EFFECTS OF OUTSOURCING AS A STRATEGY TO
GENERATE COMPETITIVE ADVANTAGE IN TRANSPORT
AND LOGISTICS INDUSTRY: A CASE OF DAMCO KENYA
LIMITED

BY

PRESCOTT BUTOYI MUHONZA

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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

SPRING 2017
STUDENT’S DECLARATION

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

Signed: ___________________________    Date: ___________________________

Prescott Butoyi Muhonza (ID: 645360)

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

Signed: ___________________________    Date: ___________________________

Fred O. Newa

Signed: ___________________________    Date: ___________________________

Dean, Chandaria School of Business
The general objective of this study was to investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary in a multinational company: a case of Damco Kenya Limited. The specific objectives of the study was to investigate the source of outsourcing decision in a multinational subsidiary (parent company or subsidiary decision), to investigate factors that educated or led the choice of outsourcer Company (outsourced locally or internationally), and to investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary.

The research design selected for this study was a descriptive research. Descriptive design tends to identify and explain association between variables. The target population is all the employees of Damco who are estimated to be in total about 94 in the company. To attain the most appropriate sample size, this study used two approaches: the stratified simple and within the strata, random sampling technique for respondents based on managerial level and convenience/purposive sampling especially for senior level managers based on ease of access. The researcher purposively targeted 35% of the population across the strata resulting into sample of 35 respondents.

An analysis of the first objective revealed that majority of respondents believed that the decision to outsource was largely made by the parent company. On the other hand, over three quarter of staff believed that top level managers were responsible for making the outsourcing decision. The study also revealed that majority of respondents agreed that outsourcing frees time for organization to focus on core business. Most of the respondents agreed that the reason behind outsourcing was to improve quality, offer wider experience, and knowledge.

An analysis of the second objective established that most of the respondents were not sure on whether outsourcing purchase reduces cost of operation, cost of operation seen to be lower when outsourced to professionals, outsourcing of some department functions reduces cost of operation or outsourcing contributed to the performance of the organization. Based on the outcome of the survey majority agreed that the 75% of the criteria used in the selection was level of professionalism, to manage complexity, increase efficiency, in order to focus on core business and for cost consideration and to reduce work load. When it comes to choosing an outsourcing partner, majority agreed that the firm looked at the ease of communication, domain experience/ product knowledge, infrastructure available in vendor.
Analysis of the third objective revealed that that outsourcing has benefited the company however, most experiences indifference on whether the firm enjoys significant competitive advantage in outsourcing, outsourcing strategy enhanced profitability, employee efficiency and effectiveness is satisfactory, the business turnover was satisfactory or the firm has had a significant increase in corporate revenue.

The study concluded that the ultimate decision to outsource are largely made by the parent company and the decision to do so is a privilege offered to top level managers. The decision is made to improve quality, offer wider experience, and knowledge. It was also concluded that the factors that determine the choice to outsourcing company include level of professionalism, the ability if the firm to manage complexity as well as increase efficiency by focusing on core business and to minimize work load. To increase efficiency most firms outsource general accounting and purchase to pay processes. From the study it can be inferred that outsourcing has benefited the firm. It is evident that outsourcing not only delivers expertise to the firm, but also offers the firm the opportunity to focus on its key competencies.

It was recommended that as far as outsourcing decisions are performed by the top level managers they need to take due diligence before making the decision. Firms should also undertake outsourcing whenever possible in order to focus on core business. It was also recommended that firms need to undertake cost and benefit analysis of outsourcing to the performance of the organization before taking up the contract. Lastly, to attain competitive advantage organizations need to outsource in order to delivers expertise and let the institution to focus on key competencies, improve on organizational structure, and organizations performance.

For further studies, there is a need to undertake a study to establish the challenges that the organization encounters when implementing outsourcing strategies. There is also a need to undertake a similar study in other firms in the sector in order to be able to generalize the findings.
ACKNOWLEDGEMENT

I first and foremost wish to acknowledge the undivided and unwavering input of my supervisor Dr. Fred O. Newa who guided me in every step of the way throughout the project progress to completion. He was always available and ready to comment and suggest options which proved insightful towards making this project very enjoyable and interesting to undertake.

I would also like to acknowledge my immediate and extended family for being the inspiration and allowing me time and space to study and complete my studies with ease.

I finally wish to acknowledge all my friends, comrades at USIU-A, respondents at Damco Kenya Limited and colleagues who encouraged and advised me at various times in pursuit of my postgraduate studies.
DEDICATION

I most gratefully dedicate this work to the Lord Almighty without whom this would never have been possible. Thank you Lord!

I wish to also dedicate this project to my late father Mr. Ernest Sogwe Muhonza for constantly following up on my educational progress and ensuring this postgraduate degree became a reality. You are a great inspiration dad!
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Effects of globalization, increased competition, the emergence of new technologies and the push by consumers for increased value has forced firms to try creating value from limited resources. Businesses in the market place are forced to become more efficient in resource utilization, accentuating on the leaner organization and endlessly innovative new procedures to stay ahead of competitors (Troacă & Bodislav, 2012).

While an abundance of resources are important in shaping output, scholars have presented contrasting views on it. According to Serravallo (2015), scholars suggest that more abundant resources are a prerequisite to creative action by the direct effect of providing individuals with what they need for creative action and through the symbolic effect of demonstrating an organization's commitment to a project. On the other hand, Duening & Click, (2005) argue that limited resources foster creativity through enhancing task challenge.

This pressing demand for resources is a motivator to source out work because there are others who can perform the same tasks more cost effectively, faster and better albeit to create a competitive advantage over rival firms (Power, Bonifazi, & Desouza, 2006). According to Vagadia, (2012), a strategy employed by organizations to develop competitive advantage in the face of resource constraints is outsourcing. Organizations use outsourcing to drive efficiency, deliver compliance, reduce costs, standardize processes, automate processes and transform fixed costs to variable costs.

Competitive Advantage represents that particular know-how that is hard for competition to imitate (Salunke & Jay, 2014). It is the capacity to stay ahead of the potential or present competition. As a result, superior performance reached through the competitive advantage may ensure market leadership. It also offers the understanding which resources held by the firm and business strategy can have profound effects on generating competitive advantage (International Monetary Fund, 2012). Vagadia (2012) views the business strategy as an apparatus for manipulating the resources to develop a competitive advantage. Therefore, he argues that the viable business strategy will not be adequate unless it owns control over the unique resources in a manner which develops desired unique advantage.
In the transport and logistics industry, competitive advantage is delivered through a seamless integration of inputs and outputs, minimized downtime and obstacles to get cargo to required destination almost effortlessly (Blumberg, Cooper, & Schindler, 2014). Proper planning is essential to success in the logistics and transport industry. Using supply chain intelligence to know what to plan for defines competitive advantage (Amos, 2012).

Outsourcing or a shift of activities performed by a company to its suppliers has become widespread. It is defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Serravallo, (2015) defines outsourcing as turning over to a supplier, those activities outside the organizations chosen core competencies. Outsourcing is the act of moving some of an organization’s internal activities, decisions and responsibilities to outside provider(s) (Wachira, Brookes, & Haines, 2016). Other terms used for outsourcing include "Business Process Outsourcing (BPO), contracting, offshoring and contract manufacturing (Mohiuddin & Su, 2013). Outsourcing is also described as turning over functions performed in-house to a third party organization whose overall operation is in the provision of the service.

This strategic choice has become increasingly available not only to large corporations and multinationals but also to smaller ones and public sector organizations (Drahokoupil, 2015). This is motivated by either strategic or tactical reasons. Outsourcing is tactical if it is driven by the desire to solve the practical problem, perform routine tasks or reduce work load. For example business processes such as payroll management, tax returns compilation, accounting services, cheques processing, human resource management (Mohanty & Gahan, 2015). The firm concludes that even though the staff is capable, there is better utilization of the person’s effort to deliver value than performing routine tasks (Power et al., 2006). The company outsources these processes and then ends up with all the work done in time and at a considerable lower cost. The consequence of this is a net increase in operational efficiency. Other areas that the firm would outsource include IT infrastructure.

