

**EFFECT OF STRATEGIC OUTSOURCING ON PERFORMANCE OF KENYA
TEA DEVELOPMENT AGENCY MANAGED FACTORIES IN KENYA**



BY

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT
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ABSTRACT

Strategic management literature show that strategic outsourcing modes are important factors in enhancing firm performance in terms of cost reduction and quality improvement, among other reasons. However, given the dynamic nature of strategic outsourcing modes, the strategic outsourcing modes adopted by tea processing factories have not been studied. Moreover, the extent to which KTDA managed factories apply strategic outsourcing modes is not known. In addition, these studies fail to study the effect of strategic outsourcing modes on performance of factories in the tea sector using causal research design. The purpose of this study was therefore to investigate the effect of strategic outsourcing modes on performance of KTDA managed factories. Specific objectives were to: establish the strategic outsourcing modes adopted by these factories, determine the extent to which strategic outsourcing modes are used by KTDA managed Factories in Kenya, and establish the effect of strategic outsourcing modes on performance of KTDA managed Factories in Kenya. The study was guided by contingency theory in an adapted conceptual framework. A causal research design was employed. The target population was 729 respondents from all 66 KTDA managed factories in Kenya. Proportionate statistical technique was used to select a study sample of 324 respondents. The study used both primary and secondary data. A semi-structured self-administered questionnaire to respondents was used to collect primary data. Secondary data was collected through desk review. Data was analyzed using descriptive and inferential statistics. Data was presented using tables and graphs. A pretest on 10 respondents indicated instrument was reliable at $\alpha = .850$. The study findings were: management services (mean = 2.8133, SD = 1.04345) implying that management services was the most important strategic outsourcing mode; Green leaf delivery (Mean = 3.6167, SD = 1.6167) implying green leaf delivery as the strategic outsourcing mode used to the largest extent; and management services ($B = .264$, $P = .000$) and tea processing ($B = -.202$, $P = .000$) imply that these two strategic outsourcing mode significantly predicted performance. Concluded that; management services as the most prevalent strategic outsourcing mode; green leaf delivery was used to the largest extent; and management services and tea processing significantly predicted performance. Recommended that: management service is used continually; green leaf delivery is monitored for quality and management services are enhanced as tea processing is reduced as strategic outsourcing modes in the tea sector.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Strategic outsourcing is the use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, or as Corbett (1999) asserts that outsourcing is nothing less than the wholesale restructuring of the corporation around core competencies and outside relationships” (Corbett, 1999). The traditional outsourcing emphasis on tactical benefits like cost reduction – cheaper labour cost in low-cost countries – have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild *et al.*, 1999).

The market for providers of outsourced services of all types is growing rapidly. For instance in 1996, American firms spent over \$100 billion in outsourced business activities. Globally, outsourcing usage grew by 35 per cent in 1997 and the total market for outsourced services was expected to increase to \$200 billion by the year 2000 (Buss, 1995; Corbett; 1996; Jones, 1997; Greer *et al.*, 1999). The trend is for outsourcing relationships to function more and more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives (Sinderman, 1995). Byrne (1996) reported that activities most frequently outsourced are manufacturing (40 per cent), and transportation and distribution (30 per cent). A survey of US CEOs shows that 42 per cent of communication firms, 40 per cent of computer manufactures, and 37 per cent of semi-conductor companies rely on outsourcing (Fullar and Millar, 1995; Malhorta, 1997). Payroll, inventory, communication systems, and database functions are just a few of the many areas that can be outsourced effectively. In another survey conducted by Duncan and Groves-Rowan (1997), more than 65 per cent of banks surveyed indicated that they were already involved in at least one type of outsourcing function. The five most commonly used outsourcing functions were taxes, bankruptcy/foreclosures, systems, cashiering, and insurance (Jennings, 1996). Personnel expenses were the primary reason behind banking outsourcing. However, it also improved operating efficiency and reduced service costs.

Ensuring the success of an outsourcing project includes managing potential problems. Crowley (1999) suggests that the more planning that is done for the risk factors before implementing information technology-network services for example, the higher the probability of success for that implementation. The same is probably true of outsourcing strategies.

In a world of increasing competition, organizations are forced to look for new ways to generate value. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn, 2000). The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labour cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999; Bacon 1999). An outsourcing decision is always based on the hypothesis that the outsourcing will bring some benefits to the company. The benefits may be operational, strategic, or both. However, making the wrong decision can put your business at a competitive disadvantage. Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Gray 1999), increase capacity, improve capacity, improve quality (Lau and Hurley 1997; Kotabe, Murray and Javalugi 1998), increase profitability and productivity (Casale 1996; Sinderman 1995), improve financial performance (Crane 1999), lower innovation costs and risks (Quinn 2000), and improve organizational competitiveness (Lever 1997; Steensma and Corley 2000; Sharpe 1997). However, outsourcing may generate some problems. One of the objectives of strategic outsourcing is to gain competitive advantage. In such cases, outsourcing can help to streamline the production process and direct more resources to the core functions, which matter most. Globally, theoretical literature claims that outsourcing providers are taking increasing responsibility in the areas of manufacturing, information management, human resources, and quality initiatives (Casale, 1996, Corbett, 1999 and Greer *et al.*, 1999).

Empirical evidence (Ramarapu et al, 1997; Elmuti and Kathawala, 2000; Duncan and Groves-Rowan, 1997 and Sinderman, 1995)) show that outsourcing is done for purposes of cost reduction, quality improvement, increase exposure to worldwide technology, delivery and reliability improvements and gain access to materials only available abroad. Prior researches use convenient sampling methods and exploratory or case study research

designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study factories processing tea using causal research design. Therefore, no researches exist interrogating the strategic outsourcing modes used by firms in the tea sector.

Reviewed literature (Frayer *et al.* 2001; Faber, 1995; Elmuti and Kathawala, 2000; and Sinderman, 1995) show that show that strategic outsourcing modes are critical in any organization and is done for purposes of cost reduction and quality improvement, among other reasons. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study the extent of application of strategic outsourcing modes used by factories processing tea using causal research design. Therefore, the extent of strategic outsourcing modes used by firms in the tea sector is not known.

Empirical literature (Ramarapu *et al.* 1997; Klaas *et al.* 2001, Casale, 1996; Duncan and Groves-Rowan, 1997; Frayer *et al.* 2001; Faber, 1995; Elmuti and Kathawala, 2000; and Sinderman, 1995) Reviewed literature show that strategic outsourcing modes are important factors in enhancing firm performance in terms of cost reduction and quality improvement, among other reasons. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study the effect of strategic outsourcing modes on performance of firms in the tea sector using causal research design. Therefore, the effect of strategic outsourcing modes on performance of firms in the tea sector is not known.

In Kenya, agricultural sector, accounts for 24% of Gross Domestic Product (GDP), employing two thirds of the population and accounting for 70% of export earnings. The tea industry plays a key role in the agriculture sector and the economy at large with tea output contributing about 11% of the agriculture sector's contribution to GDP with tea exports, which amounted to about Kshs 62 billion in 2008, contributing 26% of the total foreign exchange earnings. In addition, the tea industry supports directly and indirectly

approximately 5 million people making it one of the leading sources of livelihood in Kenya (TBK 2013).

The Tea Industry in Kenya is unique in that it is comprised of two distinct sectors; the Plantation or large scale sector and the small holder sector. The Plantation sector is owned by large scale tea producers and companies while the small holders sector by small scale growers. The small holder sector factories are managed by Kenya Tea Development Agency Ltd (KTDA, 2012). The Kenya Tea Development Agency was incorporated on 15th June 2000 as a private company under CAP 486 of laws of Kenya. Formerly KTDA existed as an authority by Legal Notice No. 42 of 1964 under the Agriculture Act CAP 385, Laws of Kenya, in which it took over liability from the Special Crops Development Authority (SCDA). KTDA's major responsibility is to foster the development of small-scale tea growing in Kenya. Specifically it is mandated to do the following: Purchase materials for propagation of seedlings and sell them to growers; Establish and manage tea nurseries; Procurement of fertilizer and other inputs; Supervise tea cultivation by growers; Supervise the growing and harvesting of green leaf; Purchase green leaf from farmers; Revenue collection and make payments to growers; Corporate development and services; Technological advancement and research; Development of Information and Communication Technology and Marketing and Publicity. Currently there are about 420,000 small-scale tea farmers in Kenya who have traditionally and by law been under the control of KTDA, who contribute over 60% of tea production in Kenya (KTDA, 2012).

1.2. Statement of the Research Problem

Strategic management literature show that strategic outsourcing modes are important factors in enhancing firm performance in terms of cost reduction and quality improvement, among other reasons. Prior researches do not explore the strategic outsourcing modes adopted by tea processing factories. The extent to which KTDA managed factories apply strategic outsourcing modes is equally not known. In addition, they use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study the effect of strategic outsourcing modes on performance of firms in the tea sector using causal research design. Given the critical role the tea sector plays in the Kenyan economy, it was not apparent how strategic outsourcing modes affected performance of KTDA managed factories in Kenya.

