EFFECTS OF OUTSOURCING DECISION ON ORGANISATION PERFORMANCE IN THE MANUFACTURING INDUSTRY
CASE OF UNILEVER GROUP LIMITED IN KENYA

1MASINGA, Emmanuel Kaleli & 2KIARIE David
1M.Sc Scholar, Jomo Kenyatta University of Agriculture and Technology, Kenya
2Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya
*Email of corresponding author: mersyger@yahoo.com

ABSTRACT
Firms have always sought ways to gain a competitive advantage over their competitors; one avenue that firms have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations, which has been found to provide a competitive advantage and heightened performance to these firms. The study therefore was purposed to establish the effect of outsourcing on decision on organizational performance of manufacturing industry using Kenya Unilever Group Limited as a case study. Information technology adoption, cost reduction and top management support and commitment were positively correlated to organization performance The study recommends that the management should take into account the variables considered since the results shows that there is a significant relationship between the predictor information technology adoption, top management support and commitment, focus on core competencies and cost reduction (taken together) and organization performance in Kenyan manufacturing firms.
Keywords: outsourcing, organization performance, decision, manufacturing industry

INTRODUCTION
Early researches in outsourcing indicates that outsourcing is not a new phenomenon, for example the company Electronic Data Systems handled the data processing services for other businesses as early as 1963 (Agren and Winther, 2007). In this early stage of outsourcing, computer service companies were mainly used to run programs within the areas of financial and operational support, for example payroll and administration (McFarlan et al., 1995 cited in Agren and Winther 2007). One of the major turning points in the history of IS outsourcing experience was related to Eastman Kodak; at that time Kodak made the decision to make a total IS outsourcing agreement with three large IS external service providers. According to (Dibbern et al 2004 cited in Dublin and Cranfield, 2006), Kodak’s one billion outsourcing deals led to the widespread interest in outsourcing.
Globalization has resulted in a more integrated and interdependent world economy, where firms choose to concentrate or disperse value adding activities around the world, according to potential locational advantages (Rundh, 2007, Stonehouse et al, 2005 and Zhao et al, 2006). Outsourcing is, according to Harland et al (2005), ‘Sourcing activities externally that an organization has internal capability to perform’.Firms who achieve success in their international business, are those that perceive the changes in the international environment and who are able to develop strategies that nable them to respond accordingly, (Rundh, 2007).
Forrester 2006 cited in Gonzalez et al., (2009) Estimates that the value of the worlds outsourcing market is 120 billion dollars per year. In addition 87% of the companies interviewed by KPMG plan to maintain or increase their current outsourcing level and 42% of them thought that their outsourcing contracts improved their IS services.
In reality, outsourcing is an umbrella term that includes a range of sourcing options that are
external to the firm’ (Sanders, et al 2007). As increasing global competition forces organizations to continuously find ways to improve business performance, McIvor et al (2009) believe that outsourcing allows firms to look beyond their traditional boundaries to obtain this performance improvement. Lankford and Parsa (1999) and McIvor et al (2009) see outsourcing as a means of re-engineering the organization, that is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed. In the era of “global market” and “e-economy”, outsourcing is one of the main pillars of the new way to conceive the relationships among companies (Franceschini et al, 2003). Also reiterated that outsourcing represents 18.42% of the world GDP. In developing countries, outsourcing is increasingly recognized as essential in service delivery (Bharadwaj and Saxena, 2009)

Not alone has the criticality of the products being outsourced increased, so too has the nature of the ‘product’ changed to include product manufacturing, product testing, R&D, IT and business process outsourcing (BPO) and customer service. Zhu et al (2001) cite Deaver’s 1997 research, which indicates that the increased level of outsourcing in the USA can be attributed to four fundamental changes in the competitive market environment, these include rapid technological change, the increased risk and search for flexibility, a greater emphasis on core corporate competencies and finally globalization. The amount of money that businesses spend on services continues to grow with the increase in offshoring, (Tate and Ellram 2009). The maturing Information Technology Outsourcing (ITO) and BPO markets offer back office executives tremendous opportunities to drive business value (Lacity et al, 2008). BPO, is the fastest growing sector in India, growing at a compound annual growth rate of nearly 37% (Bharadwaj and Saxena, 2009), sees organizations transfer responsibility for entire functions, such as human resources management, finance and information services to external service providers. Managers are increasingly feeling pressure to make the right sourcing decision, as the business consequences can be quite significant (Sanders et al 2007). Whilst outsourcing can result in lowered costs and competitive advantage, poorly made outsourcing decisions can lead to a variety of problems such as increased costs, brand damage, disrupted service, loss of operational knowledge and even business failure.