Additionally, outsourcing may be considered tactical if the organization has sought to outsource functions which are considered non-core to the business such as finance, customer service, human resources and supply chain and left only core activities to be conducted in the organization (Hirschheim, Heinzl, & Dibbern, 2014). The aim of such a move is to seek to deliver significant value to organizations by creating access to best in class technologies and
reducing costs of operations (Maku & Iravo, 2013). On the flip side, though, outsourcing is widely criticized in developing countries for allegedly reducing job opportunities, missing scale economy, reducing innovation potentialities and creating various social problems (Mohiuddin & Su, 2013).

On the other hand, Drahokoupil, (2015) states that Strategic Outsourcing is not driven via problem-solving mentality. It is structured so that this is aligned with company's long-term plans. The changes which firms expect from strategic outsourcing differ and may include anything from acquiring dramatic increase in share price; acquiring gain in competitive advantage; spending more time on those deeds which are truly central to success of the firm, and repositioning the firm in marketplace. In strategic outsourcing, the most favorable relationship typically approaches joint venture/ strategic alliance-type arrangement. Consequently, the traditional client-supplier association is typically inadequate for strategic outsourcing since it fails to permit the parties to address essential business requirements and considerations (Vagadia, 2012). A structure which approaches partnership-like arrangement where the firm which is outsourcing and service provider perceive each other as equals occupied in common enterprise–tries to permit the service provider to convey greater value during arrangement.

However, it is not a simple course to chart for most large firms. What will distinguish an outsourcing arrangement from any other business agreement is a transfer of ownership of the firm's business activities (functions and processes) or the responsibility for business results flowing from these actions to the service provider (Vagadia, 2012). Therefore, in the typical outsourcing arrangement, the individuals, the technology, the equipment and the facilities (factors of production) are then transferred to a service provider that then uses these factors of production to offer services back to the firm. The individuals are often transferred to the service provider, but it is not always the case.

Outsourcing business processes saves businesses time and money by providing expertise that provide value to the supply chain processes giving the business time to focus on its product, business and customers (Amos, 2012). Because demand and supply have become international processes, short lead time is especially important for companies that operate in the international/global environment. Consequently quality of transport service affects the competitiveness of the entire supply chain (Blumberg et al., 2014). The challenge is to
achieve competitive advantage in the context of rapid and unpredictable changes of markets. Blumberg et al., (2014) claim that over the past years there has been a growing focus on service quality improvement and reduction of inventory. The highly competitive environment along with customers’ evolving demands for customized products and services has compelled companies to endlessly appraise, improve and reengineer their logistics operations. These operations have a noticeable contribution in companies’ efforts to meet customers’ expectations.

According to Vagadia (2012), the tactic is about winning, and most significant issues in any firm are to establish the winning plan in any competition in all competition. He further argues that strategy is the pattern which integrates a firm's major objectives, action sequences, and policies into the cohesive whole. He further adds that the well-formulated strategy aids a firm to allocate the resources into the viable posture and unique based on the relative internal competencies and weaknesses, anticipated changes in the environment and the contingent moves by intellectual opponents. Therefore, adding to the final consumer worth to the service or product in the type of lower prices, better services and quality since it has become a fundamental requirement in the global marketplace. Hence, outsourcing has managed to become an attractive option to take advantage of the global changes to obtain state of the art logistics competencies to meaningfully improve client services and allow focusing on the core competencies (Vagadia, 2012).

Similarly, Vagadia (2012) defines a strategy as a ploy, position, pattern, plan and perspective in a firm. Therefore, the strategy is perceived as a plan because it describes a deliberate, intended course of action the company takes. It is applied to outsmart and shed off the competitor threat, the pattern since it emerges from the stream of actions taken by the firm, the position since it shows how the firm may develop sustainable competitive advantage and perspective because it shows how the company perceives the outside globe.

Players in the Transportation and logistics industry such as Damco often requires dealing with several if not hundreds of relationships with vendors, customers, suppliers, carriers, and other admin people, shippers. A firm would outsource some functions in its organization so as to free up their team to focus on other aspects of the business, such as better procurement or allowing for more strategic collaborative relationships with suppliers (Drahokoupil, 2015). Additionally, utilizing professionals yields professional results, outsourcing service providers
would be focused on best practices and the use of the most up to date and effective transportation technology, is trained to identify mistakes or issues in the transportation footprint of a firm and to not only point those mistakes out but also proactively mitigate such issues in areas of transportation accounting, freight claims, and more. When a firm outsources transportation management, there is also more accountability yielding more professional results (Drahokoupil, 2015).

Damco Kenya Limited is a subsidiary of Damco group of companies in the transport and logistics industry and is a world leading provider of freight forwarding (both ocean and air freight), value adding services, warehousing and distribution in addition to supply chain management services worldwide (Hjordrup, 2015). The company is a global leader in container ports and shipping with a huge emphasis on emerging markets which generates about 40% of total company revenue (Hjordrup, 2015). Damco Group has a staff complement of over 11,000 employees worldwide spread in over 100 countries in 300 office locations. During the year 2014, the company netted a turnover of 3.2 billion USD, managed 2.9 million Twenty Food Equivalent units of sea freight and supply chain management volumes and air freighted 190,000 tonnes of cargo (Damco, 2015). Damco International was founded in 1977 and headquarters are in Copenhagen, Denmark. and operates as the subsidiary of Maersk Group (Damco, 2015).

1.2 Statement of the Problem

There is lots of research on outsourcing with most of the researchers focusing on domestic sourcing within the United States and Europe, outsourcing from the countries to emerging nations, much less study has focused on outsourcing relationships between firms in India and Kenya (Wachira et al., 2016). This presents a practice and research gap to be explored. Additionally, Obiageli, Uzochukwu, and Agbomma (2015) state that outsourcing services is drawing a bit of attention, it is worth understanding that there is no evidence of research that has focused on organizational growth and outsourcing strategy with particular references to the business process and outlet expansion, therefore leaving a research gap.

Since outsourcing is a developing phenomenon, it is attracting increasing consideration of researchers worldwide (Mohiuddin & Su, 2013). Thus, despite the growing awareness on outsourcing some notable gaps in practice remain.

The decision making process of companies that undertake an outsourcing strategy is a good
starting point to our research with an investigation of whether the decision is undertaken by the parent company or the subsidiary. Decision-making autonomy has attracted the attention of scholars in varied fields (de Jong, van Dut, Jindra, & Marek, 2015). Decision making autonomy is the extent to which local subsidiaries are able to make decisions without involving or interference from the parent company. Generally, to what extent can subsidiaries make significant decisions without interference and vice versa to what extent would parent companies inform and influence the decisions taken by subsidiary companies (de Jong et al., 2015). Therefore, making the decision on whether to outsource or not affects the subsidiary company. Kormanová, (2015) argues that the parents company may make decisions that will not influence better performance of the subsidiary firm. On the other hand, the subsidiary may make the decision because they understand the challenges that the encounter in order to outsource.

The decision on who to outsource some of the subsidiary functions may affect the quality and performance (Hill, Jones, & Schilling, 2013). Some of the international and local firms which compete may offer the services at different costs and quality levels. The credibility of the local and international firms will greatly influence the firm to seek their outsourcing services. Availability of necessary skills may be a valid reason for choice of company to select but outsourcing firm should maintain enough knowledge of their own processes in order to effectively manage the outsourced relationship. According to Kormanová, (2015) companies should first seek to understand their true logistics costs prior to outsourcing in order to make better decisions and build better relationships. Some companies want to off load the problems and issues associated with managing logistics operations.

Kormanová, (2015) state that organizations mistakenly believe that they can transfer the inherent problems and shift responsibility to a partner for resolution and not be involved with the detection, communication and decisions required to effectively resolve and reduce problems and performance issues. The result of this belief will manifest itself in frustration, anger, blame, and poor logistics performance (Kormanová, 2015). Desire to simply reduce headcount is another inappropriate outsourcing motivation as is the desire to simply reduce the asset base in order to achieve a short term improvement in the eyes of public investors. These results may be positive factors in the outsourcing decision but should not be the primary drivers. Outsourcing motivations will ultimately impact partner relationships and supply chain performance either positively or negatively.
When selecting a strategy of outsourcing, a company must objectively evaluate its operations relative to outsourcing options. An outsourcing evaluation team should include members from the supply chain organization, finance or accounting, and sales (Drahokoupil, 2015). The evaluation and decision should consider cost analysis, performance gap analysis, financial opportunities, and suitability of operations for outsourcing. Cost analysis should include all of the operating costs associated with operations, including those costs that will be transferred to a service partner and those that will remain with the company (Drahokoupil, 2015). The performance gap analysis should include an objective assessment of company performance, strengths, and weaknesses supported by metrics and benchmarking comparisons if necessary. Outside expertise can be very useful for performance gap analysis in order to obtain objective results (Drahokoupil, 2015). Financial opportunities assessment includes reviews of fixed to variable cost conversions, potential cost of technology upgrades, matching cost to volumes fluctuations and benefits to the balance sheet or corporate capital structure (Drahokoupil, 2015). Suitability analysis refers to objectively evaluating process details in light of the performance gaps to determine the most likely candidates for enhancement through outsourcing.