1.3. Objectives of the Study

The general objective was to investigate the effect of strategic outsourcing practices on performance of KTDA managed factories. The specific objectives of the study were to:

- i. Establish the strategic outsourcing modes used by KTDA managed Factories in Kenya.
- ii. Determine the extent of application of strategic outsourcing modes are used by KTDA managed Factories in Kenya.
- iii. Establish the effect of strategic outsourcing modes on performance of KTDA managed Factories in Kenya.

1.4. Research Questions

- i. What strategic outsourcing modes are used by KTDA managed Factories in Kenya?
- ii. What is the extent of application of strategic outsourcing modes used by KTDA managed Factories in Kenya?
- iii. What is the effect of strategic outsourcing modes on performance of KTDA managed Factories in Kenya?

1.5 Scope of the Study

This study covered the outsourcing strategy and performance of KTDA managed factories as shown in the map in appendix III. The specific strategic outsourcing modes included management services, security services and green leaf delivery as adopted by KTDA managed factories in Kenya.

1.6. Justification of the Study

The findings from this study would be of significance to a number of partners in the tea sub-sector. First, the study would help the tea sector policymakers, especially those at regional offices, to realize the need to have and implement outsourcing strategies that maximizes organizational performance. Secondly, the study would generate knowledge to link outsourcing strategy and performance of KTDA managed factories which would guide policy makers in the planning for the limited financial resources allocated to the sector. In addition, it will allow for better integration of service processes and continuing service quality improvements, compatible with stakeholder expectations. Better

understanding of these expectations then provides a more meaningful basis for the development of corporate vision, future goals, targets and business strategies. Most of all, proper strategic management of functions along core areas will enhance understanding of the true value of the companies competencies. This can strengthen the company's own future viability as a growing enterprise with positive outcomes of increased productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills, as well as growing optimum profitability.

Finally, the study would be helpful to all academicians in strategic management, human resources management, legal and other fields in the furtherance of their studies in form of future research and in the operations at their work places. Lastly, the study is of academic interest. It contributes to the larger scholarly literature on factors affecting outsourcing as a strategic management.

1.7 Conceptual Framework

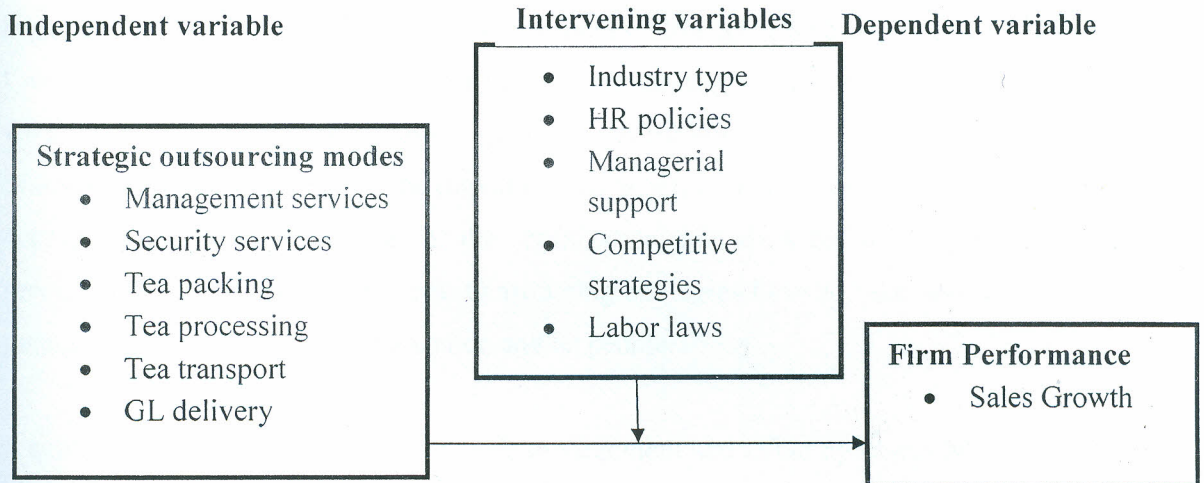


Figure 1.1: Strategic Outsourcing and Performance Relationship

Source: Adapted and modified from Elmuti and Kathawala (2000).

Figure 1.1 shows the strategic outsourcing and performance relationship. In the framework, the independent variable is the strategic outsourcing with six elements namely management services, security services, tea packing, tea processing, tea transport and GL delivery. The dependent variable is the firm performance which is measured in terms of the sales growth (Elmuti and Kathawala, 2000). In addition, there exist a number of intervening variables which include: industry type, HR Policies, managerial support, competitive strategies and labor laws.

CHAPTER TWO

LITERATURE REVIEW

This chapter first reviews theoretical literature on strategic outsourcing and performance. It then reviews empirical literature relevant to the study. Finally, it presents a summary of the gaps in the literature justifying the current research.

2.1: Theoretical Literature

In an attempt to explain the relationship between strategic outsourcing and firm performance, the researcher focused on two competing normative theories as debated by numerous researchers namely: contingency and configurational theories.

2.1.1: Contingency Theory

For the contingency theory, otherwise known as best fit outsourcing strategies, there are no universal prescription of outsourcing policies and practices. It is all contingent on the organization's context, culture and its business strategy (Wright & Snell, 2005). Contingency scholars have argued that outsourcing strategy would be more effective only when appropriately integrated with a specific organizational and environmental context. The best fit theory emphasizes the importance of ensuring that outsourcing strategies are appropriate to the circumstances of the organization, including the culture, operational processes and external environment. Outsourcing strategies have to take account of the particular needs of both the organization and its people.

It explores the close link between strategic management and HRM by assessing the extent to which there is vertical integration between an organization's business strategy and its HRM policies and practices (Schuler & Jackson, 1987; Dyer, 2005; Mahoney & Decktop, 2006). Wright, McMahan and McWilliams (2004) state that vertical integration between business strategies or the objective of the business and individual behavior and ultimately individual, team and organizational performance is at the fore of core models of strategic management. Inherent in most treatments of fit is the premise that organizations are more efficient and/or effective when they achieve fit relative to when a lack of fit exists (Legge, 2005). This vertical integration or 'fit' where 'leverage' is gained through procedures, policies and processes is widely acknowledged to be a crucial part of any strategic approach to the management of people (Dyer, 2005). The best fit therefore ensures an

explicit link or relationship between internal people processes and policies and the external market in business strategy, and thereby ensures that competences are created which have a potential to be a key source of competitive advantage (Wright, Gardner & Allen, 2005).

According to the contingency approach, outsourcing strategy is not the ultimate factor that contributes to improved firm performance; it has to be integrated with other factors and the impact of strategic management on firm performance is conditioned by an organization's strategic posture. A firm's approach to competition depends on, or makes use of the talents and capabilities of employees, then outsourced activities and functions would be more likely to have an impact on performance; otherwise the connection between outsourcing strategies and performance might be minimal. One criticism often leveled at the contingency model is that it tends to over-simplify organizational reality. In attempting to relate one dominant variable to the organization (for example, compete on innovation, quality or cost) to another internal variable, they tend to assume a linear, non-problematic relationship. According to Purcell (2001), this theory is limited by the impossibility of modeling all the contingent variables, the difficult of showing their interconnection, and the way in which changes in one variable have an impact on others. Boxall and Purcell (2003) further emphasize the complexity of matching HR and business strategy by stating the need to keep up with ongoing environmental change. They bring attention to a model by Wright (2005) asserting that outsourcing strategies should simultaneously promote fit and flexibility to cope with the future. However, responding to those external demands may undermine the possibility of achieving internal fit (Legge, 2005). Models of external fit fail to recognize the needs of employees. More evident in highly competitive markets, businesses cannot survive without balancing the pressures from social norms, labour laws and critical employee interests. Conclusively, an alignment of business and employee needs is needed. The best fit school also lacks emphasis on the internal context of individual businesses within the same sector and the unique characteristics and practices that may provide its main source of sustainable competitive advantage.

2.1. 2: Configurational theory

A strategy's success turns on combining external fit and internal fit. A firm with bundles of outsourced activities and functions should have a high level of performance, provided

it also achieves high levels of fit with its competitive strategy (Richard & Thompson, 1999). Emphasis is given to the importance of bundling outsourcing strategy and competitive strategy so that they are interrelated and therefore complement and reinforce each other. Implicit in is the idea that practices within bundles are interrelated and internally consistent, and has an impact on performance because of multiple practices.