For example, Roth et al (2008) highlight that global sourcing is typically accompanied by additional costs for supply chain oversight, logistics, pipeline inventory, and quality management. Their research identified that Food and Drug Administration (FDA) reports of carcinogens, pesticides, bacteria, drugs and heavy metals in imported foods have served as a wake up call to the American populace about the quality risks of global sourcing, especially from China. Transaction cost theory established four categories of costs which need to considered (Calantone & Stanko, 2007). These include adaption costs, safeguarding cost, measurement and transaction frequency costs. When considering these costs, account needs to be taken of asset specificity, bounded rationality and potential opportunistic behaviour of the supplier. All costs need to be established and benchmarked. Mistakes in identifying core and non-core activities can lead organizations to outsource their competitive advantages and once organisational competence is lost it is difficult to rebuild (McIvor, 2000, Harland et al, 2005).

Flexibility is the key to creating the win-win situation. In order to stay competitive in today’s global marketplace, companies of all sizes are realizing that outsourcing must be an option for them. In essence, you get to use the expertise and technologies of others, thus eliminating your own capital investment and staffing requirements. It is a great way to reduce your costs. Additional benefits of outsourcing relationships are paying for the results, components, or products received, the hours worked, the products sold, and so on. It allows you to know exactly what each product or result will cost before you decide to obtain it. Using outsourcing allows you to establish a more accurate price for the product or service you are outsourcing (Meixner 2010).

Njeri (2011) conducted a study on factors that influence business process outsourcing services by horizon call centre in Nairobi Kenya. She argued that the factors that influence business process outsourcing services in call centres in Nairobi are mainly technology and infrastructure. She also added that due to economic issues such as inflation, labour costs have become too high compared to countries like India
and Philippines. According to Njuguna (2010) the government of Kenya should ensure continuous growth of the BPO sector by offering competitive or attractive tax regime, removal of conflicting regulatory structures, encouraging or construction of BPO locations, encourage standardization of regulatory work related procedures and processes in BPO industry.

Kinyua (2001) conducted a study on outsourcing of selected financial activities by large firms in the NSE. He argues that for a company to be successful it should have a portfolio of competencies rather than a focus on profits. Another study conducted by Nyarandi (2001) found out that although most outsourcing initiatives are formed with 7 clear objectives, implementations if not carried out well may give rise to dissatisfaction in outsourcing.

Kirui (2001) focused on how competitive advantage through outsourcing of non-core logistics activities within the supply chain of BAT could be beneficial. The study focussed on how competitive advantages through outsourcing of non core logistics activities within the supply chain of BAT could be beneficial. Karani (2007) carried a study focusing on factors impacting delivery reliability of road projects. He identified the main CSF impediments as contractors and clients cash flow problems and delayed payment to contractors.

Statement of the Problem
According to Leonard & Javaid. (2012) organizational performance has declined from 4.3 percent in 2011, to 3.4 percent in 2012. The organizational performance of Russia slowed in the second half of the year 2011 due to weak net exports, negative base effects, and destocking at the end of the year. More than four years after the global financial crisis hit, the world economy remains sluggish. Industrial production lost momentum throughout last year, exports declining at a moderate pace, and imports even declined for three month during autumn 2012. Growth declined mainly due to weaker performance of investment. According to preliminary estimates at Russia, the capital account deficit amounted to US$40.9 billion or 2 percent of Gross Domestic Product (GDP) in 2012, compared to US$76.2 billion or 4 percent of GDP in 2011. The labor market remains tight. The unemployment rate declined across the country, and vacancy and replacement rates increased.

According to World Bank (WB) (2006) there has been a decline in organizational performance. Statistics indicate there was a decline of organizational performance from 3.1 percent to 2.5 percent. Higher oil prices, domestic capacity constraints, and slower demand for export brought GDP growth down from 6.8 percent in 2004 to estimated 5.9 percent in 2006. In Africa organization performance declined further due to increased terrorism attacks since 2001. Example there was decline in organizational performance of 6 percent in Uganda, 5 percent in Bangladesh and Ghana. (WB, 2006).

Sangingilu, (2008) Organization performance decline can be caused by several reasons such as; “taking too much debt, overestimating the potential for sales growth, ignoring the profit depressing effects of an overly aggressive effort to buy market share with deep price cuts, being burdened with heavy fixed costs because weak sales do not permit near-full capacity utilization, failing to come up with innovations, use of poor technology in operations, being too optimistic about the ability to penetrate new markets, making frequent changes in strategy, (because the previous strategy didn’t work out) and being overpowered by more successful rivals,” (Thompson et al, 2007).

