EFFECT OF BUSINESS PROCESS OUTSOURCING ON THE PROFITABILITY OF MANUFACTURING COMPANIES LISTED ON THE NAIROBI STOCK EXCHANGE

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

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A Research Project Report Submitted to the School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

FALL 2016
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: _________________________  Date: _______________________

Eunice Kung’u (ID 625786)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: _________________________  Date: _______________________

Prof. Paul Katuse

Signed: _________________________  Date: _______________________

Dean, School of Business
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ABSTRACT

The study investigated the effect of business process outsourcing on the profitability of manufacturing companies listed on the Nairobi Stock Exchange. The study aimed at answering three research questions; what are the effects of outsourcing back office transactions on profitability of manufacturing firms in Kenya? To what extent does an outsourcing customer interaction service affect the profitability of manufacturing firms in Kenya? And what are the effect of outsourcing IT and software operations on the profitability of manufacturing firms in Kenya? This study adopted a descriptive survey research design. The target population consisted of management staff of ten manufacturing firms listed in the NSE. There was 3,118 management staff in the listed manufacturing companies. The researcher used stratified random sampling technique to come up with the required sample. The strata were based on top, middle and low level management staff in selected firms. The sample size of the study was established at 155 respondents was constituted the sample population for the study. The study used both primary and secondary data sources in gathering data for analysis. The primary data source was collected from a questionnaire consisting of both open and close-ended questions. Secondary data was collected from published annual reports of the listed manufacturing firms available at the Capital Markets Authority (CMA) website.

Quantitative data from the questionnaire was coded and entered into the computer for computation of descriptive statistics. The researcher used SPSS Version 20.0 to run descriptive statistics (frequency, percentages, mean and standard deviation). Multiple regression was also used to test the influence of independent variables on dependent variables. The quantitative data was presented in tables and graphs based on the study research questions. The findings revealed that all the independent variables depicted a positive relationship with firm profitability. This means that units increase in each of the independent variables results in an increase in firm profitability in NSE listed manufacturing firms. The researcher therefore concludes that outsourcing back office transaction does not have an effect on firm profitability of manufacturing firms listed in the Nairobi Securities Exchange; that there is a positive and significance effect of outsourcing customer interaction service on firm profitability of manufacturing firms listed in the Nairobi Stock Exchange and that there is a positive and significant effect of IT and software operations on firm profitability of manufacturing firms listed in the Nairobi Securities Exchange.
The study recommends that manufacturing firms should conduct a needs assessment of outsourcing back office transactions. This needs assessment would enable the organisation to identify the cost-benefit analysis for adopting this form of outsourcing strategy. This would allow the manufacturing firms to increase their level of productivity. The study recommends that manufacturing firms should practice outsourcing customer interaction services to enhance their customer base and enhance customer loyalty which will increase their rate of customer retention. This form of customer service management can lead to customer satisfaction, customer retention hence expedite and enhance re-buy of firm products; that manufacturing firms should outsource IT and software operations of their businesses process; that manufacturing firms rely on information technology and outsourcing these services allows them to concentrate on their core business while enjoying best practices and professionalism in supporting their IT based business processes.
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TABLE OF CONTENTS

STUDENT'S DECLARATION ........................................................................................................ ii
COPYRIGHT ............................................................................................................................... iii
ABSTRACT ................................................................................................................................. iv
ACKNOWLEDGMENTS ........................................................................................................... vi
LIST OF TABLES ....................................................................................................................... ix
LIST OF FIGURES .................................................................................................................... x
CHAPTER ONE ............................................................................................................................ 1
1.0 INTRODUCTION ................................................................................................................. 1
1.1 Background of the Study ..................................................................................................... 1
1.2 Statement of the Problem .................................................................................................. 5
1.3 Purpose of the Study .......................................................................................................... 6
1.4 Research Questions ........................................................................................................... 6
1.5 Significance of the Study .................................................................................................. 7
1.6 Scope of the Study ............................................................................................................. 7
1.7 Definitions of Terms ......................................................................................................... 8
1.8 Summary ......................................................................................................................... 8

CHAPTER TWO .......................................................................................................................... 10
2.0 LITERATURE REVIEW ........................................................................................................ 10
2.1 Introduction ...................................................................................................................... 10
2.2 Effects of Outsourcing Back Office Transactions ........................................................... 10
2.3 Effects of Outsourcing Customer Interaction Services .................................................... 14
2.4 Effects of Outsourcing IT and Software Operations ........................................................ 17
2.5 Summary ......................................................................................................................... 22

CHAPTER THREE ....................................................................................................................... 23
3.0 RESEARCH METHODOLOGY .......................................................................................... 23
3.1 Introduction ...................................................................................................................... 23
3.2 Research Design .............................................................................................................. 23
3.3 Population and Sampling Design .................................................................................... 23
3.4 Data Collection ............................................................................................................... 25
3.5 Research Procedures ....................................................................................................... 26
3.6 Data Analysis Methods .................................................................................................... 27
3.7 Chapter Summary ............................................................................................................ 27

CHAPTER FOUR ......................................................................................................................... 28
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0 RESULTS AND FINDINGS</td>
<td>28</td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>28</td>
</tr>
<tr>
<td>4.2 Respondent Information</td>
<td>28</td>
</tr>
<tr>
<td>4.3 Effects of Outsourcing Back Office Transactions on Profitability of Manufacturing Firms</td>
<td>31</td>
</tr>
<tr>
<td>4.4 Effect of Outsourcing Customer Interaction Service on Profitability of Manufacturing Firms</td>
<td>33</td>
</tr>
<tr>
<td>4.5 Effect of Outsourcing IT and Software Operations on Profitability of Manufacturing Firms</td>
<td>35</td>
</tr>
<tr>
<td>4.6 Regression Analysis</td>
<td>37</td>
</tr>
<tr>
<td>4.7 Chapter Summary</td>
<td>38</td>
</tr>
<tr>
<td>CHAPTER FIVE</td>
<td>39</td>
</tr>
<tr>
<td>5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS</td>
<td>39</td>
</tr>
<tr>
<td>5.1 Introduction</td>
<td>39</td>
</tr>
<tr>
<td>5.2 Summary of the Study</td>
<td>39</td>
</tr>
<tr>
<td>5.3 Discussion</td>
<td>40</td>
</tr>
<tr>
<td>5.4 Conclusion</td>
<td>44</td>
</tr>
<tr>
<td>5.5 Recommendations</td>
<td>45</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>46</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>58</td>
</tr>
<tr>
<td>APPENDIX I: QUESTIONNAIRE COVER LETTER</td>
<td>58</td>
</tr>
<tr>
<td>APPENDIX II: QUESTIONNAIRE FOR MANAGEMENT STAFF</td>
<td>59</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 3.1 Target Population ................................................................. 24
Table 3.2 NSE Listed Manufacturing Firms ............................................ 24
Table 3.3 Sample Size ................................................................. 25
Table 4.1: Extent of Outsourcing Back Office Transactions on Firm Profitability ..... 31
Table 4.2: Effect of Outsourcing Back Office Transactions on Firm Profitability .... 32
Table 4.3: Extent of Outsourcing Customer Interaction Service on Firm Profitability .... 33
Table 4.4: Effect of Outsourcing Customer Service Interaction on Firm Profitability .... 34
Table 4.5: Extent of Outsourcing IT and Software Operations on Firm Profitability .... 35
Table 4.6: Table 4.2: Effect of Outsourcing IT and Software Operations on Firm Profitability ........................................................................................................ 36
Table 4.7: Model Summary ....................................................................... 37
Table 4.8: ANOVA ............................................................................. 37
Table 4.9: Coefficients ........................................................................ 37
LIST OF FIGURES

Figure 4.1: Management Level of Respondents .................................................................28
Figure 4.2: Gender Distribution of Respondents .................................................................29
Figure 4.3: Age Distribution of Respondents ......................................................................30
Figure 4.4: Years Worked in Firm among Respondents .......................................................30
Figure 4.5: Business Processes Outsourced Among NSE Listed Manufacturing Firms ...31
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In the economic world, business process outsourcing generally refers to outsourcing and it applies to contract made between two organisations whereby one organization will manage some or all processes of the other organization (Sharma, 2004). A more technical meaning for BPO would be taking advantage of technology and suppliers of specialist areas to provide organisations with the best service around their critical processes (Mukherjee, 2007). According to Amiti and Wei (2009), BPO can be divided into two areas which are back office and front office outsourcing whereby back office entails billing and purchasing while front office entails services around customers and support for technology.

The segments that are quickly growing as areas to be outsourced are finance, manufacturing and IT and as much as these areas were previously taken as being core areas, the feel in the organisations now is that these areas are non-core and that they should be outsourced. This does not beg the fact that IT has been outsourced by many organisations for more than fifty years but the outsourcing of whole functions started around the late 1980s and 1990s. With all the outsourcing happening across the world, there are still many organisations that are not yet heading into that direction because of the long period of time it takes for them to realize gains (Namasivayam, 2004).

There has been noted over the years that there have been a great increase in the size of outsourcing in the service industry (Barnes, 2001; Deery & Kinnie, 2004; McCormick, 2011). Ghodeswar and Vaidyanathan, (2008) summarizes various reasons as to why the business process outsourcing is on the increase in the world. There has been a lot of pressure from the competitive world that makes organisations turn to outsourcing as they need to remain relevant in the industry and at the same time save costs and make profits. Also the economy has brought a lot of opportunities that enhance the growth of outsourcing for organisations in the service and knowledge based industries as they may be more profitable in their sectors.

There is also a growing need of great financial performance emphasized on firms has made them rethink the strategies around the services to be outsourced (Ghodeswar & Vaidyanathan, 2008). The most important criteria to determine the performance of an
organization is profitability. Profitability helps for firms to assess how much it’s receiving from its investments in goods and services. (Smith, Mitra & Narasimhan, 1998).

The most important and researched parameter to measure organisation performance is its profitability. These measurement metrics focus on the return of the organisations owners receive from their investments. The strategic use of outsourcing in business can enhance and improve firm profitability in many ways. Woodall, Scott-Jackson and Newham, (2009) established that the most important motivation for businesses to outsource is cost savings. Theoretically, outsourcing for cost reasons happens when the costs of the supplier are low such that even with added overhead, profit and costs of transactions, suppliers can still provide a service for lower fees.

Outsourcing for cost reduction accepts that there exists of partners in the supply chain who have substantial production scale economies, volume leverage with several suppliers or operational competencies as dedicated market agents (Brewer, Ashenbaum & Ogden 2012). An increase in outsourcing, costs often decline and investments in manpower, equipment and facilities can be reduced. Cost reduction outsourcing can also lessen fixed investments in internal facilities and processes (Kotabe, Mol & Murray 2008; Diaz-Mora & Triguero-Cano, 2012), and allow for capital investments in high productivity areas within the organisation, thus driving costs even lower (Nayak, Sinha & Guin, 2007).

