IMPACT OF STRATEGIC OUTSOURCING OF SERVICES ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES WITHIN NAIROBI COUNTY IN KENYA

BY

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STUDENT’S DECLARATION

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

Signed: …………………………………………... Date: ………………………

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

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Dr. Caren Ouma

Signed: …………………………………………... Date: ………………………

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ABSTRACT

The study aimed at establishing the impact of strategic outsourcing of services on performance of Small and Medium Enterprises within Nairobi County in Kenya. The specific objectives of the study were; to establish the effect of primary activities outsourcing, the effect of accounting activities outsourcing and the effect of support services outsourcing on the performance of Small and Medium Enterprises.

This research study adopted a descriptive research design approach, which allowed an in-depth study of the subject. The target population was 1640 small and medium enterprises in Nairobi’s Industrial Area. Specifically, the study used stratified random sampling in order to account for the uneven distribution of Small and Medium Enterprises in various categories of manufacturing, trade and services. Based on distribution of Small and Medium Enterprises in the 3 categories the study used proportions calculated in the population distribution to come up with a representative sample distribution. The proportions calculated gave the number of Small and Medium Enterprises to be included in the sample for each segment. Thereafter simple random sampling was used.

The study combined two methods in its data collection that is, questionnaires and key informant interviews. Quantitative data was coded using Statistical Package for Social Science (SPSS). Data was analyzed through both descriptive statistics and inferential analyses, which was used in relation to correlation analysis and regression analysis to test the relationship between the four explanatory variables and the explained variable.

The findings on the effect of primary activities outsourcing on performance of Small and Medium Enterprises revealed the existence of a positive significant relationship \((r=.744, p=0.000, <0.05)\) between primary activities outsourcing and performance of Small and Medium Enterprises within Nairobi County in Kenya.

The findings on the effect of accounting activities outsourcing on performance of Small and Medium Enterprises revealed the existence of a positive significant relationship \((r=.663, p=0.000, <0.05)\) between accounting activities outsourcing and performance of Small and Medium Enterprises within Nairobi County in Kenya.
between accounting activities outsourcing and performance of Small and Medium Enterprises within Nairobi County in Kenya.

The findings on the effect of support services outsourcing on performance of Small and Medium Enterprises revealed the existence of a positive significant relationship ($r=.721$, $p=0.000$, $<0.05$) between support services outsourcing and performance of Small and Medium Enterprises within Nairobi County in Kenya.

The findings of this study revealed a significant relationship between primary activities outsourcing and performance of Small and Medium Enterprises, the study recommends that management in Small and Medium Enterprises should inculcate the adoption of outsourcing manufacturing but also put mechanisms in place to enhance more customer service.

This study revealed a significant relationship between accounting activities outsourcing and the performance of Small and Medium Enterprises, this study recommends that management in Small and Medium Enterprises should ensure that accounting activities outsourcing are conducted in a manner that enhances competitive advantage. This should include ensuring that accounting activities outsourcing processes are designed in a manner that enhances organizations strategic goals and objectives.

The ability of a Small and Medium Enterprise to remain relevant in the highly competitive and rapidly changing environment means that Small and Medium Enterprises should develop strategies for enhancing competitive advantage. Some of these strategies should include influencing policy on support services outsourcing in the Small and Medium Enterprises sector. Other strategies should include use of third-party logistics providers to enhance outreach to those in areas that do have infrastructure challenges.
ACKNOWLEDGEMENT

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DEDICATION

I dedicate this project to my family, especially my mother and sister, who have been the source of encouragement in my study of MBA at the School of Business at United States International University and also for their support in my project.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SME’s) are a critical component of the global trade. SME’s make up 95% of the organizations and provide 60-70% of the employment opportunities globally (Joiner, 2012). Further, SME’s generate a significant share of the new job opportunities in the Organization for Economic Cooperation and Development (OECD) countries such as Australia, Belgium and Canada. Undisputedly, Small and Medium Enterprises have some strength and weaknesses (Lin & Lee, 2011).

In the era of technological revolution and globalization, the economies of scale in many activities have diminished and hence the potential of small firms consequently increased (Howard, 2014). Notwithstanding, the traditional problems facing SME’s including limited funding, lack of expertise, constraints in managerial functions, inadequate technological exploitations, inefficient production techniques, and compliance difficulties have become acute in a technologically-driven global world (Jay & Alec, 2013).

SME’s have increasingly become innovative in their bid to counter the challenges facing their operations. Survey data by Arzeni, Cusmano and Robano (2015) indicate 30-60% of SME’s in OECD countries such as Denmark, Finland, France and Germany are innovative and even though they do not have the capacity to carry out research and development, they are likely to re-engineer business processes to meet the market requirements and establish approaches for improving efficiency of productivity.

The pace of technological revolution in Finland, France and Germany make it hard for SME’s to keep up with the dynamic business environment (Herbert, 2016). While a SME’s may initially procure a new technology or way of doing business, the dynamic market changes and emergence of new technologies make it extremely difficult for SME’s to continually stay up to date while enduring the competition (Howard, 2014). The dynamic operating environment necessitates applying strategic management practices to keep up with the competition.
Firms in Finland, France and Germany apply strategic management practices to develop competitive advantage (Jha, 2015). Strategic management involves the identification of effective systems and decision mechanisms that counter unpredictable and unfavorable occurrences to reduce risk and sustain operations. Outsourcing is a strategic management practice that is globally practiced (Kennedy & Brian, 2014).

Outsourcing of non-core functions to experts allow SME’s to focus their limited resources to the core business functions that create value for stakeholders (Kirk, 2015). The merits of outsourcing in UK include reduced cost and increased customer satisfaction and loyalty, the very critical components for SME’s performance and success. These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

Outsourcing has been one of the major strategies in Norway that companies use to remain competitive (Lysons, 2012). Since the industrial revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that can “own, manage, and directly control” its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale (Meegan & Taylor, 2014).

By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. According to Tate and Bals (2015) many large companies in Uganda developed new strategies of focusing on their core business, which require identifying critical processes and deciding which could be outsourced to increase their flexibility and creativity. The African continent is the new economic and business process outsourcing frontier. According to the International Monetary Fund (2015), SME’s will form a significant economic contributor helping the continent achieve the forecasted 4.5% growth over the next decade (Amahle, 2012).
Notably, SME’s in South Africa create about 80% of the employment opportunities, hence establishing a new middle class that drive the demand for goods and services. The extent of SME’s outsourcing in Africa is not clearly documented (Jabulani, 2018). Generally, the extent of BPO in the continent is surging though there are challenges of inappropriate policy frameworks and regulatory compliance. In Ghana, there is limited knowledge on the extent of SME’s outsourcing. For large companies in Uganda, there is an upward trend in the instance of outsourcing (Lindiwe, 2012). These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s in the Tanzanian scenario (Mandla, 2015).

Wachira, Brookes and Haines (2016) reported 50 registered outsourcing vendor companies in Kenya. Notably, the outsourcing initiative is a pillar of the Vision 2030 and is implemented by the Kenya information communication technology, export processing zone and the Kenya business process and contact center. However, the lack of information on the extent of SME’s business outsourcing impact on the policy framework formulation. SME’s within Nairobi County forms a significant contributor to the national economy (Chege, Ngui & Kimuyu, 2016).

Brisk Trading Limited, an SME based in Nairobi, has had its performance over the years’ dismal due to factors including uncertain business environment, high cost of operation, ineffective logistic and transport solutions and poor management of back office and support services. These constraints among others hinder the movement of raw materials for production and finished products to the market. Further, the operating environment of SME’s within Nairobi County is dynamic, occasioned by rapid changes in technology, influx of cheap and low-quality goods from elsewhere, the changing consumer requirements and the increasing need for high-quality goods and services (Orwa, 2015).

The inadequate performance of the SME’s such as BeRo Tech based in Nairobi is a direct impact of the high unemployment rate, high crime rates and the low industrialization. According to Were (2016), the poor performance of the SME’s threatens their survival in the
Nairobi County. Thus, there is increased pressure for the owners and the management of the SME’s to take strategic decisions that will enhance their performance. These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

1.2 Statement of Problem
Small and Medium Enterprises (SME’s) in Kenya’s economy play an important role in employment, wealth creation, income distribution, accumulation of technological capabilities and spreading the available resources. In fact, in 2013, SME’s industry created 89.7% of new jobs created (GoK, 2013). The top 100 firms represent the cream of SME’s industry. However, the excellent performance of top 100 SME’s does not represent the SME’s industry performance since majority of SME’s in Kenya have been found to have poor performance (Ochada, 2014).

SME’s contribute greatly to the economies of all countries, regardless of their level of development. About 80% of the labor force in Japan and 50% of workers in Germany are employed in the SME’s sector. With respect to developing countries and according to the ILO/JASPA (2016), the sector made a significant contribution to the gross domestic product of Uganda (20%), Kenya (19.5%) and Nigeria (24.5%). Isolutions Associates Limited is an SME’s in the service category of SME’s based within Nairobi County industrial area, according to recommendation reports by its external auditors among other things, strategic outsourcing of services is a remedy to its poor financial performance (KAM, 2017).

The term SME’s covers a wide range of perceptions and measures, varying from country to country and between the sources reporting SME’s statistics (KIPPRA, 2016). Some of the commonly used criterions are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment, but there is a variation in defining the upper and lower size limit of a SME’s (Ayyagari, Beck & Demirguc-Kunt, 2013).
The African countries and especially the East African region are positioning themselves as a business outsourcing destination (KNBS, 2014). Though previous studies, have reported a positive tendency to outsourcing, there is limited concrete data especially among the SME’s to support policy development (Kamau, Karanja & Orwa, 2015). Further, Kenya’s unemployment rate is high and the effect of SME’s in providing employment and contributing to the national economy cannot be underestimated (CCG, 2015). Napro Industries Limited and Ravenzo Trading Limited are SME’s in the manufacturing and trade categories respectively based within Nairobi County industrial area are in dire need for strategic outsourcing of services so as to salvage cost increment, dwindling market shares and profitability (AGPO editorial, 2017).

Previous studies that sought the extent and consequences of outsourcing among SME’s within Nairobi County either focused on a single industry or only covered one or two aspects of outsourcing (Awino, 2015). This infers the results of the studies were only applicable to a single industry sector and hence cannot be applied to the general SME’s. In Nairobi, a study was done regarding the effect of logistic outsourcing practices among manufacturing firms in Kenya, targeting large scale manufacturing companies that are based within Nairobi (Magutu & Chirchir, 2013). These firms opted to outsource their services due to its advantages and its possible influence on organizational performance, as it enables the firms to focus on its core competencies.

All these studies have not indicated the issue at stake because they have been done in different contexts which are impacted on differently depending on the industry and the environment. These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s. It was against this backdrop that this study sought to examine the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya. Since outsourcing links, the aspects of employment, performance, technology and development, the current study provided data instruments for improving productivity, performance of SME’s, employment and economic development.
1.3 General Objective
The general objective of the study was to examine the impact of strategic outsourcing of services on performance of Small and Medium Enterprises within Nairobi County in Kenya.

1.4 Specific Objectives
1.4.1 To establish the effect of outsourcing primary activities on performance of Small and Medium Enterprises within Nairobi County, Kenya.
1.4.2 To establish the effect of outsourcing accounting activities on performance of Small and Medium Enterprises within Nairobi County, Kenya.
1.4.3 To establish the effect of outsourcing support services on performance of Small and Medium Enterprises within Nairobi County, Kenya.

1.5 Significance of the Study
While this study may be of value to any person interested in highlighting the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya, it is hoped that the study findings will specifically benefit the following groups:

1.5.1 Managers of Small and Medium Enterprises within Nairobi County
This study is important to new upcoming SME’s as it will be significant to the management in decision making and its implication of the profit making of the SME’s, also to provide a platform for further studies and help specific SME’s gain competitive advantage in their market segments.