Employee performance is a function of both ability and motivation. Thus; there are several ways in which employees can acquire needed skills (such as careful selection and training) and multiple incentives to enhance motivation (different forms of financial and non-financial rewards.) A key theme that emerges in relation to best-practice outsourcing strategies is that individual practices cannot be implemented effectively in isolation (Storey, 2007) but rather combining them into integrated and complementary bundles is crucial. MacDuffie (2005) argues that a 'bundle' creates the multiple, reinforcing conditions that support employee motivation, given that employees have the necessary knowledge and skills to perform their work effectively (Stavrou & Brewster, 2005). In the configuration school, cohesion is thought likely to create synergistic benefits which in turn enable the organization's strategic goals to be met. The aim of bundling is to achieve coherence which exists when a mutually reinforcing set of outsourcing mechanisms have been developed that jointly contribute to the attainment of the organization's strategies for matching resources to organization needs, improving performance and quality and achieving competitive advantage in commercial enterprises.

The approach of bundling is holistic as it is concerned with the organization as a total entity and addresses what needs to be done as a whole in order to enable it to achieve its corporate strategic objectives. The notion of a link between business strategy and the performance of every individual in the organization is central to 'fit' or vertical integration. Internal fit advocates bundles of practice, to ensure that organizations gain benefits from implementing a number of complementary practices rather than only a single practice (MacDuffie, 2005). Most models of best fit focus on ways to achieve external fit. The most influential model of external fit is that from Schuler and Jackson (1987) which argues that business performance will improve if their outsourced activities and functions support their choice of competitive strategy: cost leadership, quality enhancement and innovation. Under this model, organizations need to work out the required employee behaviors to implement a chosen competitive strategy and devise supporting outsourcing strategies to enable those behaviors to be encouraged in the

workforce. Vertical integration can be explicitly demonstrated through the linking of a business goal to individual objective setting, to the measurement and rewarding of attainment of that business goal. Schuler and Jackson (1987) defined the appropriate HR policies and practices to 'fit' the generic strategies of cost reduction, quality enhancement and innovation.

The significant difference between the contingency and configurational approach is that these configurations represent non-linear synergistic effects and high-order interactions that can result in maximum performance (Delery & Doty, 2000). Wilkinson (2002) note that the key point about configurational perspective is that it seeks to derive an internally consistent set of strategic HR practices that maximize horizontal integration and then link these to alternative strategic configurations in order to maximize vertical integration and therefore organizational performance. Thus put simply, according to configuration theorists requires outsourcing providers to take increasing responsibility in the areas of manufacturing, information management, human resources, and quality initiatives (Casale, 1996, Corbett, 1999 and Greer *et al.*, 1999) in order to achieve both horizontal and vertical integration. The configuration approach contributes to the strategic management debate in recognizing the need for organizations to achieve both vertical and horizontal fit through their outsourced activities and functions, so as to contribute to an organization's competitive advantage and therefore be deemed strategic. The use of performance management practices and competency frameworks are typically adopted to provide for coherence across a range of outsourced activities.

2.1.3: The Concept of Strategy

To understand the notion of strategic outsourcing, it is necessary to appreciate the concept of strategy upon which it is based. Johnson and Scholes (1999) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through configuration of resources within a changing environment, to meet the needs of markets and fulfill shareholders expectations.

Mintzberg *et al.*, (1988) suggests that strategy can have a number of meanings namely a plan or something equivalent-a direction, a guide or cause of action; a pattern that is consistency in behavior over time; a perspective, an organizations way of doing things; a play, a specific maneuver intended to outwit an opponent or a competitor. Pearce and Robinson (2000) recommend three critical ingredients for the success of a strategy. First, the strategy must be consistent with conditions in the competitive environment. It must

take advantage of existing or projected opportunities and minimize the impact of major threats. Second, the strategy must place realistic requirements on the firm's resources. The firm's pursuit of market opportunities must be based not only on the existence of external opportunities but also on competitive advantages that arise from the firm's key resources. Finally, the strategy must be carefully executed.

2.1.4: Strategic Outsourcing

Strategic outsourcing is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, or as Corbett (1999) asserts that outsourcing is nothing less than the wholesale restructuring of the corporation around core competencies and outside relationships (Corbett, 1999). The traditional outsourcing emphasis on tactical benefits like cost reduction – cheaper labour cost in low-cost countries – have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Wild *et al.*, 1999).

The market for providers of outsourced services of all types is growing rapidly. For instance in 1996, American firms spent over \$100 billion in outsourced business activities. Globally, outsourcing usage grew by 35 per cent in 1997 and the total market for outsourced services was expected to increase to \$200 billion by the year 2000 (Buss, 1995; Corbett; 1996; Jones, 1997; Greer *et al.*, 1999). The trend is for outsourcing relationships to function more and more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives (Sinderman, 1995). Byrne (1996) reported that activities most frequently outsourced are manufacturing (40 per cent), and transportation and distribution (30 per cent). A survey of US CEOs shows that 42 per cent of communication firms, 40 per cent of computer manufactures, and 37 per cent of semiconductor companies rely on outsourcing (Fullar and Millar, 1995; Malhorta, 1997). Payroll, inventory, communication systems, and database functions are just a few of the many areas that can be outsourced effectively. In another survey conducted by Duncan and Groves-Rowan (1997), more than 65 per cent of banks surveyed indicated that they were already involved in at least one type of outsourcing function. The five most commonly used outsourcing functions

were taxes, bankruptcy/foreclosures, systems, cashiering, and insurance (Jennings, 1996). Personnel expenses were the primary reason behind banking outsourcing. However, it also improved operating efficiency and reduced service costs.

Ensuring the success of an outsourcing activity or function includes managing potential problems. Crowley (1999) suggests that the more planning that is done for the risk factors before implementing information technology-network services for example, the higher the probability of success for that implementation. The same is probably true of outsourcing strategies. Examining the factors that unsuccessful organizations identified as serious problems may provide additional insight into what organizations should do to ensure the success of their outsourcing projects and identify areas for further research.

In a world of increasing competition, organizations are forced to look for new ways to generate value. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn, 2000). The traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labour cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, and Gary 1999; Bacon 1999).

Currently all Kenya Tea Development Agency (KTDA) managed factories employ many workers to perform some manual and semi manual jobs like cleaning, slashing, fermentation, maintenance and general care of tea during processing. These workers are paid and housed by the factories, and their salaries are negotiated at a better pay with the union. This provides a challenge to these factories in terms of wage bill, benefits and compensation. Currently slightly a few factories are outsourcing only security services leaving out these other critical costly services like green leaf collection, fermentation, processing, packing and machinery maintenance.

An outsourcing decision is always based on the hypothesis that the outsourcing will bring some benefits to the company. The benefits may be operational, strategic, or both. However, making the wrong decision can put your business at a competitive disadvantage. Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Gray 1999), increase capacity, improve capacity, improve quality (Lau and Hurley 1997; Kotabe, Murray and Javalugi 1998), increase profitability

and productivity (Casale 1996; Sinderman 1995), improve financial performance (Crane, 1999), lower innovation costs and risks (Quinn, 2000), and improve organizational competitiveness (Lever 1997, Steensma and Corley, 2000 and Sharpe 1997). However, outsourcing may generate some problems. One of the objectives of strategic outsourcing is to gain competitive advantage. In such cases, outsourcing can help to streamline the production process and direct more resources to the core functions, which matter most. There is need to study the effect of strategic outsourcing on performance of firms in the tea sub-sector. Khumalo (2006) studied critical success factors for an outsourcing strategy in the Mpumalanga coal Mining industry. No known study that had been carried out on outsourcing strategy and performance of KTDA managed factories in Kenya.

In executing strategic outsourcing, organizations target specific types of activities or functions (Corbett,1999). Theoretical literature identifies the top activities or functions identified commonly outsourced as: purchasing parts or components for the final products, information technology such as application development, contract programming and data entry and simple processing, management services, manufacturing of components for the final product or the whole product, product design, engineering projects, distribution and sales of products or services Casale, 1996, Corbett, 1999 and Greer *et al.*, 1999). They observe that outsourcing strategy should have a specific goal. In other words, the strategy should have an objective with a measurable outcome some of which include the following: performance, cost-savings, productivity, cycle time, customer service, market share and quality as suggested by several authors (Casale, 1996, Jennings, 1996, Jones, 1997, Ramarapu *et al.*, 1997, Kleppes and Jones, 1999 and Bender, 1999).

Ramarapu *et al.*, (1997) ascribes that outsourcing strategies help improve performance, increase access to international markets and leading-edge technologies, enhance responsiveness to customer needs, and contribute to organizational goals of increased efficiency, reduced costs, reduced cycle time, and improvement in the quality of the goods and services in their organizations.

According to Elmuti and Kathawala (2000) outsourcing programs are organized into two types currently at the forefront of academic, government, and management attention which are offshore subcontracting and controlled offshore manufacturing. Offshore, or international subcontracting was viewed by United states (US) government officials as

the best way to develop indigenous industry without substantial long-term borrowing from abroad (Kefalas, 1990). Controlled offshore manufacturing is considered by multinational corporation management as the best means of smoothing or rationalizing production. The intermediate strategy of offshore joint-venture manufacturing offers some of the advantages of each of the other strategies (Germindis, 1980; Dicken, 1986; Daniels and Radebaugh, 1998).