A firm that adopts outsourcing solutions in its business can reduce costs such as training expenses, recruitment and overtime thus shrinking the size of the function and therefore cheaper substitutes can be applied and the overall payroll expenses can decrease (Marchington & Wilkinson, 2008). By using external services, the knowledge is then delivered by external staff thus avoiding financial capital investments and subsequently leading to economies of scale (Beregszaszi & Hack-Polay, 2012). Businesses today have responded to the modern emphasis on service and speed, quality and costs by abandoning the normal way of doing business for more flexible strategies. Strategies characterized by restructuring of important business processes, constant scrutiny with an aim to enhance efficiency. This guarantees the survival of the harsh business environment. Sustainable competitive advantage yet poses a challenge for firms. This has been triggered by a shift in thinking within business organisations as they no longer see their strength as being controlled in the market only.
Recently, organisations are gradually accepting the view that market position is only a partial measure of competitiveness with other parts being rooted in the internal competencies (Abdul-Halim & Che-Ha, 2009; Isinga & Werle, 2000). To this end, some organisations have gone ahead to identify their special distinctive skills and resources and exploited them to the disadvantage of their competitors (Bettis, 1992; Javalgi, 2003). This has been in the process of perfecting manipulation of special capabilities that the idea of Business Process Outsourcing (BPO) is born.

Organisations are making strategic choices to outsource what they are fragile at and instead concentrate their resources on their strengths with a view to improve their performance. Business Process Outsourcing was borne out of the need for competitiveness. It is a deliberate effort towards improving efficiency hence competitiveness by realising higher returns on assets while increasing flexibility using less capital to respond to the environment (Isinga & Werle 2000; Jiang & Qureshi, 2005).

In the global business environment, studies in Germany and the United States show the factors of BPO in the banking sector have offered a different narrative with the US study showing that high costs of production resulting to poor performance have led to the emergence of BPO. As such, organisations have embraced BPO in an effort to regain a better market position in their sectors. In Germany, BPO was found to be limited to organisations struggling with high costs but also adopted by profitable financial institutions with higher revenue diversification thus concluding that BPO was used as a strategic component of market differentiation to achieve greater competitive advantage (Ang & Straub, 1998; Fritsch & Wullenweber, 2007).

The Philippines and India are best known as the most significant entrants into the BPO market. They are identified as economies positively affected due to their contribution and experience especially in offshoring services. The two nations are growing fast as BPO destinations both emerging as centres for ICT software outsourcing owing to affordable and experienced labour pools, personnel competences and cost structure (Kumar, 2005; Munoz, 2006).

Despite lack of adequate information showing the link between BPO and organisation performance, both public and private sector organisations in Kenya have over time adopted outsourcing. In the public sector, BPO can be seen as the mainly as a cost cutting
measure. This made it a rather favoured cost effective way of operation, more so, after pressure from the government for increased self-sustenance and efficiency had increased. Among state corporations, the use of BPO may have been due to the need to comply with government policy of limiting operations only to self-sustaining corporations that could effectively survive and compete in the competitive environment (GoK, 1992).

In Kenya, BPO involves animation; call centres; knowledge processing; data transcription and processing; software development (Wahome, 2008). Telkom Kenya retrenched 10,000 staff. Among these, those with unique telecommunication skills were asked to form firms through which Telkom Kenya would outsource some of its services (Gachunga, 2012). Safaricom (K) Limited provides a telephone service provider has entered the East African region have also adopted outsource strategy by outsourcing their call centers and focus on their core business operations (Shaviya, 2013).

The BPO cluster in Kenya can be traced back to 2005 when KenCall first internationally recognised call center was founded by Nik Nesbitt. KenCall experienced a troublesome first few years as it was perceived of having insufficient infrastructure and poor quality which stifled KenCall’s marketing attempts (Isenberg, 2009). Kenya’s development blueprint Vision 2030 named BPO as one of its flagship projects (Hartley, Kassam, Saloojee & Williams, 2011). As a result of these initiative, the BPO and Contact Center Society formed in 2007 was Kenya’s first institution for Collaboration (IFC) which had 33 members. Later 2007, a second IFC was created by the Kenya ICT Board controlled by part of the Ministry of Information and Communications of the Government of Kenya, the ICT Board operated like an IFC in the cluster (Kaka, Kekre & Saipriya, 2011).

According to Nimalathasan (2009) the primary objective of a business is to achieve profit versus the investments that has been directed to majority of manufacturing businesses. Amiti and Wei (2009) opined that manufacturing firms should earn profits to grow and survive over a sustained duration of time. This provides evidence on the earning potential of a business and the management effectiveness in the firm. The failure of a company to make profit leads to capital investments erosion and if this is prolonged the enterprise eventually ceases to exist.

Business process outsourcing can be a basis for organisation overall productivity and competitiveness and profitability since competitive advantage is entrenched in a set of
connections across the boundaries of the organisation rather than residing inside an
individual organisation (Bharadwaj & Saxena, 2009). To this effect, the use of BPO has
developed to be the norm with outsourcing being seen as the centre of focus in several
industries owing to its envisaged ability to enhance efficiency and reduce costs
(Fitzgerald & Khan, 2004).

The choice to adopt BPO in organisations has been driven by specific merits that include:
more cost effective technologies; increased financial flexibility; reduced costs often
associated with bureaucracies; higher quality goods/services due to promotion of
competition among outside suppliers; reduced uncertainty; greater efficiency; speed of
response and enhanced learning spreading risks by switching suppliers when market
conditions demand all seen as leading to improved organisational profitability and
performance (Kotabe & Murray, 2000).

1.2 Statement of the Problem
The manufacturing sector in Kenya plays a fundamental role in developing the national
economy, alleviating poverty and partnering with other larger corporations. They
constitute a great source of service provision and local supply to larger corporations.
Usually they have enormous local knowledge of resources, purchasing trends and supply
patterns (Kwamboka, 2010). However, low capital, mounting margin pressure, increased
focus on core business and global competition are driving firms to look for innovative
ways to get things done at lower costs. The manufacturing firms’ opportunities are large
but the challenges are also substantial (Ekeno, 2010).

Much has been researched done on business process outsourcing, include Gakii (2010)
case study on the challenges of implementing outsourcing in East African Breweries
Kenya Ltd. She found out that the organization needed to develop a clear criterion on
choice of service providers. Mwando (2010) carried out a study on the outsourcing
strategy at British Airways in Kenya. He recommended that the organization needed to
train outsourced staff before they are engaged to work in order to enable them integrate
with British Airways culture and systems instead of leaving them to outsourced agency.

Kaur (2001) carried out a survey of the outsourcing of Human Resources Management
Services among manufacturing firms in Nairobi, Kenya. Among the firms studied then,
outsourcing strategy was new and minimal. The benefits reported then were few. Buya
(2010) carried out a research on the implementation of the outsourcing strategy in the cement manufacturing industry in Kenya. The study established that the strategy had assisted in lowering the operation cost of the companies. Oyugi (2010) carried out a study on the effect of outsourcing on corporate performance at BAT Kenya LTD. Like Mwando (2010) she observed the need to train outsourced staff before they are engaged to work in order to enable them integrate with BAT Kenya LTD culture and systems.

From the researches carried out, it was evident minimal research had been conducted on effect of outsourcing on the profitability of manufacturing companies. Firm profitability is the overall goal of all business enterprises and without it business enterprises will not survive in the long-term. Measuring past and current profitability and prospecting future profitability is of importance to business. The key reasons for outsourcing is to reduce labour costs and increases focus of outsourcing firms to concentrate on core business activities, thus increasing the profit. Many researches carried out on business process outsourcing were case studies on Blue Chip Companies. Likewise these researches concentrated on the extent and challenges of BPO. The effect of business process outsourcing on the profitability of manufacturing companies is minimally been researched on. This study seeks to fill the existing research gap by conducting a study to establish the effect of business process outsourcing on the profitability of manufacturing companies listed on the Nairobi Securities Exchange in Kenya.

1.3 Purpose of the Study
The purpose of the study was to determine the effect of business process outsourcing on the profitability of manufacturing companies listed on the Nairobi Securities Exchange in Kenya.

1.4 Research Questions
The study aimed to answer the following questions.

1.4.1 What are the effects of outsourcing back office transactions on profitability of manufacturing firms in Kenya?

1.4.2 To what extent does an outsourcing customer interaction service affect the profitability of manufacturing firms in Kenya?

1.4.3 What are the effect of outsourcing IT and software operations on the profitability of manufacturing firms in Kenya?
1.5 Significance of the Study

The study is of importance to the following stakeholders:

1.5.1 Policy Makers

The findings of the study will be of significance to policy and decision makers in the country. The study will unearth the BPO activities of manufacturing firms and this can inform policy making in terms of the BPO opportunities that can be used to create employment in Kenya as envisioned in the Vision 2030. This information will also be useful to indicate the skills, knowledge and infrastructure required to support these BPO services.

1.5.2 Board of Directors (BODs), chief executive officers (CEOs)

The study will be of significance to the BoDs and CEOs and top management of manufacturing firms in Kenya. The results will show which services and functions are being outsourced among manufacturing firms and would provide opportunities for their firms to improve their profitability and competitiveness in the sector.

1.5.3 Academicians/ Researchers

The findings from the study will be of importance to academicians and researcher as it will provide sources of information and references on BPO. The study will also provide information and data for future researcher while also recommending for areas of further research.

1.6 Scope of the Study

This study seeks to establish the effect of business process outsourcing on the profitability of manufacturing companies listed on the Nairobi Securities Exchange in Kenya. The study seek to determine the effect of outsourcing back office transactions, customer interaction services and IT and software operations on the profitability of manufacturing firms in Kenya. This study will target Three Thousand One Hundred and Eighteen (3,118) employees in the listed manufacturing companies. The study will target a sample of One Hundred and Fifty Five employees (155) of these manufacturing firms at their head office in Nairobi. In addition, the employees comprised of top, middle and lower level management of listed manufacturing companies hence there will be a sample of 15 top management, 60 middle management and 80 lower management employees. These
categories were chosen because of their knowledge about shared services centres and their different experiences and perceptions.

The study is expected to face and surmount the following challenges. The manufacturing firms are spread over a vast area and the researcher will employ the services of research assistants to collect data. The targeted officials who will be the respondents in the study are usually busy executives with hardly any time to respond to questionnaires in a single sitting. The study will adopt drop and pick method of data collection with a follow up in between to boost the response rate to the study.

The officers might be reluctant to release actual figures on the performance of various outsourced services citing confidentiality clauses and fear of snooping by rivals. The letter of introduction from the university and personal assurance by the researcher that the data will only be used for research only will be employed. Additionally, the figures will be counter checked with the information from Nairobi stock exchange to ascertain the accuracy of the information. The research was done between June and December 2016.

