

**THE EFFECT OF OUTSOURCING DECISIONS ON ORGANIZATIONAL
PERFORMANCE: A CASE STUDY OF THE BREWING INDUSTRY IN KENYA**

Strathmore University
HD2365.88 2013
*The Effect of
outsourcing decisions*

BY

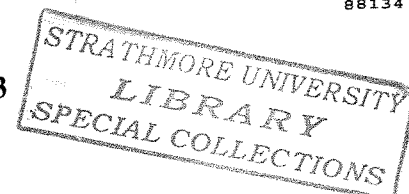
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ADMISSION NUMBER: 014895

**A THESIS SUBMITTED TO THE FACULTY OF COMMERCE IN PARTIAL
FULFILLMENT FOR THE AWARD OF MASTERS OF COMMERCE DEGREE IN
STRATHMORE UNIVERSITY**



AUGUST 2013

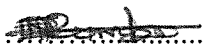


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ACKNOWLEDGEMENTS

I thank God for his guidance and support throughout my life. I also thank my parents, brothers and sisters. I thank Strathmore University for offering me a chance to pursue my Masters degree at the institution. I want to specially thank Dr. Josephat Mboya for his guidance and motivation during the course of my thesis writing. I particularly would like to thank Dr Mcfie , Mr David Wangombe for their comments and Raphael Mutero for his assistance in Strathmore university. Sincere thanks to my partner and colleague Mr Paul Ronald Idawo for his critique and comments throughout the course of this study. I also want to thank him for his assistance during the data collection and analysis stage.

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ABSTRACT

This study is designed to examine the relationship between outsourcing and organizational performance at East Africa Breweries Limited (EABL), a leading alcohol and non-alcoholic branded company in Kenya. For the purpose of analysis, organizational performance in this study refers to profitability, cost efficiency and productivity. Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized service providers.

The main objective of carrying out this study is to establish the extent to which EABL's outsourcing of non-core functions affects its organizational performance. The researcher applied a correlation research design which is quantitative. The researcher analyzed the relationship between outsourcing and organizational performance to establish whether there is a positive or negative correlation and subsequently measured the effects on organization performance in terms of profitability, productivity and cost efficiency.

The targeted population comprised of all senior management staff at EABL. The researcher collected data from the population through questionnaires and interviews. The results from the data analysis were interpreted and presented in the form of tables, graphs and continuous pros.

The results of the data analysis showed that outsourcing decisions are implemented mainly as cost cutting business strategies. This is based on the respondents majority support for outsourcing decisions to improve on cost efficiency and OLS results indicating correlation between outsourcing and cost efficiency as most practical and achievable.

The researcher recommends that other than cost savings, companies should explore other strategic reasons for outsourcing decisions including access to capabilities for instance human talent (intellectual property), operational systems and processes, or physical resources.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The ever increasing competition in today's world has forced organizations to look for new ways to generate value. The world has embraced the phenomena of outsourcing and many companies have adapted its principles to help them improve productivity and increase profits (Bender, 1999). Strategic management of outsourcing is perhaps the most powerful tool in management and outsourcing of innovation is its frontier (Quinn, 2000). The market for providers of outsourced services is growing rapidly. A study by Yankelovin (1999) indicated that two thirds of companies worldwide outsource at least one business process to an external third party.

Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized service providers. Traditional outsourcing emphasizes tactical benefits like cost efficiency, flexibility, speed and innovation in developing business applications and access to new technologies and skills. Outsourcing decisions and strategies have been widely investigated and documented in literature (Corbett, 1999). In many papers, outsourcing has been mainly motivated by an economical trade off to allow companies to focus on their core competencies. The idea of focusing on core competencies has been recognized in strategy literature as a critical success factor in the long term survival of a company (Prahalad and Hamel, 1990).

Outsourcing is a strategy that concentrates an organization's resources on its core competencies allowing the organization to achieve a definable preeminence and provide a unique value for customers (Behara, Gundersen, & Capozzoli, 1995, p. 45). Core competencies are the collective institutional learning and capabilities of the company that allow it to supply products and services that uniquely add absolute preeminence in those competencies (Hilmer & Quinn, 1994, p. 47). "Core competencies are the innovative combinations of knowledge, special skills, proprietary technologies, information, and unique operating methods that provide the product or the service that the customer value and want to buy" (Greaver, 1999, p. 87).

This study however has a different perspective in examining the effects of outsourcing decisions as presented by many researchers. The researcher takes a quantitative approach in examining the effects of outsourcing on organizational performance. With a Kenyan perspective, the researcher selects the brewing industry based on an interest in East African Breweries, which is the only company in Kenya

that has fully embraced this new phenomenon of outsourcing. The current competitors in the Industry include Keroche Breweries Limited and SAB Miller which have not embraced the strategy.

Since its incorporation in 1921, East African Breweries Ltd (EABL) has become East Africa's leading alcohol and non-alcoholic branded business. Along with its subsidiaries, the company is involved in the marketing, brewing, manufacturing and selling of drinks, glass containers, malt and barley. Some of EABL's core brands include beers like Tusker, Pilsner, White Cap, Allsopps but to mention a few. Its wholly owned subsidiaries are Salopia Limited, Allsopps (EA) Sales Limited, East African Breweries (Mauritius) Limited, Central Glass Industries Limited, International Distillers Uganda Limited, East Africa Maltings Limited and EABL International Limited. EABL has an estimated turnover of KES 30 Billion annually. It has the largest share of the beer industry in the East African region. EABL has been awarded the accolade of the "Most Respected Company in East Africa", five years in a row (2000, 2001, 2002, 2003 & 2004) in a survey conducted by PricewaterhouseCoopers and the Nation Media Group. (NMG and PWC survey, 2007).

To maintain its market leadership in the region, EABL has constantly looked for ways to cut operational costs. After exhausting the traditional mode of cost cutting, such as staff rationalization, overheads reduction, EABL has embraced outsourcing as the new way to trim costs. EABL has outsourced mainly the support functions of its operations namely; security, warehousing, finance, procurement, logistics, and human resources. However, despite the emphasis of outsourcing, the challenge is to measure its effect on EABL's performance metrics by using objective hard data. While outsourcing can be understood to be an attractive option, it is crucial to confirm its specific Effects on firms' performance and value, i.e. outsourcing results. Furthermore, the focus in any case has been on cost savings, and only rarely have managers or researchers directed their attention to an outsourcing decision's ultimate benefits for company investors.

This study examined the link between outsourcing implementation and firm's performance metrics by using hard data. The study also examined the relationship between the outsourcing strategies and organizational performance. Organizational performance for purposes of analysis in this study focuses on cost cutting efficiency, productivity and profitability. Most studies refer to outsourcing effect as a conceptual combination of cost efficiency, productivity growth, and profitability improvement approaches.

1.2 The Statement of the Problem

The focus of this study is on the effect of outsourcing on profitability, productivity and cost efficiency. With regards to profitability, the challenge is determining whether outsourcing is value enhancing and in particular, whether EABL's decision to undertake outsourcing results in measureable and quantifiable profitability. Essentially outsourcing addresses the issue as to whether a firm should make or buy intermediate inputs. In other words, firms would prefer to "buy" as opposed to "make" as long as the cost of outsourcing is lower than in-house production. Hence, outsourcing can be used to economize on production cost by substituting in-house production with the buying-in of components (Malhorta, 1997). However there is limited statistical or econometric evidence suggesting the value enhancing link between outsourcing and profitability. Specifically, Kimura (2002) does not find any evidence that subcontracting leads to higher profits based on his study conducted on Japanese manufacturing firms. Further there is the challenge of excessive outsourcing which does not have a clear demarcation. Excessive outsourcing according to Abraham and Taylor (1996), has had a profoundly negative effect on profits. In this case the firm struggles with very low profit margins, and yet their suppliers reap profits for the industry.

On productivity, the challenge is determining the link between outsourcing and productivity. In the case of EABL, productivity focuses on efficiency in manufacturing, marketing and selling of its products. Efficiency measures are done by analyzing productivity in terms of ratios of outputs and inputs. Output is measured through the total revenue or sales of the firm, while inputs are measured through the number of employees, total assets or inventory required to generate the output. However, there are aspects of productivity that may be immeasurable such as work systems and processes, technological advancements and applications. Elmuti (2003) provides support for empirical evidence for an outsourcing-productivity relationship. He found that outsourcing accounted for about 40 per cent of the variance in productivity.

Cost cutting is another area of organizational performance that is analyzed. Again the challenge is establishing the specific costs targeted for reduction, measuring the cost efficiency variances and linking them to the outsourcing decision. Further, it is challenging to determine net cost savings of an outsourcing decision because of hidden overhead costs. This therefore brings in the challenge as to how EABL accurately measures cost efficiencies from outsourcing decisions. Firms are increasingly viewing outsourcing strategies for reducing or controlling costs; (Smith, 1998). Empirical research also suggests that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley et al., 2004); (Gilley and Rasheed, 2000).

The benefits of outsourcing claimed by some practitioners are evident but the corresponding challenges give the researcher a purpose to carry out this study to establish whether outsourcing does indeed have a positive effect on organizational performance.

1.3 Objectives of the study

1.3.1 Main Objective

The main objective of carrying out this study is to establish the extent which EABL's outsourcing of non-core functions affects its organizational performance.

1.3.2 Specific objectives

- i. To analyze the relation between Outsourcing and Organization Performance
- ii. To establish the effects of outsourcing on cost efficiency
- iii. To determine the effects of outsourcing on productivity
- iv. To analyze the effects of outsourcing on profitability

1.4 Research Question

- i. What is the relation between Outsourcing and Organization Performance?
- ii. What is the effect of outsourcing on cost efficiency?
- iii. What is the effect of outsourcing on productivity?
- iv. What is the effect of outsourcing on profitability?

1.5 Scope of the study

This study on the effects of outsourcing on organizational performance was carried out at the East African Breweries Limited and its subsidiaries Central Glass Industries Limited (CGI) and East African Malting (K) Limited (EAML). The aspects of organizational performance covered by this study were profitability, cost efficiency and productivity. The research cuts across all the departments and specifically those that have outsourced.

1.6 Significance of the study

The purpose of carrying out this study was to explore the rationale behind transferring business functions to outsourcing firms. The results of this study benefit other companies that are willing to successfully implement outsourcing programmes. The study also benefits EABL in determining the value of existing outsourcing programmes and the sustainability of these programmes.

CHAPTER TWO

LITERATURE REVIEW

The literature review in this study has been designed to give deeper understanding of outsourcing and its effects on organizational performance from opinions by other researchers on the subject. Organizational performance for purposes of analysis in this study refers to cost cutting efficiency, productivity and profitability. The review also describes the theoretical conceptual and operational frameworks which guides the researcher to carry out this study to its conclusion.

2.1 Outsourcing and organizational performance

Firms have been developing various kinds of strategies in order to solve problems related to the cost, productivity and profitability. Downsizing, elimination of some functions or processes, developing strategic relationships through franchising or contracting out or leasing arrangements can be seen as examples for these decisions. Outsourcing is also one of these strategies. For example, many organizations have experienced success with the outsourcing of support services (Hemming ton and King, 2000).