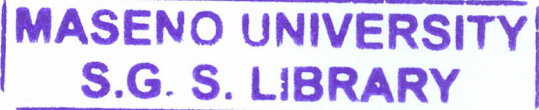
Ensuring the success of an outsourcing project includes managing potential problems. Crowley (1999) suggests that the more planning that is done for the risk factors before implementing information technology-network services for example, the higher the probability of success for that implementation. The same is probably true of outsourcing strategies. To further enhance the analysis, factors were analyzed independently for successful and unsuccessful firms. Examining the factors that unsuccessful organizations identified as serious problems provided additional insight into what organizations should do to ensure the success of their outsourcing projects and identify areas for further research.

2.1.5: Firm Performance

The measurement of organizational performance is not easy for business organizations with multiple objectives of profitability, employee satisfaction, productivity, growth, social responsibility and ability to adapt to the ever changing environment among other objectives. Although performance has been traditionally conceptualized in terms of financial measures, some scholars have proposed a broader performance construct that incorporates non-financial measures including among others market share, product quality, and company image.

Extant research findings have shown that perceived measures of performance can be a reasonable substitute of objective measures of performance (Wan-Jing & Tung, 2005) and have a significant correlation with objective measures of financial performance. Additionally, cross-industry organizational performance is influenced by external economic factors (Bamberger & Meshoulam, 2000); hence subjective evaluations may be even more appropriate than objective measures in this study. Studies by Youndt *et al.*, (1996) recognize the difficulty in obtaining objective measures of performance and suggest asking managers to assess their own firm's performance relative to others in the

same industry or sector. To minimize the effects of random errors, researchers have suggested the use of multiple items to assess performance. Given this scenario, the researchers in this study have opted to use single items in order to assess the performance of the organizations to be studied namely sales growth.



2.2. Review of Empirical Studies

2.2.1 Strategic outsourcing modes used by KTDA managed Factories in Kenya

A study by Ramarapu *et al.* (1997) investigated issues in foreign outsourcing and found that a country's unique cultural dimensions, laws and regulations, supporting infrastructure, and economic issues such as strikes and work stoppages were among the biggest obstacles to outsourcing success, followed by the limitations of outsourcing on the morale and performance of the remaining employees, management must step in and rebuild trust among the workers and jobs may need to be reevaluated and expanded or changed to fit the new organization. However, they failed to test identify the most dominant strategic outsourcing modes in the tea sector and did not cover tea firms in Kenya.

Elmuti and Kathawala (2000) use purposive sampling to investigate why organizations in Greece take risk of outsourcing and find that outsourcing projects were undertaken for several reasons: cost reduction, quality improvement, increase exposure to worldwide technology, delivery and reliability improvements, gain access to materials only available abroad, establish a presence in a foreign market, use resources that are not available internally, reduce the overall amount of specialized skills and knowledge needed for operations, make capital fund available for more profitable operations, and to combat the introduction of competition to the domestic supply. They conclude that outsourcing impacts on the organization's bottom line, although more distant purpose such as strategy, competitive advantage, and competitor actions may have been the rationale for the more direct reasons. However, only organizations in Greece are studied and firms in agricultural sector are omitted and did not cover tea factories in Western Kenya.

Using descriptive research design, Elmuti and Kathawala (2000) further examined how outsourcing programs were organized and identified two types of sourcing currently at the

forefront of academic, government, and management attention were offshore subcontracting and controlled offshore manufacturing. However, they looked at general strategic outsourcing mechanisms as opposed to specific modes, did not use correlational research design and did not cover factories in the tea sub-sector and did not explore the strategic outsourcing modes used by factories processing tea in Kenya.

Another study by Elmuti and Kathawala (2000) on the outsourced activities or functions by firms in Greece found that the top activities or functions outsourced were purchasing parts or components for the final products, information technology such as application development, contract programming and data entry and simple processing, management services, manufacturing of components for the final product or the whole product, product design, engineering projects, distribution and sales of products or services. However, this was an exploratory study and did not cover firms in tea sub-sector in Kenya. In addition, it fails to investigate the specific strategic outsourcing modes adopted by firms in the tea sector.

According to another survey on commercial banks conducted by Duncan and Groves-Rowan (1997) on the relationship between outsourcing and performance and found that more than 65 percent of banks surveyed indicated that they were already involved in at least one type of outsourcing function. However, the study focussed on commercial banks as opposed to factories processing tea and did not cover strategic outsourcing modes Kenya.

Sinderman (1995) investigated activities of outsourcing providers and found that the outsourcing providers were taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives. However, the study fails to explore the specific strategic outsourcing modes among tea processing firms in Kenya.

Reviewed literatures show that strategic outsourcing is done for purposes of cost reduction, quality improvement, increase exposure to worldwide technology, delivery and reliability improvements and gain access to materials only available abroad. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study factories processing tea

using causal research design. Therefore, no research exists interrogating the strategic outsourcing modes used by firms in the tea sector.

2.2.2 Extent of application of strategic outsourcing modes are used by KTDA managed Factories in Kenya

Another study by Elmuti and Kathawala (2000) on the outsourced activities or functions by firms in Greece found that the top activities or functions outsourced were purchasing parts or components for the final products, information technology such as application development, contract programming and data entry and simple processing, management services, manufacturing of components for the final product or the whole product, product design, engineering projects, distribution and sales of products or services. However, this was an exploratory study and did not cover firms in tea sub-sector in Kenya and fails to explore the extent of application of strategic outsourcing modes for managed factories processing tea in Kenya.

Another scenario, Elmuti and Kathawala (2000) examined the degree of success or failure of outsourcing strategy among organizations in Greece and found that about 31 per cent (85 firms) of the (270) organizations who reported that they did have an outsourcing program in their organizations reported that their outsourcing programs had failed (checked that it was not successful or indicated that it was too early in the effort to determine success), to achieve their stated objectives of influencing and enhancing organizational effectiveness, performance, productivity, cost-savings, cycle time, customer service, market share and quality. However, the study did not cover factories in the tea sub-sector and failed to check on the extent of application of strategic outsourcing modes in tea sub-sector.

Frayer *et al.* (2001) using descriptive research design, studied the interrelationship between outsourcing strategy and performance and found that in order for an outsourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they found that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance,

and customer service. However, the study used a small sample and purposive sampling and did not cover firms in the tea sub-sector.

Faber (1995) investigated U.S large manufacturing firms extent of use of global outsourcing strategies and found that 42 percent of communication firms, 40 percent of computer manufactures, and 37 percent of semiconductor companies rely on global outsourcing. However, the study was only exploratory and did not explore the extent of strategic outsourcing modes among firms in the tea sector and did not cover firms in Kenya.

Sinderman (1995) investigated activities of outsourcing providers and found that the outsourcing providers were taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives. However, the study fails to explore the extent of application of strategic outsourcing modes among tea processing factories in Kenya.

Reviewed literatures show that strategic outsourcing modes are critical in any organization and are done for purposes of cost reduction and quality improvement, among other reasons. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study the extent of application of strategic outsourcing modes used by factories processing tea using causal research design. Therefore, the extent of strategic outsourcing modes used by factories in the tea sector is not known.

2.2.3 Effect of strategic outsourcing modes on performance of KTDA managed Factories in Kenya

In another scenario, Elmuti and Kathawala (2000) examined the degree of success or failure of outsourcing strategy among organizations in Greece and found that about 31 per cent (85 firms) of the (270) organizations who reported that they did have an outsourcing program in their organizations reported that their outsourcing programs had failed (checked that it was not successful or indicated that it was too early in the effort to determine success), to achieve their stated objectives of influencing and enhancing organizational effectiveness, performance, productivity, cost-savings, cycle time,

customer service, market share and quality. However, the study did not cover factories in the tea sub-sector and failed to check on the extent of application of strategic outsourcing modes in tea sub-sector.

Using descriptive research design, Elmuti and Kathawala (2000) further examined how outsourcing programs were organized and identified two types of sourcing currently at the forefront of academic, government, and management attention were offshore subcontracting and controlled offshore manufacturing. However, they looked at general strategic outsourcing mechanisms as opposed to specific modes, did not use correlational research design and did not cover factories in the tea sub-sector.

A study by Ramarapu *et al.* (1997) investigated issues in foreign outsourcing and found that a country's unique cultural dimensions, laws and regulations, supporting infrastructure, and economic issues such as strikes and work stoppages were among the biggest obstacles to outsourcing success, followed by the limitations of outsourcing on the morale and performance of the remaining employees, management must step in and rebuild trust among the workers and jobs may need to be reevaluated and expanded or changed to fit the new organization. However, they failed to test identify the most dominant strategic outsourcing modes in the tea sector and did not cover tea firms in Kenya.

Fraye *et al.* (2001) using descriptive research design, studied the interrelationship between outsourcing strategy and performance and found that in order for an outsourcing strategy to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes, and global sourcing business capabilities. In addition, they found that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance, and customer service. However, the study used a small sample and purposive sampling and did not cover firms in the tea sub-sector.