1.7 Definitions of Terms

1.7.1 Business Process Outsourcing
BPO is the leveraging of technology or specialist process vendors to provide and manage an organisation’s critical and/or non-critical enterprise processes and applications (Mukherjee, 2007).

1.7.2 Manufacturing Companies
A manufacturing firm is a commercial business that transforms components or raw materials into complete products. These products are required to meet and exceed the demands and expectations of consumers.

1.8 Summary
This chapter has given readers the background of the study problem as well as given a brief history of business process outsourcing. The chapter has also covered the research problem which is to examine the effects of business process outsourcing on the profitability of manufacturing firms listed on NSE. The chapter has highlighted the purpose of the study and has come up with research questions that guided the study. The
chapter ends with giving the readers the study scope and importance. Chapter two will cover the literature review, chapter three will cover research methodology, chapter four will cover results and findings and chapter five will cover discussions, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the effect of BPO on the profitability of manufacturing companies listed on the NSE in Kenya. Specifically, it examines effects of outsourcing back office transactions, IT and software operations and customer interaction services on the profitability of manufacturing firms in Kenya with a view to identify any gaps from previous studies and fill them.

2.2 Effects of Outsourcing Back Office Transactions

According to Namasivayam (2004), he advises that back office tasks like as human resources, finance, accounting, and customer service have emerged to be exactly difficult with extremely modified structures, uses and processes thus if any firm opted to outsource these tasks to another service provider they decisions on the improvement of efficiencies of modified processes like above have to be made without interfering with the service levels. In most instances, attaining any form of efficiency took longer than expected.

2.2.1 Greater Focus on Core Competencies

One main dispute over and over again given by organizations concerning their participation in outsourcing of services is their aspiration to concentrate on their major actions. In a illustrative survey that was carried out by the Centre of European Economic Research (ZEW), over percent of the firms that outsource insist on this argument as the leading cause of business processes are subcontracted. They as a result source every (or at least parts) of their minor operations (Gilley and Rasheed, 2000; Merino and Rodríguez, 2007).

Too often, the supporting processes are seen by executives and senior managers as “non-value added” (Schulman, Hammer, Dunleavy and Lusk, 1999:1) and as such receives little management attention. When these processes operate as free-standing businesses, they indeed add value. The commitment of senior management is of crucial importance, because without it, the process is destined for failure.

Outsourcing enables host organizations to come up with long lasting mediums that are able to adapt or even evolve. Most organizations emphasis on coming up with skills in small places whereby they are good at currently. Not to be left out of the current growing
market underlying forces outsourcing has enabled host organizations to purchase technology from a seller which would have rather been costly and tough to build within the organization (Lankford and Parsa, 1999).

Operations support services are essential for any organization to be successful in the current market that is dynamic. This will also take into account dire services for re-engineering, management of amenities, world-wide supply and sourcing and logistics and dispatch activities. These competences are focussed to refining effectiveness of the activities within the host firm. Back office transaction processing is a vital part in services that are usually services that is accountable for conducting key tasks like processing of any form of transactions, payment processing, forms managing, overall transaction processing a nil accounts receivables processing. Usually a big number of multiple clients are handled by service providers and therefore avail economies of scale, process maturity, greater quality and quick turnaround times to the client (Willcocks and Feeny, 2006). It will enable the host firm to obtain capabilities to push their front-end activities by a strong back office engine.

2.2.2 Access to Specialized and Global Best Practices
Outsourcing can allow firms to use world-wide resources to the maximum and competently through excellent best practices from the industry in improving their value chain and penetrating and coming up with new markets (Farrell, 2004). From the nature of the type of specialization, outsourcing suppliers bring about broad world-class assets to fully satisfy customer needs. Uniting with any firm that has top-notch capabilities will give room to acquiring new technology, equipment and skills that may not be in possession of the organization currently; more well-thought-out methodologies, procedures and credentials; and an added advantage through extended skills. Outsourcing empowers the firm to time and again carry out their operations far much better that its competition and repeatedly progress on the operations as evolution in markets, technology and competition takes place. (Quinn and Hilmer, 1995). Host firms therefore are endowed to provide greater value-added services to customers. Knowledge based manufacturing firms rip in R&D, designing of product, process design, and logistics, research in terms of markets, public relations, marketing, and distribution and customer services.
2.2.3 Productivity

Businesses that outsource their processes frequently have the ability to come up with unique efficiencies and better their output. They stand a better chance to divert their resources to other main projects. It again assists employees to be more efficient and productive. In most scenarios extremely experienced people are brought on board to come up with and take control of these processes. These experienced guys will bring with them high productivity which was not able to be accessed by many companies previously or even could not afford on their own. With the accessibility of vastly competent skill pools and the quick implementation of clear business processes, there has been an increase in output without having an effect on the quality (Bharadwaj and Saxena, 2009).

With BPO, the outsourcing provider will not only be in charge of managerial task for a technical operations but as well as assuming strategic accountability for the carrying out of a whole, business-critical function. The additional procedure will bring about new competences and cost savings despite the fact that it allows the outsourcing vendor to provide critical strategic gains to the customer. BPO is completely in line with the search for additional organizational designs that seem to be efficient: reducing cost, output growth and innovative abilities. Therefore, BPO is a source of strategic benefit (Ang and Straub, 2008).

An essential element of business process outsourcing is its capability to release company executives from their daily process management tasks. Executives typically use most of their time handling everyday business and left with little time to come up with strategies fruitful development of the organization (Görg, Hanley and Strobl, 2008). It tends to bring a different picture if the business processes are outsourced. After successfully outsourcing a process, reversing the ratio will not be a hard task. Therefore, executives will tend to have more time at their disposal which assists them largely to search for more sources of revenue, enhance projects and concentrate on their customers. Without any doubt, it will lead to improvement in productivity (Görg and Hanley, 2005).

Since services, naturally, are created and used up concurrently, it is hard to reconfigure most service value chains. Above and beyond, some input variables will be hard to control of the subcontractor or even the parent company. The input variables include work culture, and skill set of staff. Though, the reasoning of outsourcing is so intense that outsourcing trends will continuously grow in future. There is no hope of the trend
reversing in any manner for the reason that economic activity firms are founded on the principles of transaction costs and production costs (Bharadwaj and Saxena, 2009).

Production cost efficiency concept states that the only characteristic that will distinguish production in the firm is if it done by team (Youngdahl and Ramaswamy, 2008) and for the team to remain in existence only if the teams’ output is adequately larger than the total output within the independent production to prove the costs associated with organizing and monitoring members of the entire team. Therefore, the costs associated with production will tend to be higher when the degree of scale economies of management and production are also high (Weston, Chung and Hoag, 2010).

Generally, an asset’s output will increase with the type of specialization to other forms of inputs that are added to the production process. Though, specialization may even increase the threat of loss to the owner of the specialized ability only when other inputs are left out. The supposed relative bargaining strength of those who own the specialized value links affect the verdict to go for the degree of outsourcing an organization would agree to. Simultaneously, Görg, Hanley and Strobl (2008) suggest that the higher the degree of asset specialization, the more it is likely to lead to more transactions that would efficient within organizations.

2.2.4 Cost Reduction

When a resource is reliant on the remaining team items, there is a desire on various contractors to hold it up to expropriate its quasi-rent. As a result, it is depends on the forces of demand and supply at any specific time. Potential risks to BPOs from such a scenario are reduced in the event that the industry balloons according to Williamson (2009).

A huge proportion of the existing literature highlights some of the benefits of outsourcing (Kotabe and Murray, 2000), here are reasons that will determine outsourcing: reducing cost; focus on central competence; suppleness as control is retained; and competitive advantage via strategic outsourcing. Basically, the reason for outsourcing services is founded on comprehensive economic principles (Görg, Hanley and Strobl, 2008).

Creating working capital improvements. Schulman et al. (1999:16) states that working capital enhancements are obtained from standardising, directing and achieving treasury tasks, handling receivables, payables, and managing inventory. It will create economies
of scale, progresses control and reduces expenses. The Resource Based View (RBV) gives a tactic that considers the organization as a set of resources and capabilities that are handled as the strengths that have to be supported and should give guidance to the firm’s strategy (Grant, 1991). Resource-based viewpoint is founded on the theory that firms use outsourcing to obtain resources that are not available within. Decisions concerning outsourcing in resource-based viewpoint are founded in the client organization’s capabilities to capitalize in internal competences and therefore endure competitive advantage. In processes whereby internal resources or capabilities are out of reach can be outsourced (McIvor, 2008).

2.3 Effects of Outsourcing Customer Interaction Services

Customers are the driving force of many firms that strive for success since for it to survive, it will largely depend on these particular customers (Lewis, 2000; Kotler, 2000). Customer Service Management (CSM) states how well an enterprise is to manage its customer services in relation to effectiveness, output and worth (Khong and Richard, 2003). As well, these two are of the thought that proper Customer Service Management will bring about customer satisfaction and their retention therefore accelerate and boost re-buying.

Khong and Richardson (2003) stated that as competition stiffens, customers are left with the option of relishing the choices other firms offer them. If they seem not to be satisfied with what they are provided with, they have an option of choosing others. Further, Khong and Nair (2004) warned that market research concerning the behaviour of consumers and anticipations, their databases and records, grievance and suggestion systems, managing of quality of service so as to come into terms expectations, any improvements, effective customer handling, and analysis of customers that are lost will improve Customer Service Management.

2.3.1 Competitive Advantage

From Cook (2002), firms have put increased stress on quality customer service as a reason of obtaining advantage towards their competitors. As competition grows to be intense, most many organizations have understood that they can never contest on only price. Therefore, companies have come up with a technique of giving better customer
care to distinguish their products and services. Often, customers have more interested on the treatment they get compared to the technical details of the product(s).

The marketing literature widely talks of the idea of customer satisfaction, loyalty of the customer and their origin and significance (Anderson, Fornell and Lehman, 1994; Anderson and Sullivan, 1993; Fornell, Johnson, Anderson, Cha and Bryant, 1996). If customers are contented with a firm’s output, they tend to be more loyal and the rate of usage of products or services will increase, in turn securing future revenues and minimise the firm’s cost of future transactions (Anderson, Fornell and Rust, 1997; Fornell, 1992; Reichheld and Sasser, 1990). Satisfaction of the clients and loyalties are crucial indicators of organisation’s practices. Greater customer satisfaction and customer loyalty tallies have been associated to productivity, shareholder value and risk-adjusted share income (Anderson, Fornell and Mazvanchery 2004; Fornell, Mithas, Morgenson and Krishnan, 2006).

Previous studies indicate that offshoring has chances of making both a positive and adverse effect on customer supposed quality. In relation to the prospects for a good impact, offshore software development companies are vigorously hunting down initiatives to raise quality and minimise on defects. Three quarters of organizations that were ranked by Software Engineering Institute Capability Maturity Model (formerly CMM, now CMMI) as level 5 are in India according to Mohnot (2003). Details from a study on one CMM level 5 company in India, the quality-adjusted cost of customer software reduced by 14% per year as from 1999 – 2002 (Ethiraj, Kale, Krishnan and Singh, 2005).