Inspite of having various studies undertaken on outsourcing decision on organizational performance in an organization by (Njeri, 2011, Njuguna, 2010, Karani, 2007, Nyarandi, 2001, & Kinyua 2001) there has been little research on the effect of outsourcing decision on organization performance. Thus these research is uniquely positioned to establish the missing link on the effects of outsourcing decision on organization performance on special reference to unilever Group Limited

Research objective
The purpose of the study is to establish the effect of outsourcing decision on organizational performance in the manufacturing industry. The specific objectives are:
1. To establish the effect of Information Technology adoption on organizational performance.
2. To establish the effect of cost reduction on organizational performance.
3. To examine the effect of Top Management Support on organizational performance.
4. To determine the effect of increased Focus on Core Competencies/business on organizational
performance.

**Research Questions**
1. What is the effect of Information Technology adoption on organizational performance in manufacturing industry?
2. What is the effect of Reduced Cost on organizational Performance in manufacturing industry?
3. What is the effect of Top Management Support on organizational Performance in manufacturing Industry?
4. What is the effect of increased focus on core competencies/business on organizational performance manufacturing industry?

**THEORETICAL REVIEW**

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

**Resource-Based View Theory**

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

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

**Resource Dependency Theory**

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

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

The resource-based theory of the organization holds that, in order to generate sustainable competitive advantage, a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable and not readily obtainable in factor markets. This theory rests on two keys points. First, that resources are the determinants of organization performance and second, that resources must be rare, valuable, difficult to imitate and non-substitutable by other rare resources. When the latter occurs, a competitive advantage has been created (Priem and Butler, 2001).

Organizations depend on multidimensional resources: labor, capital, raw material, etc. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must have to function. For example, a burger outlet can't function without bread. An organization may adopt various countervailing strategies it may associate with more suppliers, or integrate vertically or horizontally (Kloptick, 2001).
Diffusion of Innovation theory
The diffusion theory, also known as the diffusion of innovations theory, is a theory concerning the spread of innovation, ideas, and technology through a culture or cultures (Rodgers, 1962). Diffusion theory states that there are many qualities in different people that cause them to accept or not to accept an innovation. There are also many qualities of innovations that can cause people to readily accept them or to resist them. According to diffusion theory, there are five stages to the process of adopting an innovation. The first stage is knowledge, in which an individual becomes aware of an innovation but has no information about it. Next is persuasion, in which the individual becomes actively interested in seeking knowledge about the innovation. In the third stage, decision, the individual weighs the advantages and disadvantages of the innovation and decides whether or not to adopt it. After the decision comes implementation, in which the individual actually does adopt and use the innovation. Confirmation is the final stage. After making adopting the innovation, the individual makes a final decision about whether or not to continue using it based on his own personal experience with it. These same stages apply, to varying degrees, to groups of people in addition to individuals (Rogers, 2002).

Conceptual Framework
In this study, organizational performance will treated as the dependent variable while cost reduction, employee competence, innovativeness and focus on core competencies as the dependent variables. This is shown in Figure 1.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information technology adoption</strong></td>
<td><strong>Organizational Performance</strong></td>
</tr>
<tr>
<td>Supply chain collaborations</td>
<td>Profitability</td>
</tr>
<tr>
<td>E-procurement</td>
<td>Sales growth</td>
</tr>
<tr>
<td><strong>Cost reduction</strong></td>
<td>Return on investment</td>
</tr>
<tr>
<td>Capital investment</td>
<td>Customer satisfaction</td>
</tr>
<tr>
<td>Overhead and fixed costs</td>
<td></td>
</tr>
<tr>
<td><strong>Total management support</strong></td>
<td></td>
</tr>
<tr>
<td>Innovativeness</td>
<td></td>
</tr>
<tr>
<td>Exploring new markets</td>
<td></td>
</tr>
<tr>
<td><strong>Focus on core competencies</strong></td>
<td></td>
</tr>
<tr>
<td>Understanding of company main activities</td>
<td></td>
</tr>
<tr>
<td>Concentration on areas of core competencies</td>
<td></td>
</tr>
</tbody>
</table>

Fig 1 Conceptual Framework

RESEARCH METHODOLOGY
Research Design
The research study adopted a descriptive research design. The design is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2002). The research design was both quantitative and qualitative with the aim of determining the relationship
between the Outsourcing Decision (independent variables) and Organizational performance (dependent variables).