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strategic outsourcing modes among firms in the tea sector and did not cover firms in Kenya.

According to another survey on commercial banks conducted by Duncan and Groves-Rowan (1997) on the relationship between outsourcing and performance and found that more than 65 percent of banks surveyed indicated that they were already involved in at least one type of outsourcing function. However, the study focussed on commercial banks as opposed to factories processing tea and did not cover strategic outsourcing modes Kenya.

A exploratory study by Carney (1997) on strategic issues, trends and strategies that companies take in establishing and effectively managing their outsourcing activities. The findings were that The trend is for outsourcing relationships to function more as partnerships. Outsourcing providers are taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiative. However, the study was an exploratory study as opposed to correlational study, focussed on strategic issues as opposed to strategic outsourcing modes and did not interrogate the effect of strategic outsourcing modes on the performance of firms in the tea sector.

Using descriptive research design, Klaas *et al.* (2001) studied outsourcing strategy effectiveness and its impact on organizational characteristics and found that the influence of organizational characteristics was highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities outsourced. As such, it appears that many factors such as pay level, promotional opportunities and demand uncertainty should be considered when deciding to outsource functions or activities. However, the study fails to explore the effect of strategic outsourcing modes on growth of sales in the tea sector. Moreover, did not cover firms in Kenya.

A study by Kotabe *et al.* (1998) on outsourcing performance measures found that the three types of performance measures necessary components in any outsourcing performance measurement system were strategic measures; financial measures; and quality measures. However, the study did not cover firms in the tea sub-sector. Similarly, Goldstein (1999) found that dimensions of market performance such as costs savings,

cycle time, customer satisfaction, and productivity to measure the effectiveness of outsourcing strategy. The study failed to interrogate the extent of strategic outsourcing modes on performance of firms in the tea sector.

Kotabe (1998) studied the relationship between outsourcing strategies and firm performance of manufacturing firms a negative long-term consequences of outsourcing resulting from a companys dependence on independent suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long-term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies. However, the study focussed on manufacturing as opposed to factories processing tea in Kenya.

Steensma *et al.* (2000) examined the outcomes of technology-sourcing partnerships from the sourcing firms point of view and found that, in general, equity-based alliances were more effective than contract-based outsourcing and outcomes from technology partnerships for sourcing firms depend on the interaction between technology attributes and the interdependence between source and sourcing firms. The study failed to interrogate the extent of strategic outsourcing modes on performance of firms in the tea sector.

Greer *et al.* (1999) studied motivations and reasons for outsourcing activities and found that global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host countries or third party nationals. However, the study did not test the relationship between strategic outsourcing modes and performance of factories processing tea in Kenya.

Using multiple regression analysis a study by Casale (1996) explored the purpose of outsourcing strategy and found that performance, cost-savings, productivity, cycle time, customer service, market share, and quality were the goals of outsourcing strategy. In other findings, majority of the respondents indicated that they achieved 10 per cent to 15 per cent improvement in performance, 5 per cent to 10 per cent in cost savings, 5 per cent to 10 per cent improvement in productivity, less than 10 per cent improvement in cycle time, 5 per cent to 10 per cent improvement in customer service, less than 5 per cent improvement in market share, and less than 5 per cent improvement in quality. This

suggested that while organizations were not getting the projected or the promised order of magnitude improvements ascribed to outsourcing, they were achieving significant improvement in their activities.

The multiple regression values indicated that 36 per cent of the variance in productivity, 29 per cent of the variance in quality, 9 per cent of the variance in satisfaction, and 38 per cent of the variance in performance was explained by linear regression on the outsourcing strategy dimensions. However, the study failed to link strategic outsourcing modes to performance, did not cover factories in the tea sector and was not done in Kenya.

Sinderman (1995) investigated activities of outsourcing providers and found that the outsourcing providers were taking increasing responsibility in realms that have traditionally remained in-house, such as corporate strategy, information management, business investment, and internal quality initiatives. However, the study fails to explore the extent of application of strategic outsourcing modes among tea processing firms in Kenya.

Reviewed literatures show that strategic outsourcing modes are important factors in enhancing firm performance in terms of cost reduction and quality improvement, among other reasons. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; do not study firms in the tea sector. They employ primary data based on cross-sectional study units, but fail to study the effect of strategic outsourcing modes on performance of firms in the tea sector using causal research design. Therefore, the effect of strategic outsourcing modes on performance of factories in the tea sector is not known.

2.3 Summary of Literature and Knowledge Gaps

Existing literature show diverse relationships exist between strategic outsourcing modes and firm performance but none relates these concepts using causal research design for KTDA managed factories in Kenya. Literature shows that Prior researches use purposive sampling methods, small samples and exploratory or case study research designs and descriptive statistics; study firms in sectors other than tea sector. They employ primary data based on cross-sectional study units, but fail to study tea processing firms using causal research design. Therefore, it was unknown how strategic outsourcing modes related to performance of KTDA managed factories in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the research methodology, research design, study area, target population, sampling frame, data collection methods, data analysis and finally data presentation.

3.1: Research Design

As observed by Robson (2002) research design begins with selection of the topic and a paradigm. Research paradigm is a broad view or perspective of a study (Taylor *et al.* 2006) or patterns of beliefs and practices that regulate inquiry within a discipline by providing lenses, frames and processes through which investigation is accomplished

The study employed a causal research design which involves relating two or more variables and allows predictions of outcomes based on causative relationships between the variables (Mugenda and Mugenda, 2003). According to Mugenda and Mugenda (2003), causal research explores the relationship between variables, that is, the effect of one thing on another and more specifically, the effect of one variable on another. Mugenda and Mugenda (2003) contend that causal research has the advantage of being relatively cheap and it is used for the current study so as to assess the relationships between study variables.

3.2: Study Area

The study was carried across the country for all KTDA 66 managed factories as shown in Appendix III. According to KTDA, the factories fall on the east or west side of the rift divided into 12 zones, each with a representative board member, and 7 regions headed by regional managers as shown in Appendix IV.

3.3: Target Population

Mugenda and Mugenda (2003), defined target population as the set of individuals, cases or objects with some observable characteristics, to which a researcher wants to generalize the results of the study. The target population size for this study was all the 729 respondents drawn from directors (357), Factory unit managers (FUMs) (66), Factory Accountants (66), KTDA head office staff (30) and other employees (210).

3.4: Sampling Frame

Categories	Population Frequency	Proportion	Sample Size
Directors	357	33%	118
FUMs	66	100%	66
Factory Accountants	66	100%	66
KTDA H/O staff	30	13%	4
Other Employees	210	33%	70
Total	729		324

According to Hayer (1997), sampling techniques is a statistical determination of the appropriate sample size and enables the researcher to generalize results to the population. In this study purposive sampling was used, first divides the population into meaningful, non-overlapping sub-sets and then randomly chose the subjects from each sub-set per company censured/surveyed. Purposive sampling was appropriate because it gave each respondent equal probability of being chosen based on their contribution to decision making.

The sample size was large enough to allow a representative conclusion from the population. This study used the stratified random sampling technique. Stratified random sampling is a modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or more attributes (Saunders, *et al.*, 2007). This sampling design was used because it was deemed suitable for a highly concentrated geographical area where face to face contact is required and also where the population can be divided into two or more sub units based on certain internal characteristics (Mugenda and Mugenda, 1999). The employees were stratified by categories of their roles/responsibilities. Simple random sampling was then used to pick the respondents that formed the

sample for the study Sample size according to Mason, Lind and Machal (2002) and Nargundka (2003) was calculated as below

$$n = p \cdot q \cdot (z/e)^2 \dots \dots \dots (3.1)$$

Where:

- n -Sample size
- p - Proportion belonging to specific category, in this case equivalent to 0.5.
- q -Proportion not belonging to specific category, equivalent to 0.5.
- z - The z-value corresponding to the level of confidence, being 95 percent.
- e -Margin of error, being 5 percent

Therefore:

$$n = 0.5 \cdot 0.5 \cdot (1.96/0.05)^2 = 384$$

With a total population N of 384 the adjusted minimum sample size n will be determined according to de vaus (2000).

$$n = \frac{n}{1+n/N} \dots \dots \dots (3.2)$$

$$n = \frac{384}{1+384/729}$$

$$n = 251$$

To take care of non-response (mugenda & Mugenda, 2003); 73 additional respondents were added making effective sample to be 324 respondents. Out of these, 300 adequate responses were received and used for the study

3.5: Data Collection Methods

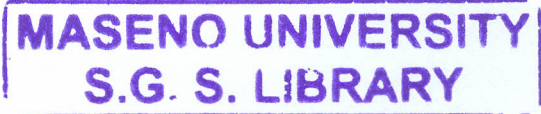
The researcher used both primary and secondary data. A questionnaire (see Appendix II) with closed and open-ended questions was used to collect the primary data. The questionnaire was pre-tested with two academic advisers and 10 practitioners to confirm clarity of the questions.