Most facility service outsourcing issues may be traced to a situation where both parties do not have a similar interest. Therefore, because of an increase in international and national regulations and the peril institution are facing risk and grow management is explicitly demanded by suppliers, states, and clients. Bradstreet and Dunn Barometer of Global Outsourcing (2000) report that between 20-25% of all the outsourcing relationships fail in a two-year period and half of the association may fail in five years because of lack of adequate plan resulting to low procurement performance (Maku & Iravo, 2013).

There are different reasons why the companies seek to outsource the non-core services. According to Lacity & Willcocks, (2013), many companies look to Business Process outsourcing to save costs and access skills to build competitive advantage. However, there is more value derived from outsourcing than cost savings and skills access. More successful companies concentrate on innovation within outsourcing rather than merely cost savings (Lacity & Willcocks, 2013). Additionally, a research of outsourcing strategy of flower companies in Kenya discovered that firms minimally practiced outsourcing but recommended that it could be applied to assist reduce the time spent in non-core services (Wachira et al., 2016). Ichoho, (2013) also argued that outsourcing the services in mobile
phone industry in Kenya especially looking at the Nokia Corporation in Kenya. She discovered that factors which influenced outsourcing in a corporation as well as industry challenges faced and benefits were accrued.

Scholars have built a striking picture about the merits of outsourcing to the extent one may imagine this is a panacea to every competitive advantage needs of the company. On the other hand, some researchers have revealed that outsourcing does not result in the company having a competitive advantage since it has its setbacks (Vagadia, 2012). Therefore, this research explored the effects of outsourcing of key services from a strategic point of view from the eyes of the company outsourcing key functions, Damco Kenya. Hence, the study sought to establish: If outsourcing is a viable venture in Kenya; and if more benefits accrue from outsourcing against the demerits.

1.3 General Objective

The general objective of this study was to investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary in a multinational company: a case of Damco Kenya Limited.

1.4 Specific Objectives

1.4.1 To investigate the source of outsourcing decision in a multinational subsidiary (parent company or subsidiary decision)

1.4.2 To investigate factors that educated or led the choice of Outsourcee Company (outsourced locally or internationally).

1.4.3 To investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary.

1.5 Importance of the Study

1.5.1 Damco Limited

This research may add to the body knowledge for Damco Limited management to understand better the factors which have resulted to outsourcing some of its functions. Thus, Damco management will be made aware of the implementation plan to make the outsourcing arrangement of strategic impact to generate competitive advantage. The Kenyan subsidiary of the company has made a strategic decision to outsource what it considers non-core part of the
business, commencing with Finance roles of Payables, Receivables Management, and Reporting and by next year to Supply Chain and Logistics.

1.5.3 Parent Co (Damco International)

Damco International offers third party logistics services globally serving a wide range of customers in its portfolio ranging from huge multinational firms to small exporters/importers and local growers in the industries such as technology, defense and government, beverages and food, personal and home care, electronics, and consumer healthcare. This study will assist the organization develop understand what strategy works in future outsourcing undertaking.

1.5.2 Policy Makers and Regulators

The study can also aid policy makers and regulators in the service industry to understand the effect of outsourcing in service sector better. The findings may also enlighten the policy makers on outsourcing. Moreover, the study may assist to unearth problems for regulators to pay attention to when enforcing and developing relevant regulations and measures aimed at defending other stakeholders and businesses from vagaries of outsourcing.

1.5.3 Business Community in transport and logistics industry

The study will offer more insight on outsourcing to firms planning to implement outsourcing as the strategy for acquiring the competitive advantage. It will enable the business community to hinge on the findings of this study to develop strategies that will be successful upon implementation and reduce failure of the outsourcing strategy.

1.5.4 Research and Academic Institutions

The research seeks to enrich the existing knowledge on the outsourcing strategy more particularly outsourcing in the service sector. As it can be seen, outsourcing is the plan which is gaining ground in many firms, and the service sector has not been left behind. As a result, this research may assist enrich theory on outsourcing in the service sector.

1.6 Scope of the Study

The research had some boundaries or delimitations. The geographical scope of the research was limited to the company located in Nairobi Kenya, which is Damco Logistics Company. Additionally, the populations to be considered for this research was limited to employees and
senior management in Damco using descriptive design, and a questionnaire was administered to collect primary data. The research was done between January and April 2017. Some foreseen limitations in this research included unwillingness of respondents to give factual and accurate information. To mitigate for this, the researcher guaranteed confidentiality and anonymity of responses. Another limitation was technical understanding of the subject matter by respondents. The researcher endeavored to avail a simplified survey tool that was easy for respondents to answer.

1.7 Definition of Terms

1.7.1 Outsource
Outsourcing is the choice taken by an organization to contract out or sell the organization's IT people, assets, and activities to a third party supplier, who in exchange offers and manages assets and services of monetary returns over the agreed period (Kern & Willcocks, 2000).

1.7.2 Competitive Advantage
Competitive advantage is the acquired advantage over rivals when a firm's profitability is greater than the average profitability of firms in its industry (Hill et al., 2013).

1.7.3 Multinational Corporation
A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories across national borders in different countries and usually have a centralized head office where they coordinate global management (David, 2014).

1.7.4 Strategic Outsourcing
It is the process that engages services of a provider to control essential tasks which could otherwise be administered by in-house personnel (Vagadia, 2012).

1.8 Chapter Summary
Chapter one provides the background information to effects of strategic outsourcing to generating competitive advantage. It has brought the general introduction of the research. It highlighted the statement of the problem, the purpose of the study and general objective as well as specific objectives. They determine the extent outsourcing strategy contributes to competitive advantage; to ascertain the benefits that accrue from the service provider to the
recipient company in generating competitive advantage; and to identify aspects that hinder implementation of the outsourcing strategy. The chapter also went ahead to demonstrate the importance of the study to various stakeholders, the scope of the study, and definition of terms. The research will look at the literature review in Chapter 2, Chapter 3 will focus on Research Methodology, chapter 4 will deal with Results and Findings of the research and finally chapter 5 will provide a discussion, conclusion and recommendation to the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter looks at literature related to strategic outsourcing. It analyzes and critiques the concept of strategic outsourcing, as discussed by various past scholars and researchers. The literature review has discussed the effects of outsourcing as a strategic tool to generating competitive advantage.

2.2 Source of Outsourcing Decision in a Multinational Subsidiary

Subsidiaries have long been part of the organizational make-up of MNC. They often serve to create tax efficiencies or expand business to broader geographic or regulated locations. Hence, over the years, as firms grew in scope and size, their structures became more intricate as subsidiaries quickly proliferated corporate landscape. Often they became part of acquisition, if the target firm came with number of legal entities hanging off its corporate chart (Lacity, Khan, & Willcocks, 2009). Therefore, in other cases, they became a means by which firms developed autonomous business divisions and units to download accountability by either geography or product line.