1.5.2 Researchers
The researcher will benefit from this study through gaining research skills, which will enable him/her to perform further studies and add to their adequate experience, which will be a mark for future consultancy. The findings will also be important for the academia partners including the various universities and learning institutions. This will be achieved through in-depth examination of the impact of strategic outsourcing of services on performance of SME’s. As a result, it will enable for updating of the curriculum and teaching syllabus with the latest scientific research findings in the various fields. In addition, there study will
highlight the significance of collaborative research work in relation to building the capacity of both parties for improved communication of findings from scientific research. The importance of involving the university students in research activities for experience and practical knowledge to substantiate their theoretical knowledge will also be a product of this research.

1.5.3. Future Scholars

Future scholars will require the recommendations of this research to be in a position to perform research on similar area. This study will guide them on some principles relating to impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya.

1.6 The Scope of the Study

Content and contextual scopes exist. The content scope is in assessing the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya. The need of limiting this study to the managers was to get data from the primary sources of strategic outsourcing of services personnel. Data used for the study was collected on May 2019. Four variables were covered in this study, which include; primary activities outsourcing, accounting activities outsourcing, support services outsourcing. They are the key strategic outsourcing of services that eventually influence performance in any institution. The study used descriptive research design. A descriptive research method is the one in which one plan to observe, discover, describe, compare or analyze the characteristics or attributes of a particular problem or situation.

With regard to contextual scope, this study was carried out within Nairobi County: The study targeted a population of 1640 SME’s in Nairobi’s Industrial Area along Enterprise road (and adjoining roads from Addis-Ababa road to Lunga Lunga road). The target population was the managers of the SME’s. The researcher settled at these areas because of the high population of SME’s. The various managers are very well established with highly qualified. Therefore, they are a representative view on strategic outsourcing and its impact on the performance of SME’s within Nairobi County.
1.7 Definition of Terms

1.7.1 Strategic Outsourcing
Quora (2017) defined strategic outsourcing is the process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel. Many people tend to associate outsourcing with small companies that operate with limited budgets. This is often true, since a smaller business enterprise is likely to have limited resources. When this is the case, a strategic outsourcing effort may involve contracting with a provider to manage the process of generating invoices to customers, receiving those payments, and paying any outstanding debts using the proceeds from those payments.

1.7.2 Performance of Small and Medium Enterprises
Performance in this context can be defined as the profit-making ability of the small medium enterprises or the return on the initial investment to the shareholders. It is measured by the profit margin of the company through ratios and comparison to other industry competitors (Arnold, 2013).

1.7.3 Small and Medium Enterprises
A business that has not more than 100 employees with an annual turnover of between Ksh 500,000 and Ksh 5 million with those in the service sector having a capital formation of between Ksh 5 million and Ksh 20 million and Ksh 5 million and Ksh 50 million for those in the manufacturing sector (Kenya Micro, Small and Medium Enterprises Bill, 2011).

1.7.4 Primary Activities
Primary activities refer to end-to-end, cross-functional processes that deliver value to the consumers. The primary activities are the critical functions that an organization cannot do away with and are necessary for the successful execution of the business function. The activities are categorized as inbound logistics these include the services required for sourcing, keeping and deriving the final products, operations the day to day practices for converting raw products into finished goods and services, outbound logistics the distinct processes for managing distribution, collection and delivery of the products and services, marketing- marketing is associated with disseminating information concerning the products
and services of the SME’s to the prospective consumers, after sale services all the functions pertaining to maintaining a good relationship with the customers including maintenance of the product or service for the agreed period (Kleijin & Rorink, 2012).

1.7.5 Accounting Activities
Outsourcing accounting functions thus refers to transferring all or some of the accounting functions to an external professional accountant to manage cost, gain the required expertise or develop a competitive edge. Accounting functions form a critical role in SME’s operations as they are required for external reporting and internal management and decision making (Okharedia, 2013).

1.7.6 Supporting Services
The support services support the core functions of the firm. The support services that can be outsourced in the organization include IT services, systems, advertising, transport, and public relations, legal, training, and shipping services (Kinyanjui, 2010).

1.8 Chapter Summary
The chapter introduced the study and presented the background of the study and stated the problem as well as the purpose of the study. The chapter also outlined the research questions that the study addresses. This chapter indicated the significance of the study, the scope of the study and defined terms and concepts used throughout the study. It has therefore thoroughly highlighted and clarified the impacts of outsourcing various organizational functions on the performance of SME’s within Nairobi County and how to solve the problem statement and define terms for ease of clarity. The next chapter (two) entailed literature review which explores previous works on the effect of outsourcing primary, support, and accounting activities on the profitability of SME’s. The chapter adopted a theoretical perspective. The third chapter consisted of research design, study population, sample and sampling procedure, research instruments, data collection procedure and then data analysis. Chapter four presents results of the study based on the study objectives while chapter five presents summary and discussion of the study findings. The chapter also presents conclusion, recommendations of the study and areas for further research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter discusses the existing literature on the impact of strategic outsourcing of services on the performance of Small and Medium Enterprises (SME’s). The literature review outlines and discusses the theoretical frameworks and how they relate to the subject matter.

2.2 Effects of Outsourcing Primary Activities on Performance of Small and Medium Enterprises
According to Kleijin and Rorink (2012), the primary activities refer to end-to-end, cross-functional processes that deliver value to the consumers. The primary activities are the critical functions that an organization cannot do away with and are necessary for the successful execution of the business function. The activities are categorized as inbound logistics these include the services required for sourcing, keeping and deriving the final products, operations the day to day practices for converting raw products into finished goods and services, outbound logistics the distinct processes for managing distribution, collection and delivery of the products and services, marketing- marketing is associated with disseminating information concerning the products and services of the SME’s to the prospective consumers, after sale services all the functions pertaining to maintaining a good relationship with the customers including maintenance of the product or service for the agreed period. There are several aspects of performance that are affected by primary activities outsourcing. This includes manufacturing, warehousing and customer service. These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

2.2.1 Manufacturing
There is a strong trend today among industrial companies to outsource manufacturing. Even if figures on the actual incidence are lacking, it seems clear that outsourcing has progressively become an explicit strategy for larger companies to become more effective and
competitive. One indicator is the decrease in the refinement rate within the engineering industry from 31% in 2010 down to 25% in 2016. Previously, outsourcing in industry mainly concerned clearly non-core activities, such as cleaning, building maintenance and restaurants, which did not significantly impact on cost reduction, market share and profitability.

Today it is increasingly regular to outsource core activities, such as manufacturing and product development (Arnold, 2015). The most common motives specified by managers are expectations of cost reduction, releasing resources, access to new competencies through alliances, and faster product development (The Outsourcing Institute, 2011). The effects of outsourcing are, however, not clear. Since most decisions on outsourcing are motivated by cost arguments, the effects on the company’s competence and learning capacity are still mainly an open question. This is particularly valid for the outsourcing of manufacturing.

The question is also related to an emerging perspective on manufacturing in the networked economy. According to this perspective manufacturing is increasingly regarded as a commodity, which easily could be bought on the global market (Lundqvist, 2010). Similarly, Arnold (2013) claims that manufacturing is a non-differentiating activity that easily could be transferred and handled by other companies. These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

The core competencies are product design, logistics and sourcing and marketing. Arnold describes four levels of outsourcing: traditional buying, modular sourcing, in-house plants and the “de-materialized” company. The desired level, according to Arnold, is the de-materialized company, which means that suppliers are responsible not only for different functions, but also the co-ordination between the suppliers. VW’s truck plant in Brazil is put forward as a good example. In this case VW responsibility is restricted to quality assurance, marketing and sale (Johannesson & Kempinsky, 2013).
2.2.2 Warehousing

Warehousing operations involves the inbound functions of storing and outbound functions of packing and shipping goods, services and information. A warehouse provides a central location for receiving, storing and distributing products (Farahani, Rezapour & Kardar, 2011). As each inbound shipment arrives, responsibility for the goods transfers to warehouse personnel, products are identified, sorted and dispatched to their temporary storage location. Efficient warehouse operations can ensure that a company ships and receives vital stock in time for replenishment on store shelves or in manufacturing facilities.

The objective of a logistics system is to reduce cycle times and overall inventories, lower costs and most importantly, improve customer service. Warehousing increases the utility value of goods by providing a means to have the right products available at the right place in the right time (Kamyabi & Devi, 2011). Warehouses also provide economies of scale through efficient operations, storage capacity and a central location. Economic benefits are realized, for example, through consolidation and accumulation of operations. These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

Consolidation of operations cut outbound delivery costs for both the business and its customers (Farahani, Rezapour & Kardar, 2011). The transaction cost theory is closely linked to warehousing operations since one of the main advantages of outsourcing these operations is to reduce costs associated with it. The resource-based theory can also be linked to outsourcing warehousing operations because a firm needs to have the right resources for the right purpose thereby helping it to create competitive advantage.
2.2.3 Customer Service

Service is an activity process which involves the treatment of a customer or something belonging to them while experience is a customer’s personal interpretation of the service process and the customer’s interaction and involvement or how through a series of touch points. Some researchers, inter-alia, Meyer and Schwager (2015) have stressed that customer experience will provide a new means of competition, and a good experience is important because it affects customer satisfaction, delivers customer loyalty, influences expectations, and also creates emotional bonds with customers. Customer experience can be defined from two perspectives namely, operational service quality and customer perceived quality.

Operational service quality is the operations’ assessment of how well the service was delivered, for example speed of answer, first call resolution (FCR), and abandonment rate (Githagui & Ngugi, 2013). This includes input resources such as labor, technology, processes, people and information which directly impact customer experience, which means that all the customer service performance measurements contribute directly to the customer experience. Call centers have been regarded as an enabling resource for enhanced customer service and experience, and this is even more so in the dynamic mobile telecommunications industry, where technology evolution is rapid and customer loyalty extends only as far as their last ‘bad’ experience.

Since call centers are the customer’s first point of contact with an organization, their experience with the call center staff contributes to their perception of the quality of service provided. Some researchers, for example, Dean (2016) argue that service-based competition and the opportunity for high-volume, low-cost service delivery via telephone-based technology have resulted in the massive growth of call centers (Kazemi & Hooshyar, 2013). Customers’ expectations are increasingly growing and call center staff needs to meet or exceed these expectations in order to ensure that the organizations they represent have a competitive advantage.

Thus, managing the customer experience resulting from call center encounters is likely to have major impact on an organization’s success. Africa highlighted that call centers failed to
“personalize their service, resulting in customers going back to the stores to get assistance,” and this leads to a negative customer experience. Small businesses need to realize the importance of developing relationships with their customers if they want to survive over the long term (Tatikonda, 2013).

In order to develop these relationships, it is essential that SME’s should create good buyer-seller relationship. This can be achieved by developing a customer relationship management strategy within the SME’s. According to Sin & Tse (2015), customer relationship management is a comprehensive strategy and process that enables an organization to identify, acquire, retain and nurture profitable customers. The main goal of this approach is to cover the activities of acquisition management and regain management at the initiation stage, maintenance stage and termination management with the purpose to maximize the value of relationship portfolio (Dutu & Halmajan, 2011). However, managing a successful customer relationship management implementation requires an integrated and balanced approach to technology, process and people (Chen & Popovich, 2003).

Faroghiani & Mazhab (2015) conducted a study on the effect of customer relationship management on performance of small-medium sized enterprise. The study sample comprised of 105 industrial park managers. Data used for the study was collected using questionnaires and analyzed using AMOS18 and SPSS19. The findings of the analysis revealed that CRM has a significant effect on the performance of enterprises. It further emerged from the findings that technology is a key factor which influences SMEs and leads to superiority on competitors. This study therefore recommends that in order for the SMEs to achieve the desired performance, they should pay more attention to market and customer services.

In yet another context, Nasution & Rafiki, (2018) carried out a quantitative study on the effect of customer relationship management on organization performance. Data used for the study was collected from 82 employees from the three sampled enterprises. Questionnaires were used as the main tools for data collection. The findings of the analysis showed that organization factors of CRM (i.e. top management support, customer orientation, training orientation) have a positive and significant impact on organization performance. The study
also showed that customer relationship management is a potential system that has huge and positive impact to the customers and business performance. The strategy is therefore recommended to be adopted widely by both small and medium enterprises.