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance (Lilly, 2005). According to the survey conducted by Accenture and the Economist Intelligence Unit, two-thirds of the respondents – all of whom had been outsourcing a major business process for at least two years – agreed that outsourcers who know how to manage the process can enhance their company's performance through cost reduction, increasing productivity and profitability thus achieve a high level of satisfaction with the results (Lacey, 2005).

Organizational performance in an organization improves for three reasons. First, an increased focus on a firm's core competencies is an important benefit associated with outsourcing. The outsourcing of non-core activities allows the organization to increase managerial attention and resource allocation to those tasks that it does best and to rely on management teams in other firms to oversee tasks at which the outsourcing firm is at a relative disadvantage. This focus can improve result in a shift of profitability but also exacerbates the productivity differential between outsourcing firms and vendors; Jiang and Qureshi,(2006) thus allowing the firm to be more effective, more innovative and more skilled in those activities. Also, outsourcing can be used to increase the quality of work life. When focusing on core competences, especially for the remaining employees, some positive improvements may emerge. Focusing on core competences ensures that the job becomes more meaningful for the

employees. Thanks to the new sources created, the organization may find new sources for wages and out-of-wage incentive programs. It can give more importance to the training of its employees and search for possibilities to develop them. Furthermore, it is seen that through such kinds of applications, leaner organizational structures are emerging; employees are delegated and their jobs are enriched (Dess, 1995); (Gilley and Rasheed, 2000); (Kotabe and Murray, 1990); (Venkatraman, 1997)

Secondly, increased outsourcing of non-core activities can improve service quality and productivity (Dess et al., 1995). A vendor will be in a better position to provide the outsourced services because this area constitutes its core business; (Gilley and Rasheed et al, 2000). Frequently, the improved capabilities of the supplier are the result of large investments in technology, in methodology and in human resources made over time. In many cases, the capabilities of the vendor include specialized knowledge in the industry obtained by working with many customers. The knowledge of the vendor can be transferred to the outsourcing firm, satisfying customer requirements with their skills, processes or technology. For all of the above reasons, the outsourced service quality and the perception of that service are better than when performed in-house; (Espino-Rodríguez and Gil-Padilla, 2005); (Teng, 1995). Moreover, as a result of the activities contracted out to the vendor, since the organization spends more time on its other remaining services, an increase in the quality of the services performed could be observed. At this point, (Elmuti, 2003) provided support for empirical evidence of an outsourcing-quality relationship. He found that outsourcing accounted for about 31 per cent of the variance in quality.

Lastly, outsourcing activities with low strategic value can lead to lower costs and thereby improve the organizational results; (Espino-Rodríguez and Padro'n-Robaina, 2005). Firms are increasingly viewing outsourcing strategies for reducing or controlling costs; (Smith, 1998). Empirical research also suggests that outsourcing firms often achieve cost advantages relative to vertically integrated firms (Gilley et al., 2004); (Gilley and Rasheed, 2000). It is commonly believed that vendors can give the same level of service at a lower cost than internal departments. Presumably, vendors benefit from economies of scale, tighter control over fringe benefits, and better access to lower-cost labour pools, and more focused expertise in managing service (Downey, 1995); (Smith et al., 1998). By focusing on specific skills and technologies, a vendor may become more proficient at that activity than the outsourcing firm may.

Firms have been developing various kinds of strategies in order to solve problems related to the cost, productivity and profitability. Downsizing, elimination of some functions or processes, developing strategic relationships through franchising or contracting out or leasing arrangements can be seen as

examples for these decisions. Outsourcing is also one of these strategies. For example, many organizations have experienced success with the outsourcing of support services (Hemmington and King, 2000).

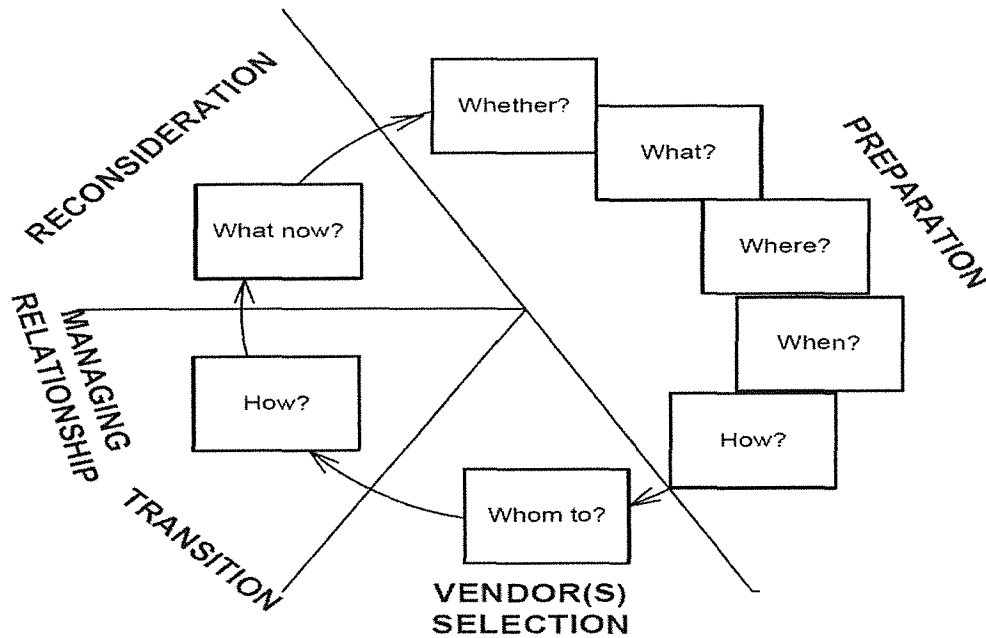
Ideally, the vendor is also a cost-conscious provider and reduces bureaucratic costs, produces further efficiencies, and shares some of the savings with its clients (Gilley et al., 2004). In addition, outsourcing arrangements reduce the need for capital assets, and this reduced investment in organization capacity lowers fixed costs and leads to a lower break-even point (Gilley and Rasheed, 2000).

Outsourcing not only results in a shift of profitability but also exacerbates the productivity differential between outsourcing firms and vendors; (Jiang and Qureshi, 2006). There are a number of studies that focus on explaining the relationship between productivity growth and outsourcing. (Abraham and Taylor, 1996) find that firms “contract out” services with the objectives of smoothing production cycles and benefiting from specialization. (Raa and Wolff, 2001) find a positive association between the rate of outsourcing and productivity growth. (Elmuti, 2003) also provided support for empirical evidence for an outsourcing-productivity relationship. He found that outsourcing accounted for about 40 per cent of the variance in productivity.

2.2 Theoretical Framework

The outsourcing phenomenon has been increasingly receiving attention both from academic and practitioners communities. This has lead to the emergence of several process frameworks depicting the phases of the outsourcing process. The most commonly recognized theoretical framework on outsourcing is one by Zoran Perunovic (Phd), an Assistant Professor at Technical University of Denmark. The framework is comprehensible and it elaborates the outsourcing process entails details on preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases. Each of the phases has been broken down in the series of activities that an outsourcing company performs.

Figure 1: – Framework for the process of outsourcing (Source: Perunovic, 2006)



A more detailed insight into the contents of the phases is given in Table 1.

Phase	Key activities	Key issues
Preparation	Strategy Sourcing options Approach Configuration	Underlying philosophy Why and what to outsource Incremental Piecemeal Many suppliers Sole supplier (one stop shop) Preferred suppliers Prime contractor with subcontractors Contractual or collaborative
Vendor(s) selection	Announcing outsourcing Choosing the vendor Negotiating Finalizing the contract	RFP (Request for Proposal) Evaluation Creating a win-win situation Type, flexibility and content of the Contract
Transition	Defining communication and exchange of knowledge and information Transferring assets, people, information, knowledge, hardware, software	Change management Reengineering Adopting organizational structure and Processes

Table 1 – Key activities and issues within the phases of the outsourcing process

The outsourcing process is a complex structure consisting of numerous activities and sub activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process. Each phenomenon can be described by several frameworks that are embedded in various

theoretical approaches. From its occurrence, the outsourcing has been approached by different theories as follows:-

Transaction Cost Economics

Transaction cost economics (TCE) has been the most utilized theory of outsourcing. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the managing relationship phase, whilst the concept of switching costs made the theory applicable in the reconsideration phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity. Though TCE has not been utilized explicitly for studying the Vendor selection phase, its sub-theory (if we may say so), the theory of incomplete contracting, has been applied in studying the structure and contents of outsourcing contracts, and related preparation and contract management activities. (Perunovic et al., 2006)

Relational View

Relational view develops and explains how firms gain and sustain competitive advantage within inter-organizational relationships (McIvor, 2005). Its key premise – the concept of relational rents has been explored to explain how firms choose their future outsourcing partners and preferred type of the relationship. It has been also utilized in studying the Transition, Managing relationship and Reconsideration phases. This makes the relational view to be the only theory that has been applied in the research of all the outsourcing process' phases (Hodgson, 1994).

Concept of Core Competences

The concept of core competences has been developed on the basis of the resource-based theory. (Prahalad and Hamel, 1990) defined the core competencies as the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams technologies. The application of the concept of core competences in outsourcing became very popular and has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and Reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina and Ross, 2003; Feeney, 2005).

Resource-based View

The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney and Hesterly, 1996). If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organised resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore, the most prominent use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. The theory has been also used to explain some of the key issues of the Managing relationship and Reconsideration phases. (Andersen, 1994)

Evolutionary Economics

Although mentioned for the first time in the 19th century, the evolutionary economics experienced revival after Nelson and Winter's work in 1982. The theory develops from Darwinism and includes some assumptions transposed to the economic "species". These assumptions include (Andersen et al., 1994):

- 1) The agents (individuals and organizations) can never be perfectly informed and they have to optimize locally rather than globally
- 2) The decision-making of agents is normally bound to rules, norms and institutions
- 3) Agents are to some extent able to imitate the rules of other agents, to learn for themselves and to create novelty,
- 4) The processes of imitation and innovation are characterised by significant degrees of cumulativeness and path dependency but they may be interrupted by occasional discontinuities
- 5) The interaction between the agents are typically made in disequilibrium situations and the result is success and failures of commodity variants and method variants as well as agents
- 6) The processes of change occurring in a context described by the above assumptions and characteristics are non-deterministic, open-ended and irreversible.

This makes the theory highly applicable in outsourcing. However, the actual research has been very modest studying issues predominantly within the Managing relationship phase. The other phases of the outsourcing process (expect the transition) have been also explored through the evolutionary economics but very scarcely (Perunovic et al., 2006).

Agency Theory

The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen and Meckling, 1976), but had spread over the time on explaining the relationship between two inter-firm subjects. In that context we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection (Arrow, 1985) should be resolved by monitoring and bonding (Barney and Hesterly, 1996). Consequently, the application of the theory in the outsourcing process research was in the Preparation Phase (when screening for vendors and defining its own attitude towards the type of the relationship). Naturally, the Managing relationship phase has been also explored, and to a very small extent the Reconsideration phase (Jensen and Meckling, 1976).