2.2.1 Outsourcing Decision

The outsourcing decision being a make or buy decision is done only after an investigation that compares internal production and opportunity costs with the purchase cost and assesses the best uses of accessible facilities. Najafi Tavani, Giroud, & Anderson, (2014) contends that MNCs are more and more moving away from Head Office focused operation and increasingly advancing roles to subsidiaries. This has shifted the role of subsidiaries from mere implementers of strategy to shapers of MNC strategy. However Kostova, Nell, & Hoenen, (2016) considered the agency relationship that exists between the parent company and the subsidiary and the potential for misuse of delegated responsibility. They argue that subsidiaries as agents would make decisions that only suit the subsidiary and not the parent company or the group (Kostova et al., 2016).
According to Lacity, Willcocks, & Rottman, (2008), there are various ways why firms create subsidiaries. Some are developed as means to cleanly execute business transaction with the third party such as sale of real estate or part of the business other are combined ventures which may become subsidiaries. MNCs need foreign corporations to do business through domestic incorporated entity. The bottom mark is that there can always be need to use special purpose or subsidiaries entities as the means to perform business. Technology requires playing a key role in any framework which will harmonize oversight and governance across subsidiaries. It is essential for huge firms particularly if they are MNC. Therefore, the best in class firms around the globe maintain a general database for their corporate records i.e. one system, one place to hold, store and retrieve data from This is done to enhance control over subsidiary operations by MNCs (Kostova et al., 2016). Lacity et al., (2008) add that it will become more significant as regulators look for increased reporting of subsidiary business.

In practice, when undertaking outsourcing setup, the parties may involve express wording in master agreement offering that two parent entities may ensure their involved subsidiaries submit any conflict between one another for the resolution at parent company level. Whereas the obligation in master agreement technically binds the two parent entities only, non-compliance sums to breach of accord under master agreement and subjects the breaching party to a liability of damages (Shaviya, 2013). It can incentivize parent entities to use their corporate control of the subsidiaries to make sure the subsidiaries fulfill with parent entities’ obligation.

Casale, (2001) adds that in any outsourcing arrangement, the board of directors and senior management of the financial institution retain full accountability for the outsourced activity as if the service were being performed in-house. In no case does outsourcing permit an abdication or transference of management accountability. Only the day-to-day managerial oversight is delegated to a third-party service provider. At the outset, the financial institution needs to identify the role of outsourcing given their overall business strategy and objectives (Dube & Kaplan, 2008). Management needs to develop a robust understanding of what outsourcing is capable of achieving for their organization. This analysis requires deep and honest corporate self-assessment as to core competencies, managerial strengths and relative weaknesses, and overall values and future goals of the institution. Festus & Adenike, (2011) believe that this assessment is performed at the very highest levels of management and is
integral to the institution’s strategic planning efforts. Based on this analysis, outsourcing objectives are set and specific outsourcing activities evaluated.

2.2.2 Source of Outsourcing Decision

At one extreme, decisions about outsourcing might be the responsibility of a board located at a specific affiliate—usually the “parent company”. The product features chosen by headquarters, in turn, determine the product features that will be offered by all other affiliates within the global company.

According to Amos, (2012) the decision to outsource business operations or specific accounting functions is generally the outcome of broad operational, technological, and financial issues which a business may no longer manage reasonably or in appropriate terms. Therefore, this is an attractive option for most business to outsource significant group-wide functions and operations to states where the skilled specialists are present at comparably favorable terms. In several situations apart from the cost of money involved in the outsourcing process, outsourcing often results in significant savings especially for small firms when done within the proper context and circumstances. Outsourcing is effective in the control of capital costs where it converts fixed costs into variable costs while releasing capital for investment in more productive areas of the business. This process is especially beneficial for new companies as it allows the conservation of valuable capital that could be wrongly invested in building a large and costly pool of staff.

Most comprehensive means of accession needs that both in master agreement, as well as in any associated local agreement, express wording is involved confirming parties’ intent which in case of dispute between entities of two groups of firms on whatever level, the conflict resolution clause that is featured in master agreement amid respective parent entities applies (Thompson, Gamble, & Strickland III, 2009). Shaviya, (2013) adds that it can need the inclusion of express wording in dispute resolution clause featured in master agreement clarifying that two parent entities agree to resolve any conflicts between the respective subsidiaries on chief level in accordance with agreed dispute resolution mechanism, with involved subsidiaries joining when needed (Kostova et al., 2016).
2.2.3 Sources Vs Outsourcing Decision

Outsourcing allows an outsourcing firm to place its focus on its core competencies and activities that add value without being distracted by the need to run support services. Such support services often drain time and financial resources and these would be better managed and concentrated on areas where the firm can employ its resources and competencies to acquire competitive advantage.

This focus is among the single most vital factor that led to the popularity of outsourcing during its inception. For example, payroll management was considered to be among the first and major non-core functions to be outsourced by firms (Rothberg, 2013). While payroll is essential as a business function, it is not a core competency for the business; therefore, payroll service providers are outsourced to provide this service (Rothberg, 2013). This freed up both human and financial resources and increased the focus on value adding factors of the business that distinguishes it from its competitors.

Outsourcing eliminates distractions for the outsourcing firms and provides them the opportunity to concentrate on its key competencies. This ability to focus is vital and beneficial for startups (Rothberg, 2013). Outsourcing free a firm from the tasks that are tedious and time consuming, as a result, they can focus on other activities such as sales and marketing among other activities that are at the core of the company’s growth and prosperity in the long-term.

When a group-wide processes and functions are outsourced, the client and provider typically enter to a master outsourcing agreement which sets out general applicable conditions and terms. On the contrary, Otieno, (2013) claims that a subsidiary in the client’s group can also have to enter to a separate accord with the provider or one of the subsidiaries on domestic or local level, because to either mandatory tax, local law, or other business considerations. The separate accord can offer particular conditions which apply on local level and between subsidiaries. When most local agreements have been concluded, the contract management may become intricate, particularly if the dispute arises amid the parties.

Business that attempt to conduct every operation/functions/transactions internally such as processing of payrolls, research and development (R&D), IT, and marketing just to mention a few often pay high prices for these tasks. This is because most firms if not all exempting
possibly the huge corporations do not have the cost structure or economies of scale to handle such tasks collectively in an efficient manner (Rothberg, 2013). Therefore, to ensure the efficient performance of these tasks service providers are outsourced.

Businesses carrying out their operations in-house have greater than average research and development (R&D), development, sales and marketing, and distribution expenses. Therefore, outsourcing those areas that are not integral to the company’s daily maintenance of cohesion and integration results in improved savings and operational efficiencies for the company (Rothberg, 2013). Hence, it promotes the operational efficiency and/or transactions.

Shaviya, (2013) claims that to manage the intricacy of cross-bordering outsourcing structures, the parties to master agreement must agree that their subsidiaries and group members refrain from any type of dispute resolution in a local level and instead, intensify any potential issue for resolution by and amid parent entities under master agreement. Therefore, the subsidiaries can be involved in ADR, if needed (Shaviya, 2013). When this structure is adopted, the parent entities should enforce the rule in their group of firms through using group-wide governance mechanisms.

Increased efficiency is generated in various ways that include allowing the focus on core competencies that generates more revenue; by effectively streamlining the operations of the business; and by allowing easy accessibility to the relevant documents of the country. Moreover, by saving resources; cash flow improvements; the provision of quality service; and increasing accessibility to features of technological advances (Deerwood Technologies, 2012). Finally, by ensuring better utilization of staff by professionals and other staff in an organization; reducing overhead costs; and cost saving on the benefits of employees.

2.3 Factors That Educated or Led the Choice of Outsourcee Company

Core competence is a planned factor which has attracted much consideration and is often related to the outsourcing decision. Additionally, core competence is what a firm uses to endure a competitive advantage. The second approach factor is critical knowledge. There are some functions in a firm that will not in-and-of themselves be “core” but the exceptional data or technology they generate and feed into other processes is critical. The next factor group is cost. There is some literature that proposes that most outsourcing is mainly motivated by the organization’s determination to reduce costs.
2.3.1 Choice of Outsourcee Company

Globalization and fierce competition have driven business to encompass immense economics cross-border transfers and the exchange of goods and services, knowledge and people, and different intermediate activities making global value chains. Over the past few years, scholars have examined the intricate phenomenon of off-shoring and outsourcing at firm, industry, country, and managerial level, revealing a nexus between motivation, business strategies of disintegration, dexterity and dispersion (Lacity et al., 2008). More recently, the advances in new economic realities and technology have added to multi-faceted and complex nature of subject, highlighting further avenues of research.