Satisfaction is another strategy that is used to retain customers in small and medium business enterprises. Previous research conducted in various industries provides evidence that customer satisfaction leads to increased profits as a result of customer loyalty and repurchase intentions (Mittal & Kamakura, 2011; Curtis, Abratt & Rhoades, 2011). In another study, Kemboi, Biwott & Tarus (2014) established that service quality highly affects customer satisfaction positively. This is because providing customers with quality services will make them happy, delighted and contented thus retaining and attracting more customers. However, it is important to remember that what satisfies customers today, may not satisfy them in a year’s time.

If overlooked, customer dissatisfaction can spell the end for a business, especially if the impact of customer dissatisfaction on the organization and its profitability is misjudged time and again (Tatikonda, 2013). Feedback on customer satisfaction needs to be collected regularly and if used correctly, this feedback on how satisfied customers are with the business and the product and service offering can be invaluable in building relationships and customer loyalty. These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

2.3 Effects of Outsourcing Accounting Activities on Performance of Small and Medium Enterprises

Accounting functions can either be outsourced or managed internally depending on the type of the organization and the asset availability. Outsourcing accounting functions thus refer to transferring all or some of the accounting functions to an external professional accountant to manage cost, gain the required expertise or develop a competitive edge. Accounting functions form a crucial role in SME’s operations as they are essential for external reporting, internal management and decision making (Okharedia, 2013).
The demand for accounting functions is partly driven by regulatory requirements and thus SME’s derive little value from the development of statutory accounts (Kirk, 2015). In the Kenyan SME’s sector, and especially within Nairobi County, the provision of joint compliance and non-compliance accounting functions is non-restrictive. Owing to the lack of internal expertise and fact that SME’s within Nairobi County greatly align between business ownership and management and thus, minimal agency conflict, accounting functions are critical. Accounting reports are used for strategic planning, financial management, and decision making (Kennedy & Brian, 2014). These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

Outsourcing is an influential vehicle to diminish costs and increase performance (McIvor, 2009). For example, accounts payable outsourcing reduces the administrative costs and cost saving without capital investment (Jayabalan et al., 2009). Furthermore, profitability of the firm can be enhanced by outsourcing in several ways, including: (1) employment, (2) capabilities, (3) facilities and (4) payroll (Jiang et al., 2006). For instance, as outsourcing increases, costs will shrink, and investment in facilities, and manpower can be reduced (Jiang et al., 2006). Moreover, outsourcing of accounting services can add value through the higher quality available from external sources, in particular external accountants (Gilley et al., 2004). For example, SME lack of expertise and accounting knowledge to carry out accounting functions internally (Jayabalan et al, 2009). Therefore, better performance may be obtained by outsourcing. On the one hand, by outsourcing human resources to external sources, firms may achieve superior levels of employee performance and productivity, thus leading to higher financial performance. On the other hand, by outsourcing functions or tasks, SMEs would be able to focus on the value-creating functions that drive competitive benefit. Hence, outsourcing of services enables a firm’s capabilities to be improved by better performance (Shang et al, 2008). Therefore, a major concern of the resource based theory is how a firm’s capabilities develop and affect its performance (McIvor, 2009). In actual fact, the outsourcing decision is influenced by the ability of an enterprise to invest in developing a
capability and sustaining a superior performance position in the capability corresponding to competitors (McIvor, 2009).

Sian and Roberts (2009) found 57.2 percent of small firms outsourced accounting services including financial statements (51.1 per cent), tax or VAT information (30.8 percent) and accounting system (18.1 percent). For instance, Jayabalan et al. (2009) found the types of accounting functions outsourced based the standard functions which include bookkeeping, accounts receivable, accounts payable, financial reporting, management reporting and tax filing. Moreover, Everaert, Sarens & Rommel (2010) revealed that more than half of SMEs use a combination of outsourcing and insourcing of accounting functions, while 35 percent of the SMEs use only in-house accountants’ services and 12 percent use total outsourcing of accounting services. In yet another study, Berry et al. (2006) found 85 percent of small enterprises used their external accountant as a source of advice.

In their study on the impact of accounting outsourcing on Iranian SME performance, Kamyabi & Devi (2011) found out that asset specificity, trust and degree of competition are key factors influencing outsourcing decision. It further emerged that the outsourcing intensity is significantly and positively associated with SME performance. Regression analysis further revealed that outsourcing intensity fully mediates the relationship between trust and firm performance and partially mediates the relationship between degree of competition and firm performance, but it does not mediate the relationship between asset specificity and firm performance.

In a Kenyan context, Kamita, & Oluoch (2018) did a study on the effect of outsourcing of accounting services on quality of financial reporting among small micro enterprises. The study found out that there was a significant relationship between outsourced accounting services and quality of financial reporting. Le, Bui, & Tran (2017) in their study on factors influencing the intention of accounting outsourcing established that outsourcing of accounting services in an emerging trend where out of 181 businesses that participated in the study 94 businesses fully or partly outsourced their accounting functions. According to
Hafeez, & Andersen (2014), one of the risks identified with outsourcing accounting functions is that of the threat of opportunistic behavior by the external accountant.

2.3.1 Financial Reporting

Trust in the external accountant in an organization’s capabilities, develops and affects the expectation of the owner-manager (Oakland, 2010). Outsourcing potentially reduces bureaucratic complexity. Outsourcing of accounting services help firms to reduce cost of transaction by diminishing threat of production requirements and provide a mechanism for opportunism. For instance, if the professional firms share economies of scale with specialized services accountant and the management of the company, it transfers risks and reduce uncertainty trust-based relationship hence creating opportunities to the organization.

When outsourcing, is more in professional accountants, the higher is the likelihood efficient, firm are more likely to integrate and use that the owner-manager of firms will choose to specialized resources and capacity (Lewis & Roehrich, 2013). Outsourcing of accounting activities mediates the competitive environment; smaller companies cannot relationship between asset specificity and firm survive because their internal resource gaps do not permit performance for them to adapt their products. In such circumstances, outsourcing is a major managerial method to obtain.

Outsourcing is a critical element of organizational strategy, as a powerful vehicle to reduce the costs and improve performance (Holcomb & Hitt, 2017). Jiang, Frazier and Prater (2016), did abrader empirical research with a focus on performance. The authors assessed the results of outsourcing in terms of three distinct performance variables, cost, productivity and profitability. The study showed evidence that it can improve firm’s costs, but failed to find that it can improve an organizations profitability and productivity.

Modugu and Eragbhe (2013) affirmed that SME’s contribute over 90% of the private sector production and they are the prime sources of jobs in developing countries and play a crucial role in income generation especially for the poor. There is currently no clear-cut definition of an SME’s in Nigeria. In the context of IFRS, SME’s are entities that do not have public
accountability and publish general purpose financial statements or follow generally accepted accounting principles (GAAP).

Public accountability in this context connotes entities with or seeking to have their securities traded in a public market or have assets in a fiduciary capacity as their main business activities. Since the official announcement of the mandatory adoption and implementation of IFRS in the European Union in 2002, accounting research has examined the process, especially the impact, progress and difficulties it entails (Callao et al., 2013). However, most of the previous studies on adoption of international accounting standards by countries are country specific (Gyasi, 2010) and the focus of most literature have been larger firms, sometimes only listed firms (Anacoreta & Silva, 2015). These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

2.3.2 Tax Processing
The outsourcing of accounting and finance functions will become prevalent and continue to grow (Shailendra, 2014). The global market for outsourcing finance and accounting functions is expected to grow at a 9.6% compounded annual growth rate and top $47.6 billion in 2008, according to a new report from IDC (Casale, 2014). Longenecker et al. (2013) defines outsourcing as buying products or services from outside business firms and usually the outsourcing is making for those non-core activities of the firm. Krell (2016) stated that outsourcing refers to the transfer of responsibility, indicating that a process of function is performed by a third party.

In addition, Brown and Wilson (2015) states that outsourcing take steps of getting services from external source. The accounting function is among most commonly outsourced, though this is usually limited to only a few of tasks within the function, however, there are opportunities to outsource a wide array of services in this area if a company is willing to work with multiple suppliers to achieve this goal (Bragg, 2016). For instance, cash management services are offered by most regional banks. Taxation, financial reporting, and
internal audit services are provided by all of the largest auditing firms, such as Ernst & Young LLP and Deloitte & Touche LLP.

Outsourcing accounting online to India (2016) suggested that by switching to outsourcing of accounting, it enables companies to reduce overhead and focus on their core business. In addition, they also mentioned that the time spent on bookkeeping problems would add little or rather no value to a company’s customer relationship. Moreover, they also said that outsourcing services helps such companies manage their work well. As the total cost for managing the accounting work by outsourcing firm is far less than hiring in-house staff, almost every company is making accounting outsourcing a part of its long-term sustainable business model (Outsourcing Accounting Online to India [OAOI], 2016).

By outsourcing tax processing, SME’s can save time and avoid penalties arising from late payment and filing. SME’s can stay free from the pressure of keeping track of changing laws and the latest technology (OAOI, 2012). However, outsourcing should be undertaken with caution as there will be loss of direct control over quality and leads to additional coordination expense and delays where prompt management and business decision will be affected; besides, it also jeopardizes employee loyalty because of the job-loss fear (Brown & Wilson (2015). These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

2.4 Effects of Outsourcing Support Services on Performance of Small and Medium Enterprises

Support services facilitate day to day running of the business functions. The support services support the core functions of the firm. The support services that can be outsourced in the organization include IT services, systems, advertising, transport, public relations, legal, training, and shipping services. For the SME’s sector in developing countries, Kenya included, to observe sustainable levels of growth and development, availability of business information services has been identified as one area that needs attention from governments and business services providers (Kinyanjui, 2010).
Many SME’s firms in Africa and Kenya specifically, operate in an information insufficient environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya & Hussain, 2010). Access to information has however been not given the same attention as other constraints to improve the performance of SME’s like access to finance, markets, technology or training (Kauffmann, 2015). These well laid out and clearly illustrated aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

Availability of business information services for SME’s over the years has been enhanced with the emergence of various information and communication technologies. In developed countries, SME’s enjoy easy access to business information services due to well-developed information and communication technologies (ICT) infrastructure and easy access to computer hardware and software while in developing economies there are many challenges regarding ICT infrastructure and the cost of IT hardware and software (Hamel, 2010).

This has brought many challenges in the area of business information services for the SME’s sector. Despite the effort of governments and business service providers try to address the many challenges facing the SME’s sector, it is also necessary to note that SME’s identify and adopt the present use of ICT in accessing business information services in order to provide more development support in this area (Levy, 2010). These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

2.4.1 I.T Services/System
Outsourcing information technology is defined as the process in which multiple enterprises within a shared market cooperatively plan, implement and manage the flow of goods, services and information from a point of origin to a point of consumption (Heizer & Barry, 2013). It is crucial to the success of logistics in an organization. Organizations rely heavily on efficient supply chains to provide a high level of customer service, while meeting sales
and profit targets. Information technologies, including enterprise resource planning systems, are at the core of integrated operations.

There are several advantages associated with information technology. With integrated logistics, companies are better positioned to predict demand and act accordingly (Herbert, 2015). Today’s increasingly global supply chain needs to be able to spin on a dime and accommodate shorter product life cycles, emerging markets and fluctuating economies. Integrated operations also improve flexibility, eliminates waste and achieves higher profit margins which translate to higher firm performance (Heizer & Barry, 2013).

The Resource Based Theory can be used to illustrate how efficient integration of operations can lead to positive firm performance. When resources are allocated such that non-core functions are outsourced while the core functions of a manufacturing firm are given more attention, then firm performance will increase. Additionally, the general systems theory is also largely applicable here because information technology allows the firms to operate as one making them more efficient (Hatry, 2016). These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

2.4.2 Training

Human resource management (HRM) and human resource development (HRD) functions have also started outsourcing core and non-core activities (Fullerton, 2017). Outsourcing within the HR function occurred later than outsourcing of information technology, sales and marketing, and facility operation and maintenance. The primary reason for this later adoption is that HR was often considered too sensitive to be outsourced (Shen, 2015). Bolton (2010) defined HRM/HRD outsourcing as: “having a third-party service provider or vendor furnish, on an ongoing basis, the administration of an HRM activity that would normally be performed in-house”.