3.5.1: Sources of Data

Primary data was collected from the individual factories and secondary data were inferred from the records of the said companies.

3.5.2: Data Collection Procedure

A pilot test was carried on 10 respondents who were excluded in the main study. The data was collected using a questionnaire and this was chosen because it is quite efficient. Parts I were questions relating to a brief background of respondents in the study. And part II consists of questions relating to the independent variables identified which will be used in



analysing the relationship between independent variables and dependent variable. The questionnaires were dropped and picked up later from the respondents. Data obtained was scrutinized for any errors in instruments and to remove bias, the services of research assistants were sought to assist in data collection.

3.5.3: Instrument for Data Collection

In order to obtain specific answers and also to clearly indicate to the participants the aims of the questions under each section, the questionnaire were deliberately divided into sections. The questionnaire comprised of both close ended and open ended questions.

3.5.4: Reliability Test(s) for Data Collection Instrument

In this final step, reliability of the questionnaire using a pilot test was carried out as illustrated earlier on in Section 3.5.2 The pilot test sought to answer the question, does the questionnaire consistently measure whatever it purports to measures? When a questionnaire is used, establishing reliability commonly involves administration of the questionnaire or portions of the questionnaire to the same respondents at different times or under different circumstances in order to assess how stable the answers are. The instrument was reliable at Cronbach's Alpha of .701 and therefore was deemed reliable as it was above the cut-off level (Norland, 1990).

Table 3.5: Summary of Cronbach's Alpha Reliability Test Results

Construct	No. of Items	Cronbach's Alpha
Strategic outsourcing modes	21	0.850

Source: Field Data, 2014

Strategic outsourcing modes had alpha of 0.850, indicating strong internal consistency among measures of variable items.

3.5.5: Validity Test (s) for Data Collection Instrument

Validity is the amount of systematic or built-in error in measurement (Norland, 1990). Validity was established using a panel of experts /academic advisers and a field test in 10 factories. The basic principle for establishing validity is the same as for corroborating

audit observations and conclusions generally, that is, compared to evidence from different sources and of a different nature.

3.6: Data Analysis

The study adopted causal research approach which was used to summarize the characteristics of the respondents. The quantitative data was analysed by use of both the descriptive and inferential statistics. The descriptive statistics involved the use of mean, frequency, percentages and standard deviation. In order to check the effect of strategic outsourcing on performance of KTDA managed factories, Pearson Correlation and multiple regression analyses were used.

3.6.1 Model Specification

In order to exhibit the effect of strategic outsourcing modes on the performance of KTDA managed factories, the estimation model used by Corbett (1999) was adopted and modified as:

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + e \quad (3.3)$$

Where:

Y= is performance measure (growth in sales)

B₀ = refers to time-invariant firm-specific effects.

B₁, B₂, B₃, B₄, B₅ and B₆= Coefficients

X₁= Management services

X₂ = Security services

X₃ = Tea packing services

X₄ = Tea Processing services

X₅ = Tea Transport services

X₆ = GL Delivery

e = is a random disturbance

3.7: Data Presentation

Data was presented using descriptive statistics involving the use of frequencies and percentages were used to summarize data which were presented in tables, graphs and pie charts.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter presents the study results and discussion objectively. Background is presented followed by results and discussion for each specific objective.

4.1: Demographic Characteristics

The demographic and contextual characteristics considered were respondents' age, gender, relationship with the factory (designation), experience and relative ranking of the factory vis-a vis the others.

Table 4.1: Respondents' Age Bracket

Respondents' Age Bracket	Frequency	Percent	Cumulative Percent
18-25 Years	20	6.7	6.7
26-30 Years	60	20.0	26.7
31-35 Years	131	43.7	70.3
Above 35 Years	89	29.7	100.0
Total	300	100.0	

Source: Field Data, 2014

Table 4.1 shows the analysis of the respondents' age bracket. The results indicate that majority (43.7%) of the respondents aged between 31- 35 years, with 29.7 % of the respondents' are aged 35 years and above. Only 6.7 % of the respondents were aged between 18-25 years. The same information is presented in the Figure 4.1.

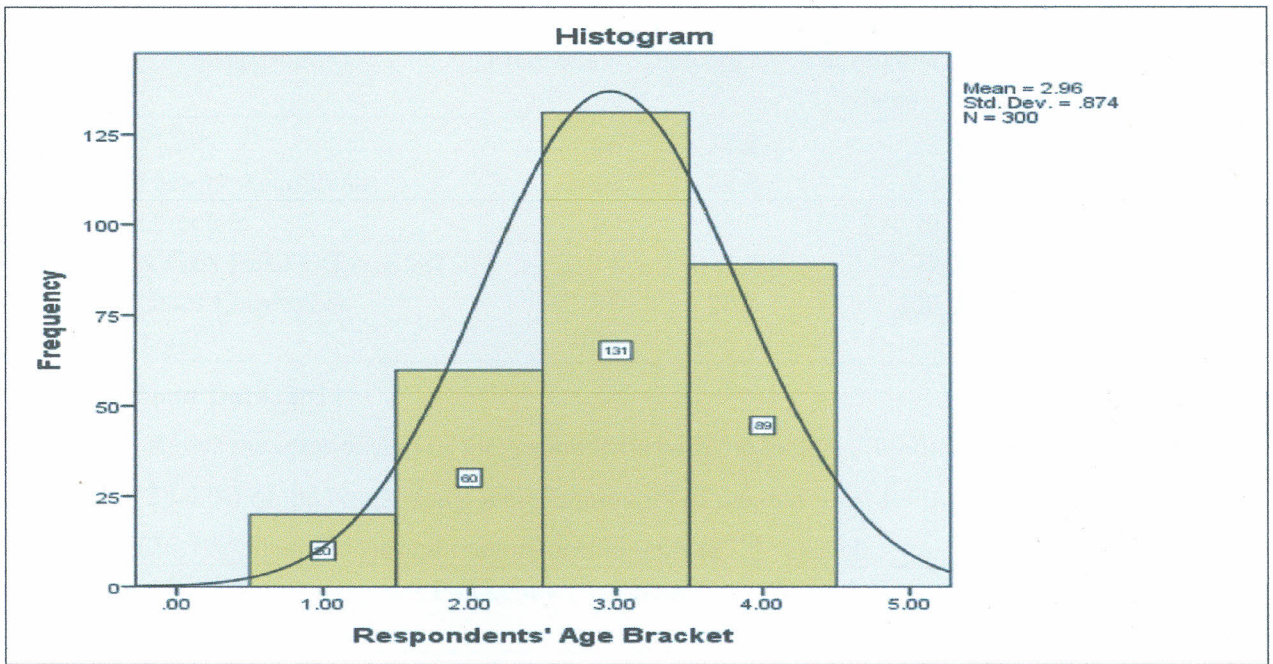


Figure 4.1: Respondents' Age Bracket

Table 4.2: Respondents' Gender

Gender	Frequency	Percent	Cumulative Percent
Male	181	60.3	60.3
Female	119	39.7	100.0
Total	300	100.0	

Source: Field Data, 2014

Table 4.2 indicates that majority (60.3 %) of the respondents were men, while only 39.7 % were women. This implies that most senior managers in these KTDA managed firms are men. The same information is presented in the Figure 4.2.

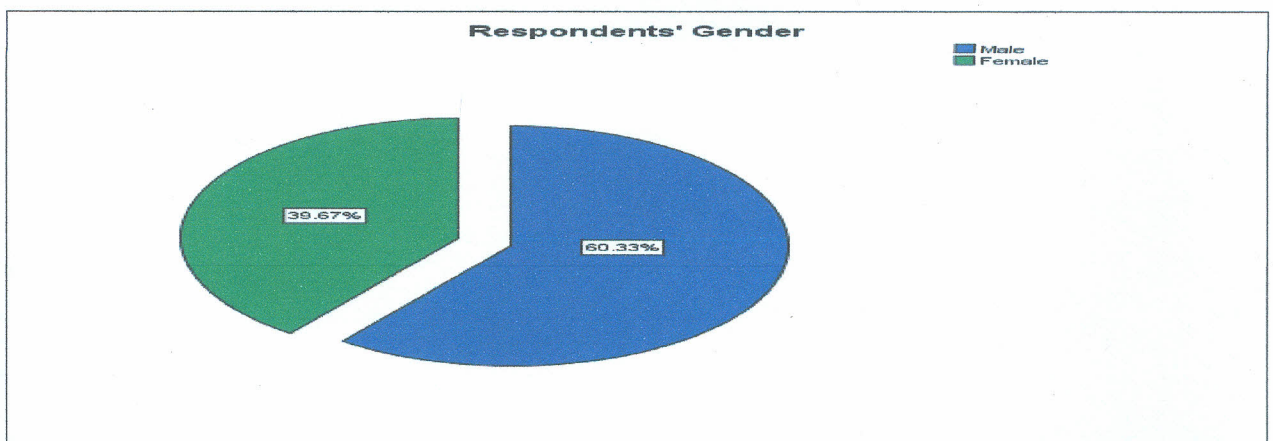


Figure 4.2: Respondents' Gender

Designation	Frequency	Percent	Cumulative Percent
FUMs	66	22.0	22.0
Factory Accountant	66	22.0	44.0
Directors	80	26.7	70.7
KTDA Head Office Staff	4	1.3	72.0
Other Employees	84	28.0	100.0
Total	300	100.0	

Source: Field Data, 2014

Table 4.3 shows the relationship of the respondents with the factory. It indicates that majority (28.0 %) of the respondents were employees of the factories, followed by the directors (26.7%), then FUMs and Factory accountants (22.0 %) each.