Knowledge-based View

The knowledge-based view provides insight in understanding how individuals co-operate to produce goods and services. The knowledge-based view distinguishes two ways how knowledge is shared among partners. They are knowledge generation and knowledge application. The knowledge-based view has been utilized in the outsourcing research to prove that knowledge sharing in the Managing relationship phase is positively related to the success of an outsourcing arrangement (Barney and Hesterly, 1996).

Neoclassical Economic Theory

The key characteristics of the neoclassical economic theory are (Hodgson, 1994):

- 1) Assumption of rational, maximizing behaviour by agents with given preference function
- 2) Focus on attained, or movement towards, equilibrium states
- 3) Absence of chronic information problem

The neoclassical theory explains the initial motives for outsourcing demonstrated by some pioneering companies like Kodak. However, the theory has received a significant critique for not being able to explain contemporary business processes. Especially, the concepts of rationality and absence of chronic information problem have been criticized. However, Gottschalk and Solli Sæther (2005) showed that the neoclassical economic theory explains critical success factors of outsourcing that are being evaluated in the Reconsideration phase.

Social Exchange Theory

The social exchange theory explains interpersonal relationships by positing the economical cost benefit analysis as precondition for social engagement and exchange. The theory presupposes that the exchange of resources (material or social) is a basic form of human interaction. Social exchange is an

ongoing reciprocal process in which actions are contingent on rewarding reactions from others (Gottschalk and Solli-Sæther, 2005). The theory has been used in combination with TCE to specifying switching behaviour in the Reconsideration phase.

Economy of Information

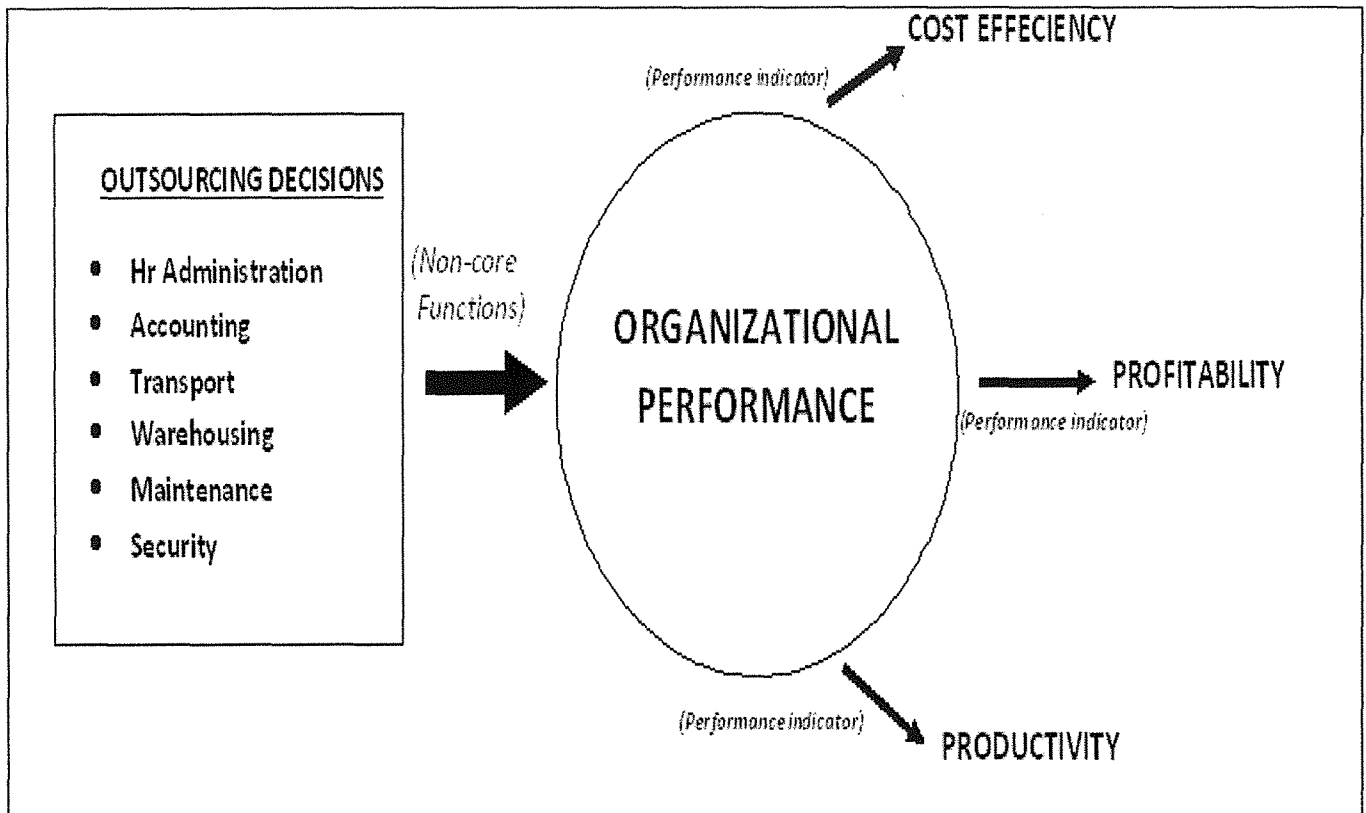
It has been admitted that the information is not perfect and new economical models emerged to explain situations where two parties possess unequal or none quantity of information. One of the first works in the area was development of the search theory (Stigler, 1961). The identification of sellers and the discovery of their prices are only one sample of the vast role of the search for information in economic. Another key concept of the economy of information is the concept of signaling developed by Spence (1973). His essay is about markets in which signaling takes place and in which the primary signalers are relatively numerous and in the market sufficiently infrequently that they are not expected to invest in acquiring signaling reputation. Application of the economy of information in outsourcing is associated to activities of searching, selecting, and contracting the vendor. However, the economics of information hasn't been used explicitly in the studies of the outsourcing process.

2.3 The Conceptual Framework

The conceptual framework for this study focuses on the effects of outsourcing of business processes on organizational performance. The conceptual framework identifies the key indicators of organizational performance. These performance indicators can be broadly classified into three areas:

- (1) Cost efficiency
- (2) Productivity
- (3) Profitability.

Figure 2: Conceptual Framework



Cost Efficiency

Cost efficiency indicators describe the ratio of outputs to inputs. Output is measured through the total revenue or sales of the firm. Inputs are measured through total costs and overhead costs incurred to generate outputs. The two possible measures of cost efficiency could be used in this study are overhead expense and operating expense both expressed as a percentage of sales to be able to compare EABL's departmental/subsidiary performance.

Productivity

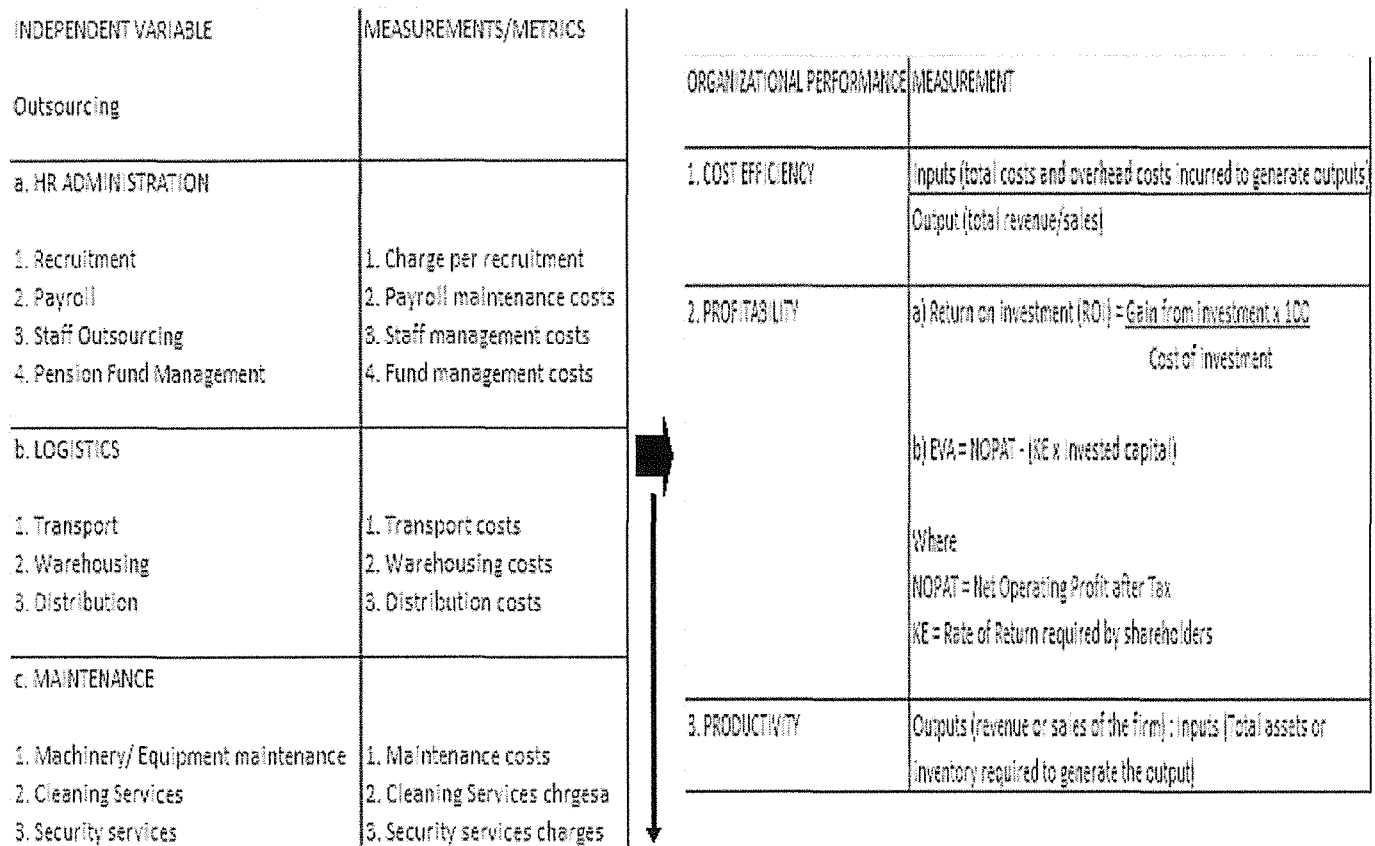
Productivity metrics represent ratios of outputs and inputs. Output is measured through the total revenue or sales of the firm, while inputs are measured through the number of employees, total assets or inventory required to generate the output.

Profitability

Profitability is arguably the most important criterion of evaluating the performance of a firm. Profitability metrics measure the return that the firm's owners receive from their investments. In this

study, the researcher use return on assets, and net profit margin to represent profitability. All are based on operating income before taxes, depreciation, and extraordinary items to better isolate the results from unusual situations and differences in accounting practices. Outsourcing has a direct effect on profitability.