As a consequence, emerging research increasingly proposes that companies are outsourcing and the off-shoring outsourcing knowledge intensive activities to enhance their competitive advantage through exploiting the local expertise and talent in the host economies (Otieno, 2013). Over a period of time, theoretical scrutiny has expanded from traditional transaction cost economics and the resource-based analysis to knowledge-based theories of the company. Hence, to add to the growing scope of theoretical inquiry, the researcher have proposed to explore the functions of institutions as this strongly affects the endowment of resources, talent, skills, and knowledge. In addition government policies and institutional development influence different factors, such as industrial clusters and quality of infrastructure which are critical to outsourcing firm (Otieno, 2013).

More visible examples of the effects may be found in context of developing economies, such as China, Philippines and India, and also in the advanced economies like Ireland, Canada, and Poland. The states context offer unique chances to broaden scope of theoretical inquiry whereas offering good backgrounds for trying propositions linking to off-shoring and outsourcing. Empirical and conceptual contributions which explore the link between the company’s decision for off-shoring and outsourcing decisions from various theoretical lenses are therefore invited for the this particular problem. According to Otieno, (2013), it can help in extending academic understanding of off-shoring and outsourcing decisions of the company and can benefit in theoretical development.

2.3.2 Factors That Influence Choice

Many companies, services, and other forms of businesses depend on outsourcing processes for the facilitation of cost effective means for achieving certain ends. The primary goal of an
outsourcing vendor is meeting the needs of the client while ensuring the maintenance of similar quality of products and/or services expected by the client (Rothberg, 2013). At the same time they are required to ensure the overhead costs involved with the provision of such services is reduced.

Performing all the above mentioned tasks by a firm demands a lot of overhead such as salaries and wages, benefits and allowances, and office space among others. This is in comparison to the costs involved in outsourcing for performing the non-core functions is higher when these functions are done internally (Rothberg, 2013). For instance, a company can outsource its marketing, R&D, and IT activities and avoid moving into a bigger and more expensive facility and employing full-time employees to provide these services.

Rothberg, (2013) believes that firms outsource those tasks that could be costly when undertaken in-house. For example, IT related activities that need special training. Companies that have no staff that have this form of specialized training benefit from outsourcing the task (Rothberg, 2013). The costs of retaining the contractual services of experts are high. However, the expert complete the tasks in a more efficient compared to the task being done in-house because an in-house employee would take a longer time and hence have a greater cost implication for the firm in the long run.

Previous studies have tried to conceptualize the functions of the company and managers if it comes to process of off-shoring and outsourcing. The scope of outsourcing has evolved from transactional work to that of many core activities that has resulted to firms having porous boundaries. Amos, (2012) proposed the ‘Global Factory’ model that portrays the architecture of the company trying to attain balance between: first, externalization of non-core and internalization of the core activities; and second, contrast between local and global strategy that makes the company more flexible, resilient, and agile to external shocks. The outsourcing literature, therefore, proposes different benefits of the firm but this also identifies many obstacles, such as dealing with geographic, administrative, and physic distance between the home and host nations, and difference in time zones (Hines & Rich, n.d.). These obstacles further highlight the functions of the managers, i.e. how do the managers deal with these differences if it comes to managing global-local contrast, coordinating the network of allies and contractors, and controlling knowledge? Empirical study in the area is required to
improve one’s understanding of the intricate decisions. Quantitative and qualitative study must, hence, investigate the choice making process and its impact on outsourcing firm.

Even though outsourcing has a lot of merits like lower production cost, obtain external scarce resources, implementation of outsourcing process, and due development, firms will be faced with a lot of uncertainties and business risks. Hence, to avoid hazards of outsourcing, it is critical to fully analyze and consider its effect (Festus & Adenike, 2011). Additionally, negligence of any one could trap enterprises with risks which may not only greatly negatively impact revenue; this may even lead to loss of core competencies and control. Generally, the factors which influence outsourcing primarily have the following aspects: overall strategy of the firm, nature of business, degree of asset specificity and outsourcing vendor selection.

2.3.3 Factors Vs Choice of Outsourcee Company

Several factors innate to outsourcing give rise to potential operational, legal and reputational risks. Festus & Adenike, (2011) state that one factor is that outsourcing arrangements are binding contractual relationships with another legal entity, typically an unaffiliated third party. The duration of contracts may be fairly lengthy, often five to ten years, during which time business needs and environments can change significantly and in unanticipated ways. Consequently, there is a risk that financial institutions may be locked into agreements that reflect outdated business realities. The contractual basis of outsourcing coupled with this intrinsic business uncertainty contributes to legal risk.

Additionally, Festus & Adenike, (2011) states that another innate factor is that outsourcing almost inevitably results in changes in the financial institution’s business practices and processes, which contributes to operational risk. These changes may be required to capture economies of scale and operational efficiencies, or simply reflect a different way of doing business by the service provider. For example, operations that were performed in-house by decentralized units may be consolidated either before or as a part of the outsourcing arrangement. Consequently, business processes that were customized for individual business units or for the financial institution may now be changed and converted to a more standardized format.

Outsourcing activities in HR involves the transfer of HR activities to an outsourced center of scale. This initiates a restructuring process of the HR team that is retained in the organization
This team is able to focus on minimal HR tasks retained in the organization while the outsourced HR team focuses on the outsourced tasks hence concentration and maximization of the outcomes of HR management.

For projects and tasks that are peripheral in nature to the core business of a firm, it is nonsensible for a firm to hire and train employees for such projects. Moreover, it is illogical to shift the employees’ focus from the core competencies of business to tasks related to the peripheral projects (Rothberg, 2013). Outsourcing allows the concentration of not only financial but also human resources where they generate maximum value to the business.

Outsourcing encourages the measurement of the human resources’ value and this is through the need to deliver the service level agreements made and as a key indicators of performance that results in consumer satisfaction. This allows the firm to concentrate on its areas of competency hence generate competitive advantage.

Engagements in outsourcing may lead to situation where the outsourcing agent may become over reliant on the vendors for elements such as IT, Information Systems (IS), and needs of the business. If the vendor does not meet these needs they outsourcing firm may fail to realize the benefits of outsourcing. Through outsourcing, a firm exposes itself to increased risk of losing its internal competencies, capabilities to innovate, cross-functional skills, and processes (Otieno, 2013). Moreover, the contract between the client and the vendor should be flexible to support any possible contingencies but also maintain rigidity to protect the interests of outsourcing company as such a contract may result in loss of control (Amos, 2012). Ignoring factors such as successful rate of job completion, response time, and punctual completion of a project at the service level may lead to loss of control (Amos, 2012). Issues related to control arise from an informational gap where the two parties do not communicate hence lack a partnership that is mutually beneficial and promoting the success and interest of each other, hence likelihood of loss of control increases.

There are significant differences in the goals, motivation, and attitudes between the in-house staff and employees of the outsourced firm. These differences are, however, not universal for every organization and situation as they vary depending on the consumer size and size of the outsourcing firm both to each other and for the customers and to other customers (Amos, 2012). They will also be dependent on the nature of their relationship, for instance, if in-
house staff were transferred to the payroll of the outsourcing firm or not (Amos, 2012). The differences might also be tied to the services being provided and the skills required from internal and external staff.

Among the most vital drivers of long-term structural growth in the current market is the need to have a greater flexibility among the staff. Staffs that are more flexible are key in improving their levels of productivity and the competitiveness of a firm (Schwalbe, 2011). Outsourcing has today become a key driver in the marketplace where outsourcing specific functions result in gains in efficiency (Schwalbe, 2011). The active management of the flexible component of the workforce is vital.

Flexibility in staffing generated by outsourcing is vital for companies with seasonal and/or cyclical sales or workflow fluctuations. This is because they can access external resources when required without fulltime continuous commitment (Rothberg, 2013). For instance, during the tax season or auditing the accounting staff in a firm may be overwhelmed by the volume of work involved. Therefore, financial services can be outsourced to assist until the volume of work is back to manageable levels by the internal staff and the outsourcing services are not required (Rothberg, 2013). Moreover, the company staff can acquire knowledge by working with the outsourced staff that they can implement after the contract period with the service provider has elapsed.

Businesses today no longer focus on the outsourcing companies to simply provide help on a temporary basis, permanent placement, or executive search. They have over the last fifteen (15) years gravitated towards the concept of flexible staffing so ensure the efficient running of the firms and hence the industry has become a flexible staffing industry which is a service provided by outsourcing agencies.