Most of the offshore companies are growing past software development to providing outsourcing services especially extra front office tasks roles like call centres and back office functions like as HR and financing (Pfannenstein and Tsai, 2004). An instance is of Infosys, Wipro and Satyam, 3 of the biggest software development companies that are from India, everyone has a unit that carries out business process outsourcing for front and back office tasks. The same companies are further applying the same quality inventiveness to different business functions that they have functional with technology and are executing robust education courses to equip their partners on ways to make their clientele delighted (Martin, 2006). Other scholars insist that firms must control
international resources so as to attain the greatest quality and innovation within output (Prahalad and Krishnan, 2004).

2.3.2 Customer Quality
Other scholars maintain that offshoring can have an unwanted effect on supposed quality, especially in a front office role that directly associates with clients. Research has recognized five dimensions of service relations that have an effect on service quality: responsiveness, assurance, tangibles, reliability, and empathy (Parasuraman, Zeithaml and Berry, 1988). Latest research has emphasized components that are mainly important to face to face customer service coincidences, not forgetting guarantee, empathy and alertness (Burgers, de Ruyter, Keen and Streukens, 2000; de Ruyter and Wetzels, 2000; Gruber, Szmigin and Voss, 2006).

BPO lays pressure on enhancing Business Process Management (BPM), bearing in mind the mounting realization that productivity and customer experience can be improved only when serious processes are uniform. In BPO businesses, processes are standardized through applying and codifying industry top practices all over the service centres operating within the organization. It assists is noting activities that prove to be very critical to any form of business process and those that can be done away with without any interruption of services (Bottani and Rizzi, 2006).

In the current competitive setting, a technique that can be used to bring about higher value to stakeholders is by improving the order-to-cash (O2C) cycle. O2C is an integral process in any business, touching many other business departments – order management, cash application, collections, deductions (even accounts payable), sales, and customer relationships are all intertwined. Consequently, multiple hands-offs and miscommunication can impact cash flow and working capital (Broedner, Kinkel and Lay, 2011).

When any function being offshored is a customer service, then to measure improvement in performance is measured in two sides. One is that of the the impact on the firm’s cost structure while the other is the effect upon the customers, comprising quality of service, customer satisfaction and loyalty (Thelen, Yoo and Magnini, 2011). Mixed results have been witnessed in relation to the gains of the cost structure of the firm and its performance (Hutzschenreuter, Lewin and Dresel, 2011).
2.3.3 Customer Culture

Hutzschenreuter et al. (2011) states, “the larger the cultural difference between the home and host country the longer it takes to achieve expected cost savings and the targeted service levels” (p. 72). Since countries are different, customers also stand a chance of varying. There are two instances that will reflect this type of difference that is brought about as a result of cultural difference are; the level at which customer is oriented and how the buyer is sophisticated. In the recent Global Competiveness Report (2012), India possess a value of 4.7 ranked 60 out of the 144 in the level at which customer is oriented and a value of 3.7 and ranked of 53 out of 144 in the sophistication of the buyer. To contrast this the US has maintains a value of 5.4 and ranked 18 out of 144 in the level of orientation of customer and 4.6 and ranked 10 out of 144 in sophistication of buyer. Customer satisfaction is also affected by cultural difference.

Customer culture is essential in choices that include outsourcing customer service. It explains consumer’s behavior and their choices when they get to interact with service representatives. Their behaviors and opinions may have a negative impact on the effectiveness when outsourcing customer service tasks particularly in a scenario where the cultural distance between the interacting cultures is too wide. A detach may happen when a consumer notices that the service agent has no adequate cultural understanding to meet the level of the expected requirements (Thelen, Honeycutt and Murphy, 2011).

2.4 Effects of Outsourcing IT and Software Operations

Scott-Morton (1991) described IT based on six elements mainly, networks, smart chips, robotics, software, hardware and workstations. In addition, IT outsourcing entails the delegation of tasks via agreements of technical resources and management roles partially or wholly (Clark, Zmud, and McGray, 1995).

Hall and Liedtka (2005) also have the same ideology as above, proving that IT outsourcing will be determined by lowly performance and cost control, and short term cash requirements. Putting our attention on the US, especially its banking industry, Ang and Straub (1998a) discover that IT outsourcing is best described by means of high costs of production and the enormous bank sizes when focussing on the characteristics of the firm. All results point back to companies which are in weak states trying to deal with high costs and poor output go for the option of outsourcing IT-operations to reclaim a stable position in the market.
2.4.1 Cost Savings

Over the past recent years and as budgets stiffen, most entities are opting to outsource IT services and the making of fresh goods and services as a technique to cut down costs, fasten development time and use the best talent from outside the firm. Obviously, organizations are moving from focusing only on saving costs so as to realize value (Fifarek, Veloso and Davidson 2008). As entities embark on expansion, they will sensitize on growing revenue compared to cost cutting through with holding a competitive superiority and also rise of IT outsourcing as a global business essential, to add on the increased universal rivalry and significance of technology in connecting firm confines, firms are now coming to realize how important IT innovation is in finally realizing and maintaining a competitive edge (Swanson and Ramiller, 2004).

Outsourcing of IT functions offers benefits for the service receiver (Grover, Cheon and Teng, 1996). One of the most common benefits described in the literature is the cost advantage that can be achieved by outsourcing some services (Alpar and Saharia, 1995; Ketler and Willems, 1999; Loh and Venkatraman, 1992a; Loh et al., 1992b; Smith, Mitra and Narasimhan, 1998). Some banks have been able to achieve 15-20 percent savings in operational costs from outsourcing (Ang and Straub, 1998).

Another example of savings attributed to outsourcing took place when South Australia's government saved over $100 million when it outsourced all information processing for seventy departments to EDS (Quinn, 1999). According to a 1994 study by the Outsourcing Institute, the average cost savings attributed to the outsourcing decision is 9 percent. Other sources (Huff, 1991; Saunders, Gebelt, and Hu, 1997) estimate savings closer to 15 percent. In contrast, some research indicates that outsourcing does not lead to any change in profitability (Smith et al., 1998).

Some savings can be attributed to economies of scale that are achieved by vendors when they are able to pool their knowledge, skills, and expertise across multiple customers (Li et al., 1997; Smith et al., 1998). These economies of scale, of course, cannot be achieved when these FT functions are performed by a single organization. In addition, economies of scope can be achieved due to the variety of projects worked on by vendors (Loh et al., 1992b).
Sometimes, there are costs that go unforeseen when the outsourcing agreement is initially agreed upon (Ketler et al., 1999). Causes of these unexpected costs include low vendor estimates or misunderstandings related to the contract. These unexpected costs lead some companies to outsource IT functions when it may actually result in higher costs. Companies often outsource IT functions to decrease administrative and coordination costs or to avoid the management problems associated with IT. These problems are often not dismissed rather; they are simply transferred to the managing of outsourcing (King, 1994). Contract management caused by unforeseen changes can be very time consuming.

2.4.2 Gaining Access to World Class Capabilities

In addition to financial savings, outsourcing solves a problem that exists in the workplace today caused by the shortage of skilled IT employees (Violino and Caldwell, 1998). When the supply of these workers is low relative to the demand, the wages afforded IT employees is extremely high. Smaller companies sometimes cannot afford these specialists that have a great IT knowledge depth. And even if they can employ these workers temporarily, employers cannot permanently employ the best specialists as they often get better job offers (Greer, Youngblood and Gray, 1999). These companies must then utilize an outsourcing vendor in order to fulfill their IT needs.

Outsourcing offers client organizations advantages linked to technology (Jurison, 1995), since these businesses can have contact to state of the art technology that is apparently delivered to them by the provider. Alternatively, the effective use of outsourcing will possibly make a reduction on the need to think of any form of funding in mature technology, at the same time accumulating the accessibility of resources that are associated to new technologies (Clark, Zmud & McCray, 1995).

Moreover, ‘timid’ organisations — those that have a preference to wait and observe the outcome of the advanced technology— can opt to outsourcing as the way of reducing risks suffered if the technology used is obsolete (Gupta and Gupta, 1992). As a result, outsourcing is probably to resurface as the means of experimenting new types of technologies as pointed out by Baldwing, Irani and Love (2001). Though there are many beneficial aspects to the outsourcing decision, there are also drawbacks. Companies that outsource should be concerned about the skills that may be lost when they outsource (King, 1994). Once gone, these skills are very expensive to get back due to hiring, retraining and the fixed costs associated with equipment purchase.
2.4.3 Greater Focus on Core Competencies

While some companies outsource to save money or solve staffing problems, still others outsource to focus more on their core competencies (Benko, 1993; Lacity, Hirschheim, & Willcocks, 1994; Quinn, 1999) or to attempt to gain strategic organizational advantages (Li et al., 1997). By outsourcing non-core IT needs, managers can focus more of their attention on the core business competencies of the firm. Although allowing the focus on core competencies is often cited as a driving force behind IT outsourcing, some research does not support the idea that this is actually the case (Smith et al., 1998).

Market forces are in some way forcing companies to outsource entirely except for the main enterprise (Gupta and Gupta, 1992). Outsourcing will make it simpler for such companies to emphasize on their fundamental abilities (Grover, Cheon and Teng, 1996; Hayes, Hunton and Reck, 2000; Lacity, Hirschheim and Willcocks, 1994; Smith, Mitra and Narasimhan, 1998; Willcocks, Feeny and Olson, 2006). In relation to IT this frees up line managers hence simplifying tasks for the company. Similarly, outsourcing of the many recurrent tasks enables IT professionals to commit most of their resources to important IS operations (Grover, Cheon and Teng, 1994).

Outsourcing frequently aims at getting rid of monotonous operations deemed to be time-consuming (Grover, Cheong and Teng, 1994, 1996; Hayes, Hunton and Reck, 2000). As well, if the IS function is observed to be something hard to handle (Lacity, Hirschheim and Willcocks, 1994), outsourcing may do away with a function that is perceived to be problematic (Jurison, 1995). Another disadvantage of outsourcing IT operations include the over-dependency on the vendor, the loss of control and timing (Ketler et al., 1999), and the potential that exists for the vendor to sell or leak information to competitors (Quinn, 1999).

2.4.4 Freeing Resources

Another advantage of outsourcing arises when companies sell their existing IT assets to vendors. This provides short-term cash flows that can be used by the business. This cash flow opportunity is particularly attractive to those companies having excessive debt, short-term liabilities or low cash reserves (Smith et al., 1998). In some cases, firms outsource not because of financial or economic reasons but because of the popularity of the idea (King, 1994; Smith et al., 1998). This desire to follow a trend has received considerable attention in the popular press lately. Imitative behavior is still another reason
some firms enter into outsourcing agreements (Lacity et al., 1994; McFarlan and Nolan, 1995).