**Population and Sampling technique**
The target population for this study was the procurement managers, assistant procurement managers, procurement Officers and assistant procurement officers at Unilever Group Limited. These officers are in a position to provide information necessary for measuring Organizational performance. The study grouped the population into three strata that is procurement managers/supply chain managers, procurement assistance managers/supply chain managers and super users. From each stratum the study used simple random sampling to select 30% of the respondents which made the sample. According to Mugenda & Mugenda (2003), when a population is small, a sample equivalent to 30% of the total population will be an equal representative of the entire population. The selection will as follows.

<table>
<thead>
<tr>
<th>Target Department</th>
<th>Target Population</th>
<th>Sample</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement managers</td>
<td>6</td>
<td>2</td>
<td>30%</td>
</tr>
<tr>
<td>Procurement assistant managers</td>
<td>14</td>
<td>6</td>
<td>30%</td>
</tr>
<tr>
<td>Procurement Officers</td>
<td>30</td>
<td>9</td>
<td>30%</td>
</tr>
<tr>
<td>Procurement Assi.Officers</td>
<td>36</td>
<td>10</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>86</strong></td>
<td><strong>27</strong></td>
<td><strong>30%</strong></td>
</tr>
</tbody>
</table>

**Data Collection Instruments**
The research used a questionnaire with a likert scale as the primary data collection instrument. According to Kothari (2004), a self-administered questionnaire is the only way to elicit self-report on people’s opinion, attitudes, beliefs and values. Each section of the chosen study had closed structured and open ended questions seeking the views, opinion, and attitude from the respondent which might not have been captured by the research. The questions were designed to collect qualitative and quantitative data. Questionnaires had a 98.67% retrieval rate, which is considered satisfactory to make conclusions for the study.

**Data Processing and analysis**
The data which was collected was coded to enable the responses to be grouped into various categories. The descriptive statistical tools were used in describing the data and determining the extent used. Data analysis was done via SPSS,2011 and Microsoft Excel Multiple linear regression analysis was conducted to determine the relationship between dependent variable (Organizational Performance) and independent variables (Information Technology adoption, Cost Reduction, Top Management support, Focus on core business/competencies).

The regression equation is:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \]

Where \( Y \) is the dependent variable (organizational performance), \( \beta_0 \) is the regression constant, \( \varepsilon \) is the error term, \( \beta_1, \beta_2, \beta_3, \) and \( \beta_4 \) are the coefficients of independent variables, \( X_1 \) Information Technology, \( X_2 \) is cost reduction, \( X_3 \) Top Management Support, and \( X_4 \) is focus on core competence.

**RESULTS AND DISCUSSION**

**Demographic Information**
The study sought to find out the demographic information of the respondents which included gender, age, years of experience, level of education and form of training. The findings of the study are discussed in the subsections below.

**Gender Distribution**
Further the study sought to determine the gender distribution of the respondents in order to establish if there is gender balance in the positions indicated and also to establish which gender is much engaged in outsourcing decision. The findings were as indicated in Figure 2.
From the findings as indicated in Figure 2, majority (79%) were male respondents with (21%) being females respondents. This implies there were more males than female respondents, an indication of gender imbalance at Unilever Group Limited. The dominance of males may mean that most of the duties and responsibilities in outsourcing decision have been assigned to males than females.

**Age Distribution**

From the findings in Figure 3, majority (60%) indicated that they ranged between 26-35 years, followed by those who indicated that they range between 36-45 years (17.00%) with few (12.00%), (8.00%) and (3.00%) indicating that they ranged between 18-25 years, 46-55 years and over 55 years respectively. This implies that majority of the respondents were at their productive age and therefore able to handle the outsourcing decisions strategically and responsibly.

**Respondents Work Experience**

The study found it necessary to find out the number of years in which the respondents had worked in company. This was to determine if their responses could be relied upon to make study conclusions about
the variables under concern due to their longevity in the company. The findings were as indicated in Figure 4.

**Figure 4. Respondents years of Experience in the company**

Based on the findings, majority (54%) of the respondents had worked in company for 5-10 years followed by 26% of the respondents who had below 5 years experience in the company. It was also revealed that 14% of the respondents had worked in the company for a period between 10 to 15 years. A small proportion of the respondents had an experience of above 15 years as evidenced by 6%. The finding implies that the respondents had enough on-job experience and could apply their knowledge to strategically formulate viable decisions which are effective on the effects of outsourcing decision in organization performance. Reasonable years of experience within an organization can often lead to the discovery of even and more successful ways to co-operate and new objects of co-operation (Doz & Baburoglu, 2000).