Experience	Frequency	Percent	Cumulative Percent
Below 1 year	16	5.3	5.3
2-4 years	48	16.0	21.3
5-7 years	115	38.3	59.7
7 years and above	121	40.3	100.0
Total	300	100.0	

Source: Field Data, 2014

When asked about their working experience, majority (40.3%) of the respondents indicated that they had served their respective factories for a period of 7 years and above, while only 5.3 % of the respondents had served for a period of less than a year. On the other hand, 38.3 % of the respondents had served for a period between 5-7 years. The same information is presented in Figure 4.3.

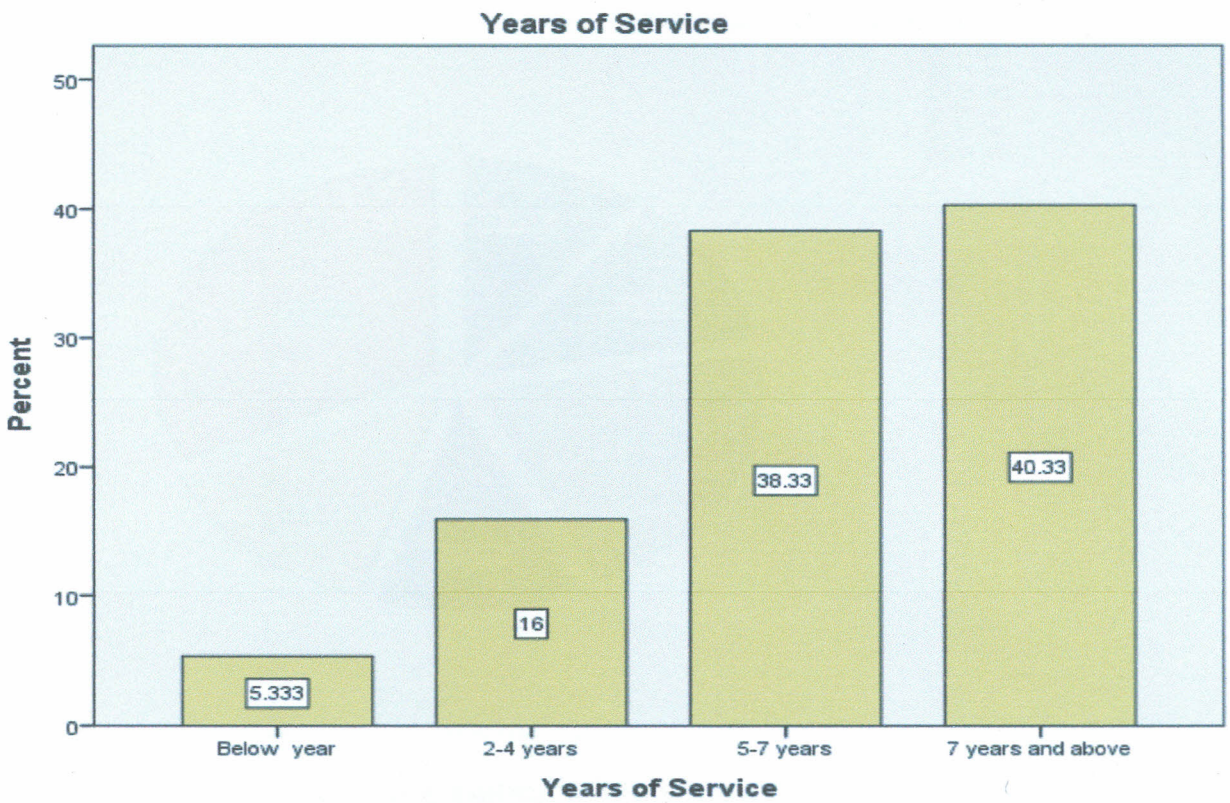


Figure 4.3: Respondents' Years of Service

Ranking	Frequency	Percent	Cumulative Percent
1-10	31	10.3	10.3
11-20	35	11.7	22.0
21-30	63	21.0	43.0
31-40	35	11.7	54.7
41-50	40	13.3	68.0
51-60	96	32.0	100.0
Total	300	100.0	

Source: Field Data, 2014

When asked to rank their past performance, majority (32.0 %) of the respondents indicated that their factories ranked among the last ten (51-60), while, only 10.3 % of them indicated that their factories ranked among the first ten (1-10). The same information is presented in Figure 4.4.

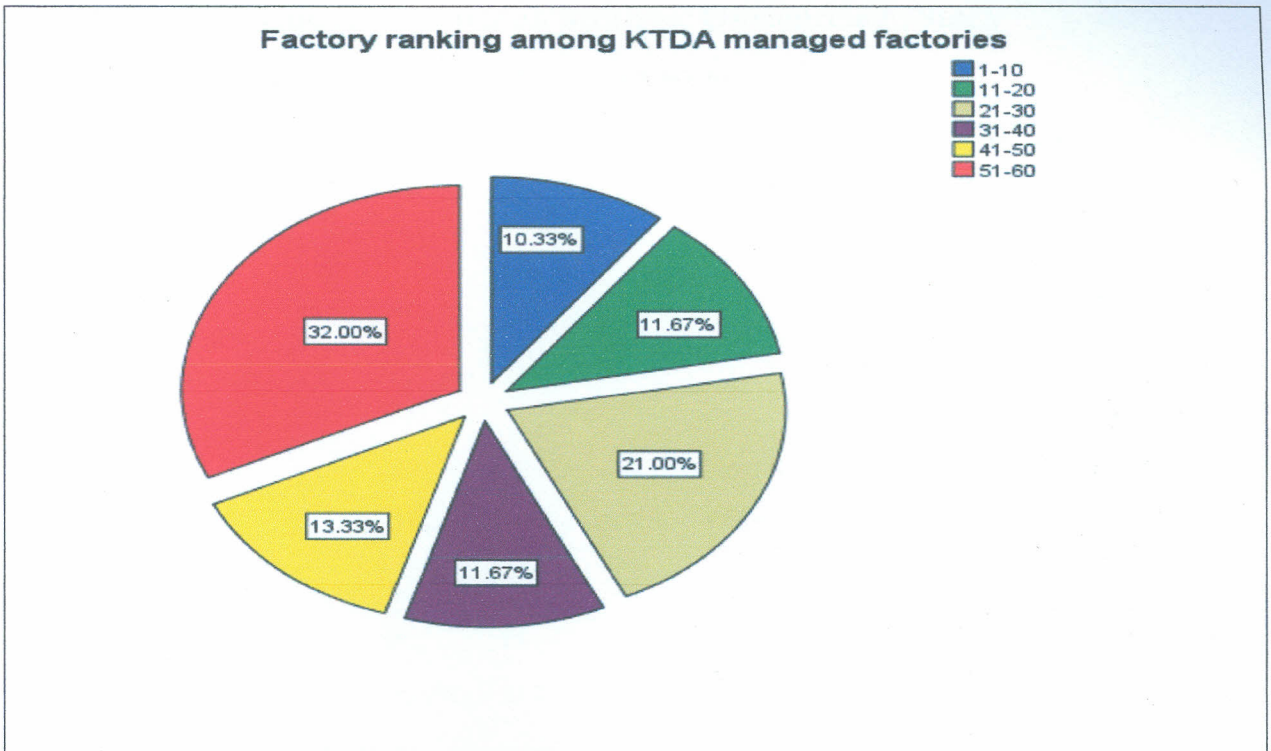


Figure 4.4: Factory Ranking among KTDA Managed Factories

4.2: Strategic Outsourcing Modes adopted by KTDA Managed Factories in Kenya

To achieve this objective, the respondents were asked to rate the degree of importance of various strategic outsourcing modes adopted by KTDA managed factories in Kenya. The descriptive statistics were then computed and the results are presented in Table 4.6.