2.4.5 Productivity

The significant change undergone by technology in the past years gives most firms with an opportunity to get a significant benefit from outsourcing, since they can avert from being obsolete without making huge technical investments. Organizations can intensify their versatility via a nonstop restructure of their contracts which may give room for them to obtain their data requirements regardless of time (Clark, Zmud and McCray, 1995).

Countless scholars have examined ICT/IT outsourcing and offshoring, as well as Loh and Venkatraman (1992) together with Barthélemy and Geyer (2001; 2004; 2005), who examined more closely on the determining factors of IT outsourcing. Moreover, more research was set aside to the outsourcing companies’ performance, mainly trying to recognize (labour) output effects of IT outsourcing. Maliranta et al. (2008) thus found out that IT outsourcing boosts an organisation’s IT usage and consequently increases its labour output.

On the other hand, Bertschek and Müller (2006) did not find any major dissimilarities in key variables concerning outsourcing and non-IT outsourcing organizations. They again find that firms that do not have IT outsourcing have more output compared to those with IT outsourcing. Ohnemus (2007) in line contradicts this. He explains that such organizations are effective in their manufacturing endeavours. In addition, he discovered that workers operating in a computerised environment tend to be more effective in IT outsourcing organizations.

Therefore, to effectively understand emergent patterns in BPO in the production sector and to explore areas with latest growth probabilities, Capgemini (2007) carried out a research concentrating on the practices of top organizations companies carrying out their activities in segments like defense and aerospace, automotive, high tech and industrial products. The intentions of the research was to assist firms in the manufacturing sector recognize functions to assess in their own activities where BPO helps elevate their bottom line and improve the top line. It focussed on five functional aspects: accounting and finance, designing products, human resources (HR), supply chain management (SCM), marketing, and sales and service (MSS).
2.5 Summary
This chapter presents a review of literature on the effect of BPO on the profitability of manufacturing companies listed on the NSE in Kenya. Specifically, it has examined effects of outsourcing back office transactions, IT and software operations and customer interaction services on the profitability of manufacturing firms in Kenya in detail. It has delved deeply into each research question with a view of understanding the different views from different authors. Chapter Three will cover the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the research techniques that the researcher adopted in this study. These include the research design, population and sampling design, data collection methods, research procedures and the data analysis methods.

3.2 Research Design
Ogula (2005) defines a research design as a strategy, structure and plan to undertake and investigation to answer research questions and achieve research objectives. A study research design can also be defined as plan of action adopted by a researcher to answer research questions and set up the framework for study and is thus the blueprint of the researcher (Kerlinger, 1973). The researcher preferred the survey research design. Orodho (2003) defines survey as a research method for gathering information by administering a questionnaire or interviewing selected sample of individuals from a population. The survey research design seeks to describe specific features of a selected group of institutions, objects or persons via a questionnaire (Jaeger, 1988).

The researcher chose the descriptive survey research design which involves a set of practices and methods that describe variables (Kothari, 2008). According to Mugenda and Mugenda (2003), descriptive research is a procedure of gathering data in an attempt to answer research questions or rest hypothesis on a set of subjects in a study. The aim of the descriptive research design is to describe the nature of things at that time. The descriptive research was a good fit for the research as it sought to describe and identify the status of business process outsourcing among manufacturing firms listed in the Nairobi Securities Exchange.

3.3 Population and Sampling Design
3.3.1 Population
Ogula, (2005) defines a population as a set of objects, people, institutions or groups that have a common feature. Ngechu (2004) sees a population as a set of well-defined households, group of things, elements, services, people and events that are of interest to a researcher or study. In this study, the target population is management staff from the 10 manufacturing firms listed in the Nairobi Securities Exchange. There is 3,118 management staff in the listed manufacturing companies as shown in Table 3.1.
comprising of top, middle and lower level management of listed manufacturing companies. These categories were chosen because of their knowledge about shared services centres and their different experiences and perceptions.

**Table 3.1 Target Population**

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>300</td>
<td>9.62</td>
</tr>
<tr>
<td>Middle level management</td>
<td>1,200</td>
<td>38.49</td>
</tr>
<tr>
<td>Low level management</td>
<td>1,618</td>
<td>51.89</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,118</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**3.3.2 Sampling Design**

**3.3.2.1 Sampling Frame**

Turner (2003) defined a sampling frame as the set of source materials from which the sample is selected. The definition also encompasses the purpose of sampling frames, which is to provide a means for choosing the particular members of the target population that are to be interviewed in the survey. The sampling frame would be the list of manufacturing companies listed in the Nairobi Stock Exchange as shown in Table 3.2.

**Table 3.2 NSE Listed Manufacturing Firms**

<table>
<thead>
<tr>
<th>NSE Listed Manufacturing Firms</th>
<th>Population (No. of staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Baumann CO Ltd</td>
<td>64</td>
</tr>
<tr>
<td>B.O.C Kenya Ltd</td>
<td>226</td>
</tr>
<tr>
<td>British American Tobacco Kenya Ltd</td>
<td>450</td>
</tr>
<tr>
<td>Carbacid Investments Ltd</td>
<td>49</td>
</tr>
<tr>
<td>East African Breweries Ltd</td>
<td>1,000</td>
</tr>
<tr>
<td>Mumias Sugar Co. Ltd</td>
<td>500</td>
</tr>
<tr>
<td>Unga Group Ltd</td>
<td>377</td>
</tr>
<tr>
<td>Eveready East Africa Ltd</td>
<td>250</td>
</tr>
<tr>
<td>Kenya Orchards Ltd</td>
<td>102</td>
</tr>
<tr>
<td>Flame Tree Group Holdings</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,118</strong></td>
</tr>
</tbody>
</table>
3.3.2.2 Sampling Technique
The researcher used the stratified random sampling procedure to identify the sample for the study. The approach was appropriate for the study given the heterogeneous nature of the population. The aim of the stratified random sampling procedure is to generate a representation from various categories of the population (Mugenda and Mugenda, 2003). These strata in the target population of the study were from the top, middle and low levels of management staff in each of the manufacturing firms selected for the study.

3.3.2.3 Sample Size
Cooper and Schindler (2003) argued that the sample size should be a proportionate variation of the population under study with estimating precisions used by the researcher. Sampling is a process that involves selection of a selected few from a larger group of the population (Mugenda and Mugenda 2003). Mugenda and Mugenda recommend the sample size for descriptive studies to be at least 10 % - 20 % of the total population. The sample size of the study was established at 155 respondents. Stratified random sampling was used to ensure inclusion, in the sample, of sub groups, which otherwise would be omitted entirely by other sampling methods because of their small number of population, (Mugenda & Mugenda, 2003).

Table 3.3: Sample Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Proportion</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>300</td>
<td>9.62</td>
<td>15</td>
</tr>
<tr>
<td>Middle level management</td>
<td>1,200</td>
<td>38.49</td>
<td>60</td>
</tr>
<tr>
<td>Low level management</td>
<td>1,618</td>
<td>51.89</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,118</strong></td>
<td><strong>100</strong></td>
<td><strong>155</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection
The study used both primary and secondary data sources in gathering data for analysis. The questionnaire was used to collect the primary data. The questionnaire was designed with close-ended and open-ended type of questions. A 5 point likert scale was used to measure responses on the study variables. The close-ended questions were presented in likert scale type of questions which measure the attitudes of respondents to variables. The open-ended questions were used to allow the respondents to give responses in their own words and opinions. The questionnaire had four sections. Section one covered the
respondents’ information, section two to four comprised of information on the study research questions. Secondary data was collected from published annual reports of the listed manufacturing firms available at the Capital Markets Authority (CMA) website. The secondary data provided a reliable source of the information needed by researcher to measure firm profitability (Sekaran, 2009).

3.5 Research Procedures

Primary data collection involved both self-administration of a questionnaire and use of online survey platform. Prior to the commencement of data collection, the researcher obtained all the necessary documents, including an introduction letter from the University. The researcher either dropped or picked the questionnaire physically at the respondents’ places of work or gets email addresses of the respondents and send the survey to them. The questionnaires were left with the respondents and were picked up later by the researcher once they were filled up. The data collected from the online surveys was tabulated automatically. Secondary data was collected from published annual accounts from selected manufacturing firms. Data on profitability was from financial statements such as balance sheets, statements of cash flows, statements of changes in equity and statements of comprehensive incomes provided in the cash flows.

According to Mugenda and Mugenda (2003) refers to the meaningfulness and accuracy of inferences made by a researcher based on the results of their study. In order to establish the validity of the research questionnaire was achieved by consulting with the university supervisor on the appropriateness of the terms, wording and structure of the questionnaire. Reliability refers to the ability of the questionnaire to consistently measure and produce similar results over time and in different circumstances. According to Nachmias and Nachmias (1996), reliability is concerned with the stability, dependability and consistency of a test.

A pilot test was conducted with 10 management staff to test the reliability and the validity of the data to be collected using the questionnaire. Subjects in the actual sample were not included in the pilot study. Same procedures were used in the actual data collection exercise were used for the pretesting exercise. The researcher measured the reliability of the questionnaire using Cronbach’s Alpha scores using Statistical Package for Social Sciences (SPSS). The Cronbach’s Alpha approach is preferred where the questionnaire is mostly comprised of likert scale items. The Cronbach alpha was found to be 0.72 which
means that the statements in the variables had 72% reliability which is acceptable in research. Professionals, as a rule of thumb, require a reliability of 0.70 or higher (Tavakol & Dennick, 2011).

3.6 Data Analysis Methods
The study adopted quantitative and qualitative methods to analyse the research data. The first step of analyzing quantitative data was to code the responses and enter them into SPSS version 20.0. The researcher then conducted a descriptive analysis of the data based on the respondents’ information and the study research questions. The descriptive statistics used were percentages, mean and standard deviation. Qualitative data was used to confirm the quantitative data results. The researcher also used multiple regression analysis as a statistical method utilized to determine the relationship between one dependent variable and one or more independent variables (Hair, Black, Babin, Anderson & Tatham, 2010). The multiple regression equation will be as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

Where \( Y \) is the dependent variable (profitability), \( \beta_0 \) is the regression constant, \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables, \( X_1 \) is Back Office Transactions, \( X_2 \) is Customer Interaction Services and \( X_3 \) is IT and Software Operations.

3.7 Chapter Summary
This chapter discusses the research design, population, sampling frame, sampling technique, sample size, how data shall be collected, research procedures and how data shall be analysed. Sampling size was 155 respondents and information was collected through questionnaires and secondary data from the company’s financial statements. Chapter Four discusses the results and findings of each research objective.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study. The chapter is presented regarding the demographic information, attitudes and investment decisions among university students; subjective norms and investment decisions among university students and perceived behaviour control and investment decisions among university students. The researcher was able to collect 98 questionnaires which met the criteria for data analysis. This presented a response rate of 63.2 %.