More recently, Tremblay, Patry and Lanoie (2015) defined human resource outsourcing as, “the contracting out of a part or of all HR activities to an outside supplier through
substitution or abstention, in opposition to internal procurement in which activities are performed by the employees of the organization”. Research has shown that 93% of HR departments outsource at least some of their work (Gurchiek, 2015). Indeed, training and development is one functional area of HRM in which outsourcing is especially prevalent (Anderson, 2012). These highlighted aspects of strategic outsourcing of services have an impact on cost reduction, market share and profitability, the three indicators are the metrics for measuring performance of SME’s.

Training and development outsourcing has been viewed as an effective management strategy in organizations within the current highly competitive business environment. Although training and development outsourcing may be increasing, there is considerable variation in how firms are utilizing this recently emerged HR practice (Csoko, 2015). While some firms have achieved positive outcomes from outsourcing training, others report that they have miserably failed (Baker, 2016). To that extent, scholars hold different opinions on the effects of training outsourcing (Shih & Chiang, 2011).

2.4.3 Transportation
Transportation operations are those services that make the movement of goods and services from one point to another possible and is very vital within logistics (Farahani, Rezapour & Kardar, 2011). There are many benefits of outsourcing transportation services that manufacturers, distribution companies, and anyone who ships freight realize. They go often way beyond just the cost of shipping freight. They increase customer service, improve warehouse efficiency, allow room for new delivery capabilities, reduce inventory and finally improve cash flow (Farahani, Rezapour & Kardar, 2011).

These operations can be linked to the transaction cost theory, so much so that the overall cost of transporting goods and services from the production point to the customer’s end is reduced significantly. The general system theory can also be linked to this variable since it focuses on the interdependence of relationships within an organization. Once goods and services are successfully transported, then other departments within the organization can work their respective parts from there (Bjorklund, 2011). These well laid out and clearly illustrated
aspects of strategic outsourcing of services have a significant impact on cost reduction, market share and profitability, the three pointers are the indices for ascertaining performance of SME’s.

Transport services are the backbone of the distribution, for they directly impact on customer satisfaction. The decisions of transport keep direct and significant interfaces with the financial, production and marketing (customer satisfaction). For instance, a study by Agburu, Anza & Iyortsuun, (2017) found out that outsourcing of supporting activities such as shipping, IT services/system, training, advertising, legal services, transport services, public relations has a significant effect on organizational profitability of SMEs. In another context, Siti, Liew & Kadri (2018) carried out a study on the impact of small and medium enterprises dilemmas on business performance. The study found out that transportation facilities, financial strength, and labor force skills have a significant and positive relationship with business performance.

Akinyele, Akinyele & Ajagunna (2016) established the mediating role of Infrastructural development such as transport as predictor to small & medium enterprises performance. The results of the analysis showed that there was a significant positive correlation between infrastructures and SME performance. This implies that infrastructures play a huge role in ensuring the successful business operation of SMEs. The study therefore suggests that government should adequately provide these basic infrastructures for SMEs as most of the SMEs cannot afford them. For small and medium-sized enterprises (SMEs), transport generally involves the largest logistics costs and challenges. It was therefore against this background the study sought to find out how transport services influences performance of small and medium enterprises in Nairobi County.
2.5 Chapter Summary
The chapter discussed the various literatures concerning the effect of outsourcing of primary, support, and accounting functions on the performance of SME’s. The chapter focused on literature relating to three areas of interest. The reviewed literature is that relating to the effects of primary activities, impact of accounting activities and the impact of support activities on performance of SME’s. The next chapter discussed the methodology utilized for the research. The research design, population and sample design, data collection tools, and research procedures were discussed.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology adopted for the study. It involved the collection, measurement and analysis of data. The research methodology is the method for collecting and analyzing information to provide insightful data useful for business decision making. The chapter provided information on what is to be done and how it was to be done. There were both quantitative and qualitative variables. Social scientists routinely collect data that is both qualitative and quantitative and carefully examine the patterns that emerge in an attempt to interpret, understand and explain social life. This chapter therefore aims at providing a background and justification to the study design and methodology that were employed in the study. It is broken down to; research design, target population, data collection instruments, data collection procedures and finally data analysis and presentation.

3.2 Research Design

The research was conducted using a descriptive research method. Descriptive research method is chosen because it provides answers to questions such as what, who, where, when and how they are related to the problems. Kasomo (2011) put forward the idea that a descriptive research method is the one in which one plan to observe, discover, describe, compare or analyze the characteristics or attributes of a particular problem or situation. This study employed a descriptive research design to examine the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya.

In addition, the design is best fit in the ascertainment and description of characteristics of variables that is, outsourcing primary activities, accounting activities and support services, in this research study and allows for use of questionnaires, interviews and descriptive statistics such as frequencies and percentages. The effects of primary activities, and impact of accounting activities were the two most fitted variables in the use of descriptive research design. In addition, a descriptive design was appropriate since it enabled the study to collect enough information necessary for generalization (Mugenda & Mugenda, 2014).
3.3 Population and Sampling Design

3.3.1 Population

Kombo and Tromp (2016) define a population as a group of individuals, objects or items from which samples are taken for measurement. Cooper and Schindler (2012) observe that a population is the total collection of elements about which one wants to make inferences. Kothari (2014) defines population as the researcher’s ‘universe.’ The population of this study comprised all small and medium enterprises in Nairobi, Kenya which have been in operation for over three to five years, which according to Alliance of Small and Medium Enterprises in Kenya, along Enterprise Road are estimated to be 1640 (Small & Medium Enterprises, 2010). The businesses in these areas are in the three strata of interest to this study (manufacturing, trade and services).

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>550</td>
<td>34</td>
</tr>
<tr>
<td>Trade</td>
<td>670</td>
<td>41</td>
</tr>
<tr>
<td>Services</td>
<td>420</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1640</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


3.3.2 Sampling Design

George and Mallery (2013) define a sample as a subgroup carefully selected so as to be representative of the whole population with the relevant characteristics and sampling as the process of selecting a number of individuals in such a way that they represent the large group from which they were selected. A sample is a smaller collection of units from a population used to determine truths about that population (Mugenda & Mugenda, 2014). The fundamental principle of sampling of elements within a population is in order to draw conclusions about the entire population (Kothari, 2014). A sample can be used to derive
inferences about the population if appropriate sample size and sampling techniques are used. A sample size is the number of units of observation that the researcher intends to collect information from.

3.3.2.1 Sampling Frame
This frame defines a researcher’s population of interest. A sampling frame is a list of all items where a representative sample is drawn for the purpose of research (Kothari, 2014). Isaac and Michael (2015) define a sampling frame as a list of all the items where a representative sample is drawn for the purpose of a study. The sampling frame of the study was the list of the licensed small and medium enterprises by Nairobi City County (Nairobi County, 2018).

3.3.2.2 Sampling Technique
Stratified random sampling technique was used to select the sample. The three categories of Small and Medium Enterprises (SME’s) i.e. manufacturing, trade and services formed the strata. Cooper and Schindler (2012) asserted stratified method as a technique used where the population is not homogeneous. Neuman (2012) observes that in stratified sampling technique the population is divided into strata which are more homogeneous, and then the items are selected from each stratum to constitute a sample. Since there is little or no empirical literature, to the knowledge of this study, on SME’s in Kenya, a preliminary study was necessary grouping the target population into three strata; manufacturing, trade (whole sale and retail) and services.

Simple random samples were obtained from these strata. SME’s was then identified giving general data. The study targeted SME’s in Nairobi’s Industrial Area along Enterprise road (and adjoining roads from Addis-Ababa road to Lunga Lunga road). The SME’s targeted were at least 3-5 years old and employing between 10 and 99 people. The sampling frame shows that the target population was 1640.
3.3.2.3 Sample Size

John and Johnson (2012) stated that the smaller the sample, the larger the sampling error and the larger the sample, the smaller the error. Kasomo (2011) indicates that a sample size, 10% of the target population is large enough so long as it allows for reliable data analysis by cross tabulation, provides desired level of accuracy in estimates of the large population and allows testing for significance of differences between estimates. The sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what will be useful, what will have credibility and what can be done with available time and resource (Paton, 2012).

Kombo and Tromp (2013) observe that for correlation research, 30 cases or more are required; for descriptive studies, 10% of the accessible population is adequate. The central limit theory states that in selecting simple random samples from a population, the sampling distribution of can be approximated by a normal probability distribution whenever the sample size is large enough (Kothari, 2014). Therefore, a proportionate sample size of 164 respondents which is 10% of the population was selected using simple random sampling technique from the identified sample in section 3.3 above as per Table 3.2.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Sample Size</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>550</td>
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<td>Trade</td>
<td>670</td>
<td>67</td>
<td>41</td>
</tr>
<tr>
<td>Services</td>
<td>420</td>
<td>42</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1640</strong></td>
<td><strong>164</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Data collection methods refer to techniques and materials used by the study to collect information (Patron, 2012). Both quantitative and qualitative data was collected in this study. Data was collected mainly through questionnaires. Likert scale of measurement was used.
A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. The reason for choosing questionnaire as the data collection instrument was primarily due to its practicability, applicability to the research problem and the size of the population. It is also cost effective (Saunders, 2012). A self-administered questionnaire with both open and closed ended questions will be developed and administered to obtain information from the 164 respondents. The questionnaire designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondent. The second part was devoted to examining the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya: where the variables of the study were put into focus.

3.5 Pilot study
The research tools were tested on their validity and reliability through a pilot study prior to the actual data collection. Piloting helped to check for ambiguity and appropriateness of sentence structure of the question items so that similar responses can be elicited from all the respondents (Creswell, 2008). Piloting enabled to evaluate the suitability of the instruments especially on the clarity of instructions in the instruments question items and their relevance. The pilot study was conducted in five (5) small and medium enterprises in Nairobi City County that were not included in the actual study. The study respondents comprised of 50 small and medium business entrepreneurs. The purpose of carrying out the pilot study was to identify weaknesses in the tools and check for clarity of the items for the purpose of improvement and modification of the instruments. In addition, pilot study was done with an aim of availing data that was used in assessing the reliability and validity of the research instruments. More so, during the pilot study, some logistical issues which could have posed challenges during actual data collection were identified and aligned.
3.5.1 Validity

Validity according to Wong, Ong and Kuek (2012) is the degree to which a test measures what it purports to measure. Face validity refers to the likelihood that a question will be misunderstood or misinterpreted. Pre-testing a survey is a good way to increase the likelihood of face validity. On the other hand, content validity refers to whether an instrument provides adequate coverage of a topic (Creswell, 2007). To validate the instrument, the researcher sought for assistance from the experts in research and lecturers in business administration department. The researcher requested these experts to check content; the extent of coverage of research objectives, relevance and clarity. For face validity the experts were requested to check on the reflection of concept of the research objectives in the questionnaire.

3.5.2 Reliability

Reliability is the degree to which the same results would be obtained if the test were administered again. For a test to be reliable, it must first be valid (Creswell, 2008). Regrading reliability the cronbach’s alpha was computed in terms of the average inter-correlations among the items measuring the concepts. The rule of thumb for cronbach’s alpha is that the closer the alpha is to 1 the higher the reliability (Neuman, 2015). A value of at least 0.7 was recommended. Cronbach’s alpha is the most commonly used coefficient of internal consistency and stability. Consistency indicated how well the items measuring the concepts hang together as a set. Cronbach’s alpha was used to measure realibility. This was done on the four objectives of the study and a correlation coefficient of 0.8625 was obtained. The results of the reliability test were as indicated in the Table 3.3 below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of Items</th>
<th>Respondents</th>
<th>α=Alpha</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Activities Outsourcing</td>
<td>9</td>
<td>15</td>
<td>0.893</td>
<td>Reliable</td>
</tr>
<tr>
<td>Accounting Activities Outsourcing</td>
<td>9</td>
<td>15</td>
<td>0.987</td>
<td>Reliable</td>
</tr>
<tr>
<td>Support Services Outsourcing</td>
<td>9</td>
<td>15</td>
<td>0.974</td>
<td>Reliable</td>
</tr>
</tbody>
</table>
3.6 Research Procedures

During the data collection process, the researcher develops a timetable for delivering questionnaires physically and via mail. The researcher establishes whether to deliver the questionnaires physically or via mail depending on whether the mail addresses of the respondents are readily available. Thus, the researcher searched contact details of the sample SME’s in the directory www.yellowpageskenya.com directory. The researcher then sent an email requesting for their participation in the research and provide a timeframe for responses. From the responses, the researcher decided whether to send an online questionnaire or book an appointment and deliver to the physical premise. The researcher also had a research permit from both Institutional Review Board (IRB) and National Commission for Science, Technology and Innovation as part of the requirements in research procedures.