**Level of Education**

The study further found it of paramount to determine the respondents’ level of education in order to ascertain if they were well equipped with the necessary knowledge and skills in their respective areas of specialization. From the study findings majority (52%) indicated that they had university first degree, followed by 38% of the respondents who indicated that they had masters qualification with few (10%) indicating that they had diploma. It however emerged that, there is a possibility Unilever doesn’t support Personnel education growth since none had PhD qualification as their highest level of education but the study targeted middle and high level staff in the procurement department. The findings therefore indicate that the respondents have the capacity, skills and management acumen to conduct outsourcing decision activities successfully in their organizations. This finding is as observed by Williamson (2009) that those with higher education or specialized skills are more successful as they have more knowledge and have modern managerial skills making them more conscious of the reality of the business world.
According to the analysis of the findings, majority (67%) of the respondents indicated that they had on job training while 33% indicated that they had formal training. This implies that on job training is very important in outsourcing decisions on organization performance in manufacturing industry. The benefits of training will be to the company, due to an increase in worker output and productivity, and to the worker, as the increase in output should translate into higher wages and opportunities for career advancement. In general, a company will weigh the costs and returns to training to determine the amount of investment it will incur (Kaufman & Hotchkiss, 2006)

**Information technology adoption**

The study found it necessary to determine the influence of information technology adoption on outsourcing decision on organization performance. First it determined the IT procurement system in use in the organization. The findings were as indicated in Figure 7.

The study findings indicate that computer based procurement IT system is the most used in the organization as indicated by majority (62%). Further (25%) indicated manual based IT system with only few indicating that they used both as indicated by (13%). This implies that the organization uses computer system in procurement function which may influence positively the organization performance. IT-based tools have been introduced to support production procurement and supply chain operations. However,
procurement activities in the non-production items have long under-estimated on an organizational level as well as with respect to the use of IT. Because of little process standardization and a majority of manual activities, the non-production procurement is often a poorly managed, uncoordinated, and non-valued activity (Croom, 2000; Gebauer & Zagler, 2000).

Figure 7: Information technology adoption

The study further determined the extent information technology influence outsourcing decision on organization performance in the manufacturing industry in regard to E-procurement and supply chain collaboration. The findings were as indicated in Table 2.

Table 2: Extent of information technology influence outsourcing decision

<table>
<thead>
<tr>
<th>Rating the extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large extent</td>
<td>8</td>
<td>32.00</td>
</tr>
<tr>
<td>Large extent</td>
<td>11</td>
<td>44.00</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>3</td>
<td>12.00</td>
</tr>
<tr>
<td>Small extent</td>
<td>2</td>
<td>8.00</td>
</tr>
<tr>
<td>No extent</td>
<td>1</td>
<td>4.00</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

From the analysis of the results, 11(44%) of the respondents indicated the influence to large extent while 8(32%) indicated very large extent. The study also revealed that 3 (12%) and 2(8%) of the respondents indicated moderate and small extent respectively.

The study then evaluated the extent some aspects of information technology applies to outsourcing decision on organization performance in the organization on a Likert scale where 5- strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings were as indicated in Table 3. The study indicated that majority agreed that Adopting modern technology enables Unilever Group Limited overcome todays procurement operating challenges occasioned by use of manual processes as indicated by a mean of 4.32, that ICT in Unilever Group Ltd is intended to speed up the procurement process by productivity improving internal efficiencies hence lowering costs and increasing performance as indicated by a mean of 3.99, Adopting ICT in Unilever group Ltd is intended to foster collaborations among various participants within the supply chain with a mean of 4.22, and Adoption of ICT has enabled security of information and transactions with a mean of 4.11. This implies that adoption of ICT influences outsourcing decisions and subsequent organization performance. According to Croom & Gebauer (2000) IT-based tools have been introduced to support production procurement and supply chain operations. However, procurement activities in the non-production items have long under-estimated on an organizational level as well as with respect to the use of IT. Because of little process standardization and a majority of manual activities, the non-production procurement is often a poorly managed, uncoordinated, and non-valued activity.
Table 3 The extent respondents agreed with the statements on outsourcing decision on organization performance in the organization