Operational Framework



CONSTANT VARIABLES

1. Morale
2. Economies of scale
3. Firm's Growth strategy
4. Knowhow
5. Risks spread
6. Research and Development capacity
7. Technological advancement
8. Government Policies
9. Inflation

Figure3: Operational Framework

The operational framework describes how the researcher measures the effects of outsourcing on organizational performance. The independent variable in this study is outsourcing. The main outsourced functions in the case of EABL are HR administration, Logistics, Maintenance and Information Technology. The dependent variable is organizational performance and in this case the researcher has identified three performance indicators which include cost efficiency, profitability and productivity. The researcher uses the following formulas (as indicated in the figure above) to measure each performance indicator.

Cost efficiency: The researcher analyzes cost efficiency as a ratio of inputs to outputs. Inputs includes operational or overhead expenses and outputs will be the resulting revenue/ sales. The formula expressed cost as a percentage of sales/ revenue as indicated below:

$$\frac{\text{Inputs (total costs and overhead costs incurred to generate outputs.)} \times 100}{\text{Outputs (total revenue/sales of the firm)}}$$

In this case the lower the percentage the higher the cost efficiency.

Profitability: In this study, the researcher uses return on investment and economic value added formula to represent profitability. The performance measure is used to evaluate the efficiency of investing in outsourcing. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

The return on investment formula:

$$\text{ROI} = \frac{\text{Gain from the Investment}}{\text{Cost of the Investment}}$$

In the above formula "gains from investment", refers to the proceeds obtained from the investment. Economic value added (EVA) is the calculation of what profit remain after the cost of a company capital that is both debt and equity are deducted from the company.

The economic value added formula:

$$\text{EVA} = \text{NOPAT} - (\text{Ke} \times \text{Investment capital})$$

NOPAT = Net operating profit after tax

K_e = Rate of return required by shareholders

Equity capital has to earn at least same return as similarly risky investments at equity market. If that is not the case there is no real profit made and the company operates at a loss from the view point of the shareholders. If EVA is zero this should be treated as a sufficient achievement because the shareholders have earned a return that compensates the risk.

Productivity: The researcher divides total revenue or sales of the firm, by inputs, including the number of employees, total assets, and the inventory required to generate the output. The higher the resulting number, the greater will be the productivity. Productivity may actually decrease, which would indicate that outsourcing has had a negative effect on productivity-

Outputs (revenue or sales of the firm): Inputs (total assets or inventory required to generate the output)

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

This chapter explains the procedure and methods used for the study. It provides information on the data used, sources of the data and the targeted population. This chapter also describes the research design of the study, the data collection instruments, data collection procedures and methods of data analysis.

3.2 Research Design

For purposes of carrying out this study, the researcher applied correlation research design which was quantitative. The researcher analyzed relationships between specific variables, and then measured the effects thereof. The researcher identified two key variables, a dependent variable and independent variable. The dependent variable in this study was organizational performance and outsourcing was the independent variable. The researcher analyzed the relationship between outsourcing and organizational performance to find out if there is a positive or negative correlation and subsequently measured the effects on organizational performance in terms of profitability, productivity and cost efficiency. The interview was analyzed qualitatively to address the research objective questions in depth and to understand what was happening as viewed by the participants.

3.3 Population and Sample Frame

The targeted population for the study comprised of all departmental heads and line supervisors of East African Breweries Limited and its subsidiaries. This was with the assumption that EABL applied a similar management structure and work system across its business, including its subsidiaries. The researcher therefore targeted 150 respondents, 42 heads of department and 108 line managers. This population represented the total number of group heads, departmental heads and the line manager at East African Breweries Limited subsidiaries in Kenya (East African Maltings Limited and Central Glass Industries).

3.4 Sample Size and Sample Procedure

The researcher used purposive sampling technique. The sample was selected to include people of interest and exclude those who did not suit the purpose. In this regard the researcher targeted only respondents at management level, to include all heads of departments and line managers. For purposes of this study the researcher selected the entire target population to collect the data.

The table below shows the target population distribution across the targeted departments:

Table 1: Targeted Population

	FUNCTION	POPULATION	SAMPLE	PERCENTAGE
1	IT	20	20	100%
2	HUMAN RESOURCES	3	3	100%
3	PRODUCTION	30	30	100%
4	PROCUREMENT /LOGISTICS	15	15	100%
5	ENGINEERING	10	10	100%
6	OPERATION	30	30	100%
7	FINANCE	10	10	100%
8	SALES/MARKETING	32	32	100%

The table shows the distribution of the sample population across various departments. This was to ensure that each affected department shall be represented in the final findings. The target population as shown in the table represented the entire management team.

3.5 Methods of Data Collection

The following instruments are used to collect data of the research study:-

Questionnaire

The researcher administered questionnaires to the targeted population. The questionnaires were divided into two parts and contained both closed and open ended items. The purpose of the open ended items was to allow the respondents to include more information and the closed ended items were designed to guide the respondents on the most appropriate answers to give. The researcher employed the services of an assistant to help distribute the questionnaires to the targeted population. All questionnaires were accompanied by a letter explaining the reasons and the contents therein.

Interview guide

The researcher interviewed 61% (ninety two respondents) of the total 150 respondents to gather more in depth information especially their personal opinion, to supplement the data collected through the Questionnaires. The researcher used an interview guide, engaging in a minimum of 30 minutes face to face interactions with the respondents. The interviews were conducted to reinforce/supplement credibility of data collected through questionnaires.

Printed Audited Financial Reports

The researcher collected data from EABL's annual reports covering the period 2006 to 2011 gather documented evidence on effects on profits, productivity and cost efficiency. This period also formed basis for carrying the research.

3.6 Data Analysis technique

The data collected was analyzed applying statistical techniques to work out percentages and ratios. The data presentation was then done using tables and charts to give it more clarity. Interpretation and analysis of the data was expected to reflect the correlation between outsourcing and organizational performance. The researcher applied regression analysis to determine the relationship between these two variables. The independent variable in this case was outsourcing and the dependent variable was organizational performance in terms of profitability, productivity and cost efficiency.

Regression models

The following regression models were used to describe the correlation between outsourcing and organizational performance:

$$\text{PROF} = \beta_0 + \beta_1 (\text{HR-OUT}) + \beta_2 (\text{IT-OUT}) + \beta_3 (\text{PRO-OUT}) + \beta_4 (\text{M \& S-OUT}) + \beta_5 (\text{E-OUT}) + \beta_6 (\text{O-OUT}) + \beta_7 (\text{F-OUT}) + \beta_8 (\text{L-OUT}) + e$$

$$\text{COSTEFF} = \beta_0 + \beta_1 (\text{HR-OUT}) + \beta_2 (\text{IT-OUT}) + \beta_3 (\text{PRO-OUT}) + \beta_4 (\text{M \& S-OUT}) + \beta_5 (\text{E-OUT}) + \beta_6 (\text{O-OUT}) + \beta_7 (\text{L-OUT}) + \beta_8 (\text{F-OUT}) + e$$

$$\text{PROD} = \beta_0 + \beta_1 (\text{HR-OUT}) + \beta_2 (\text{IT-OUT}) + \beta_3 (\text{PRO-OUT}) + \beta_4 (\text{L-OUT}) + \beta_5 (\text{M \& S-OUT}) + \beta_6 (\text{E-OUT}) + \beta_7 (\text{O-OUT}) + \beta_8 (\text{F-OUT}) + e$$

Where

PROF = Profitability

PROD = Productivity

CSTEFF = Cost Efficiency

HR-OUT = Outsourcing functions in Human Resource department



IT-OUT= Outsourcing functions in Information Technology department

PRO-OUT= Outsourcing functions in Production department

M & S-OUT= Outsourcing functions in Marketing and Sales department

E-OUT= Outsourcing functions in Engineering department

O-OUT= Outsourcing functions in Operations department

F-OUT= Outsourcing functions in Finance department

L-OUT= Outsourcing functions in Logistics department

e = the error term

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF THE FINDINGS OF THE STUDY

4.1 Introduction

This chapter describes the findings of the study collected through questionnaires and interviews. Based on the research design, most of the data collected for analysis was quantitative. The data presentation was done by the use of tables, charts and continuous pros method.

4.2 Data Presentation

4.2.1 Presentation of Information collected through the Questionnaire

Before administering the questionnaires the researcher conducted a test run to validate the effectiveness of the questionnaire items in achieving the desired results. This was done by conducting informal test runs with a sample of ten (10) respondents and having the questionnaire criticized. From the results, the researcher made the necessary amendments ready for the formal exercise. The questionnaire had two sections. The first part was designed to collect personal information of the respondents and the second part to collect information on the effect of outsourcing on organizational performance.

In analyzing the first section of the questionnaire, the researcher was able to establish representation by the respondents of EABL Ruaraka Plant, Central Glass Industries Limited and East African Malting Limited. This was an important requirement for the study to provide consistency, accuracy and relevance in the data collected.

4.2.1.1 Response by Target Population

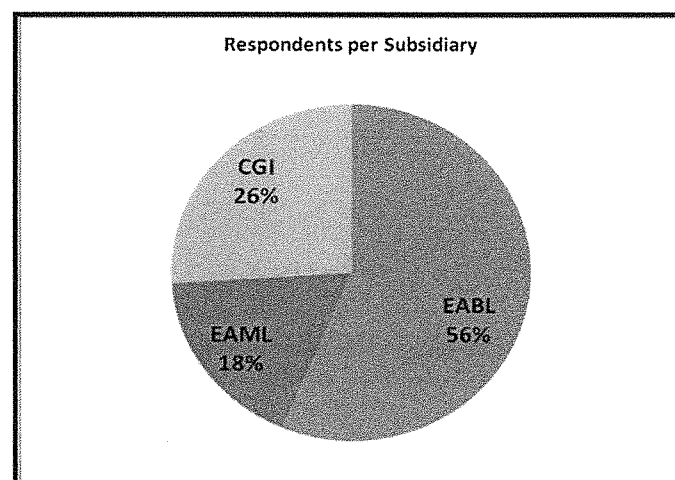
Out of the 150 targeted respondents, 96 responded and correctly filled in the questionnaires. The table below shows the distribution based on the functions they perform:-

Table 2: Response Rate by the Targeted Population

	FUNCTION	Number Administered	No. that responded	Percentage (%)
1	IT	20	15	75%
2	Human Resources	3	3	100%
3	Production	30	15	50%
4	Procurement /Logistics	15	8	53%
5	Engineering	10	6	60%
6	Operation	30	20	67%
7	Finance	10	9	90%
8	Sales/Marketing	32	20	63%
	Average Response			70%

The response was good with full co-operation only from Human Resources and Finance Departments. With 70% average response, the data collected was sufficient to carry out this study. This also indicated willingness by the respondents to participate in the exercise and confirmed accuracy of the data collected for analysis.

Respondents' distribution EABL and Its subsidiaries

Table 3: Respondents' Distribution

The highest number of respondents were at the EABL Ruaraka Plant at 56%, then followed by CGI and EAML at 26% and 18% respectively. This was expected from the fact that the two companies are subsidiaries of EABL's main plant at Ruaraka.