3.7 Data Analysis Methods

Kothari (2014) defines data analysis as the computation of certain indices or measures along with searching for patterns of relations that exist among data groups. It is made up of; analyzing information in a systematic manner in order to come to a useful conclusion and recommendation. The collected data was first checked for completeness, comprehensibility and subjected to integrity tests. It was then coded as per variable and entered (Berg, 2011).

This study used both descriptive and inferential statistics. Descriptive statistics such as mean, percentage and standard deviation was used to present the various characteristics for the data sets such as biographical data (Neuman, 2010). Tables and charts were used to present the results of the study. Data was organized and interpreted on account of concurrence to objectives using assistance of the computer package, statistical package for the social sciences (SPSS) version 22 to communicate research findings.

According to Kothari (2014) correlation analysis studies the joint variations of two or more variables, correlation of +1 means a strong relationship between the independent variables and the dependent variable. This study used Pearson’s’ correlation model to test direction of correlation between the dependent variable and the various independent variables. Multiple regression analysis described by the model below was used to make inference between the
collective effects of all the four independent variables. The coefficient of determination (R-Square) resulting from the regression equation was used to determine the goodness of fit (Ngechu, 2009).

The research used a multiple regression model.

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

Where:

- \( Y \) = Performance of Small and Medium Enterprises
- \( \beta_0 \) = Constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = Beta Coefficients
- \( X_1 \) = Outsourcing Primary Activities
- \( X_2 \) = Outsourcing Accounting Activities
- \( X_3 \) = Outsourcing Support Services
- \( \varepsilon \) = Error Term

3.8 Chapter Summary
The chapter has discussed the research methodology aspects of the study. It discussed the research design, population and sampling design, data collection methods, research procedures and the data analysis. The specific aspects covered include how the research was conducted, the approaches to collecting data, the tools utilized, and the validity parameters put in place. In the next chapter, which is chapter four, the results of the study regarding outsourcing primary activities, accounting activities and support services were discussed extensively.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents results arising from the analysis of data collected using questionnaires. The current study sought to establish the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya. The data collected was analyzed using descriptive and inferential statistics and the findings presented in tabular summaries and their implications discussed.

4.2 General Information

4.2.1 Response Rate

A sample of 164 respondents were interviewed using questionnaires that allowed the researcher to drop the questionnaire to the respondents and then collect them at a later date when they had filled the questionnaires. A total of 164 questionnaires were distributed to employees. Out of the population covered, 154 were responsive representing a response rate of 93.9% as illustrated in Table 4.1 below.

Table 4.1: Response Rate of Respondents

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Response</td>
<td>154</td>
<td>93.9%</td>
</tr>
<tr>
<td>Non-Response</td>
<td>10</td>
<td>6.1%</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2.2 Distribution of Size of Small and Medium Enterprises

The study determined the size of the SME’s. The results are submitted in Table 4.2 where 65% of the respondents were small, while 35% of the respondents were medium. This indicates that majority of SME’s are still in the early years of budding.
4.2.3 Distribution of Category of Small and Medium Enterprises

The study determined the category of SME’s. The results are submitted in Table 4.3 where 13% of the SME’s were in services, while 27% of the SME’s were in manufacturing, trade category had majority of SME’s at 60%.

Table 4.3: Distribution of Category of Small and Medium Enterprises

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of SME’s</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>42</td>
<td>27</td>
</tr>
<tr>
<td>Trade</td>
<td>92</td>
<td>60</td>
</tr>
<tr>
<td>Services</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>154</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.4 Distribution of Respondents by Gender

The study determined the gender of the respondents. The results are submitted in Figure 4.1 where 59% of the respondents were male while 41% of the respondents were female. This indicated that majority of owners of SME’s were male. The percentages may raise the issue of gender equity in entrepreneurship opportunities in this country, but that was outside the scope of the study.
4.2.5 Distribution of Respondents by Age

The study also determined the age distribution of the respondents. The results summarized in the Table 4.4 below. The findings indicated that the majority respondents belonged to age bracket of 31-40 years and it was at 56%. Respondents between 41-50 years accounted for 27%. Results also indicated that respondents above 50 years were at 17%.

Table 4.4: Distribution of Respondents by Age

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-40 Years</td>
<td>86</td>
<td>56</td>
</tr>
<tr>
<td>41-50 Years</td>
<td>41</td>
<td>27</td>
</tr>
<tr>
<td>Above 50 Years</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>154</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.2.6 Distribution of Respondents by Level of Education

The respondents were asked to state their highest level of education and the results were as captured in Table 4.5. The results indicated that majority of the respondents 61% had a diploma, 8% had acquired a master’s degree and 31% had a degree.
Table 4.5: Distribution of Respondents by Level of Education

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma level</td>
<td>94</td>
<td>61</td>
</tr>
<tr>
<td>Degree level</td>
<td>48</td>
<td>31</td>
</tr>
<tr>
<td>Master level</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>154</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.7 Distribution of Respondents by Length of Service

The study determined the number of years the respondents had worked in their current office. From the findings the majority of the respondents had worked for 3-5 years at 56%, 9 years and above was at 19%, 6-8 years was 25% as illustrated in Table 4.6 below.

Table 4.6: Distribution of Respondents by Length of Service

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Frequency</th>
<th>Percent, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-5 years</td>
<td>86</td>
<td>56</td>
</tr>
<tr>
<td>6-8 years</td>
<td>38</td>
<td>25</td>
</tr>
<tr>
<td>9 years and above</td>
<td>30</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>154</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 The Effect of Outsourcing Primary Activities on Performance of Small and Medium Enterprises within Nairobi County, Kenya

The first objective of the study was to establish the effect of outsourcing primary activities on performance of SME’s within Nairobi County, Kenya. The respondents were asked to indicate to what extent outsourcing primary activities affected performance of SME’s within Nairobi County. Results indicated that majority of the respondents 53% said it was very effective, 31% said that it was effective, 9 % said it was somehow effective, while 7% said it was ineffective.
The respondents were also asked to comment on statements regarding the effect of outsourcing primary activities on performance of SME’s. The responses were rated on a likert scale and the results presented in Table 4.7 below. It was rated on a 5-pointlikert scale ranging from; 1 = strongly disagree to 5 = strongly agree. The scores of ‘strongly disagree’ and ‘disagree’ have been taken to represent a statement not agreed upon, equivalent to mean score of 0 to 2.5. The score of ‘neutral’ has been taken to represent a statement agreed upon, equivalent to a mean score of 2.6 to 3.4. The score of ‘agree’ and ‘strongly agree’ have been taken to represent a statement highly agreed upon equivalent to a mean score of 3.5 to 5.

Results indicated that majority of the respondents 57.4% agreed on the statement that outsourcing manufacturing plays a significant role in cost reductions. Further results indicated that 54.4% of the respondents were in agreement that outsourcing warehousing plays a significant role in cost reductions. A 60.3% of the respondents agreed that outsourcing customer service plays a significant role in cost reductions. 83.8% of the respondents expressed agreement on the statement that outsourcing manufacturing plays a significant role in improving market share. Results indicated that majority of the respondents 82.3% agreed on the statement that outsourcing warehousing plays a significant role in improving market share. Results indicated that majority of the respondents 82.4% agreed on the statement that outsourcing customer service plays a significant role in improving market share.
Results also indicated that majority of the respondents 91.2% agreed on the statement that outsourcing manufacturing plays a significant role in increasing profitability. Results indicated that majority of the respondents 70.6% agreed on the statement that outsourcing warehousing plays a significant role in increasing profitability. Results indicated that majority of the respondents 83.8% agreed on the statement that outsourcing customer service plays a significant role in increasing profitability.

The average mean of all the statements was 3.97 indicating that majority of the respondents agreed on the statement that outsourcing primary activities affects performance of SME’s. However, the variations in the responses were varied as shown by a standard deviation of 1.015.

**Table 4.7: Outsourcing Primary Activities**

<table>
<thead>
<tr>
<th>Statements</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing manufacturing plays a significant role in cost reductions</td>
<td>8.80%</td>
<td>5.90%</td>
<td>27.90%</td>
<td>26.50%</td>
<td>30.90%</td>
<td>3.65</td>
<td>1.231</td>
</tr>
<tr>
<td>Outsourcing warehousing plays a significant role in cost reductions</td>
<td>1.50%</td>
<td>4.40%</td>
<td>39.70%</td>
<td>50.00%</td>
<td>4.40%</td>
<td>3.51</td>
<td>0.723</td>
</tr>
<tr>
<td>Outsourcing customer service plays a significant role in cost reductions</td>
<td>2.90%</td>
<td>2.90%</td>
<td>33.80%</td>
<td>33.80%</td>
<td>26.50%</td>
<td>3.78</td>
<td>0.975</td>
</tr>
<tr>
<td>Outsourcing manufacturing plays a significant role in improving market share</td>
<td>5.90%</td>
<td>4.40%</td>
<td>5.90%</td>
<td>41.20%</td>
<td>42.60%</td>
<td>4.1</td>
<td>1.095</td>
</tr>
<tr>
<td>Outsourcing warehousing plays a significant role in improving market share</td>
<td>5.90%</td>
<td>1.50%</td>
<td>10.30%</td>
<td>39.70%</td>
<td>42.60%</td>
<td>4.12</td>
<td>1.058</td>
</tr>
<tr>
<td>Outsourcing customer service plays a significant role in improving market share</td>
<td>8.80%</td>
<td>2.90%</td>
<td>5.90%</td>
<td>41.20%</td>
<td>41.20%</td>
<td>4.03</td>
<td>1.184</td>
</tr>
<tr>
<td>Outsourcing manufacturing plays a significant role in increasing profitability</td>
<td>4.40%</td>
<td>1.50%</td>
<td>2.90%</td>
<td>47.10%</td>
<td>44.10%</td>
<td>4.25</td>
<td>0.936</td>
</tr>
<tr>
<td>Outsourcing warehousing plays a significant role in increasing profitability</td>
<td>0.00%</td>
<td>0.00%</td>
<td>29.40%</td>
<td>29.40%</td>
<td>41.20%</td>
<td>4.12</td>
<td>0.838</td>
</tr>
<tr>
<td>Outsourcing customer service plays a significant role in increasing profitability</td>
<td>5.90%</td>
<td>2.90%</td>
<td>7.40%</td>
<td>33.80%</td>
<td>50.00%</td>
<td>4.19</td>
<td>1.096</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.97</td>
<td>1.015</td>
</tr>
</tbody>
</table>

Key: SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree
4.4 The Effect of Outsourcing Accounting Activities on the Performance of SMEs within Nairobi County, Kenya

The second objective of the study was to establish the effect of outsourcing accounting activities on the performance of SME’s within Nairobi County, Kenya. The respondents were asked to indicate to what extent the outsourcing of accounting activities had an effect on performance of SME’s within Nairobi County. Results indicated that majority of the respondents 77% agreed that it was very effective, 12% said that it was effective, 7% said it was ineffective, while somehow effective was at 4%.

![Graph showing the effect of outsourcing accounting activities on SME performance.]