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopting modern technology enables Unilever Group Limited overcome today’s procurement operating challenges occasioned by use of manual processes</td>
<td>4.32</td>
<td>0.456</td>
</tr>
<tr>
<td>ICT in Unilever Group Ltd is intended to speed up the procurement process by productivity improving internal efficiencies hence lowering costs and increasing performance</td>
<td>3.99</td>
<td>0.352</td>
</tr>
<tr>
<td>Adopting ICT in Unilever group Ltd is intended to foster collaborations among various participants within the supply chain</td>
<td>4.10</td>
<td>0.421</td>
</tr>
<tr>
<td>E-procurement can address issues such as little attention to contract management, high operational costs and extended delivery times</td>
<td>4.22</td>
<td>0.433</td>
</tr>
<tr>
<td>Adoption of ICT has enabled security of information and transactions</td>
<td>4.11</td>
<td>0.422</td>
</tr>
</tbody>
</table>

Cost Reduction
The study also found it necessary to determine the influence of outsourcing decision on cost reduction and subsequent organization performance. First it sought to determine if outsourcing decision on organization performance in the manufacturing industry have influence on cost reduction in terms of capital investment, overheads and fixed costs. The findings were as indicated in Figure 8.

Figure 8. Effect of outsourcing decision on organization performance on cost reduction

The study findings indicates that majority 76% indicated that outsourcing decision influence cost reduction in terms of capital investment, overheads and fixed costs with only few indicating no influence (24%). This implies that outsourcing decision significantly reduce the organization costs. Studies from the Resource Based View perspective suggest that firms base their decisions on whether outsourcing reduces costs or builds strategic advantages (Sharpe, 2007). The study then determined the level of respondents’ agreement on statements related to cost reduction in terms of capital investment, overheads and fixed costs. The findings were as indicated in Table 4.
Majority agreed with the statement of outsourcing reduces costs both overhead and fixed costs (Mean=3.15, SD=1.35). It was realized from the responses that majority also strongly agreed to the statement, Outsourcing for cost reduction creates better short term performance with mean of 3.15. Outsourcing also generates needed cash when firms sell assets or transfer employees to vendors was also a statement that most of the respondents agreed on with a mean of 4.23. Other statements strongly agreed on by the respondents were our firm equate the cost of outsourcing to the cost of acquiring additional resources to do work internally and cost reduction is a major contributor to improved performance as indicated by mean of 4.12 and 4.21 respectively.

**Top management support and commitment**

The study further evaluated the influence of top management support and commitment on organization performance as a function of outsourcing decision. First the study sought to determine the extent of the influence. The findings were as indicated in Table 4.

### Table 4. Cost reduction in terms of capital investment, overheads and fixed costs

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing reduces costs both overhead and fixed costs</td>
<td>3.45</td>
<td>0.16</td>
</tr>
<tr>
<td>Outsourcing for cost reduction creates better short term performance</td>
<td>3.15</td>
<td>1.35</td>
</tr>
<tr>
<td>Our firm equate the cost of outsourcing to the cost of acquiring additional resources to do work internally</td>
<td>4.12</td>
<td>0.89</td>
</tr>
<tr>
<td>Outsourcing also generates needed cash when firms sell assets or transfer employees to vendors</td>
<td>4.23</td>
<td>0.26</td>
</tr>
<tr>
<td>Cost reduction is a major contributor to improved performance</td>
<td>4.21</td>
<td>0.25</td>
</tr>
</tbody>
</table>

From the study findings majority 13(50%) agreed to high extent that top management support and commitment influence organization performance with 5(19.23%) indicating very great extent. Further few indicated moderate, little extent and not at all respectively. According to Glover & Goslar, (1993) lack of top management involvement and support is an issue of great concern.

The study then evaluated the statements that relate to top management support in regard to innovativeness and exploring new market on outsourcing decision on organization performance in the manufacturing organizations. The findings were as indicated in Table 6.

### Table 5. The extent of top management support and commitment influence on organization performance

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>2</td>
</tr>
<tr>
<td>Little extent</td>
<td>2</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>4</td>
</tr>
<tr>
<td>Great extent</td>
<td>13</td>
</tr>
<tr>
<td>Very great extent</td>
<td>5</td>
</tr>
</tbody>
</table>

The relevant results in Table 6 shows that innovativeness is a major contributor to improved performance as indicated by a higher mean of 4.03 whereas the statement that we develop new products once every year registered low mean of 2.98. This means that innovation contributes highly to improved organization performance but manufacturing firms specialize in a particular product in which they have comparative advantage.
Table 6. The extent of top management support and commitment influence on organization performance statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>We develop new products once every year</td>
<td>2.98</td>
<td>0.15</td>
</tr>
<tr>
<td>We develop new products once every year</td>
<td>2.98</td>
<td>0.15</td>
</tr>
<tr>
<td>The company needs new products and services to maintain its competitiveness</td>
<td>3.15</td>
<td>1.15</td>
</tr>
<tr>
<td>The company is keen on innovativeness in new products development</td>
<td>3.43</td>
<td>1.16</td>
</tr>
<tr>
<td>The company needs to outsource to other companies</td>
<td>3.28</td>
<td>0.78</td>
</tr>
<tr>
<td>Outsourcing is the only way a company can innovate and remain competitive</td>
<td>3.19</td>
<td>0.29</td>
</tr>
<tr>
<td>Innovativeness is a major contributor to improved performance</td>
<td>4.03</td>
<td>0.16</td>
</tr>
</tbody>
</table>