A third innate risk factor is the unique concerns that arise from giving third parties access to confidential data, strategic technology applications, or the books and records of the institution. The potential for violations of confidentiality by service provider employees contributes to operational, legal and reputational risks (Otieno, 2013).

2.4 The Effects of Outsourcing as a Strategy to Generating Competitive Advantage

Achieving a competitive advantage that is sustainable has been the long-term goal for most companies and organizations for a long time. This is considered to be the “holy grail” in
business and has gained significant attention over the past few years within strategic thinking in business with the advantage sought being for the organization only (Hines & Rich, n.d.). Recently attention has been given to the supply chain as the unit for analysis instead of the entire firm. This extended enterprise of the supply chain currently perceived as the unit of competitive advantage where supply chains are competing with each other more than individual firms as is the tradition (Hines & Rich, n.d.). Other factions and scholars in the field of strategic business have made suggestions that the advantage may be gained through the development of a network of companies that is strong either via horizontal associations/consortia, close relationships in supply chain and/or joint venture agreements.

Moreover, companies, for instance those involved in distribution are today not just simple transporters of goods. As their pool of customers increases, the market field of these companies is transformed into demand chains (Capgemini, 2008). Customers hold the distributors responsible for the availability of goods in the market from the manufacturer to the final consumer. This transformation in the distribution business has pushed firms involved in the same to thinks of new ways and better ways of working (Capgemini, 2008). Consequently, the companies have expanded their services portfolio where they now also offer extra services such as designing supply chain structures for the clients; in addition, to the standard services they traditionally provide (Capgemini, 2008). Today, these companies develop or are expected to develop capabilities in their supply chain to dovetail their overall strategy in business to improve their level of profitability hence gain competitive advantage.

2.4.1 Competitive Advantage

Competitive advantage is the architecture used to describe and assess the strategy linked to the behavior of a firm. To achieve this, an investigation focusing on the value chain of a company in regards to strategic activities of the firm and their cost and role in differentiation (Festus & Adenike, 2011). Organizations outsource because of economic, strategic, and technological factors with the most vital drive economically being the anticipated reduction of costs (Festus & Adenike, 2011). Companies work towards the reduction of their overall costs especially costs related to personnel and Information Technology (IT) costs and converting most their fixed costs to variable costs (Festus & Adenike, 2011). The purpose of outsourcing according to Casale, (2001) is the reduction of and control of costs through the
exploitation of the economies of scale involved in the process and the scope provided by the outsourcing vendors.

Achieving efficiency in costs is the primary reason for outsourcing. Companies make evaluations of outsourcing to establish if it is possible to reduce the current costs of operation and if the resources saved can be reinvested in processes that are more competitive. Scholars have contended that outsourcing is among the most efficient ways of cost reduction as it increases the access of a firm to economies of scale and expertise that an outsourcing vendor can provide (Shaviya, 2013). The receivers of outsourcing contracts serve many clients, therefore, they achieve have lower unit costs compared to any single company that provides the same goods and/or services. Moreover, these outsourcing specialists have the ability to invest in better technologies and innovative practices compared to most of the outsourcing contract-granting firms (Shaviya, 2013). Decisions to outsource are often driven by the desire of the management to transform fixed costs to variable costs as aforementioned.

For example, in payroll processing, specialists in the field handle such tasks for multiple companies hence spreading the fixed costs and attaining economies of scale. These specialists, therefore, have the required focus for identifying the areas that are candidates for improvement and the knowledge required to successfully act on that awareness (Shaviya, 2013). On the other hand, firms granting contracts for outsourcing engage in different activities outside the core activities. Through the outsourcing of such activities, they can focus their resources on the firm’s core businesses where they possess unique economies of skills/knowledge (Shaviya, 2013). For instance, Continental Bank’s IT outsourcing in the United States of America. Through the reduction of the overall costs, a firm attains competitive advantage. According to (Thompson et al., 2009), outsourcing is cheaper than an in-house undertaking as the organization can operate at reduced costs hence resulting in competitive advantage.

Outsourcing can also be undertaken to improve various institutional factors, for instance, the organizational structure, management style and complementing the design of the organization and gain competitive advantage through the achievement of a unique success combination of internal capabilities with those of the outsourcing vendors (Otieno, 2013). Additionally, Otieno, (2013) outsourcing is also done to eliminate or reduce the risk and uncertainty involved in technology, improve the performance of the business, improvise and
enhance consumer services. Other benefits of outsourcing include developmental convenience and flexibility, projects implementation and upgrading, managing change, technical risk protection, and improving productivity and quality (Lacity et al., 2008). Therefore, outsourcing enables better management of the business and knowledge of the organization including the generation of superior intelligence of the business and rapid growth and innovation of better products and/or services.

Lacity et al., (2008) indicates that outsourcing is vital in the running of any back office business and that sound strategies in outsourcing start by making the assumption that any back office should be considered to be a portfolio of activities and capabilities. Some of the activities should be done internally (insourced) to guarantee present and future business advantage and flexibility while other activities should be outsourced (Lacity et al., 2008). Therefore, the firm should conduct an analysis of any of its activities that should be outsourced and those that should be insourced and the contribution of each activity in gaining competitive advantage (Lacity et al., 2008). Few back office activities differentiate the competitive positioning among external consumers; however, many of these activities may be vital the effective and efficient conduct of business operations (Lacity et al., 2008). Activities that require close attention and care are the ones that should be outsourced by firms.

2.4.2 Decision Vs Competitive Advantage

The arrangement of a function also influences the decision to outsource. Structure links to the degree the function trails a predictable pattern; a pattern that can be defined in a checklist. The more organized a function is the calmer it is for a less knowledgeable person to complete it with proper directions. A more planned function is a better candidate for outsourcing. The number of personnel impacted is probable to influence the choice to outsource a function. Therefore, the displaced employees are a sensitive subject, whether the organization’s aims are to relocate as many as conceivable or as few as possible. If a group is seeking to divest of employees, then a purpose utilizing a relatively large number of workers may be attractive for outsourcing. On the contrary, that same function can be an unlikely candidate when the organization wants to diminish the number of personnel impacted. The determination whether the amount of employees impacted has a positive and negative consequence on the outsourcing choice is made in case by case basis.
Organizations outsource for the purposes of strategy so as to acquire support during rapid changes in the business environment and also to focus on the key competencies via divestment of non-core areas (Amos, 2012). In the aspect of technology, firms outsource so as to access new and improved technology including skilled individuals in the technological field through outsourcing a specialized and professional service provider (Lacity et al., 2008). In addition, outsourcing is aimed at improving the focus of the management on the firm’s core competencies and accessing new technical skills and knowledge to augment the existing skills and knowledge and fill in any gaps (Casale, 2001). Furthermore, outsourcing helps in the concentration on the differentiation processes of a company from its competitors that produces competitive advantage as the company can place more focus on its areas of strength (Casale, 2001). Outsourcing also releases resources that can be more productively used in the company’s core business.

There is an existing link between the growth in productivity of a firm and outsourcing. Companies contract their services to supplies with the aim of streamlining the cycles of production and acquiring the benefits of specialization (Shaviya, 2013). Firms that are efficient place their resources to those activities they possess competitive advantage while they increasingly outsource other activities. The production of goods and services should be contracted out to firms that have competitive edge over the others in regard to reliability, cost, and quality of produced good and/or services (Shaviya, 2013). The contract granting outsourcing firms make assessments of the levels of productivity of the functions they can perform internally and outsource those services outsourcing vendors can provide better services. Otieno, (2013) argues that the reduction in costs because of differences in the cost of labor result in outsourcing and positive changes in labor input in terms of labor and consequently changes in the produced outputs that increases efficiency in production and profitability (Shaviya, 2013). Outsourcing, therefore, Otieno, (2013) believes results in both labor shifts and increases the differential in productivity between the contract-granting outsourcing firm and contract-receiving outsourcing firms.