**Figure 4.3: Outsourcing Accounting Activities**

The respondents were also asked to comment on statements regarding effect of outsourcing accounting activities on the performance of SME’s within Nairobi County. Results indicated that majority of the respondents 52.9% agreed on statement that outsourcing financial reporting plays a significant role in cost reductions. Further results indicated that 61.8% of the respondents were in agreement that outsourcing tax processing plays a significant role in cost reductions. 69.1% of the respondents agreed that outsourcing financial reporting plays a significant role in improving market share. 83.8% of the respondents expressed agreement on the statement that outsourcing tax processing plays a significant role in improving market share. Results indicated that majority of the respondents 86.7% agreed on the statement that outsourcing financial reporting plays a significant role in increasing profitability. Results indicated that
majority of the respondents 47% agreed on the statement that outsourcing tax processing plays a significant role in increasing profitability.

The average mean of all the statements was 3.63 indicating that majority of the respondents agreed that outsourcing accounting activities had an effect on performance of SME’s within Nairobi County. However, the variations in the responses were varied as shown by a standard deviation of 1.198 as illustrated by Table 4.8 below.

**Table 4.8: Outsourcing Accounting Activities**

<table>
<thead>
<tr>
<th>Statements</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing financial reporting plays a significant role in cost reductions</td>
<td>4.40%</td>
<td>4.40%</td>
<td>38.20%</td>
<td>27.90%</td>
<td>25.00%</td>
<td>3.65</td>
<td>1.048</td>
</tr>
<tr>
<td>Outsourcing tax processing plays a significant role in cost reductions</td>
<td>5.90%</td>
<td>2.90%</td>
<td>29.40%</td>
<td>35.30%</td>
<td>26.50%</td>
<td>3.74</td>
<td>1.074</td>
</tr>
<tr>
<td>Outsourcing financial reporting plays a significant role in improving market share</td>
<td>4.40%</td>
<td>2.90%</td>
<td>23.50%</td>
<td>29.40%</td>
<td>39.70%</td>
<td>3.97</td>
<td>1.079</td>
</tr>
<tr>
<td>Outsourcing tax processing plays a significant role in improving market share</td>
<td>7.40%</td>
<td>2.90%</td>
<td>5.90%</td>
<td>42.60%</td>
<td>41.20%</td>
<td>4.07</td>
<td>1.124</td>
</tr>
<tr>
<td>Outsourcing financial reporting plays a significant role in increasing profitability</td>
<td>2.90%</td>
<td>4.40%</td>
<td>5.90%</td>
<td>52.90%</td>
<td>33.80%</td>
<td>4.1</td>
<td>0.917</td>
</tr>
<tr>
<td>Outsourcing tax processing plays a significant role in increasing profitability</td>
<td>20.6%</td>
<td>14.70%</td>
<td>17.60%</td>
<td>19.10%</td>
<td>27.90%</td>
<td>3.19</td>
<td>1.509</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.63</strong></td>
<td><strong>1.198</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key:** SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree
4.5 The Effect of Outsourcing Support Services to the Performance of SMEs within Nairobi County, Kenya

There was also need to determine the effect of outsourcing support services to the performance of SME’s within Nairobi County. The respondents were asked to comment on extent to which outsourcing support services affected performance of SME’s within Nairobi County. Results indicated that majority of the respondents 72% agreed that it was very effective, 18% said that it was effective, while ineffective was at 7% and somehow effective at 3%.

Figure 4.4: Outsourcing Support Services

Results indicated that 66.2% agreed on the statement that outsourcing IT services/system plays a significant role in cost reductions. Majority of the respondents 55.9% agreed on the statement that outsourcing training services plays a significant role in cost reductions. Further results indicated that 55.9% of the respondents were in agreement that outsourcing transportation plays a significant role in cost reductions. 66.1% of the respondents agreed that outsourcing IT services/system plays a significant role in improving market share. 66.4% of the respondents expressed agreement on the statement that outsourcing training services plays a significant role in improving market share. Results indicated that majority of the respondents 54.4% agreed on the statement that outsourcing transportation plays a significant role in improving market share.
Results indicated that majority of the respondents 48.6% agreed on the statement that outsourcing IT services/system plays a significant role in increasing profitability. Results indicated that majority of the respondents 82.3% agreed on the statement that outsourcing training services plays a significant role in increasing profitability. Results indicated that majority of the respondents 86.8% agreed on the statement that outsourcing transportation plays a significant role in increasing profitability.

The average mean of all the statements was 3.77 indicating that majority of the respondents agreed that outsourcing support services had an effect on performance of SME’s within Nairobi County. However, the variations in the responses were varied as shown by a standard deviation of 1.134 as illustrated by Table 4.9 below.
Table 4.9: Outsourcing Support Services

<table>
<thead>
<tr>
<th>Statements</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing IT services/system plays a significant role in cost reductions</td>
<td>4.40%</td>
<td>4.40%</td>
<td>25.00%</td>
<td>32.40%</td>
<td>33.80%</td>
<td>3.87</td>
<td>1.078</td>
</tr>
<tr>
<td>Outsourcing training services plays a significant role in cost reductions</td>
<td>7.40%</td>
<td>1.50%</td>
<td>35.30%</td>
<td>33.80%</td>
<td>22.10%</td>
<td>3.62</td>
<td>1.079</td>
</tr>
<tr>
<td>Outsourcing transportation plays a significant role in cost reductions</td>
<td>2.90%</td>
<td>4.40%</td>
<td>36.80%</td>
<td>30.90%</td>
<td>25.00%</td>
<td>3.71</td>
<td>0.993</td>
</tr>
<tr>
<td>Outsourcing IT services/system plays a significant role in improving market share</td>
<td>7.40%</td>
<td>2.90%</td>
<td>23.50%</td>
<td>27.90%</td>
<td>38.20%</td>
<td>3.87</td>
<td>1.183</td>
</tr>
<tr>
<td>Outsourcing training services plays a significant role in improving market share</td>
<td>10.30%</td>
<td>1.50%</td>
<td>22.10%</td>
<td>44.10%</td>
<td>22.10%</td>
<td>3.66</td>
<td>1.154</td>
</tr>
<tr>
<td>Outsourcing transportation plays a significant role in improving market share</td>
<td>5.90%</td>
<td>2.90%</td>
<td>36.80%</td>
<td>29.40%</td>
<td>25.00%</td>
<td>3.65</td>
<td>1.076</td>
</tr>
<tr>
<td>Outsourcing IT services/system plays a significant role in increasing profitability</td>
<td>19.10%</td>
<td>13.20%</td>
<td>19.10%</td>
<td>16.20%</td>
<td>32.40%</td>
<td>3.29</td>
<td>1.517</td>
</tr>
<tr>
<td>Outsourcing training services plays a significant role in increasing profitability</td>
<td>5.90%</td>
<td>5.90%</td>
<td>5.90%</td>
<td>39.70%</td>
<td>42.60%</td>
<td>4.07</td>
<td>1.124</td>
</tr>
<tr>
<td>Outsourcing transportation plays a significant role in increasing profitability</td>
<td>4.40%</td>
<td>2.90%</td>
<td>5.90%</td>
<td>39.70%</td>
<td>47.10%</td>
<td>4.22</td>
<td>1.005</td>
</tr>
</tbody>
</table>

Average: 3.77  1.134

Key: SD-Strongly Disagree, D-Disagree, N-Neutral, A-Agree, SA-Strongly Agree
4.6 Correlation Analysis

Correlation analysis was used to determine both the significance and degree of association of the variables and also predict the level of variation in the dependent variable caused by the independent variables. The correlation technique is used to analyze the degree of relationship between two variables. The results of the correlation analysis are summarized in Table 4.10.

Table 4.10: Summary of Pearson’s Correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Outsourcing Primary Activities</th>
<th>Outsourcing Accounting Activities</th>
<th>Outsourcing Support Services</th>
<th>Performance of SME’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing Primary Activities</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsourcing Accounting Activities</td>
<td>Pearson Correlation</td>
<td>.863**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>.959**</td>
<td>1</td>
</tr>
<tr>
<td>Outsourcing Support Services</td>
<td>Pearson Correlation</td>
<td>.904**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Performance of SME’s</td>
<td>Pearson Correlation</td>
<td>.744**</td>
<td>.663**</td>
<td>.721**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
<td>0.000</td>
</tr>
</tbody>
</table>

** Correlation is Significant at the 0.05 Level (2-Tailed).

The correlation summary shown in Table 4.11 indicates that the associations between each of the independent variables and the dependent variable were all significant at the 95% confidence level. The correlation analysis to determine the relationship between strategic outsourcing of services and performance of SME’s, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that there is a positive relationship (r=0.744) between outsourcing primary activities and performance of SME’s. In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.000, <0.05).

The correlation analysis to determine the relationship between outsourcing accounting activities and performance of SME’s, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that there is a positive relationship (r=0.663)
between outsourcing accounting activities and performance of SME’s. In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.000, <0.05). The correlation analysis to determine the relationship between outsourcing support services and performance of SME’s, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that there is a positive relationship (r=0.721) between outsourcing support services and performance of SME’s. In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.000, <0.05).

4.7 Regression Analysis

In this study multivariate regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. Regression analysis was conducted to find the proportion in the dependent variable (performance of SME’s) which can be predicted from the independent variables (outsourcing primary activities, outsourcing accounting activities, outsourcing support services). Table 4.1 presents the regression coefficient of independent variables against dependent variable. The results of regression analysis revealed there is a significant positive relationship between dependent variable and the independent variable. The independent variables reported R value of 0.832 indicating that there is perfect relationship between dependent variable and independent variables. R square value of 0.693 means that 69.3% of the corresponding variation in performance of SME’s can be explained or predicted by (outsourcing primary activities, outsourcing accounting activities, outsourcing support services). The results of regression analysis revealed that there was a significant positive relationship between dependent variable and independent variable at (β = 0.1194), p=0.000 <0.05).
Table 4.1: 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>.832a</td>
<td>.693</td>
<td>.673</td>
<td>.1194</td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), Outsourcing Primary Activities, Outsourcing Accounting Activities, Outsourcing Support Services
b) Dependent Variable: Performance of Small and Medium Enterprises

Table 4.12: 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>2.03</td>
<td>3</td>
<td>0.676</td>
<td>112.77 .000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>0.9</td>
<td>150</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2.93</td>
<td>153</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), Outsourcing Primary Activities, Outsourcing Accounting Activities, Outsourcing Support Services
b) Dependent Variable: Performance of Small and Medium Enterprises

The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how outsourcing primary activities, outsourcing accounting activities, outsourcing support services affect performance of SME’s. The F critical at 5% level of significance was 86.80. Since F calculated which can be noted from the ANOVA table above is 112.77 which is greater than the F critical (value = 86.80), this shows that the overall model was significant. The study therefore establishes that; outsourcing primary activities, outsourcing accounting activities, outsourcing support services were all important factors affecting performance of SME’s.
Table 4.13: Coefficients of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients B</th>
<th>Std. Error</th>
<th>Standardized Coefficients Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>1.197</td>
<td>1.119</td>
<td></td>
<td>1.07</td>
<td>0.028</td>
</tr>
<tr>
<td>Outsourcing Primary Activities</td>
<td>0.913</td>
<td>0.186</td>
<td>0.895</td>
<td>1.013</td>
<td>0.000</td>
</tr>
<tr>
<td>Outsourcing Accounting Activities</td>
<td>0.628</td>
<td>0.268</td>
<td>0.591</td>
<td>0.34</td>
<td>0.002</td>
</tr>
<tr>
<td>Outsourcing Support Services</td>
<td>0.255</td>
<td>0.329</td>
<td>0.138</td>
<td>0.774</td>
<td>0.004</td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), Outsourcing Primary Activities, Outsourcing Accounting Activities, Outsourcing Support Services

b) Dependent Variable: Performance of Small and Medium Enterprises

The research used a multiple regression model

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

Where

- \( Y \) = Performance of Small and Medium Enterprises
- \( \beta_0 \) = Constant
- \( X_1 \) = Outsourcing Primary Activities
- \( X_2 \) = Outsourcing Accounting Activities
- \( X_3 \) = Outsourcing Support Services
- \( \epsilon \) = Error Term

The regression equation is;

\[ Y = 1.197 + 0.913X_1 + 0.628X_2 + 0.255X_3 \]

The regression equation above has established that taking all factors into account (outsourcing primary activities, outsourcing accounting activities, outsourcing support services) constant at zero, performance of SME’s will be an index of 1.197. The findings presented also shows that taking all other independent variables at zero, a unit increase in
outsourcing support services will lead to a 0.255 increase in performance of SME’s. The P-value was 0.004 which is less 0.05 and thus the relationship was significant. The study also found that a unit increase in outsourcing accounting activities will lead to a 0.628 increase in performance of SME’s. The P-value was 0.002 and thus the relationship was significant. Lastly, the study found that a unit increase in outsourcing primary activities will lead to a 0.913 increase in the performance of SME’s. The P-value was 0.000 and hence the relationship was significant since the p-value was lower than 0.05. The findings of the study showed that, outsourcing primary activities had most impact to the performance of SME’s.