The relevant results in Table 6 shows that innovativeness is a major contributor to improved performance as indicated by a higher mean of 4.03 whereas the statement that we develop new products once every year registered low mean of 2.98. This means that innovation contributes highly to improved organization performance but manufacturing firms specialize in a particular product in which they have comparative advantage.

**Focus on core competencies**

The study further evaluated the influence of outsourcing decision on focus on core competencies on organization performance. The findings were as indicated in Table 7.

Table 7. Focus on core competencies

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am sure of what the core competencies of my company is</td>
<td>4.32</td>
<td>0.456</td>
</tr>
<tr>
<td>My company does a lot of things many unnecessary</td>
<td>3.99</td>
<td>0.352</td>
</tr>
<tr>
<td>The company needs to concentrate on its core function to remain competitive</td>
<td>4.10</td>
<td>0.421</td>
</tr>
<tr>
<td>My company does outsourcing to ease it from many other functions</td>
<td>4.22</td>
<td>0.433</td>
</tr>
<tr>
<td>The best way to concentrate on core functions is to out-source non-core functions</td>
<td>4.11</td>
<td>0.422</td>
</tr>
<tr>
<td>Focus on core competencies is a major contributor to improved performance</td>
<td>3.99</td>
<td>0.352</td>
</tr>
</tbody>
</table>

The study findings indicates that I am sure of what the core competencies of my company is had strong agreement (Mean=4.32, SD=0.456) followed by the best way to concentrate on core functions is to outsource non-core functions (Mean=4.22, SD=0.433). Further Focus on core competencies is a major contributor to improved performance (Mean=4.11, SD=0.422), my company does outsourcing to ease it from many other functions (mean=4.10, SD=0.421) and The company needs to concentrate on its core function to remain competitive (Mean=3.99, SD=0.352). This implies that companies that concentrate on its core competencies remain competitive on the market. According to Harland *et al* (2005) Focus on fewer, manageable core activities, organizations lessen the costs and complexity of their own operations.

**Organization performance**

The study further evaluated the performance of the organization basing on certain performance measure i.e. sales growth, profitability, customer satisfaction and return on investment. The findings were as indicated in Table 8.

From the study findings the measures of organization performance have been rated highly by the respondents indicating the organization performance is steady. That is, sales growth with a mean of 4.31, profitability (4.22), customer satisfaction (3.89) and return on investment (3.67), this implies that
outsourcing decision is very crucial in enhancing organization performance. According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner’s satisfaction with way the business is progressing.

**Table 8. Organization performance**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth; we have high sales growth averagely above the 1 million mark</td>
<td>4.31</td>
<td>0.678</td>
</tr>
<tr>
<td>Profitability; Our profit is high and has reached the 1 million mark and above</td>
<td>4.22</td>
<td>0.456</td>
</tr>
<tr>
<td>Customer satisfaction; Customers are satisfied with services offered</td>
<td>3.89</td>
<td>0.378</td>
</tr>
<tr>
<td>Return on investments; generally, growth of the firm has been steady and very satisfactory in terms of return on investment and sales</td>
<td>3.67</td>
<td>0.422</td>
</tr>
</tbody>
</table>

**Regression and Correlation Analysis**

Regression analysis was utilized to investigate the relationship between the variables. These included an error term, whereby a dependent variable was expressed as a combination of independent variables. The unknown parameters in the model were estimated, using observed values of the dependent and independent variables.