4.2.1.2 Response to the Effect of Outsourcing on Organizational Performance

The second part of the questionnaire was designed to gather direct evidence on the effect of outsourcing on organizational performance. The researcher focused on the key elements of performance which were profitability, cost efficiency and productivity. The Researcher presented the following analysis of the data collected in this respect.

Table4: Effects on Cost Efficiency

	FUNCTION	RESPONSES						
		Item 2.0		Item 2.1		Item 2.2		
		YES	NO	YES	NO	Over head Costs	Operational Cost	Both Costs
1	IT	11	4	10	3	5	7	3
2	Human Resources	2	1	2	1	1	1	1
3	Production	11	4	10	3	5	7	3
4	Procurement /Logistics	6	2	5	2	3	4	1
5	Engineering	4	2	4	1	2	3	1
6	Operation	15	5	13	4	7	9	3
7	Finance	7	2	6	2	3	4	2
8	Sales/Marketing	15	5	13	4	7	9	3
	Totals	70	26	62	21	35	45	16
	Response in percentages	73%	27%	65%	22%	36%	47%	17%

The respondents answered a series of three questions on cost efficiency. When asked whether the decision to outsource improved on cost reduction 73% responded "Yes" and 27% responded "No". Those who responded "Yes" gave common reasons for the cost reduction experienced referring mainly to a reduction in labour, logistics and maintenance costs. Those opposed mainly referred to duplication of activities by the outsourcing suppliers which they perceived as additional and unnecessary costs which affect their departmental/sectional budgets. The respondents were then asked if the effect on cost reduction could be measured. 65% responded "Yes", 22% responded "No" and 13% did not give an answer. The researcher assumed those who did not give an answer were not sure if the impact could

be measured. When finally asked to state the elements of cost reduction affected by outsourcing, 47% stated operational costs, 36% overhead costs and 17% stated that both cost elements were affected.

The basis for the questions was to establish a correlation effect of outsourcing to EABL's costs efficiency and to give evidence that firms were increasingly viewing outsourcing strategies mainly for reducing or controlling costs. The analysis of the answers from the respondents showed majority support for outsourcing decisions to improve on cost efficiency. The researcher also established a link between outsourcing decisions and cost efficiency from the evidence collected that the effect can be measured from reductions on some aspects of overheads and operational costs.

Table5: Effects on Productivity

	FUNCTION	RESPONSES														
	QUESTIONNAIRE,	Item / Question 2.3		Item/Question 2.4					Item/Question 2.5		Item/ Question 2.6		Item/ Question 2.7		Item /Question 2.8	
		YES	NO	Improved Knowhow	Improved Technology	Improved operational efficiency	Motivated Manpower	All or the above	Improved Inventory turnover	Increased Wastages	Improved Asset turnover	No improvement in asset turnover	Improved employee productivity	No improvement in employee productivity	Positive effect on customer satisfaction	Negative effect on customer satisfaction
1	IT	8	7	3	4	6	2	0	10	5	11	4	8	7	10	5
2	Human Resources	2	1	1	1	1	0	0	2	1	2	1	2	1	2	1
3	Production	8	7	3	4	6	2	0	10	5	11	4	8	7	10	5
4	Procurement /Logistics	4	4	2	2	3	1	0	5	3	6	2	4	4	6	2
5	Engineering	3	3	1	2	2	1	0	4	2	4	2	3	3	4	2
6	Operation	10	10	5	5	8	2	0	13	7	14	6	10	10	14	6
7	Finance	5	4	2	2	3	1	0	6	3	6	3	5	4	6	3
8	Sales/ Marketing	10	10	5	5	8	2	0	13	7	14	6	10	10	14	6
	Totals	50	46	22	26	36	12	0	61	35	69	27	50	46	66	30
	Response in percentages	52%	48%	23%	27%	38%	12%	0%	64%	36%	72%	28%	52%	48%	69%	31%

In an attempt to identify a link between the outsourcing of parts of the production process and firm productivity at EABL, the researcher presented 5 questionnaire items to the respondents and gave the following analysis. 52% indicated that outsourcing decisions improved productivity in their respective departments where as 48% saw no improvement. From the respondents who reported an improvement

in productivity, 23% indicated improved knowhow (Skills and knowledge), 27% improved technology, 38% improved operational efficiency, and 12% improved staff motivation.

On effects of outsourcing on inventory and asset utility/turnover the responses were as follows. On inventory 64% indicated improvement on turnover and 36% indicated increase in wastage. On assets 72% indicated improvement in turnover and 28% saw no improvement. 52% of the respondents stated reduced productivity of employees in their respective departments. When asked to give reasons for their response a common perception that the permanent employees at EABL feel threatened by redundancies specifically those in the non – core areas of the business. A majority of the respondents (69%) stated that outsourcing had a positive effect on customer satisfaction attributing this mainly to improvement in workers' efficiency (outsourced specialized skill e.g. quality assurance) and technological improvements, typically embodied in capital equipment, which allowed for the production of more quality output with any given amount of labor and other inputs.

Table 6: Effects on Profitability

	FUNCTION	RESPONSES										
		Item 2.9		Item 2.10		Item 2.11		Item 2.12				
		YES	NO	High investment and low returns	Low investment high returns	YES	NO	Return on capital employed	Reduced liabilities	Organizational sustainability	Growth	All of the above
1	IT	10	5	9	6	10	5	8	5	1	1	0
2	Human Resources	2	1	2	1	2	1	2	1	0	0	0
3	Production	10	5	9	6	10	5	8	5	1	1	0
4	Procurement /Logistics	5	3	5	3	5	3	4	2	1	0	0
5	Engineering	4	2	4	2	4	2	3	2	1	0	0
6	Operations	14	6	12	8	13	7	11	6	2	1	0
7	Finance	6	3	5	4	6	3	5	3	1	0	0
8	Sales/Marketing	14	6	12	8	13	7	11	6	2	1	0
	Totals	65	31	57	39	63	33	54	30	9	4	0
	Response %	68%	32%	59%	41%	66%	34%	56%	31%	9%	4%	0

The researcher developed 4 questionnaire items to investigate the relationship between outsourcing and profitability paying particular attention to the endogeneity of outsourcing. The questionnaire items

were based on a fundamental question whether outsourcing was value enhancing and, in particular, whether the firm that undertook outsourcing showed higher profitability as a result. The respondents were asked if outsourcing had increased EABL profitability. 68% answered “Yes”, and 32% answered “No”. 59% of the respondents stated that outsourcing had low investment and high returns while 41% responded that outsourcing was a high investment decision with low returns. When asked if the effect of outsourcing on profitability could be measured 66% responded “Yes” while 34% responded “No”. 31% indicated that effects of outsourcing decisions on profitability could be identified from Reduced Liabilities, 56% from Returns on Capital Employed, 9% on Organizational Sustainability (Financial Stability) and 4% from Company Growth

4.2.2 Presentation of Information collected through Interviews

The researcher conducted face to face and telecom interviews with Group Heads representing Human Resources/ Facilities, Procurement and Finance, all stationed at the head Office in Ruaraka. The researcher used an interview schedule with a series of questions to guide the interview sessions.

EABL outsourcing decisions were an ongoing process that formed part of the company’s holistic and long term restructuring plans. It involved identification of non-core business functions and sourcing of specialists to partner in the managing these activities. This supported literature that Outsourcing is a management strategy by which an organization delegates major, non-core functions to specialized service providers (Corbett 1999). Based on the analysis and summary of the information collected from the respondents, EABL has since outsourced about 20% of its business functions mainly, Logistics, Warehousing and Human Resources. HR outsourcing was the only decision that had been applied across all subsidiaries and departments, with Production, Sales and Marketing functions having a majority of the outsourced staff. However Logistics and Warehousing were the fully outsourced functions of the business. Further, the respondents confirmed an estimated decrease in costs at 7% of the total operational costs as a result of outsourcing for the period under investigation.

The researcher sought to establish how and whether EABL incorporated outsourcing investments in their accounting/financial systems. The respondents stated that the contracts had clauses that allowed periodic audits to ensure that the supplier financial/accounting systems conform to legal requirements and EABL basic reporting standards. For instance payroll audits for HR outsourcing contracts to ensure statutory remittances were done as per Kenyan labour laws; etc.



Budgets were set for outsourced projects and each was treated as a cost centre. This made it easier to monitor input values (investments in outsourcing) and measure them against outputs (returns on investment) in monetary terms.

4.2.3 Identification of Variables

For purposes of the regression analysis the researcher identified a data set of one (1) independent variable which was Outsourcing- i.e. outsourcing investments in the various departments including Human Resources (HR) , Information Technology(IT), Production(P), Logistics(L), Engineering(E), Operations(O), Finance(F) and Marketing & Sales(M&S) departments for 24 months, 12months before Diageo take over and 12 months after Diageo take over against three (3) dependent variables which were Profitability, Productivity and Cost Efficiency.

4.2.4 Description of Analysis Method

The researcher applied Ordinary Least Squares (OLS) regression to construct a linear model between the independent variable and dependent variable. From the data collected, the researcher considers Total investment on outsourcing as a percentage (20%) of total costs of the company. This provides basis for applying the formulas for measuring the effects of outsourcing on profitability, productivity and cost efficiency.

Profitability and Growth

The researcher uses return on investment to represent profitability. The performance measure will be used to evaluate the efficiency of investing in outsourcing. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment;

The result is expressed as a percentage of a ratio.

The return on investment formula:

$$ROI = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

Table 7: Return on departmental investment in outsourcing

	HR-ROI	IT-ROI	P-ROI	L-ROI	E-ROI	O-ROI	F-ROI	M&S-ROI
AVG-ROI-B4(B1 to B12)	11.69%	10.07%	10.18%	11.24%	9.52%	9.70%	6.97%	13.74%
AVG-ROI-A(A1 to A12)	30.40%	30.01%	29.34%	27.37%	21.50%	14.77%	12.07%	18.03%

AVG-ROI-B4- Average return on investment before Diageo take over

B1 to B12- Months one to twelve before Diageo take over

AVG-ROI-A- Average return on investment after diageo take over

A1 to A12- Months one to twelve before Diageo take over

Table above shows the return on investing in outsourcing, twelve months before and after the Diageo take over. Eight major departments/functions in EABL are under review. The information was obtained from the experts in the departments and from EABL monthly financial statements. Each of the departments showed a higher return on investment after the Diageo take over. The results showed that EABL's investment in outsourcing was more in Production, Human Resource, IT, Logistics and Engineering departments. This was based on the high returns from the respective outsourcing investments as shown on the table. Results from interviews with the experts revealed that the Logistics department has fully outsourced transportation and warehousing functions. Human Resources, IT and Engineering have also invested in outsourcing considerably. Most of the factory staff (skilled and semi skilled) were outsourced. Maintenance and troubleshooting functions of the IT department were outsourced leaving systems sourcing and controls to be done in-house. Engineering works and maintenance of facilities, machinery and equipment was subcontracted to various experts in the field. However there was minimum outsourcing investments in Sales/Marketing, Operations and Finance most of which were done in-house. From the table we can see low investments gives low returns and high investment gives high returns.