Very few outsourcing projects turn out as expected and this is despite concerted by lawyers, economists, managers, and bureaucrats to transform this. This is a reflection of the risk involved in any project undertaking where contract are incomplete, the costs of the projects unknown and outputs intangible (Dube & Kaplan, 2008). When a company makes a decision
to outsource service provision, it should establish risk allocation between the two parties to the contract (the principal and the agent). A vital determinant of the success of any project is the contract design (Dube & Kaplan, 2008). The principal designs a contract that efficiently allocates risk to the agent while providing the required incentives to improve performance that is either reduction in costs or improving quality (Dube & Kaplan, 2008). Through outsourcing, companies are obligated to be increasingly responsive to the clients’ needs hence generate efficiencies that promote the institutional goals. It can reduce the labor and benefits costs, provide a single accountability source and provide predictable costs that allow the firm to use its savings on its core operations (Dube & Kaplan, 2008). Through outsourcing measures, expertise in the firm is increased through the structuring of contracts that transfer the burden of acquiring new equipment and technology to the vendor. Similarly, the organizations have the ability to introduce different levels of expertise (Dube & Kaplan, 2008). The firm can take advantage of the economies of scale attained by vendors specializing in a specific area of services hence purchase goods and/or services at reduced costs.

Outsourcing as a strategy allows companies especially the small and mid-sized companies to have access to the levels of expertise that other big and well-established companies have among their staff. For instance, in marketing, well-established and big companies have the capability of hiring and retaining the best experts in the field of marketing hence building a marketing department that is strong and top-notch a fete that the small and mid-sized firms cannot achieve (Rothberg, 2013). However, these smaller organizations can access similar expertise by outsourcing its marketing activities to a professional marketer or marketing company within the industry at a smaller budget compared to hiring an internal team for marketing. Outsourcing allows firms to access services, skills, and/or finances that allow them to equally compete with each other especially at the global level.

Another reason why researchers make efforts to figure out the effectiveness of the strategies formulated and implemented by different companies is to identify and explain the internal performance parameters which these companies use while designing their strategies. Research suggests that a firm’s strategy entails each and every element which a manager considers during the course of achieving a competitive advantage for his firm (Casale, 2001).
An organization cannot achieve a competitive advantage if it does not capitalize on its strengths and core competencies on continuous basis (Dube & Kaplan, 2008).

In every economy and organization, employment shifts take place as changes in markets, technologies and business operations take place as they may open up new opportunities or shrink the existing ones as in the case of outsourcing. Worker displacements take place in outsourcing either in form of job losses or transfers to other areas during outsourcing (Hansen, 2009). Therefore, firms seeking outsourced services should consider strategies to deal with such shocks, for example, through the creation of new opportunities for the workers whose responsibilities have been outsourced.

In strategizing resources, among many strategies, one strategy is to either build and transform the weak capability into strength in-house or outsource to achieve or maintain competitive advantage. Casale, (2001) believes that an organization chooses outsourcing strategy in order to gain a competitive advantage which is not possible to be gained through its internal capabilities, competencies, or resources. Companies that aim at starting new projects such as upgrading their IT benefit from outsourcing such services. The service provider offers their pool of resources to begin the project more quickly with minimal ramp-up time required other than learning of the specifics of the company and its undertakings (Rothberg, 2013). An attempt to manage new projects internally, on the other hand, involves several weeks, months or years of hiring and/or training of both existing and new employees to get them going to begin the new project/initiative.

Many companies have improved their planning and management capabilities tied to outsourcing, their complex options of outsourcing, value expectation, integration of services, and issues related to regulation present new risks to the outsourcing process (Rost, 2016). In addition, there is increased emphasis that is placed on internal controls, data privacy and security, and governance as increased liabilities to exposure that are related with third-party non-compliance that can occur in outsourcing (Rost, 2016). The firms are also susceptible to risks inherent in third-party relationships that are currently receiving greater scrutiny.
2.5 Chapter Summary

This chapter provided a review of literature of the subject of strategic outsourcing to develop competitive advantage expounding on the objectives outlined in the introduction. Under the study aspects concerning how outsourcing contributes to organization competitive advantage, benefits that accrue to organizations undertaking outsourcing and hindrances to successful outsourcing are discussed. The next chapter three will look into the research methodology to assist the gather data to validate our hypothesis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter provides a methodology that was used for collection, process and analyzes data used in this study. It highlighted the research approach that was used in the study that is relevant to understanding the strategy selected and the application of theory to the study. It provided an explanation of the data collection tools to be used in the study including the methods of assessing and presenting the data collected for each factor to explain the research questions in meeting the objectives of the study.

3.2 Research Design
The research design was the conceptual structure within which research is conducted. It constitutes the blueprint for the data collection, measurement, and analysis of data to facilitate for the smooth sailing of various research operations thus making the research as efficient as possible (Kothari, 2004).

The research design selected for this study was descriptive research. Descriptive design tends to identify and explain association between variables (Kothari, 2004). According to (Blumberg et al., 2014), descriptive study is undertaken to ascertain, explain and describe characteristics of variables associated with a subject population. It tries to answer questions such as who, what, when, where and how of any provided topic in its wake. In the study, the researcher sought to assess if there is a relationship between outsourcing strategy and generation of competitive advantage. The cross-sectional survey analysis technique as the researcher also sought to capture data at a particular point in time. The descriptive survey was aimed towards a conclusive analysis of the influence of outsourcing in the generation of competitive advantage. For this study, the dependent variable competitive advantage and the independent variable is outsourcing strategy implementation, cost efficiency, and management attitude to outsourcing success.
3.3 Population and Sample Design

3.3.1 Population

Population refers to a well-defined set of individuals (or objects) having some common observable characteristics that are being investigated (Mugenda & Mugenda, 2003). Target population refers to members of a real set of people, events or objects to which the study generalizes hypothetical results of the research. For this study, the target population was all the employees of Damco who were estimated to be in total about 94 in the company.

Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Population (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level Managers</td>
<td>12</td>
</tr>
<tr>
<td>Middle Level Managers</td>
<td>27</td>
</tr>
<tr>
<td>Low-Level Managers</td>
<td>55</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>94</strong></td>
</tr>
</tbody>
</table>

Source: Damco (2016)

3.3.2 Sampling Design

Sample refers to a subset in a population which represents the characteristics of the population. A researcher should be able to make inferences regarding the population parameters from the sample statistics (Saunders, Lewis, & Thornhill, 2009).

3.3.2.1 Sampling Frame

The sampling frame refers to the list from which potential respondents were drawn, also known as the working population. According to Saunders et al., (2009), a sampling frame is a comprehensive list of persons or objects where the sample is to be drawn, which should generically possess certain characteristics representative of the entire population. In this study, the sampling frame was the list of all employees obtained from the human resource department of the company.
3.3.2.2 Sampling Techniques

Sampling technique is a scientific or statistical method of selecting the sampling units which would offer the requisite estimates with their associated margins of uncertainty; this might emerge from the probe of only part (sample) and not the whole population (Saunders et al., 2009). This study used two approaches: the stratified simple and within the strata, random sampling technique for respondents based on managerial level and convenience/purposive sampling especially for senior level managers based on ease of access.

3.3.2.3 Sample Size

Sample size refers to the actual number of respondents that would be representative of the population under study (Blumberg et al., 2014). The size must be large and should bear some proportional relationship to the size of the population from which it is drawn. The criteria used to determine the sample size are the level of precision, the level of confidence, the degree of variability in the attributes under study.

According to Mugenda & Mugenda, (2003), a sample size of between 10-30% of the population was a representative sample. Therefore, for this study, the researcher was target 35% of the population across the strata as depicted below in order to achieve the threshold of at least 30%.

Table 3.2: Sample Size Distribution

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Population (N)</th>
<th>Percentage</th>
<th>Sample Size (n)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level Managers</td>
<td>12</td>
<td>35%</td>
<td>5</td>
</tr>
<tr>
<td>Middle Level Managers</td>
<td>27</td>
<td>35%</td>
<td>10</td>
</tr>
<tr>
<td>Low-Level Managers</td>
<td>55</td>
<td>35%</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL</td>
<td>94</td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>
3.4 Data Collection Method

The data collection was done using primary research. Primary data refers to data that is collected afresh and for the first time, unique to the specific research (Saunders et al., 2009). A questionnaire was a data collection instrument consisting of a series of questions and other stimuli used to gather information from respondents was used to collect the primary data. It was preferred as it had relatively low cost associated with this data collection method, was minimize interviewer bias, was give respondents time to respond to questions, and as for where some respondents were not easily approachable, the questionnaire was convenient for them. The questionnaire constituted structured or closed ended questions in which Likert scale rating questions was also be used. The questionnaire was divided into five parts: Part one for general information; part two to four covering questions based on research objectives being how outsourcing contributes to organization competitive advantage, benefits that accrue to organizations undertaking outsourcing and hindrances to successful outsourcing. The questionnaire did not require any personal information such as contact details, and the respondent was not obliged to give his name while filling in the questionnaire.