4.2 Respondent Information

The study sought the respondent information. These included their management level, Gender, Age and number of years respondents’ had worked in the firm and what business processes were outsourced in manufacturing firms.

4.2.1 Management Level

The researcher sought to determine the management level of the respondents. This was important because the researcher targeted top, middle and lower level management in the listed manufacturing firms. The results show that approximately half of the sample represented low level management (51.0 %), 37.8 % accounted for middle level management and 11.2 % were top management as shown in Figure 1. This finding was attributed to the small number of top management positions in organisations. There are more low level management positions in manufacturing firms due to the different departments and staffing levels.

![Figure 4.1: Management Level of Respondents](image_url)
4.2.2 Gender

It was important for the researcher to establish the gender representation of the staff. The results show that majority of the respondents were male who accounted for 58.0 % compared to female respondents who were represented by 42.0 % of the sample as shown in Figure 4.2. This finding shows that there is an almost equal distribution of male and female staff in manufacturing firms. This is attributed to the equal employment opportunities found in the manufacturing sector.

![Gender Distribution of Respondents](image)

**Figure 4.2: Gender Distribution of Respondents**

4.2.3 Age

Figure 4.3 shows the age distribution of the respondents where the majority of the staff were between the ages of 31-35 years (30. 6 %), this was followed by those between 41-45 (19.4 %), 36-40 (15.3 %), 26-30 (12.2%). The results further show that 8.2 % were 46-50 and above 50 years and 6.1 % represented those between 20-25 years. This findings indicate that majority of the youthful population is in management staff in manufacturing firms.
Figure 4.3: Age Distribution of Respondents

4.2.4 Years worked in Firm
The study asked respondents to indicate number of years they had worked in their current firm. This was important for the study as it would validate the findings as more years in the firm would mean staff were more knowledgeable on outsourcing business processes in the organisation. Figure 4.4 shows 40.0% had worked in the firm for 3-5 years, 31.4% for more than 5 years and 28.6% for less than one year.

Figure 4.4: Years Worked in Firm among Respondents

4.2.5 Outsourced Business Processes among Manufacturing Firms
The study was interested in finding out some of the businesses processes that were outsourced among manufacturing firms in Kenya. This was important for the research in
an attempt to establish the knowledge and awareness of management staff on the concept of business process outsourcing. Figure 4.5 shows that 32.1 % cited information technology operations, 22.1 % cited support activities, 18.6 % cited back office operations, 16.7 % cited primary activities and 10.5 % accounting services.

![Figure 4.5: Business Processes Outsourced Among NSE Listed Manufacturing Firms](image)

4.3 Effects of Outsourcing Back Office Transactions on Profitability of Manufacturing Firms

The study sought to determine the influence of outsourcing back office transactions on profitability of manufacturing firms listed in the Nairobi Securities Exchange. This was important for the researcher so as to understand management perception of the importance of outsourcing back office transactions.

4.3.1 Outsourcing Back Office Transaction Influence on Profitability

Table 4.1 shows that 26.5 % agreed that outsourcing back office transactions influenced profitability to a great extent, 26.5 % indicated to a moderate extent, 20.4 % cited to a little extent, 15.3 % answered no extent and 11.2 % indicated to a very great extent.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Extent</td>
<td>15</td>
<td>15.3</td>
</tr>
<tr>
<td>Little Extent</td>
<td>20</td>
<td>20.4</td>
</tr>
</tbody>
</table>
4.3.2 Back Office Transactions Outsourcing Influence on Profitability

The researcher formulated several statements which referred to back office transactions influence on manufacturing firms’ profitability. The researcher used descriptive statistics to summarise the data. Mean scores and standard deviation of each of the statements was presented. Table 4.2 shows that the highest ranked item from these statements was companies that outsource their business processes are often able to increase productivity (M=4.16; SD=1.07). The second highest ranked item was Business process helps manufacturing companies focus more on their core competencies (M=3.74; SD=1.20).

Table 4.2: Effect of Outsourcing Back Office Transactions on Firm Profitability

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource-based viewpoint is based on the theory that companies utilize outsourcing to get resources not available internally</td>
<td>14.3%</td>
<td>14.3%</td>
<td>32.7%</td>
<td>26.5%</td>
<td>12.2%</td>
<td>3.08</td>
<td>1.21</td>
</tr>
<tr>
<td>Companies that outsource their business processes are often able to achieve overall cost savings.</td>
<td>16.3%</td>
<td>15.3%</td>
<td>41.8%</td>
<td>16.3%</td>
<td>10.2%</td>
<td>2.88</td>
<td>1.17</td>
</tr>
<tr>
<td>Companies that outsource their business processes are often able to increase productivity.</td>
<td>4.1%</td>
<td>4.1%</td>
<td>13.3%</td>
<td>28.6%</td>
<td>50.0%</td>
<td>4.16</td>
<td>1.07</td>
</tr>
<tr>
<td>Companies that outsource their business processes are often able to generate new efficiencies because of highly skilled personnel. Business process outsourcing provides access to specialized and</td>
<td>12.2%</td>
<td>11.2%</td>
<td>15.3%</td>
<td>24.5%</td>
<td>36.7%</td>
<td>3.62</td>
<td>1.40</td>
</tr>
</tbody>
</table>

32
Business process helps manufacturing companies focus more on their core competencies.

4.4 Effect of Outsourcing Customer Interaction Service on Profitability of Manufacturing Firms

The study sought to determine the influence of outsourcing Customer Interaction Service on profitability of manufacturing firms listed in the Nairobi Securities Exchange. This was important for the researcher so as to understand management perception of the importance of outsourcing customer interaction service.

4.4.1 Outsourcing Customer Interaction Service Influence on Profitability

The results (Table 4.3) shows that 29.6% indicated that Customer Interaction Service Influence on Profitability of manufacturing firms to a great extent, 22.4% answered a little extent, 21.4% indicated to a moderate extent, 16.3% cited no extent and 10.2% indicated to a very great extent.

Table 4.3: Extent of Outsourcing Customer Interaction Service on Firm Profitability

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Extent</td>
<td>16</td>
<td>16.3</td>
</tr>
<tr>
<td>Little Extent</td>
<td>22</td>
<td>22.4</td>
</tr>
<tr>
<td>Moderate Extent</td>
<td>21</td>
<td>21.4</td>
</tr>
<tr>
<td>Great extent</td>
<td>29</td>
<td>29.6</td>
</tr>
<tr>
<td>Very Great Extent</td>
<td>10</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4.2 Customer Interaction Service Outsourcing Influence on Profitability

The researcher presented several statements related to customer interaction services on firm profitability to the respondents. The management staff were asked to indicate to what extent they agreed or disagreed with the statements. Descriptive statistics were used to summarise the data and make interpretations. This was the mean and standard deviation. Table 4.4 shows the findings where the highest observed mean score was when customers are not satisfied with the current products or services, they can easily switch to others.
(M=3.50; SD=1.46). This was followed by higher customer satisfaction and customer loyalty scores have been linked to higher firm profitability, shareholder value and risk-adjusted stock returns (M=2.98; SD=1.28).

Table 4.4: Effect of Outsourcing Customer Service Interaction on Firm Profitability

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are the driving force of companies striving for success.</td>
<td>34.7%</td>
<td>29.6%</td>
<td>18.4%</td>
<td>13.3%</td>
<td>4.1%</td>
<td>2.22</td>
<td>1.17</td>
</tr>
<tr>
<td>When customers are not satisfied with the current products or services,</td>
<td>16.3%</td>
<td>9.2%</td>
<td>17.3%</td>
<td>22.4%</td>
<td>34.7%</td>
<td>3.50</td>
<td>1.46</td>
</tr>
<tr>
<td>they can easily switch to others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>An emphasis on quality customer service is a means of gaining competitive</td>
<td>31.6%</td>
<td>12.2%</td>
<td>18.4%</td>
<td>13.3%</td>
<td>24.5%</td>
<td>2.87</td>
<td>1.58</td>
</tr>
<tr>
<td>advantage for organizations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer culture matters in decisions that involve outsourcing customer</td>
<td>28.6%</td>
<td>22.4%</td>
<td>15.3%</td>
<td>18.4%</td>
<td>15.3%</td>
<td>2.69</td>
<td>1.45</td>
</tr>
<tr>
<td>service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher customer satisfaction and customer loyalty scores have been linked</td>
<td>16.3%</td>
<td>20.4%</td>
<td>25.5%</td>
<td>24.5%</td>
<td>13.3%</td>
<td>2.98</td>
<td>1.28</td>
</tr>
<tr>
<td>to higher firm profitability, shareholder value and risk-adjusted stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>returns.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsourcing functions that deal with customers may lead to declining</td>
<td>31.6%</td>
<td>15.3%</td>
<td>17.3%</td>
<td>19.4%</td>
<td>16.3%</td>
<td>2.73</td>
<td>1.49</td>
</tr>
<tr>
<td>customer service quality.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.5 Effect of Outsourcing IT and Software Operations on Profitability of Manufacturing Firms

The researcher was interested in establishing the influence of outsourcing IT and Software Operations on profitability of manufacturing firms listed in the Nairobi Securities Exchange. This was important for the researcher so as to understand management perception of the importance of outsourcing IT and Software Operations.

4.5.1 Extent of Outsourcing IT and Software Operations on Profitability

Table 4.5 shows the findings in regard to the extent to which outsourcing IT and software operations had on profitability. The results show that 30.6 % indicated that outsourcing IT and software operations influenced firm profitability to a great extent, 20.4 % indicated to a moderate extent, 18.4 % indicated to a little extent, 17.3 % indicated no extent and 13.3 % indicated that outsourcing IT and software operations influenced profitability to a very great extent.