OLS Regression results (Response: the effect of each departmental outsourcing on profitability = 96)

	Coefficient	P-Value	T-Value
Human resources	0.787	0.0010**	4.89
IT	0.659	0.0015**	3.72
Production	0.789	0.0012**	4.93
Logistics	0.673	0.0013**	3.86
Engineering	0.484	0.0017**	2.29
Operations	0.295	0.0027*	2.13
Sales & Marketing	0.299	0.0023*	2.17
Finance	0.284	0.0034*	2.11
Constant	27.35	0.0017*	49.46
S	0.586314		
R-Sq	61.8 %		
R-Sq (Adj)	54.4 %		
P-Value Model	0.0017		

Note no star: result is not significant

- One star (*): result is significant at the 0.05 level
- Two stars (**): result is significant at the 0.01 level
- Three stars (***): result is significant at the 0.001 level.

Source: Researcher's computation

Presented in table above, the result of the ordinary least squares regression analysis showed a positive coefficient of 0.787 with a p-value of 0.001 and significance level of 0.01 on effect of outsourcing on profitability of the Human Resource department or function. This indicated a strong positive relationship between outsourcing and profitability in the Human Resource department. The effect of outsourcing on profitability in the human resource department could be interpreted from coefficient

given in the table. There was an increase by 0.787 units in profitability for every human resource outsourced function with all factors held constant.

The findings as per table and results of the ordinary least squares regression analysis also showed a positive coefficient of 0.789 with a p-value of 0.0012 and significance level of 0.01 on effect of outsourcing on profitability of the Production department/function. This indicated a strong positive relationship between outsourcing and profitability in the Production department. The effect of outsourcing on profitability in the production department could be interpreted from coefficient given in the table. There was an increase by 0.789 units in profitability for every production outsourced function with all factors held constant.

The findings also showed a positive coefficient of 0.673 with a p-value of 0.0013 and a significance level of 0.01 on effect of outsourcing on profitability of the Logistics department or function. This indicated a strong positive relationship between outsourcing and profitability in the logistics department. The effect of outsourcing on profitability in the Logistics department could be interpreted from coefficient given in the table. There was an increase by 0.673 units in profitability for every logistics outsourced function with all factors held constant.

Again there was a positive coefficient of 0.659 with a p-value of 0.0015 and a significance level of 0.01 on effect of outsourcing on profitability of the IT department or function. This indicated a strong positive relationship between outsourcing and profitability in the IT department. The effect of outsourcing on profitability in the IT department could be interpreted from coefficient given in the table. There was an increase by 0.659 units in profitability for every IT outsourced function with all factors held constant.

Analysis on the Engineering department showed a positive coefficient of 0.484 with a p-value of 0.0017 and significance level of 0.01 on effect of outsourcing on profitability. This indicated a medium positive relationship between outsourcing and profitability in the Engineering department. The effect of outsourcing on profitability in the Engineering department could be interpreted from coefficient given in the table. There was an increase by 0.484 units in profitability for every Engineering outsourced function with all factors held constant.

Sales/Marketing function analysis results gave a positive coefficient of 0.299 with a p-value of 0.0023 and significance level of 0.05 on effect of outsourcing on profitability which indicated a low to medium positive relationship between outsourcing and profitability in the sales and marketing department. The effect of outsourcing on profitability in the sales and marketing department could be interpreted from coefficient given in the table. There was an increase by 0.299 units in profitability for every sales outsourced function with all factors held constant.

The findings as per result of the ordinary least squares regression analysis showed a positive coefficient of 0.295 with a p-value of 0.0027 and significance level of 0.05 on effect of outsourcing on profitability of the Operations function. This indicated a low to medium positive relationship between outsourcing and profitability in the operations department. The effect of outsourcing on profitability in the operations department could be interpreted from coefficient given in the table. There was an increase by 0.295 units in profitability for every operations outsourced function with all factors held constant.

Finally findings as per table also showed a positive coefficient of 0.284 with a p-value of 0.0034 and significance level of 0.05 on effect of outsourcing on profitability of the Finance department or function. This indicated a low to medium positive relationship between outsourcing and profitability in

the finance department. The effect of outsourcing on profitability in the Finance department could be interpreted from coefficient given in the table. There was an increase by 0.284 units in profitability for every Finance outsourced function with all factors held constant.

The results also showed an R-sq (adjusted) of 54.4% which is an indication that the independent variables were related to the dependent variable. This meant that about 54.4 % of the variations in organization performance (profitability in each of the departments) were explained by the independent variable (outsourcing) in the regression output.

Cost Efficiency

Cost efficiency was analyzed as a ratio of operational or overhead expenses to revenue/ sales. The formula expresses cost as a percentage of sales/ revenue as indicated below:

$$\frac{\text{Inputs (total costs and overhead costs incurred to generate outputs.)} \times 100}{\text{Outputs (total revenue/sales of the firm)}}$$

(In this case the lower the percentage the higher the cost efficiency)

Table 8: Cost efficiency in outsourced departmental functions.

	HR-COE	IT-COE	P-COE	L-COE	E-COE	O-COE	F-COE	M&S-COE
AVG-COE-B4(B1 to B2)	69.45%	61.75%	65.60%	63.75%	59.54%	55.52%	54.58%	56.59%
AVG-COE-A(A1 to A12)	42.62%	47.63%	43.67%	45.46%	49.46%	52.40%	53.61%	51.36%

AVG-COE-B4- Average cost efficiency before Diageo take over

B1 to B12- Months one to twelve before Diageo take over

AVG-COE-A- Average cost efficiency after diageo take over

A1 to A12- Months one to twelve before Diageo take over

From the table above, the researcher reveals that the periods before Diageo take over illustrated by B1 to B12 there were high percentages which depicted low cost efficiency. After Diageo take over the

percentage reduced considerably indicating high cost efficiency. From this analysis therefore, Human Resource had the highest cost efficiency as a result of outsourcing and Finance had the lowest cost efficiency.

OLS Regression results (Response : effect of each departmental outsourcing on profitability = 96)

	Coefficient	P-Value	T-Value
Human resources	0.798	0.0009***	4.97
IT	0.635	0.0018**	3.94
Production	0.784	0.0013***	4.95
Logistics	0.685	0.0017**	3.99
Engineering	0.473	0.0021**	3.86
Operations	0.283	0.0028*	3.22
Sales & Marketing	0.285	0.0025*	3.16
Finance	0.273	0.0029*	3.32
Constant	26.67	0.0020*	56.35
S	0.495413		
R-Sq	65.6 %		
R-Sq (Adj)	64.9 %		
P-Value Model	0.0020		

Note no star: result is not significant

- One star (*): result is significant at the 0.05 level
- Two stars (**): result is significant at the 0.01 level
- Three stars (***): result is significant at the 0.001 level.

Source: Researcher's computation

As presented in table above, the results of the ordinary least squares regression analysis showed a positive coefficient of 0.798 with a p-value of 0.0009 and significance level of 0.001 on effect of outsourcing on cost efficiency of the Human Resource department. This indicated a strong positive

relationship between outsourcing and cost efficiency in the Human Resource department. The effect of outsourcing cost efficiency in the Human Resource department could be interpreted from coefficient given in the table. There was an increase by 0.798 units in cost efficiency for every Human Resource outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.784 with a p-value of 0.0013 and significance level of 0.001 on effect of outsourcing on cost efficiency of the production department or function. This indicated a strong positive relationship between outsourcing and cost efficiency in the Production department. The effect of outsourcing on cost efficiency in the production department could be interpreted from coefficient given in the table. There was an increase by 0.784 units in cost efficiency for every production outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.685 with a p-value of 0.0017 and significance level of 0.01 on effect of outsourcing on cost efficiency of the Logistics department or function. This indicated a strong positive relationship between outsourcing and cost efficiency in the Logistics department. The effect of outsourcing on cost efficiency in the Logistics department could be interpreted from coefficient given in the table. There was an increase by 0.685 units in cost efficiency for every Logistics outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.635 with a p-value of 0.0018 and significance level of 0.01 on effect of outsourcing on cost efficiency of the IT department or function. This indicated a strong positive relationship between outsourcing and cost efficiency in the IT department. The effect of outsourcing on cost

efficiency in the IT department could be interpreted from coefficient given in the table. There was an increase by 0.635 units in cost efficiency for every IT outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.473 with a p-value of 0.0021 and significance level of 0.01 on effect of outsourcing on cost efficiency of the Engineering department or function. This indicated a medium positive relationship between outsourcing and cost efficiency in the Engineering department. The effect of outsourcing on cost efficiency in the Engineering department could be interpreted from coefficient given in the table. There was an increase by 0.473 units in cost efficiency for every Engineering outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.285 with a p-value of 0.0025 and significance level of 0.05 on effect of outsourcing on cost efficiency of the sales and marketing department or function. This indicated a low to medium positive relationship between outsourcing and cost efficiency in the sales and marketing department. The effect of outsourcing on cost efficiency in the sales and marketing department could be interpreted from coefficient given in the table. There was an increase by 0.285 units in cost efficiency for every sales and marketing outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.283 with a p-value of 0.0028 and significance level of 0.05 on effect of outsourcing on cost efficiency of the Operations department or function. This indicated a low to medium positive relationship between outsourcing and cost efficiency in the operations department. The effect of outsourcing on cost efficiency in the operations department could be interpreted from coefficient given

in the table. There was an increase by 0.283 units in cost efficiency for every Operations outsourced function with all factors held constant.

Further findings as per table also showed a positive coefficient of 0.273 with a p-value of 0.0029 and significance level of 0.05 on effect of outsourcing on cost efficiency of the finance department or function. This indicated a low to medium positive relationship between outsourcing and cost efficiency in the finance department. The effect of outsourcing on cost efficiency in the Finance department could be interpreted from coefficient given in the table. There was an increase by 0.273 units in cost efficiency for every Finance outsourced function with all factors held constant..

The results also show an R-sq (adjusted) of 64.9% which was an indication that the independent variables were related to the dependent variable. This meant that about 64.9 % of the variations in organization performance (cost efficiency in each of the departments) were explained by the independent variable (outsourcing) in the regression output.

Productivity: On Productivity, the researcher measured total revenue or sales of the firm, against inputs including the number of employees, total assets or inventory required to generate the output. The researcher applied productivity ratios which is the ratio of outputs to inputs.

Outputs (revenue or sales of the firm): Inputs (investment in outsourcing in each department)

Table 9: Productivity in outsourced departmental functions.

