirmed that one of the ways to attain customer satisfaction through improved performance is through outsourcing, which frees resourcing to focus on only core business areas.

On risk transfer, when asked if they are aware of the risks as well as the various ways to share the risk, most of the respondents answered in the affirmative but this did not largely affect the decision to outsource.

5.3 Recommendations

From the above conclusions, the following recommendations were suggested.

5.3.1 Cost

Manufacturing firms should strive to create more awareness on cost factors and considerations affecting outsourcing among their managers and staff.
5.3.2 Skilled expertise
Outsourcing firms should invest in human capital so as to be future fit so as to have more opportunities as many firms continue to adopt outsourcing.

5.3.3 Risk transfer
As much as this does not largely affect the adoption of outsourcing, simple, effective and reliable risk sharing measures should be developed by both the service providers and the manufacturing firms.

5.3.4 Focus on core business areas
There should be improved partnership between the service providers and the manufacturing firms for better understanding and focus on delivering on core business for customer satisfaction.

5.4 Suggestions for further research
From the findings, more research needs to be done since this research only discusses the factors that affect outsourcing decision. The researcher recommends more research to be carried on;

1. Benefits of outsourcing

2. Challenges of outsourcing
APPENDIX I

REFERENCES


Bhagwati, Jagdish (1984), The Splintering and Disembodiment of Senices and Developing Nations, World


El’millian Chew Saint Fey (2005), Business Process Outsourcing. Penang Economic Monthly, Volume 03


Prahala...
APPENDIX II

QUESTIONNAIRE

My name is William Juma Wambedha, a Bachelor of Management and Leadership student at The Management University of Africa. This is in partial fulfillment of the award of the mentioned degree.

The questionnaire aims to gather information on the Factors Influencing Outsourcing in Large Manufacturing Firms in Nairobi, Kenya, the Benefits and Challenges of outsourcing. Any information given shall be treated with confidentiality and used for academic purposes only.

Your cooperation, support and participation will be highly appreciated.

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

Kindly answer all the questions

Please tick and fill where appropriate

SECTION A: ORGANIZATIONAL PROFILE

1. How long have you worked for the firm? (Please tick)
   ( ) 0 - 4 years
   ( ) 5 - 9 years
   ( ) 10 - 14 years
   ( ) Over 15 years
2. Please indicate your designation / position in the organization……………………………………

3. How long has the organization been in existence?
   A. 1-5 years
   B. 6-10 years
   C. 11-15 years
   D. Over 15 years

4. Does your organization rely on other external service providers to meet some of your objectives?
   A. Yes
   B. No

5. If yes, for how long you relied on the services of the external service providers?
   A. Last 5 years
   B. Last 10 years
   C. Over 10 years

6. Please indicate which operations has your organization outsourced?
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………

SECTION B: COST

7. Are you and other senior managers aware of the costs involved in the adoption of outsourcing strategy?
   A. YES
   B. NO

8. If yes, what is the level of awareness?
A. Very much  
B. A little  

9. In your opinion, how will you describe the cost of adoption of outsourcing? Which of the following best describes the cost in your opinion.  
A. Very fair  
B. Fair  
C. Not fair  

9b Do you believe that adopting outsourcing leads to savings in operating costs?  
A. Yes  
B. No  

9c If yes, how would you describe the cost benefits of outsourcing?  
A. Very huge  
B. Minimal  

10. Has cost been a consideration in the decision to adopt outsourcing in your business?  
A. Yes  
B. No  

11. If yes, to what extent?  
A. To a large extent  
B. To a small extent  

12. List any other costs consideration that influence your choice of outsourcing as your business strategy  

..........................................................
SECTION C: SKILLED EXPERTISE

13. Are you aware of the latest set of skills needed by your staff to deliver various aspects of your business objectives?
A. Yes
B. No

14. If yes, what is the level of awareness?
A. Very conversant
B. Adequately conversant
C. A little conversant

15. Do you believe that the said sets of skills are all internally possessed by your direct employees?
A. Yes
B. No
C. A few

16. If no, have you trusted other service providers to perform tasks such tasks
A. Yes
B. No

17. To what extent has external service providers’ knowledge and skilled expertise influenced your decision to outsource a service?
A. Greatly
B. Moderately
C. A little
18. In your assessment to what extent has your organization benefited from the skilled expertise of your service providers of outsourced operations?
   A. A lot
   B. A little

SECTION D: RISK TRANSFER ELEMENT

19. Are you and other senior managers aware of the risks involved in your business operations?
   A. Yes
   B. No

20. If yes, are you aware of the various risk transfer methods that your business can apply?
   A. Yes
   B. No

21. If yes, to what extent?
   A. Very conversant
   B. Adequately conversant
   C. A little conversant

22. Are you aware to what extent you can transfer your business operation risks to other service providers?
   A. Yes
   B. No

23. To what extent have risk transfer influenced your decision to outsource?
   A. To a large extent
   B. To a small extent
SECTION E: FOCUS ON CORE BUSINESS ACTIVITY

24. Do all the managers and employees know and understand what your organization’s core business is?
   A. Yes
   B. No

25. If yes, to what extent?
   A. Highly aware
   B. Lightly aware

26. Do all your employees in your core business activity have the right sets of skills?
   A. Yes
   B. No

27. Has outsourcing assisted your business to focus more on your core activities?
   A. Yes
   B. No

28. If yes, to what extent?
   A large extent
   A small extent

29. Has outsourcing non-core business activities helped attain key sets of skills in your core activity employees?
   A. Yes
   B. No
30. Are the benefits derived by focusing on only core business, while outsourcing non-core activities give improved overall business performance?

A. Yes
B. No

31. When deciding to outsource, to what extent did the consideration to free your resources to focus on core business activity come into play?

A. Greatly
B. A little

THANK YOU