4.8 Chapter Summary

This chapter presents the results and findings of the study from the analysis of the data provided by the respondents. In addition, the chapter looks at various aspects of strategic outsourcing such as: outsourcing primary activities, outsourcing accounting activities, outsourcing support services. Chapter five presented discussion, conclusions and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provided a detailed summary of the major findings of the actual study; it then drew conclusions and discusses implications emanating from these findings. Finally, it makes some recommendations and suggestions on areas of further study. The main aim of the study was to study the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya. It specifically sought to determine the effect of; primary activities outsourcing, accounting activities outsourcing, support services outsourcing in SME’s within Nairobi County.

5.2 Summary of Findings

The general objective of the study was to examine the impact of strategic outsourcing of services on performance of SME’s within Nairobi County in Kenya. The following specific objectives were adopted for the study: To establish the effect of outsourcing primary activities on performance of SME’s within Nairobi County, Kenya, to establish the effect of outsourcing accounting activities on the performance of SME’s within Nairobi County, Kenya and to establish the effect of outsourcing support services to the performance of Small and Medium Enterprises within Nairobi County, Kenya.

The study employed a descriptive research design. The population of the study was 1640 composed of SME’s within Nairobi County. A total of 154 managers participated. A proportionate sample size of 164 respondents which is 10% of the population was selected using simple random sampling technique. The study used a structured questionnaire to collect primary data, which was analyzed using Statistical Package for Social Sciences (SPSS) version 22 for descriptive and inferential statistics. The results of the analysis were presented using tables and pie charts.

In relation to the first objective, the study established that outsourcing manufacturing, warehousing and customer service had a significant influence on cost reductions. It further
emerged that the three primary activities increased profitability and also led to an improvement in market share. Pearson’s Product Moment Correlation test revealed that there was a strong and positive correlation between primary activities and performance of SME’s in Nairobi County, r (0.744); p < 0.000. This implies that outsourcing of primary activities had a positive impact on performance of small and medium enterprises in Nairobi County.

Regarding the second objective, the study found out that majority of the entrepreneurs (77.0%) were of the view that accounting activities were very effective in terms of SMEs performance. Specifically, results of the analysis showed that financial reporting and tax processing played a significant role in cost reductions, improved market share and also increased profitability within the SMEs. Pearson’s Product Moment Correlation test further revealed that there was a strong and positive relationship between outsourcing accounting activities and performance of SME’s, r (0.663); p < 0.000. This implies that outsourcing accounting activities positively influences SMEs performance.

In terms of support services, the study discovered that outsourcing IT services, transport services and training services played a significant role in cost reduction, increased profitability and also led to an improvement in market share. Pearson Product Moment correlation analysis revealed that there was a strong and positive correlation between outsourcing support services and performance of SME’s, r (0.721); p < 0.000. This means that an improvement in IT services, transport services and training services among the entrepreneurs led to an improvement in SMEs performance.

5.3 Discussions
5.3.1 Effect of Outsourcing Primary Activities on Performance of Small and Medium Enterprises
This study found that there exists a significant relationship between outsourcing primary activities and performance of SME’s. All the constructs of outsourcing primary activities including manufacturing, warehousing and customer service were significant. These findings are in line with Gundaya et al., (2013) who argued that outsourcing primary activities is an important driver of performance of SME’s and productivity. The findings also concurred
with Nasution & Rafiki, (2018) whose study found out that customer relationship management in any organization such as top management support, customer orientation and training orientation have a positive and significant impact on organization performance. The study revealed that customer relationship management is a potential system that has huge and positive impact to the customers and business performance. In this relationship, outsourcing primary activities becomes part of the of the core business. Successful outsourcing of primary activities results in new products from the manufacturing side and services from the sphere of customers, gives rise to new markets, generates growth for enterprises, and creates customer value. Outsourcing primary activities improves existing products and processes, thereby contributing to higher productivity, lower costs, increased profits and employment.

Similarly, Al-Ansari et al., (2013) argue that firms that outsource primary activities have a higher chance of enhancing competitive advantage than those that do not. As such, customers of outsourced primary activities gain benefits in terms of more choices, better services, lower prices and improved productivity. As such, outsourcing primary activity is adopted and diffused, the ‘knowledge stock’ of the SME’s accumulates, providing the foundation for performance of SME’s. The findings agree with Kinyanjui (2010) that practicing primary activities outsourcing can be smart but if not done well can prove to be expensive and time consuming.

In addition to refocusing resources onto core competencies, other strategy issues which encourage the consideration of outsourcing of primary activities are restructuring, rapid organizational growth, changing technology and the need for greater flexibility to manage demand swings (Palevich, 2012). Flexibility appears to be an important driver not just from a scale perspective but also regarding the scope of product or service. Organizations need to react quicker to customer requirements and outsourcing is seen as a vehicle to accomplish this (Qiu, 2013).

According to Raduan in his divergent view et al., (2009) outsourcing may also be perceived as a way to reduce the organization’s risk by sharing it with suppliers and at the same time acquire the positive attributes of those suppliers. The partnerships that result from
outsourcing of primary activities may enable an organization to be a world-class performer for a whole suite of products and services where it could only be an average performer by itself. This strategy results in a so-called virtual organization where primary functions are outsourced to multiple vendors under one agreement. Together the suppliers perform an integrated set of services (Schonberger, 2011).

5.3.2 Effect of Outsourcing Accounting Activities on Performance of Small and Medium Enterprises
This study found that there exists a positive significant relationship between outsourcing of accounting activities and performance of SME’s. All constructs of outsourcing accounting activities including financial reporting and tax processing was significant. In agreement with the findings, Herrera (2015) argued that there is existence of a significant relationship between outsourcing accounting activities and performance of SME’s. In the case of tax processing, Herrera (2015) argued that its very nature relies on interactions to achieve results, as such, the management of processes and activities must be streamlined to SME’s strategic purposes and goals for them to achieve desired results. These findings were further supported by Kamita, & Oluoch (2018) whose study on the effect of outsourcing of accounting services on quality of financial reporting among small micro enterprises found out that there was a significant relationship between outsourced accounting services and quality of financial reporting. According to Jiang et al., (2006), profitability of the firm can be enhanced by outsourcing in several ways, including: (1) employment, (2) capabilities, (3) facilities and (4) payroll. For instance, as outsourcing increases, costs will shrink, and investment in facilities, and manpower can be reduced.

The findings of this study show that (88%) of SME’s respondents noted that outsourcing accounting activities was essential for organizational productivity that was critical for formulating and enhancing organizational competitive advantage. Kamyabi & Devi (2011) found out that asset specificity, trust and degree of competition are key factors influencing outsourcing decision. It further emerged that the outsourcing intensity is significantly and positively associated with SME performance. Regression analysis further revealed that outsourcing intensity fully mediates the relationship between trust and firm performance and
partially mediates the relationship between degree of competition and firm performance, but it does not mediate the relationship between asset specificity and firm performance. In yet another study, Davenport (1993) noted that outsourcing accounting activities enhances the day to day business of an organization, helping to create viable organizational vision; examining and reviewing the existing process and designing new process that have impact on organizational competitive advantage.

Similarly, Al-Ansari et al., (2013) noted that outsourcing accounting activities is a powerful tool that SME’s can use to enhance their competitiveness in the market place. Accurate and real-time information on process performance is a prerequisite for effectiveness in organizational performance, therefore, one of the primary objectives of organizations is to ensure that outsourcing accounting activities generates enough edge over competitors that enhances organizations competitive advantage. These findings agree with Howard (2014) that organizations must look towards outsourcing their accounting activities processes. The opportunities for cost savings and partnerships improvements can be enormous as the impact on margins and bottom line is considerable.

There are however, potential pitfalls or divergent opinions when outsourcing accounting activities for strategic reasons. Organizations may “give away the crown jewels” if they are not careful (Shapiro, 2009). IBM is used as a frequent example of a company that outsourced the “wrong” things (the operating system). If organizations outsource the wrong functions, they may develop gaps in their learning or knowledge base which may preclude them from future opportunities (Watson, 2010).

According to Wisner (2011) in highly integrated and evolutionary technologies, applying the traditional core competence tests may result in outsourcing too many or the wrong functions. Because organizations are sometimes perceived as inefficient and bureaucratic, managers may promote outsourcing accounting ideas, to demonstrate their willingness to make positive changes in the organization. Strickland (2013) finds that managers in organizations generally realize an accountability improvement in the accounting function when it is outsourced.
However, the managers also believe that there is a simultaneous decline in accountability to the shareholders (Rotich, 2011).

5.3.3 Effect of Outsourcing Support Services on Performance of Small and Medium Enterprises

The findings of this study have revealed the existence of a significant relationship between outsourcing support services and performance of SME’s. All the components of outsourcing support services including training, transportation and IT services/system were significant. This finding confirms studies conducted by Kjellberg et al., (2015) and Karlsson and Tavassoli (2016) that revealed the existence of a significant relationship between outsourcing support services and performance of SME’s. Similarly, Agburu, Anza & Iyortsuun, (2017) found out that outsourcing of supporting activities such as shipping, IT services/system, training, advertising, legal services, transport services, public relations has a significant effect on organizational profitability of SMEs.

In their study, Siti, Liew & Kadri (2018) established that transportation facilities, financial strength, and labor force skills have a significant and positive relationship with business performance. Further, Akinyele, Akinyele & Ajagunna (2016) found out that there was a significant positive correlation between infrastructures and SME performance. This implies that infrastructures play a huge role in ensuring the successful business operation of SMEs.

Kjellberg et al., (2015) had indicated that outsourcing support services leads to higher levels of performance through spurring higher levels of service innovativeness. However, studies by Ozkaya et al., (2017) had disputed these findings by arguing that the former failed to distinguish between customer and competitor orientation within markets, and therefore, the level of significance in their study was extremely general.

The findings of this study revealed that (95%) of SME’s respondents agreed that outsourcing support services was key in enhancing service and product quality in the market, and thus enhancing SME’s position within a given market. Thus, when investigating the impact of outsourcing support services on competitiveness, it is important that one examines both the
product and the support orientation within that market (Boso, Cadogan & Story, 2013). Mueller et al., (2016) had argued that outsourcing support services is usually incremental and focuses purely on existing customers within a given market by building their knowledge, refining their skills, and hoping that through this action, they will enhance customer satisfaction and resultant market share competitiveness. These findings imply that through outsourcing support services, SME’s can improve competitive positioning, gain entry to new dynamic, technology driven markets, supplement critical skills and share the risk (Davila, 2015).

According to Kinyanjui (2010) in his divergent opinion, organizations may outsource support activities for cost related reasons, there are no guarantees that expected savings will be realized. There is increasing evidence that cost savings have been overestimated and costs are sometimes higher after outsourcing support activities (Brigham & Gapenski, 2013).

In addition to not realizing the costs that originally drove the outsourcing of support activities initiative, there are also some additional indirect and social costs that may be incurred (Agus & Noor, 2010). Indirect costs may include contract monitoring and oversight, contract generation, intangibles, and transition costs. Further the social costs are not necessarily limited to the organization. Wisner et al., (2011) study suggests that the education and skill level of a whole class of workers may be declining due to outsourcing of support activities. All these issues notwithstanding there are vital benefits realized from outsourcing support activities which cannot be under estimated (Talluri, 2012).