Table 4.5: Extent of Outsourcing IT and Software Operations on Firm Profitability

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Extent</td>
<td>17</td>
<td>17.3</td>
</tr>
<tr>
<td>Little Extent</td>
<td>18</td>
<td>18.4</td>
</tr>
<tr>
<td>Moderate Extent</td>
<td>20</td>
<td>20.4</td>
</tr>
<tr>
<td>Great extent</td>
<td>30</td>
<td>30.6</td>
</tr>
<tr>
<td>Very Great Extent</td>
<td>13</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.5.2 Outsourcing IT and Software Operations Influence on Profitability

The researcher presented several statements related to outsourcing IT and software operations on firm profitability to the respondents. The management staff were asked to indicate to what extent they agreed or disagreed with the statements. Descriptive statistics (mean and standard deviation) were used to summarise the data and make interpretations. Table 4.6 shows that the highest ranked statement was Outsourcing can improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems (M=3.79; SD=1.24). This was followed by Businesses are outsourcing IT services and the creation of new products and services as a way to slash costs, speed development time and tap into top talent outside the company (M=3.44; SD=1.08).
Table 4.6: Table 4.2: Effect of Outsourcing IT and Software Operations on Firm Profitability

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses are outsourcing IT services and the creation of new products and services as a way to slash costs, speed development time and tap into top talent outside the company.</td>
<td>8.2%</td>
<td>4.1%</td>
<td>39.8%</td>
<td>30.6%</td>
<td>17.3%</td>
<td>3.44</td>
<td>1.08</td>
</tr>
<tr>
<td>Outsourcing can improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems.</td>
<td>8.2%</td>
<td>7.1%</td>
<td>18.4%</td>
<td>30.6%</td>
<td>35.7%</td>
<td>3.79</td>
<td>1.24</td>
</tr>
<tr>
<td>Outsourcing very often serves to get rid of routine tasks which are very time-consuming—in IT management.</td>
<td>18.4%</td>
<td>29.6%</td>
<td>18.4%</td>
<td>11.2%</td>
<td>22.4%</td>
<td>2.90</td>
<td>1.43</td>
</tr>
<tr>
<td>IS function is seen as something difficult to manage—often regarded by the top management as a ‘headache’.</td>
<td>9.2%</td>
<td>19.4%</td>
<td>22.4%</td>
<td>31.6%</td>
<td>17.3%</td>
<td>3.29</td>
<td>1.23</td>
</tr>
<tr>
<td>IT outsourcing enhances an organisation’s IT use and thus boosts its labour productivity.</td>
<td>19.4%</td>
<td>23.5%</td>
<td>27.6%</td>
<td>23.5%</td>
<td>6.1%</td>
<td>2.73</td>
<td>1.20</td>
</tr>
<tr>
<td>With the recent changes in technology, firms obtain a considerable advantage from outsourcing IT, as they do not have to make large investments in technology when upgrades happen.</td>
<td>29.6%</td>
<td>25.5%</td>
<td>24.5%</td>
<td>15.3%</td>
<td>5.1%</td>
<td>2.41</td>
<td>1.21</td>
</tr>
</tbody>
</table>
4.6 Regression Analysis

The researcher conducted a regression analysis between the independent and dependent variables. Table 4.7 shows the model summary where the R-squared ($R^2$) which is the coefficient of determination is represented by 69 %, which shows the extent to which the variance in the dependent variable (firm performance) is explained by the independent variables. The findings suggest that the model is a strong predictor of the changes in the dependent variable.

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.093(a)</td>
<td>.069</td>
<td>-.040</td>
<td>4.23177</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), outsourcing back office transactions, outsourcing customer interaction service, outsourcing IT and software operations

b Dependent Variable: firm profitability

4.6.1 Analysis of Variance

Analysis of variance was used to test whether the overall regression model is a good fit for the data. Table 4.8 shows the results which indicated that the significance level was less than 0.05 ($p = 0.0214$). This means that all the independent variables considered do provide a good level of explanation of the relationship between business process outsourcing and performance of NSE listed manufacturing firms in Kenya.

Table 4.8: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>9.463</td>
<td>3</td>
<td>1.154</td>
<td>1.623</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1092.383</td>
<td>95</td>
<td>.908</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1101.846</td>
<td>98</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), outsourcing back office transactions, outsourcing customer interaction service, outsourcing IT and software operations

4.6.2 Model Coefficients

The study tested the coefficients to determine the direction of the relationship between the selected business processes outsourcing and firm profitability among NSE listed manufacturing firms.

Table 4.9: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
</table>
Table 4.9 shows the regression coefficients which were adopted to our proposed regression model which is presented as:

\[
\text{Firm profitability} = 18.322 + 0.064X_1 + 0.022X_2 + 0.085X_3 + \epsilon
\]

These findings suggest that all the independent variables depicted a positive relationship with firm profitability. This means that a unit increase in each of the independent variables results in an increase in firm profitability in NSE listed manufacturing firms.

The findings further show that outsourcing IT and software operations (\( \beta = 0.085; \ p = 0.024 \)) had the most significant influence on firm profitability followed by outsourcing customer interaction services (\( \beta = 0.022; \ p = 0.011 \)) and the least influence was observed from outsourcing back office transactions (\( \beta = 0.064; \ p = 0.052 \))

4.7 Chapter Summary

This chapter showed and presented the research’s results which were summarised in tables and researcher’s interpretation. The next chapter of the study presents the discussion, conclusions and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary of the study, discussion, conclusion and recommendations of the study which are presented according to the research questions of the study. The chapter also presents recommendations for further study.

5.2 Summary of Findings
In regards to the respondents’ information majority of the study participants were in low management level, male respondents were the major study participants in terms of their gender. In terms of their age, most of the respondents were aged 31-35 while those between 20-25 years were the least represented in the sample. Most of the staff in selected organisation had worked for 3-5 years followed by those with over 5 years’ experience in the organisation and those with less than one year experience were least represented. The findings indicated that the most outsourced activity was information technology operations (32.1%), this was followed by support activities (22.1 %), back office operations (18.6 %), primary activities (16.7 %) and accounting services (10.5 %).

The study sought to determine the influence of outsourcing back office transactions on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The findings showed that back office outsourcing influenced firm profitability to a great extent and moderate extent. The results showed that back offices operations outsourcing influenced firm profitability by increasing productivity through outsourcing their non-core business processes. The least influence on firm profitability was observed from outsourcing back office transactions ($\beta = 0.064; p = 0.052$)

The study sought to determine the influence of outsourcing Customer Interaction Service on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The results show that outsourcing customer interaction services influenced firm profitability to a great extent. Customer interaction services outsourcing influenced firm profitability by encouraging the firm to provide quality services as customer who aren’t satisfied with the current products or services can easily switch to others. The findings indicated that outsourcing customer interaction services ($\beta = 0.022; p = 0.011$) was the second most significant factor influencing firm profitability.
The researcher was interested in establishing the influence of outsourcing IT and software operations on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The findings indicated that outsourcing IT and software operations influenced firm profitability to a very great extent. Further findings showed that information technology operations influenced firm profitability by improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems. The regression analysis showed that outsourcing IT and software operations ($\beta = 0.085; p = 0.024$) had the most significant influence on firm profitability.

5.3 Discussion

5.3.1 Effects of outsourcing back office transactions on profitability of manufacturing firms in Kenya

The study sought to determine the influence of outsourcing back office transactions on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The researcher asked the respondents to indicate the extent to which outsourcing back office transactions affected firm profitability. The findings show that the majority 37.7% indicated that it affected firm profitability to a great extent. This suggested that management staff associated firm profitability to outsourcing back office transactions. This supports Iqbal and Dad (2013) arguments that firms seeking a BPO strategy can also outsource back office functionalities to an outsider at relatively lower cost. Back office operations is often outsourced to foreign countries due to cost advantages.

The researcher presented several statements on the influence of outsourcing back office transactions on profitability of their firms. The findings showed that highest ranked item from these statements was companies that outsource their business processes are often able to increase productivity (M=4.16; SD=1.07). This result agree with Ohnesmus (2012) that BPO has a positive and highly significant impact on firm-level productivity in both manufacturing industries. However, this finding disagrees with Broedner, Kinkel and Lay (2009) findings that BPO outsourcing has a strong negative impact on a firm’s labour productivity. The second most ranked statement was business process helps manufacturing companies focus more on their core competencies (M=3.74; SD=1.20). This agrees with Whitaker, Krishnan and Fornell (2008) that while back office offshoring is not associated with a change in customer satisfaction, it is associated with an increase
in customer loyalty. This customer loyalty is derived from the quality products that the firm is able to produce due to more focus on their core competencies.

The researcher conducted a multiple regression analysis which showed that outsourcing back office transactions had least unit influence on firm profitability but this was not significant ($\beta = 0.064; p = 0.052$). This means that back office transactions had no significant effect on firm profitability of manufacturing organisations listed in the Nairobi Securities Exchange. This finding concurs with Isaksson and Lantz (2015) results form a study on outsourcing strategies and their impact on financial performance in small manufacturing firms in Sweden. Isaksson and Lantz found that the average tendency to outsource back office activities is negatively related to ROA, although this relation is only marginally significant. Similarly, Masinga and Kiarie (2014) opined that one of the ways in which organisations have sought to improve their competitive advantage in the modern business environment so as to include the role of outsourcing in their operations and firms have been able to increase performance and achieve sustainable competitive advantage.

5.3.2 Extent outsourcing customer interaction service affect profitability of manufacturing firms in Kenya

The study sought to determine the influence of outsourcing Customer Interaction Service on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The researcher sought respondents’ perception on the extent to which outsourcing customer interaction service affected firm profitability. The findings revealed that 39.8% indicated that customer service interaction had an effect on profitability of manufacturing firms compared to 38.7% who indicated to no extent.

This findings suggests that there is little influence of outsourcing customer service interactions on firm profitability given the small difference between staff perception of this relationship. This finding concurs with subjective reports (Alster 2005; Pfeffer 2004; Weinstein 2007) that offshoring may have negative implications for consumers citing differences in communication skills with firms that initially offshored customer service functions.

The researcher presented several statements on the influence of outsourcing customer service interactions on profitability of their firms. The results showed that highest observed mean score was when customers are not satisfied with the current products or
services, they can easily switch to others (M=3.50; SD=1.46). These findings support Khong and Richardson (2003) who argued that as competition intensifies, consumers find themselves appreciating alternatives and options other firms can offer them. If they are not satisfied with the current products or services, they can easily switch to others. The second highest observed mean was higher customer satisfaction and customer loyalty scores have been linked to higher firm profitability, shareholder value and risk-adjusted stock returns (M=2.98; SD=1.28). Similarly, Zhang and Pan (2009) found that non-financial measures of customer satisfaction is positively correlated with financial performance. The study further concluded that manufacturing firms focusing on customer satisfaction are more likely to improve profitability through increasing unit profit margins rather than by merely expanding sales.

The study used a multiple regression analysis to investigate influence of outsourcing customer service interactions on profitability. The results showed that outsourcing customer service interactions ($\beta = 0.022; p = 0.011$) was the second most significant BPO variable in our proposed model to influence firm profitability. This means that the relationship between outsourcing customer service interactions has a positive and significance effect on firm profitability among manufacturing firms listed in the Nairobi Securities Exchange.