	HR-PRO	IT-PRO	P-PRO	L-PRO	E-PRO	O-PRO	F-PRO	M&S-PRO
AVG-PRO-B4(B1 to B12)	1:1.77	1:1.47	1:1.67	1:1.53	1:1.34	1:1.14	1:1.095	1:1.25
AVG-PRO-A(A1 to A12)	2.11:1	1.55:1	1.87:1	1.75:1	1.45:1	1.22:1	1.27:1	1.22:1

AVG-PRO-B4- Average productivity before Diageo take over
B1 to B12- Months one to twelve before Diageo take over

AVG-PRO-A- Average productivity after diageo take over

A1 to A12- Months one to twelve before Diageo take over

From the table above, the researcher revealed that the period before the Diageo take over as illustrated by B1 to B12, showed that input (investment in outsourcing) resulted to low output (sales). From the interview results the respondents indicated that before the Diageo take over, minimal outsourcing was done and EABL still incurred costs to support the outsourcing decisions. The table figures indicated that productivity was lower compared to the period after the Diageo takeover and output (sales) was more than the input (investment in outsourcing), thus the increased productivity. Human resource and production departments showed the highest productivity due to outsourcing.

OLS Regression results (Response: effect of each departmental outsourcing on profitability,N = 96)

	Coefficient	P-Value	T-Value
Human resources	0.544	0.0005***	3.99
IT	0.436	0.0015**	3.64
Production	0.541	0.0006***	3.94
Logistics	0.457	0.0010***	3.77
Engineering	0.363	0.0019**	3.49
Operations	0.246	0.0024*	2.21
Finance	0.234	0.0027*	2.14
Sales	0.258	0.0021*	2.33
Constant	36.50	0.0016*	36.42
S	0.352569		
R-Sq	52.5 %		
R-Sq (Adj)	48.3 %		

Note no star: result is not significant

- One star (*): result is significant at the 0.05 level
 - Two stars (**): result is significant at the 0.01 level
 - Three stars (***) : result is significant at the 0.001 level.
-

As presented in table, the result of the ordinary least squares regression analysis showed a positive coefficient of 0.544 with a p-value of 0.0005 and significance level of 0.001 on effect of outsourcing on productivity of the Human Resource department. This indicated a strong positive relationship between outsourcing and productivity in the Human Resource department. The effect of outsourcing on productivity in the Human Resource department could be interpreted from coefficient given in the table. There was an increase by 0.544 units in productivity for every Human Resource outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.541 with a p-value of 0.0006 and significance level of 0.001 on effect of outsourcing on productivity of the production department or function. This indicated a strong positive relationship between outsourcing and productivity in the production department. The effect of outsourcing on productivity in the production department could be interpreted from coefficient given in the table. There was an increase by 0.541 units in productivity for every production outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.457 with a p-value of 0.0010 and significance level of 0.001 on effect of outsourcing on productivity of the logistics department or function. This indicated a strong positive relationship

between outsourcing and productivity in the logistics department. The effect of outsourcing on productivity in Logistics department could be interpreted from coefficient given in the table. There was an increase by 0.457 units in productivity for every Logistics outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.436 with a p-value of 0.0015 and significance level of 0.01 on effect of outsourcing on productivity of the IT department or function. This indicated a strong positive relationship between outsourcing and productivity in the IT department. The effect of outsourcing on productivity in the IT department could be interpreted from coefficient given in the table. There was an increase by 0.436 units in productivity for every IT outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.363 with a p-value of 0.0019 and significance level of 0.01 on effect of outsourcing on productivity of the Engineering department or function. This indicated a medium positive relationship between outsourcing and productivity in the Engineering department. The effect of outsourcing on productivity in the Engineering department could be interpreted from coefficient given in the table. There was an increase by 0.363 units in productivity for every Engineering outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.258 with a p-value of 0.0021 and significance level of 0.05 on effect of outsourcing on productivity of the sales and marketing department or function. This indicated a low to medium positive relationship between outsourcing and productivity in the sales and marketing department. The effect of outsourcing on productivity in the sales and marketing department could be interpreted from

coefficient given in the table. There was an increase by 0.258 units in productivity for every sales and marketing outsourced function with all factors held constant.

The findings as per table, result of the ordinary least squares regression analysis also showed a positive coefficient of 0.246 with a p-value of 0.0024 and significance level of 0.05 on effect of outsourcing on productivity of the operations department or function. This indicated a low to medium positive relationship between outsourcing and productivity in the operations department. The effect of outsourcing on productivity in the operations department could be interpreted from coefficient given in the table. There was an increase by 0.246 units in productivity for every operations outsourced function with all factors held constant.

Further findings as per table also showed a positive coefficient of 0.234 with a p-value of 0.0027 and significance level of 0.05 on effect of outsourcing on productivity of the finance department or function. This indicated a low to medium positive relationship between outsourcing and productivity in the finance department. The effect of outsourcing on productivity in the production department could be interpreted from coefficient given in the table. There was an increase by 0.234 units in productivity for every finance outsourced function with all factors held constant.

The results also showed an R-sq (adjusted) of 48.3% which is an indication that the independent variables are related to the dependent variable. This means that about 48.3 % of the variations in organization performance (productivity in each of the departments) were explained by the independent variable (outsourcing) in the regression output.

Table 10: Variable with highest R-adjusted and Index

VARIABLES	R-ADJUSTED	Obtaining Index	INDEX
Cost Efficiency	64.9%	$=64.9/167.6*100$	38.7
Profitability	54.4%	$=54.4/167.6*100$	32.5
Productivity	48.3%	$=48.3/167.6*100$	28.8
	167.6		100

In the table above, cost efficiency had the highest R-adjusted and this translated to a high index. Cost efficiency showed the highest R-adjusted and index, indicating the highest relation to the independent variable (outsourcing). Based on this analysis therefore, the effects of outsourcing were more prominent on cost efficiency compared to its effects on profitability and productivity.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATION OF THE STUDY

INTRODUCTION

This is a summary of all the chapters of this study, conclusions drawn and recommendations given by the researcher.

5.1 Summary

This study was carried out at East African Breweries Limited with an aim of establishing the effects of outsourcing on organizational performance. The following section briefly discussed literature on firms' decisions to outsource, in order to provide the context for subsequent empirical analysis. The researcher used questionnaires and interviews as data collection instruments for the study and presented the analysis of information collected. It was from this data analysis that the researcher drew a conclusion for the study and made recommendations .

5.2 Discussion of the study and conclusion

Based on the study of outsourcing at EABL, researcher concluded that outsourcing decisions were implemented mainly as cost cutting business strategies. The analysis of the answers from the respondents showed majority support for outsourcing decisions to improve on cost efficiency. The researcher also established a clear link between outsourcing decisions and cost efficiency from the operational framework and the correlation analyzed showed results that the effect could be measured from reductions on operational costs. The study therefore confirmed correlation between outsourcing and cost efficiency as most practical and achievable.

The researcher analyzed the relationship between outsourcing and profitability and the results suggested that the profit / outsourcing relationship depended on the costs of the outsourcing decisions against returns (Return on Investment). This therefore meant that there were multiple relations between outsourcing, profitability and cost efficiency.

The researcher also analyzed the relationship between outsourcing and productivity. Results from the correlation analyzed indicated that there was a small to medium effect on productivity by outsourcing decisions. This supported the low response from the respondents that outsourcing impacted positively on productivity. Again this could be explained by the fact at EABL, outsourcing decisions were mainly perceived as cost handling strategies as opposed to productivity enhancing options like outsourcing for innovations

While existing literature on outsourcing also sought to draw conceptual evidence that highly visible companies had improved their productivity and profitability as well through outsourcing, the research revealed little evidence that outsourcing would improve a firm's profitability and productivity in that respect.

5.3 Recommendations

Based on the conclusions given, the researcher recommended a broader perspective for outsourcing decisions not only for EABL but for all Kenyan organizations with outsourced business functions. Cost savings can be the main driver of an outsourcing project but indeed every company/business should have a mix of other drivers and should be encouraged to outsource their non-core activities.

Other than cost savings, companies should explore other strategic reasons for outsourcing decisions including access to capabilities for instance human talent (intellectual property), operational systems and processes, or physical resources. A good example of companies that have broadened their outsourcing drives is Apple. A survey by PWC on Global Outsourcing (2007) revealed that Apple designed iPods at their California offices but outsourced the manufacturing of the ipods to selected Chinese firms. This is not just because the Chinese firms can build iPods cheaply, but also because of their profound intellectual property in materials science and packaging technology

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TIME PLAN

Activities	JUL	AUG TO OCT	NOV	OCT	NOV	DEC	JAN	FEB	MAR	APR
Identification of the topic										
Collecting literature and identifying Data collection Instruments										
Date of submitting proposals										
Designing data collection instruments										
Collecting information from questionnaires & interview										
Analyzing & interpreting collected information										
Last date of submitting projects										

This questionnaire consists of two section section A and section B. Section A consists of items on the personal information of the respondents and section B consist of items pertaining to the area of study.

SECTION A: PERSONAL INFORMATION

Please read the following items comprehensively and give our response by ticking (✓) the check box alongside the appropriate answers

1. State your job title

1.1. State your Department

SECTION B: RESPONSE TO THE IMPACT OF OUT SOURCING ON ORGANIZATIONAL PERFORMANCE

2. Has the decision to outsource improved on cost reduction

Yes

☐

No

☐

If yes briefly describe how

.....

.....

.....

.....

2.1. Can the impact of outsourcing on cost reduction be measured

Yes

☐

No

☐

2.2. What elements of cost reduction has outsourcing had an effect on

Overhead costs

☐

Operational cost

☐

All of the above

☐

2.3. Has the decision to outsource improved on your department's productivity

Yes

☐

No

☐

2.4. What aspects of productivity have been affected by the decision to outsource

Improved know how (skills and knowledge) ☐

Improved technology ☐

Improved operational efficiency ☐

Motivated manpower ☐

All of the above ☐

2.5. How has outsourcing affected your Inventory turnover/utility (raw materials / work in progress)

Outsourcing has improved turnover ☐

Outsourcing has increased wastages ☐

2.6. Has outsourcing improved on assets turnover/ utility (machinery and equipment)

Yes

☐

No

☐

If yes briefly describe how

.....

.....

.....

.....

2.7. Has outsourcing improved the quality of your products

Yes

☐

No

☐

2.8. What is the effect of outsourcing on productivity of the employees in your department

Improved productivity ☐

Reduced productivity ☐

Give reasons for your answer

.....
.....
.....
.....

2.9. What impact has outsourcing had on customer satisfaction

Positive impact ☐

Negative impact ☐

Give reasons for your answer

.....
.....
.....
.....
.....

2.10. Has outsourcing increased your organizations profitability

Yes ☐

No ☐

2.11. In your opinion how would you compare your department's investment in outsourcing against the returns

High investment and low returns ☐

Low investment high returns ☐

2.12. Can the impact of outsourcing on your organization's profitability be measured

Yes ☐

No ☐

2.13. What elements of profitability has outsourcing had an effect on your organization

Return on capital employed ☐

Reduced liabilities ☐

Organizational sustainability (Financial stability) ☐

Growth (financial growth, diversification, capacity) ☐

☐

All above

2.14. What effect has outsourcing had on the image of your organization

Improved image

☐

Damaged image

☐

No effect

☐

Give brief explanation for your answer

.....

.....

.....

.....

.....

.....

2.15. Has outsourcing improved the market value of your organization

Yes

☐

No

☐

If yes, state the indicators for the increased market value

Increased investor confidence

☐

Increased competitiveness

☐

All of the above

☐

2.16. In your opinion are there any risks involved in outsourcing

Yes

☐

No

☐

If yes give reasons

.....