**Correlation Analysis**

Pearson correlation was used to measure the degree of association between variables under consideration i.e. independent variables and the dependent variables. Pearson correlation coefficients range from -1 to +1. Negative values indicates negative correlation and positive values indicates positive correlation where Pearson coefficient <0.3 indicates weak correlation, Pearson coefficient >0.3<0.5 indicates moderate correlation and Pearson coefficient>0.5 indicates strong correlation (Babbie, 2005)

**Table 9. Correlation Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>Information technology adoption</th>
<th>Cost reduction</th>
<th>Top management support and commitment</th>
<th>Focus on core competencies</th>
<th>Organization performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology adoption</td>
<td>1</td>
<td>0.631</td>
<td>0.551</td>
<td>0.611</td>
<td>0.511</td>
</tr>
<tr>
<td>Cost reduction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management support and commitment</td>
<td>0.551</td>
<td>0.451</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus on core competencies</td>
<td>0.611</td>
<td>0.391</td>
<td>0.413</td>
<td>0.713</td>
<td></td>
</tr>
<tr>
<td>Organization performance</td>
<td>0.511</td>
<td>0.524</td>
<td>0.614</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

*: Correlation is significant at the 0.05 level (1-tailed).
The analysis above shows that focus on core competencies has the strongest positive (Pearson correlation coefficient = .713; P value 0.000) influence on organization performance. In addition, information technology adoption, cost reduction and top management support and commitment are positively correlated to organization performance (Pearson correlation coefficient = .511, .524 and .614). The correlation matrix implies that the independent variables: focus on core competencies information technology adoption, cost reduction and top management support and commitment are very crucial determinants of organization performance as shown by their strong and positive relationship with the dependent variable; organization performance. This is in agreement with the literature review where Cohen et al., (2005) emphasizes that focus on core competencies information technology adoption, cost reduction and top management support and commitment is positively correlated with improved overall organizational performance.

Regression Analysis
Regression model is used here to describe how the mean of the dependent variable changes with changing conditions. Regression Analysis was carried out for focus on core competencies information technology adoption, cost reduction and top management support and commitment and organization performance. To test for the relationship that the independent variables have on organization performance, the study did the multiple regression analysis.

Table 10. Coefficient of determination (Regression) (Model Summary)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.777a</td>
<td>.785</td>
<td>.776</td>
<td>.43829</td>
</tr>
</tbody>
</table>

Looking at the variables collectively, it’s evident from the table that 77.6% of variation or change in Internal audit performance is explained by the variables considered in the model i.e. focus on core competencies information technology adoption, cost reduction and top management support and commitment as indicated by the coefficient of determination ($R^2$). This implies that these variables are very significant therefore need to be considered in any effort to boost organization performance in manufacturing firms in Kenya. The study therefore identifies variables as critical determinants of organization performance.

The study ran the procedure of obtaining the coefficients, and the results were as shown on the table below.

Table 11. Coefficient Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>11.132</td>
<td>0.332</td>
</tr>
<tr>
<td>Information technology adoption</td>
<td>0.321</td>
<td>0.332</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>0.553</td>
<td>0.273</td>
</tr>
<tr>
<td>Top management support and commitment</td>
<td>0.734</td>
<td>0.281</td>
</tr>
<tr>
<td>Focus on core competencies</td>
<td>0.231</td>
<td>0.65</td>
</tr>
</tbody>
</table>
The study model was therefore;

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \]

where \( Y \) is the dependent variable (Organizational performance), \( X_1 \) is the Information technology adoption, \( X_2 \) is Cost Reduction, \( X_3 \) is Top management support and commitment, \( X_4 \) is Focus on core competence. According to the regression equation established, taking all factors into account (Information Technology adoption, Cost Reduction, Top Management support, Focus on core business/competencies) as constant at zero, the Organizational Performance will be 11.132. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in information technology adoption will lead to a 0.321 increase in the Organizational performance; a unit increase in Cost reduction models will lead to a 0.553 increase in the Organization performance; a unit increase in top management support will lead to a 0.734 increase in organizational performance and a unit increase in Focus on core business/competencies in organizational organization will lead to a 0.231 increase in organizational performance. At 5% level of significance and 95% level of confidence, Information technology adoption had a 0.022 level of significance, Cost reduction had a 0.053 level of significance, Top management support and commitment had a 0.0013 level of significance and Focus on core business/competencies had a 0.023 level of significance.

CONCLUSION AND RECOMMENDATIONS

The research analysis showed that focus on core competencies has the strongest positive influence on organization performance. In addition, information technology adaption, cost reduction and top management support & commitment are positively correlated to organization performance. The correlation matrix implies that the independent variables are very crucial determinants of organization performance. The correlation matrix implies that the independent variables: focus on core competencies information technology adaption, cost reduction and top management support and commitment are very crucial determinants of organization performance as shown by their strong and positive relationship with the dependent variable; organization performance. The study recommends that the management should take in to account the variables considered since the results shows that there is a significant relationship between the predictor information technology adaption, top management support and commitment, focus on core competencies and cost reduction (taken together) and organization performance in Kenyan manufacturing firms.

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