### 5.3.3 Effect of outsourcing IT and software operations on profitability of manufacturing firms in Kenya

The researcher was interested in establishing the influence of outsourcing IT and Software Operations on profitability of manufacturing firms listed in the Nairobi Securities Exchange. The researcher sought respondents’ perception on the extent to which outsourcing IT and software operations affected firm profitability. The findings revealed that 43.9 % indicated outsourcing IT and software operations had an effect on profitability to a great extent. This finding suggested that outsourcing IT and software operations had an effect on profitability according to management staff perceptions. Studies (Wang et al., 2008; Chadee & Raman, 2009) have shown that firms have adopted Information Technology Outsourcing (ITO), which usually takes place to cut IT cost down and firm’s strategy to focus on strategic core competencies. Iqbal and dad (2013) also point out that many US based companies have outsourced their IT operations to India to cut the cost. This finding is also supported by Yap, Lim, Jalaludin & Lee (2016) study.
which revealed that slightly over two thirds 68% of the surveyed manufacturers either fully or partially outsourced their ICT services.

The researcher presented several statements on the influence of outsourcing IT and software operations on profitability of their firms. The highest ranked statement was outsourcing can improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems \((M=3.79; \ SD=1.24)\). This finding concur with Zack and Singh (2010) that the motivations for outsourcing in earlier times were to reduce operational costs but more recently are motivated by the need to focus on improving the strategic business performance of the organisation. This means that outsourcing IT operations to professionals allows and/or creates room for employees of manufacturing firms to perform their core responsibilities.

The second highest observed mean was businesses are outsourcing IT services and the creation of new products and services as a way to slash costs, speed development time and tap into top talent outside the company \((M=3.44; \ SD=1.08)\). This finding support earlier research (Sohal, Moss & Ng, 2001) which shows that IT outsourcing provides a myriad of likely benefits to manufacturing firms. Outsourcing of IT and software operations allows firms to concentrate on their core competencies. For instance, providing IT services for staff and managing a data centre within the firm are not a core business for manufacturing firms.

The researcher performed a multiple regression analysis to investigate influence of outsourcing IT and software operations on organisation profitability. The findings further show that outsourcing IT and software operations \((\beta = 0.085; \ p = 0.024)\) had the most significant influence on firm profitability. This means that outsourcing IT and software operations had a positive and significant effect on firm profitability. This finding supports past case studies, empirical evidence and surveys of top managers that IT outsourcing leads to reduced costs. This is one of the main reasons cited for leading firms to outsource. This means that the reduced costs would lead to changes in profitability measures of outsourcing firms (Whitten, Ellis & Casey, 2002). Similarly, Kite (2012) found that that IT outsourcing genuinely does improve the production technology that firms use thus increasing their profitability.
5.4 Conclusion

5.4.1 Effects of outsourcing back office transactions on profitability of manufacturing firms in Kenya

The study confirmed that outsourcing of back office transactions did not have a large effect on profitability of firms listed in the Nairobi Securities Exchange based on management staff perceptions. The study concludes that the most important factors of outsourcing back office transactions on manufacturing firms enabled them to increase productivity. The study reaffirmed that back offices transactions had a positive effect on firm profitability but this was not significant. The researcher therefore concludes that outsourcing back office transaction does not have an effect on firm profitability of manufacturing firms listed in the Nairobi Securities Exchange.

5.4.2 Extent outsourcing customer interaction service affect the profitability of manufacturing firms in Kenya

The study confirmed that outsourcing customer interaction services affected profitability of manufacturing firms listed in the Nairobi Securities Exchange. The study concludes that the highest customer interaction service factors influencing firm profitability was when customers are not satisfied with the current products or services, they can easily switch to others. The study confirmed that there was a positive and significant effect of outsourcing customer interaction service on firm profitability. The researcher therefore concludes that there is a positive and significance effect of outsourcing customer interaction service on firm profitability of manufacturing firms listed in the Nairobi Stock Exchange.

5.4.3 Effect of outsourcing IT and software operations on the profitability of manufacturing firms in Kenya

The study confirmed through management staff perceptions that outsourcing IT and software operations has an effect on firm profitability of manufacturing firms listed in the Nairobi Securities Exchange to a great extent. The findings reaffirmed that outsourcing IT and information system management can improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems. The study confirmed there exists a positive and significant association between outsourcing IT and software operations on firm profitability. The study therefore concludes that there is a positive and significant effect of IT and software
operations on firm profitability of manufacturing firms listed in the Nairobi Securities Exchange.

5.5 Recommendations
5.5.1 Recommendations for Improvements
5.5.1.1 Effects of outsourcing back office transactions on profitability of manufacturing firms in Kenya
The study recommends that manufacturing firms should conduct a needs assessment of outsourcing back office transactions. This needs assessment would enable the organisation to identify the cost-benefit analysis for adopting this form of outsourcing strategy. This would allow the manufacturing firms to increase their level of productivity.

5.5.1.2 Extent outsourcing customer interaction service affect the profitability of manufacturing firms in Kenya
The study recommends that manufacturing firms should practice outsourcing customer interaction services to enhance their customer base and enhance customer loyalty which will increase their rate of customer retention. This form of customer service management can lead to customer satisfaction, customer retention hence expedite and enhance re-buy of firm products.

5.5.1.3 Effect of outsourcing IT and software operations on the profitability of manufacturing firms in Kenya
The study recommends that manufacturing firms should outsource IT and software operations of their businesses process. Manufacturing firms rely on information technology and outsourcing these services allows them to concentrate on their core business while enjoying best practices and professionalism in supporting their IT based business processes.

5.5.2 Recommendations for Further Study
The study focused on the effect of business process outsourcing on the profitability of manufacturing companies listed on the NSE. The study was limited to back office transactions, customer interaction service and IT and software operations outsourcing strategies. There is need for further research on other outsourcing strategies that are being adopted by manufacturing firms. There is need for further study on outsourcing strategies adopted in small and medium manufacturing firms in the 47 counties.
REFERENCES


APPENDICES
APPENDIX I: QUESTIONNAIRE COVER LETTER

Dear Respondent,

RE : PARTICIPATION IN ACADEMIC RESEARCH
I am a graduate student at the United States International University Africa pursuing a Master of Business Administration in Strategic Management. In partial fulfilment of the requirements of the Degree I am conducting a research on “THE EFFECT OF BUSINESS PROCESS OUTSOURCING ON THE PROFITABILITY OF MANUFACTURING COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE IN KENYA”.

For this reason I would appreciate if you would spare a few minutes of your time to fill the questionnaire to the best of your knowledge and in the most honest way possible. The data shall be used for academic purpose only and it will be treated with confidentiality. In case you need any information on the study please feel free to contact the researcher through the contact information below.

Thanks for your cooperation.

Yours Faithfully

Eunice Kung’u
MBA Student
USIU School of Business
Email: eunicesheke@gmail.com
Phone Number: +254 725758132
APPENDIX II: QUESTIONNAIRE FOR MANAGEMENT STAFF


Kindly ticks in the space provided [ ] the correct answer or supply the required information where, required, please specify and elaborate.

Part A: Respondents Information

1. Which is your management level?
   
   Top management [ ] Middle management [ ] Low management [ ]

2. Gender of the respondent?
   
   Male [ ] Female [ ]

3. Age of the respondent

   20-25 years ( ) 26 to 30 years ( ) 31 to 35 years ( )
   36 to 40 years ( ) 41 to 45 years ( ) 46 to 50 years ( )
   Above 50 years ( )

4. How long have you worked in the firm?

   Less than 1 year ( ) 1-3 years ( ) 3-5 years ( ) above 5 years [ ]

5. What functions does your organization presently outsource?

   …………………………………………………………………………………………………………………
   …………………………………………………………………………………………………………………
   …………………………………………………………………………………………………………………
Part B: Outsourcing Back Office Transactions

6. To what extent does an outsourcing back office transaction influence profitability of manufacturing firms in Kenya?

   Very great extent  [  ]
   Great extent       [  ]
   Moderate extent   [  ]
   Little extent     [  ]
   No extent         [  ]

7. Indicate your level of agreement with the following statements that relate to influence of outsourcing back office transactions on profitability of manufacturing firms in Kenya. Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral 4 = agree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource-based viewpoint is based on the theory that companies utilize outsourcing to get resources not available internally</td>
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<tr>
<td>Companies that outsource their business processes are often able to achieve overall cost savings.</td>
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<tr>
<td>Companies that outsource their business processes are often able to increase productivity.</td>
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<tr>
<td>Companies that outsource their business processes are often able to generate new efficiencies because of highly skilled personnel.</td>
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<td>Business process outsourcing provides access to specialized and global best practices acquired for the manufacturing company</td>
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<td>Business process helps manufacturing companies focus more on their core competencies.</td>
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8. How else does an outsourcing back office transaction influence profitability of manufacturing firms in Kenya that is not indicated above?

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Part C: Outsourcing Customer Interaction Services

9. To what extent does outsourcing customer interaction services influence profitability of manufacturing firms in Kenya?

   - Very great extent [   ]
   - Great extent [   ]
   - Moderate extent [   ]
   - Little extent [   ]
   - No extent [   ]

10. Indicate your level of agreement with the following statements that relate to influence of outsourcing customer interaction services influence on profitability of manufacturing firms in Kenya. Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1= strongly disagree, 2= disagree, 3= neutral 4=agree and 5 = strongly agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are the driving force of companies striving for success.</td>
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<tr>
<td>When customers are not satisfied with the current products or services, they can easily switch to others.</td>
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<td>An emphasis on quality customer service is a means of gaining competitive advantage for organizations.</td>
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<td>Customer culture matters in decisions that involve outsourcing customer service</td>
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<td>Higher customer satisfaction and customer loyalty scores have been linked to higher firm profitability, shareholder value and risk-adjusted stock returns.</td>
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<td>Outsourcing functions that deal with customers may lead to declining customer service quality.</td>
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11. How else does outsourcing customer interaction services influence profitability of manufacturing firms in Kenya that is not indicated above?

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Part D: Outsourcing IT and Software Operations

12. To what extent does outsourcing IT and software operations influence profitability of manufacturing firms in Kenya?

- Very great extent
- Great extent
- Moderate extent
- Little extent
- No extent

13. Indicate your level of agreement with the following statements that relate to influence of outsourcing IT and software operations influence on profitability of manufacturing firms in Kenya. Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neutral 4 = agree and 5 = strongly agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
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</thead>
<tbody>
<tr>
<td>Businesses are outsourcing IT services and the creation of new products and services as a way to slash costs, speed development time and tap into top talent outside the company.</td>
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<tr>
<td>Outsourcing can improve the quality delivered by IS services through access to more advanced technologies, more motivated staff and better management systems.</td>
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<td>Outsourcing very often serves to get rid of routine tasks which are very time-consuming—in IT management.</td>
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<td>IS function is seen as something difficult to manage—often regarded by the top management as a ‘headache’.</td>
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<td>IT outsourcing enhances an organisation’s IT use and thus boosts its labour productivity.</td>
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<td>With the recent changes in technology, firms obtain a considerable advantage from outsourcing IT, as they do not have to make large investments in technology when upgrades happen.</td>
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</tbody>
</table>
14. How else does outsourcing IT and software operations influence profitability of manufacturing firms in Kenya that is not indicated above?

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Thank you for your input and cooperation