5.4 Conclusions
5.4.1 Effect of Outsourcing Primary Activities on Performance of Small and Medium Enterprises
This study found that there exists a significant relationship between outsourcing primary activities and performance of SME’s. Therefore, the study concludes that outsourcing primary activities has significant impact on performance of SME’s. Outsourcing primary activities contributes directly and positively to how manufacturing, warehousing and
customer service find value and significance, which at the end of the day, enhances their productivity, and competitiveness in the market place.

5.4.2 Effect of Outsourcing Accounting Activities on Performance of Small and Medium Enterprises
This study found that there exists a positive significant relationship between outsourcing accounting activities and performance of SME’s. Therefore, the study concludes that all components of outsourcing accounting activities including financial reporting and tax processing effect on performance of SME’s was significant. Outsourcing accounting activities provided SME’s under this study with the opportunity and ability to design systems that competed effectively at the market place and thus enhancing organizations competitive advantage.

5.4.3 Effect of Outsourcing Support Services on Performance of Small and Medium Enterprises
The findings of this study have revealed the existence of a significant relationship between outsourcing support services and performance of SME’s. Therefore, the study concludes that all components of outsourcing support services including transportation, training and IT services/system were significant. Outsourcing support services provides SME’s with the opportunity to enhance their performance through increase in market share and product differentiation to the market.

5.5 Recommendations
5.5.1 Recommendations for Improvement
5.5.1.1 Effect of Outsourcing Primary Activities on Performance of Small and Medium Enterprises
Since the findings of this study revealed a significant relationship between outsourcing primary activities and performance of SME’s, the study recommends that management in SME’s should inculcate the adoption of outsourcing manufacturing but also put mechanisms in place to enhance more customer service. This should include giving warehouses enough space to through outsourcing partners. In addition, there is need to have SME’s to set aside a
budget that will be used exclusively for primary activities innovation. This will not only enhance the SME’s ability to compete with other SME’s, but also the ability to remain sustainable in the long term. There is also need for innovation in outsourcing primary activities as a way of the SME’s setting themselves apart from the rest.

5.5.1.2 Effect of Outsourcing Accounting Activities on Performance of Small and Medium Enterprises
Since this study revealed a significant relationship between outsourcing accounting activities and the performance of SME’s, this study recommends that management in SME’s should ensure that outsourcing accounting activities are conducted in a manner that enhances competitive advantage. This should include ensuring that outsourcing accounting activities processes are designed in a manner that enhances organizations strategic goals and objectives. There is need to ensure that employees and customers are involved in all outsourcing accounting activities. Lack of employee involvement can be detrimental to the success of the outsourcing accounting activities and thus hinder competitiveness. There is also need to ensure that outsourcing accounting activities is pegged to organizations vision for future competitiveness of the SME’s.

5.5.1.3 Effect of Outsourcing Support Services on Performance of Small and Medium Enterprises
The ability of an SME to remain relevant in the highly competitive and rapidly changing environment mean that SME’s should develop strategies for enhancing competitive advantage. Some of these strategies should include influencing policy on support services outsourcing in the SME’s sector. Other strategies should include use of third-party logistics providers to enhance outreach to those in areas that do have infrastructure challenges. This will ensure a wider reach of clients, and thus enlarge their market share. In situations where the SME’s do not have infrastructural capacity platforms, there is need for banks to strategically partner with other competent companies that offer the facilities. This will ensure that customers’ access is easier and thus, enhance customer royalty that is essential for competitive advantage and performance of SME’s.
5.6 Recommendations for Further Studies

The study is a milestone for further research in the field of performance of SME’s in Africa and particularly in Kenya. The findings demonstrated the important strategic outsourcing issues to performance of SME’s to include; outsourcing primary activities, outsourcing accounting activities and outsourcing support services. The current study obtained an $R^2$ of 69.3% and should therefore be expanded further in future in order to include other strategic outsourcing strategies that may as well have a positive significance to performance of SME’s. Existing literature indicates that as a future avenue of research, there is need to undertake similar research in other institutions and private sector organizations in Kenya and other countries in order to establish whether the explored strategic outsourcing herein can be generalized to affect performance in other institutions.
REFERENCES


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APPENDICES

Appendix I: Introduction Letter

Dear Respondent,

I am a student pursuing Master of Business course at United States International University. I am conducting a research on the impact of strategic outsourcing of services on performance of Small and Medium Enterprises within Nairobi County in Kenya. Kindly assist by taking a few minutes of your time to answer my questionnaire about your personal experience with the outsourcing and how it affects performance.

Your opinion will be highly appreciated. Thank you for your anticipated cooperation.

Yours Faithfully,

Brian Kairu Mwangi (ID 656643)
Appendix II: Respondents Letter of Consent

Dear Researcher,

**RE: RESEARCH REQUEST**
The above matter refers.

Your request for information from various respondents has been granted by the association of Small and Medium Enterprises in Kenya with regard to your research on the impact of strategic outsourcing of services on performance of Small and Medium Enterprises within Nairobi County in Kenya.

We look forward to providing you with all the information you need.

Yours Faithfully,

Secretary General
Appendix III: Questionnaire

This questionnaire has been set in relation to the objectives of the study. All the questions relate to the impact of strategic outsourcing of services on performance of small and medium enterprises within Nairobi County in Kenya. Kindly read the questions carefully and answer them as honestly as possible by ticking (✓), rating, specifying or writing the correct answers precisely on the spaces provided.

SECTION 1: RESPONDENT’S INFORMATION

1. Size of the Small and Medium Enterprise
   Small [ ] Medium [ ]

2. Category of the Small and Medium Enterprise
   Manufacturing [ ] Trade [ ] Services [ ]

3. Gender (Please tick in the appropriate box)
   Male [ ] Female [ ]

4. What is your age? (Please tick in the appropriate box)
   31-40 [ ] 41-50 [ ] 50 and above [ ]

5. What is your level of education? (Please tick in the appropriate box)
   Diploma level [ ] Degree level [ ] Master level [ ]

6. Number of years served in your current office
   3-5 [ ] 6-8 [ ] 9 and above [ ]
SECTION 2: Primary Activities Outsourcing

7. In your opinion, what can you rate as the major 3 challenges facing implementation of primary activities outsourcing in the enterprise?
   a) _______________________________________________________________________
   b) _______________________________________________________________________
   c) _______________________________________________________________________

8. In your own view, indicate the extent to which implementation of primary activities outsourcing in the department influences performance of your enterprise?
   a) Very Great Extent
   b) Great Extent
   c) Moderate Extent
   d) Little Extent
   e) Not at All

9. Please indicate the extent to which you agree or disagree with the following statements. (Please Tick 1 for “Strongly Disagree”, 2 for “Disagree”, 3 for neutral”, 4 for “Agree” and 5 for “Strongly Agree”).
To establish the effect of primary activities outsourcing on performance of Small and Medium Enterprises within Nairobi County, Kenya.

<table>
<thead>
<tr>
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<tr>
<td>b) Outsourcing warehousing plays a significant role in cost reductions</td>
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<tr>
<td>c) Outsourcing customer service plays a significant role in cost reductions</td>
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<tr>
<td>d) Outsourcing manufacturing plays a significant role in improving market share</td>
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<tr>
<td>f)</td>
<td>Outsourcing customer service plays a significant role in improving market share</td>
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<td>h)</td>
<td>Outsourcing warehousing plays a significant role in increasing profitability</td>
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<tr>
<td>i)</td>
<td>Outsourcing customer service plays a significant role in increasing profitability</td>
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</table>
SECTION 3: Accounting Activities Outsourcing

10. In your opinion, what can you rate as the major 3 challenges hindering effective implementation of accounting activities outsourcing in the enterprise?
   a) ____________________________________________________________
   b) ____________________________________________________________
   c) ____________________________________________________________

11. In your own view, indicate to what extent accounting activities outsourcing influences performance of your enterprise?
   a) Very Great Extent
   b) Great Extent
   c) Moderate Extent
   d) Little Extent
   e) Not at All

12. Please indicate the extent to which you agree or disagree with the following statements. (Please Tick 1 for “Strongly Disagree”, 2 for “Disagree”, 3 for neutral”, 4 for “Agree” and 5 for “Strongly Agree”).

   To establish the effect of accounting activities outsourcing on the performance of Small and Medium Enterprises within Nairobi County, Kenya.

<table>
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<tr>
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<td>b) Outsourcing tax processing plays a significant role in cost reductions</td>
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<td>c) Outsourcing financial reporting plays a significant role in improving market share</td>
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<td>d) Outsourcing tax processing plays a significant role in improving market share</td>
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<td>e)</td>
<td>Outsourcing financial reporting plays a significant role in increasing profitability</td>
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<td>f)</td>
<td>Outsourcing tax processing plays a significant role in increasing profitability</td>
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</tbody>
</table>
SECTION 4: Support Services Outsourcing

13. In your opinion, what can you rate as the major 3 challenges facing the implementation of the support services outsourcing in the enterprise?
   a) _________________________________
   b) _________________________________
   c) _________________________________

14. In your own view, indicate to what extent does the implementation of support services outsourcing influence performance of your enterprise?
   a) Very Great Extent
   b) Great Extent
   c) Moderate Extent
   d) Little Extent
   e) Not at All

15. Please indicate the extent to which you agree or disagree with the following statements. (Please Tick 1 for “Strongly Disagree”, 2 for “Disagree”, 3 for neutral”, 4 for “Agree” and 5 for “Strongly Agree”).

To establish the effect of support services outsourcing to the performance of Small and Medium Enterprises within Nairobi County, Kenya.

<table>
<thead>
<tr>
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<th>2</th>
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<tbody>
<tr>
<td>a) Outsourcing IT services/system plays a significant role in cost reductions</td>
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<td>b) Outsourcing training services plays a significant role in cost reductions</td>
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<td>c) Outsourcing transportation plays a significant role in cost reductions</td>
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<td>d) Outsourcing IT services/system plays a significant role in improving market share</td>
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<td>f)</td>
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<td>i)</td>
<td>Outsourcing transportation plays a significant role in increasing profitability</td>
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</table>
SECTION 6: Performance of Small and Medium Enterprises

(Please indicate by ticking the margin of reduction in cost over the last five years)

16. Cost Reduction

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Cost Reduction ‘000’</td>
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<td>More than 8000</td>
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(Please indicate by ticking the margin of market share improvement as indicated by external indices over the last five years)

17. Market Share

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Percentage (%)</td>
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<td>00-10</td>
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<td>10-20</td>
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<td>20-30</td>
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<td>Over 40</td>
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(Please indicate by ticking the margin of profitability increase over the last five years)

18. Profitability

<table>
<thead>
<tr>
<th>Category</th>
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<th>2016</th>
<th>2017</th>
<th>2018</th>
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<td>Percentage (%)</td>
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<td>More than 40</td>
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</table>

THANK YOU FOR YOUR TIME
Appendix IV: IRB and NACOSTI Permit Letters

This is to certify that Mr. Brian Mwungi of United States International University has been licensed to conduct research in Nairobi on the topic: Impact of Strategic Outsourcing of Services on Performance of Small and Medium Enterprises in Nairobi for the period ending: 05/August/2020.

License No: NACOSTI/P/19/41

Applicant Identification Number: 237444

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TO WHOM IT MAY CONCERN.

25TH JUNE, 2019

Dear Sir/Madam,

REF: PERMISSION TO CONDUCT RESEARCH – BRIAN KAIRU MWANGI
STUDENT ID. NO. 656643

The bearer of this letter is a student of United States International University (USIU) -Africa pursuing a Master of Business Administration-Strategic Management.

As part of the program, the student is required to undertake a dissertation on the "Impact of Strategic Outsourcing of Services on Performance of Small and Medium Enterprises in Nairobi County in Kenya," which requires him to collect data.

Please note that information provided will be treated with utmost confidentiality and will only be used for academic purposes.

Kindly assist the student get the appropriate data and should you have any queries contact the undersigned.

Yours Sincerely,

[Signature]

Prof. Amos Njuguna,
Dean – School of Graduate Studies, Research and Extension
Tel: 730 116 442
Email: amnjuguna@usi.ac.ke