Table 4.6: Descriptive Statistics on Strategic Outsourcing modes Adopted by KTDA Managed Factories in Kenya

	4	3	2	1	Frequency	Mean	Std. Dev
a. Management services	98	90	70	42	300	2.8133	1.04345
	32.7 %	30.0 %	23.3 %	14.0 %	100%		
b. Security services	65	117	67	51	300	2.6533	1.00158
	21.7 %	39.0 %	22.3 %	17.0 %	100%		
c. Tea support services	39	65	104	92	300	2.1700	1.00887
	13.0%	21.7%	34.7%	30.7%	100%		
Overall	Mean	2.54553				1.01797	

Key: *Very Important=4, Important=3, Not Important=2, Extremely Unimportant=1*

Source: Field Data, 2014

Table 4.6 shows over 50% of respondents indicated that both management services (62.7%) and security services (60.7%) were very important strategic outsourcing modes adopted by KTDA managed factories, in Kenya. Even though management services (mean= 2.813, SD = 1.043) had a higher mean than security services (mean = 2.653, SD =1.001), it had a greater variation at the mean. The tea support services were largely regarded as (extremely) unimportant. These results were consistent with previous studies (Sinderman, 1995, Faber, 1995; Carney, 1997) who found that 42 percent of communication firms, 40 percent of computer manufactures, and 37 percent of semiconductor companies in USA relied on global outsourcing in terms of subcontracting respectively. However this study uniquely shows management services as the most important strategic outsourcing model adopted by KTDA managed factories in Kenya (in terms of mean responses). Moreover the percentages of adoption were higher than those observed these prior studies. Given that no prior studies had considered the tea sector in terms of strategic outsourcing, this result evident that management services as the most important strategic outsourcing mode adopted by KTDA managed factories in Kenya.

4.3: The Extent to which Strategic Outsourcing Modes are used by KTDA Managed Factories in Kenya

To achieve this objective, the respondents were asked to indicate which extent strategic outsourcing modes were adopted by KTDA managed factories in Kenya. The descriptive statistics were computed and the results are presented in Table 4.7

Table 4.7: Descriptive Statistics of Strategic Outsourcing Modes used by KTDA Managed Factories in Kenya

	5	4	3	2	1	Mean	Std. Dev
a. Management Services	24 8.0 %	91 30.3 %	77 25.7 %	60 20.0 %	48 16.0 %	2.9433	1.21037
b. Security Services	100 33.3 %	80 26.7 %	49 16.3 %	37 12.3 %	34 11.3 %	3.5833	1.35740
c. Tea Packing	30 10.0 %	55 18.3 %	65 21.7 %	80 26.7 %	70 23.3 %	2.6500	1.29089
d. Tea Processing	26 8.7%	52 17.3%	52 17.3%	91 30.3%	79 26.3%	2.5167	1.28396
e. Tea Transport	96 32.0%	78 26.0%	49 16.3%	42 14.0%	35 11.7%	3.5267	1.36950
f. GL Delivery	110 36.7%	72 24.0%	45 15.0%	39 13.0%	34 11.3%	3.6167	1.38424
				Overall	Mean	3.13945	1.31606

Key: very large extent=5, large extent=4, small extent=3, very small extent=2, no extent at all=1

Source: Field Data, 2014

Table 4.7 results indicates that security services (mean = 3.583, SD =1.357), Tea transport (mean = 3.527, SD = 1.370 and green leaf delivery (mean=3.617, SD = 1.384) were used by KTDA managed factories in Kenya to a large extent. This contrasted with management services; tea processing and tea packing which were used to small extent by the KTDA managed factories in Kenya. These findings are in tandem with those of Bender 1999; Quinn 2000; Dun and Bradstreet 2000; Klaas, McClendon and Gainey, 2001 who found that the most outsourced modes were security and transport services. This study however, added a new knowledge by demonstrating that green leaf delivery (a strategic outsourcing mode) in the tea sector was used to largest extent.

4.4: Effect of Strategic Outsourcing Modes on Performance of KTDA Managed Factories in Kenya

To achieve this objective, the respondents were asked to rate the extent to which they agreed to statements regarding the status the strategic outsourcing modes and performance of KTDA Managed Factories in Kenya. A multiple regression analysis was performed and the results are presented in table 4.8 and 4.9. Based on the result on table 4.8, overall the model explained only 10% of the total variance(R square = .1000). Adjusted R. squares= .082 showed that the shrinkage was less than .05 (fields, 2005). The correlation between the dependent variable and independent variable was R = .316, this correlation was positive however lower than .75 (Sakaran, 2003. Durbin Watson statistics 1.569 was within the acceptable range (1.5 – 2.5) (fields, 2005) implying no autocorrelation. Tolerance was less than 1 for all variables and VIF was also less than 10 for all the variables (field, 2005) implying multi collinearity was ruled out. Given the robustness of the model, it was used to predict the relationship between performance and strategic outsourcing modes adopted by KTDA managed factories in Kenya as presented in table 4.9

Table 4.8: Model 1 Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.316 ^a	.100	.082	.91613	1.569

a. Predictors: (Constant), GL Delivery, Tea Transport, Management Services, Security Services, Tea Packing, Tea Processing

b. Dependent Variable: Sales Growth

Source: Survey Data, 2014

Table 4.9: Multiple Regression Model showing the Effect of Strategic Outsourcing on Performance*

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
	(Constant)	2.464	.315				7.827
Management Services	.264	.052	.295	5.026	.000	.890	1.124
Security Services	.013	.057	.013	.224	.823	.981	1.019
Tea Packing	-.032	.055	-.034	-.578	.564	.897	1.115
Tea Processing	-.202	.056	-.216	-3.643	.000	.874	1.144
Tea Transport	.056	.055	.058	1.033	.303	.970	1.031
GL Delivery	.019	.053	.021	.359	.720	.888	1.126

*. Dependent Variable: Sales Growth

Source: Field Data, 2014

Results in table 4.9 indicated that two strategic outsourcing modes: management services (B = .264, P =.000) and tea processing (B =- .202, P =.000) were positively and negatively significant related to sales growth the descriptor for performance in KTDA managed factories in Kenya. This implies that outsourcing management services improved performance while outsourcing tea processing led to reduced performance. Security services, tea packing, tea transport and green leaf delivery were found to be non-significant strategic outsourcing predictors of performance in the tea sector.

Whereas two strategic outsourcing modes were significant predictors of performance, the overall model prediction was very small implying that strategic outsourcing modes were not major predictors of performance in the tea sector. This confirmed the prediction of Katobe *et al* (1998) who found out a negative long term consequence of outsourcing resulting from a company's dependence on independent suppliers. Steensman (2000); Oxley and Silverman (1996) advocated for equity based alliances as opposed to contract – based outsourcing. This study however, showed contract based outsourcing in terms of management services and tea processing to be the significant predictors of performance in the Kenyan tea sector. Therefore strategic outsourcing in terms of management services and tea processing were uniquely found to be significant predictors of performance in terms of sales growth in KTDA managed factories in Kenya.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of study findings, conclusions and recommendations based on the major findings.

5.1 Summary of the Findings

Based on descriptive statistics, objective one, management services as the most important strategic outsourcing mode adopted by the KTDA managed factories in Kenya. Objective two, equally found out that green leaf delivery was the strategic outsourcing mode used to the largest extent in the tea sector in Kenya based on the descriptive statistics. By use of multiple regression analysis, objective three found that two strategic outsourcing modes namely management services and tea processing significantly predict performance in terms of sales growth in KTDA managed factories in Kenya.

5.2 Conclusions of the Study

The study conclusions are outlined as per the objectives as follows:

From the findings of objective one, it can be concluded that management services was rated as the most prevalent strategic outsourcing mode among KTDA managed factories in Kenya. Based on objective two findings, it can be concluded that the strategic outsourcing mode used to the largest extent by KTDA managed factories in Kenya was green leaf delivery. From the findings of objective three, it can be concluded that the strategic outsourcing modes; management services and tea processing significantly predicted performance in KTDA managed factories in Kenya.

5.3 Recommendations

Based on conclusion of objective one, KTDA managed factories in Kenya, should continue using outsourced management services. From the conclusion of objective two, KTDA managed factories in Kenya should monitor green leaf delivery as a strategic outsourcing mode so as not to compromise quality as this was used to the largest extent by these factories. Similarly, from conclusion of objective three, KTDA managed

factories in Kenya should continue outsourcing management services this was found to significantly affect performance. KTDA managed factories should continue outsourcing management services while reducing outsourcing tea processing.

5.5 Limitations of the Study

The outcome of the study cannot be generalized to all tea factories in Kenya since the study was limited to KTDA managed factories and did not incorporate large scale tea factories. The study adopted a descriptive research design. The use of predetermined questions may have forced respondents to respond to questions even without properly understanding them. Some respondents did not provide answers to all questions asked and this could have influenced the final result.

5.6 Suggestions for Further Research

In order to improve this study, the researcher would like to suggest the following for further investigation. An exclusive study on the constraints facing tea factories in Kenya. Future research should be conducted on categories of tea production in Kenya and compare their performance. Such characteristics could be on the non-core activities they outsource.

Testing of the relative importance of the strategic outsourcing modes/mechanisms could also be explored. Further research could be conducted based on various tea zones since such areas represent a variation in target markets and consequently the customers buying habits. Comparisons could be done on whether or not there is any variation or similarity.

Lastly, future research efforts could dwell on large scale tea factories and use more robust research designs such as time series and case studies.

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