.....

.....

.....

.....

.....

APPENDIX 111: INTERVIEW GUIDE

A: QUESTIONS ON RATIONALE BEHIND OUTSOURCING

1. To what extent are your business activities outsourced?
(In terms of percentages or number of total business functions. Also give specific examples)
2. To what degree is your decision to outsource influenced by your desire to free up more time for concentrating on your core business?
3. How do you expect outsourcing to affect accountability in the organization?
(Accountability in terms of responsibilities, and Quality improvement?)
4. How do you decide on the size and duration of the contract with specific suppliers?
(do they start with short-term contracts initially. Do long-term contracts tie the company down)
5. How do you manage the supervision and monitoring of contracts?
(what are the costs on contracting transactions/,administration of tendering etc)
6. Can you identify any 'hidden' costs that have occurred through outsourcing?
(for example erosion of staff skills/Other drawbacks)
7. What measures have you put in place to maintain control over the companies that provide outsourcing services for you?
(Supervision and costs involved)

B: QUESTIONS ON ACCOUNTING IMPLICATIONS OF OUTSOURCING

1. How much control or influence does your organization have over the outsourcing company's accounting system?
(if contracts allow probe of supplier's management/financial accounts/accounting systems etc)
2. How do you account for the outsourced work in your accounting systems?
(if there are set budgets for each outsourced "project" and treat each outsourcing as a cost centre?)
3. How has your own accounting information system been modified to incorporate the new outsourced activities?
(Frequency of reporting/nature of reporting/budgeting /introduction of new cost centres/ new accounting techniques?)

C: QUESTIONS ON IMPACT OF OUTSOURCING ON COMPANY PERFORMANCE

1. How do you specifically measure the impact of outsourcing on your organization's performance? (What the company regards as success and in terms of payback periods, defined profit levels, cost reduction indicators, improved product quality)

End of Interview

APPENDIX IV: EABL OUTSOURCING - FUNCTIONAL RETURNS ON INVESTMENT

	HR-ROI	IT-ROI	P-ROI	L-ROI	E-ROI	O-ROI	F-ROI	M&S-ROI
MONTHS								
B1	10.7%	7.87%	9.4%	9.75%	8.83%	9.3%	6.5%	10.25%
B2	10.78%	8.28%	9.6%	9.76%	8.85%	9.5%	6.6%	12.35%
B3	10.4%	7.99%	9.8%	9.78%	9.21%	9.6%	6.7%	12.5%
B4	11.2%	8.5%	9.89%	9.9%	9.25%	9.8%	6.86%	12.5%
B5	11.6%	8.65%	9.9%	10.3%	9.37%	9.82%	6.87%	14.7%
B6	11.65%	9.63%	10.12%	11.3%	9.47%	8.94%	6.88%	14.75%
B7	11.7%	10.8%	10.15%	11.75%	9.52%	9.66%	6.93%	14.76%
B8	11.78%	10.85%	10.25%	11.7%	9.74%	9.89%	6.97%	13.67%
B9	11.85%	11.21%	10.3%	12.1%	9.88%	9.21%	7.2%	14.72%
B10	12.8%	12.25%	10.37%	13.1%	9.47%	9.25%	7.3%	14.78%
B11	12.87%	12.37%	10.63%	13.45	9.81%	10.37%	7.35%	13.88%
B12	12.98%	12.47%	11.7%	12%	10.85%	11%	7.5%	15.97%
A1	26.7%	22.48%	25.74%	21.15%	15.5%	13%	9.6%	17.%
A2	27%	24.45%	25.81%	23.5%	15.7%	13.65%	9.78%	17.1%
A3	27.4%	26.5%	25.78%	24%	16.45%	13.7%	9.8%	17.12%
A4	27.5%	28%	26.7%	24.95%	17.7%	13.87%	9.87%	17.37%
A5	28.6%	29.7%	29.67%	25.8%	19%	13.9%	10%	17.67%
A6	29.5%	30.98%	29.9%	26.75%	20.4%	14.6%	11.4%	18.1%
A7	30.2%	31.5%	29.95%	26%	23.8%	14.8%	12.37%	18.32%
A8	31.6%	31.95	30%	28.5%	24.5%	15%	13.67%	18.43%
A9	32.7%	32.9%	30.4%	30.2%	25.4%	15.5%	13.1%	18.6%
A10	33.8%	33.3%	30.7%	30%	26.%	16%	14.2%	18.71%
A11	34.3%	33.4%	31.8%	32.8%	26.3%	16.5%	15%	18.9%
A12	35.5%	34.9%	35.6%	34.8%	27.2%	16.75%	16%	19%

HR (Human Resources), IT (Information Technology), E (Engineering), O (Operations), P (Production), F (Finance), M&S (Sales and Marketing)

APPENDIX V: EABL OUTSOURCING - FUNCTIONAL COST EFFECIENCY

	HR-CEF	IT-CEF	P-CEF	L-CEF	E-CEF	O-CEF	F-CEF	M&S-CEF
MONTHS								
B1	69.5%	61.27%	65.56%	63.75%	58.87%	55.35%	54.75%	56.34%
B2	69.6%	61.45%	65.64%	63.76%	58.36%	55.63%	54.89%	56.37%
B3	69.45%	61.57%	65.34%	63.78%	59.46%	55.75%	54.87%	56.56%
B4	69.3%	62.76%	65.67%	63.9%	59.86%	55.46%	54.47%	56.59%
B5	69.4%	61.43%	65.56%	63.3%	59.36%	55.52%	54.23%	56.47%
B6	69.55%	61.82%	65.23%	63.3%	59.65%	55.44%	54.56%	56.87%
B7	69.6%	61.7%	65.67%	64.75%	59.45%	55.56%	54.56%	56.57%
B8	69.58%	62.65%	65.87%	63.7%	59.64%	55.69%	54.67%	56.69%
B9	69.37%	61.43%	65.45%	64.21%	59.58%	55.51%	54.45%	56.75%
B10	68.45%	61.56%	65.86%	64.1%	59.67%	55.67%	54.45%	56.74%
B11	69.89%	61.87%	65.64%	63.45	59.81%	55.43%	54.65%	56.79%
B12	69.65%	61.54%	65.7%	63%	60.75%	55.2%	54.45%	56.38%
A1	42.7%	47.48%	43.74%	45.15%	49.5%	52.6%	53.34%	51.1%
A2	42%	47.45%	43.81%	45.5%	49.7%	52.78%	53.98%	51.1%
A3	42.78%	47.5%	43.78%	45%	49.45%	52.8%	53.76%	51.12%
A4	42.5%	47.5%	43.7%	45.95%	49.7%	52.87%	53.49%	51.37%
A5	42.6%	47.7%	43.67%	45.8%	49.6%	52%	53.62%	51.67%
A6	42.5%	47.98%	43.9%	45.75%	49.4%	52.4%	53.4%	51.1%
A7	42.2%	47.5%	43.95%	45.1%	49.8%	52.37%	53.67%	51.32%
A8	43.6%	47.95	43%	45.5%	49.5%	52.67%	53.7%	51.43%
A9	42.7%	47.9%	43.4%	45.2%	49.4%	52.1%	53.47%	51.6%
A10	42.1%	47.3%	43.7%	45%	49.1%	52.2%	53.56%	51.71%
A11	43.3%	47.4%	43.8%	45.8%	49.3%	52%	53.48%	51.9%
A12	42.5%	47.9%	43.6%	45.8%	49.2%	52%	53.89%	51%

HR (Human Resources), IT (Information Technology), E (Engineering), O (Operations), P (Production), F (Finance), M&S (Sales and Marketing)

APPENDIX VI: EABL OUTSOURCING - FUNCTIONAL PRODUCTIVITY

	HR-PRO	IT-PRO	P-PRO	L-PRO	E-PRO	O-PRO	F-PRO	S-PRO
MONTHS								
B1	1:1.8	1:1.48	1:1.7	1:1.5	1:1.3	1:1.	1:1.05	1:1.2
B2	1:1.9	1:1.47	1:1.6	1:1.5.1	1:1.32	1:1.12	1:1.07	1:1.23
B3	1:1.75	1:1.45	1:1.65	1:1.56	1:1.35	1:1.15	1:1.06	1:1.245
B4	1:1.7	1:1.46	1:1.6	1:1.53	1:1.34	1:1.14	1:1.05	1:1.24
B5	1:1.8	1:1.47	1:1.67	1:1.55	1:1.35	1:1.18	1:1.1	1:1.28
B6	1:1.7	1:1.49	1:1.64	1:1.52	1:1.32	1:1.16	1:1.12	1:1.26
B7	1:1.7	1:1.467	1:1.74	1:1.53	1:1.34	1:1.15	1:1.11	1:1.25
B8	1:1.7	1:1.456	1:1.73	1:1.54	1:1.32	1:1.17	1:1.10	1:1.27
B9	1:1.85	1:1.471	1:1.64	1:1.51	1:1.35	1:1.145	1:1.0	1:1.245
B10	1:1.9	1:1.462	1:1.65	1:1.58	1:1.34	1:1.13	1:1.12	1:1.23
B11	1:1.8	1:1.451	1:1.7	1:1.52	1:1.35	1:1.15	1:1.13	1:1.25
B12	1:1.66	1:1.476	1:1.66	1:1.56	1:1.36	1:1.156	1:1.126	1:1.256
A1	2:1:1	1.56:1	1.8:1	1.74:1	1.4:1	1.21:1	1.15:1	1.215:1
A2	1.9:1	1.55:1	1.8:1	1.76:1	1.45:1	1.24:1	1.13:1	1.24:1
A3	1.9:1	1.56:1	1.7:1	1.75:1	1.46:1	1.21:1	1.16:1	1.23:1
A4	2:1	1.57:1	1.74:1	1.8:1	1.45:1	1.24:1	1.13:1	1.21:1
A5	2.1:1	1.59:1	1.91:1	1.74:1	1.46:1	1.22:1	1:14.14	1.24:1
A6	2.2:1	1.57:1	1.93:1	1.7:1	1.47:1	1.23:1	1.56:1	1.23:1
A7	2:1.1	1.54:1	1.9:1	1.7:1	1.45:1	1.24:1	1.65:1	1.24:1
A8	2.1:1	1.53:1	1.94:1	1.8:1	1.46:1	1.221:1	1.45:1	1.213:1
A9	2.3:1	1.576:1	1.96:1	1.76:1	1.436:1	1.23:1	1.1:1	1.22:1
A10	2.2:1	1.586:1	1.86:1	1.76:1	1.46:1	1.21:1	1.12:1	1.21:1
A11	2.2:1	1.52:1	1.95:1	1.75:1	1.45:1	1.204:1	1.34:1	1.21:1
A12	2.3:1	1.5:1	1.97:1	1.7:1	1.47:1	1.21:1	1.25:1	1.2:1

HR (Human Resources), IT (Information Technology), E (Engineering), O (Operations), P (Production), F (Finance), M&S (Sales and Marketing)