3.5 Research Procedure

The research procedure is used to describe how the researcher was gather data. It describes the detail the steps taken to permit another researcher repeat the same research for further advancement (Kothari, 2004). Randomly selected subjects were selected to pre-test the questionnaire with the objective of testing the understanding of the questions which would then be amended to ensure clarity in delivering the outcome of the study. To ensure that this is achieved, the questionnaire was administered to 2 or 3 people from the target population. The purpose of the pre-test is to validate the data collection tool. The questionnaire was checked for ambiguity, grammar and clarity of questions. It was fine-tuned and administered to sample of respondents identified earlier in the sample size. The research was conducted with the aid of a research assistant who was used to distribute and collect the questionnaires through a drop and pick process. Respondents were encouraged to participate through follow-up calls and emails to ensure high response rate.
3.6 Data Analysis Method
Coding was done at this stage by assigning numbers and symbols to categorize data that was tabulated and counted as well as editing so as to improve the quality of data for coding (Kothari, 2004). According to Saunders et al., (2009), this enables the researcher to enter data quickly with few errors.

The Questionnaire was checked for completeness and consistency prior to being processed to guarantee the information is correct. The data was thereafter coded to enable the responses be categorized into respective groups as pre-determined. Inferential or statistical analysis and descriptive analysis was used. Statistical analysis involving Pearson's Correlations and regression was used to test relationship that exists between the dependent and independent variables identified. T-test was used to test hypothesis that are being tested. The analysis was performed using the SPSS statistical computer program. Data presentation was done using tables and figures to simplify the analysis, showcase the responses and ease of comparison.

3.7 Chapter Summary
In summary, this chapter summarizes the research design that was used for this study as descriptive design. The population comprised of employees of Damco, which was the company under study. The simple random sampling technique was used to generate a sample of 30 respondents. Primary data was collected using a primary data collection tool: questionnaire. A pre-test questionnaire of the study was undertaken to assessment of relevance, effectiveness and clarity before the actual data was collected. The data was then cleaned and coded before being entered into computer software where analysis was done with the use of descriptive and inferential statistics. The analyzed output was presented in the form of tables and figures.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results of the study of the investigation on outsourcing strategies employed by Damco Kenya Limited in generating competitive advantage. The first part of the analysis considers the demographics of the population used in the study. The second part presents the findings of the source of outsourcing decision in a multinational subsidiary. The third part presents the analysis of factors that educate the choice of the outsourcing company. The forth part presents the findings of specific competitive advantages generated by the subsidiary following the decision to outsourcing some services. The chapter will conclude with a chapter summary.

4.1.1 Response Rate

Out of total of 35 questionnaires issued, 33 responses were received from Damco Kenya Limited which represents 94% response rate achievement as indicated in table 4.1. The high response rate was attributed to the good relationship created with the senior management team.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Response</td>
<td>33</td>
</tr>
<tr>
<td>Non-response</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
</tr>
</tbody>
</table>

Figure 4.1 below shows the percentage response rate by the various pre-determined management levels clusters. The study shows that there was 100% response from Top Level and Middle Level Managers and 90% response rate from Low Level Managers.
4.2 Demography

4.2.1 Age

The study sought to establish the ages of the respondents and the findings revealed that those aged between 18-30 years were 19 and represented 57.6%, while those aged between 31-40 years were 10 representing 30.3%, while those aged between 41-50 years were 4 representing 12.1% as indicated in figure 4.2. This implies that the firm has a majority of young employees who are able to steer the company into the future. There was no respondent above 50 years of age.

Figure 4.2: Age
4.2.2 Gender

The study established that at the firm had 18 female representing 54.5% while and 15 were male accounting for 45.5% of the respondents as shown in figure 4.3. This implies that the company is conscious about gender balance.

![Gender Chart]

Figure 4.3: Gender

4.2.3 Department

The findings revealed that respondents working at the account were Account were 27.3%, ICT was 15.2%, administration was 6.1 while those in other not captured in the options was the majority at 51.5% as indicated in figure 4.4.

![Department Chart]

Figure 4.4: Department
4.2.4 Level of Education

From the survey findings on education levels of the employees at Damco, 85% of the respondents have undergraduate degree and 15% had a Masters degree. None of the respondents had only secondary education as highest education level and none had a doctorate degree as shown in the Figure 4.5 below.

![Figure 4.5: Level of Education](image)

4.2.5 Marital Status

According to figure 4.6, it was established that most of the respondents were married and this represented 60.6% while those who were single were 39.4%. This implies the mature and responsible nature of the employees at the firm.

![Figure 4.6: Marital Status](image)
4.2.6 Length of Service for Employer

Figure 4.7 below shows the length of time served by different employees in the organization. From the findings, most of the respondents have worked in the organization between 1 and 5 years and between 11 and 15 years at 42% each respectively. Those who have worked in the organization for less than 1 year are 15%. No respondent had worked for the organization for over 15 years.

![Figure 4.7: Length of service in organization](image)

4.2.7 Position in the Firm

Figure 4.8 show that Top Level Management consisted of 15.2% of the respondents, middle level management constituted 30.3% while low level management had the majority at 54.5%

![Figure 4.8: Position in the Firm](image)
4.3 Outsourcing Decision in Multinational Subsidiary

4.3.1 Outsourcing Decision as a Parent or Subsidiary Decision

The research used the Likert scale to assess various parameters ranging from Strongly Disagree to Strongly Agree across 5 levels of the Likert Scale 1 to 5. This first part of the analysis sought to ascertain from the perspective of the staff as to whether the decision to outsource was made locally by local subsidiary or by parent company. As per table 4.2 below, 73% of respondents believed that the decision to outsource was largely made by the parent company.

Table 4.2: Decision to Outsource

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Parent Company</td>
<td>24</td>
</tr>
<tr>
<td>Local Subsidiary</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
</tr>
</tbody>
</table>

On the other hand, an over three quarter of staff (76%) believed that top level managers were responsible for making the outsourcing decision as per table 4.3 below.

Table 4.3: Level of Managers Who Make Outsourcing Decision

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Top Level Management</td>
<td>25</td>
</tr>
<tr>
<td>Middle Level Management</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
</tr>
</tbody>
</table>
4.3.2 Outsourcing Decision Making Issues

The study revealed that majority of respondents agreed that outsourcing frees time for organization to focus on core business (4.36), however there was uncertainty on whether conflicts that arise during outsourcing decision making (3.88), and if local subsidiary was involved in decision to outsource (3.76). In addition, most respondents neither agreed nor disagreed on whether outsourcing decision take a long time to be made (3.61), or if top management are accountable for the outsourcing activity (3.42). Respondents disagreed that the decision to outsource was easy to make (2.39) as indicated in table 4.4

Table 4.4: Descriptive on Outsourcing Decision Making Issues

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management accountable for outsourcing activity</td>
<td>3.42</td>
<td>1.226</td>
<td>.566</td>
<td>1</td>
</tr>
<tr>
<td>Decision to outsource was easy to make</td>
<td>2.39</td>
<td>.933</td>
<td>.431</td>
<td>2</td>
</tr>
<tr>
<td>Local subsidiary involved in decision to outsource</td>
<td>3.76</td>
<td>.902</td>
<td>.417</td>
<td>3</td>
</tr>
<tr>
<td>Outsourcing decisions take long</td>
<td>3.61</td>
<td>.827</td>
<td>.382</td>
<td>4</td>
</tr>
<tr>
<td>Outsourcing frees time to focus on core business</td>
<td>4.36</td>
<td>.822</td>
<td>.380</td>
<td>5</td>
</tr>
<tr>
<td>Conflict in making outsourcing decision</td>
<td>3.88</td>
<td>.650</td>
<td>.300</td>
<td>6</td>
</tr>
</tbody>
</table>

4.3.3 Level of Outsourcing

The study also sought to establish level of outsourcing performed for each of business functions. The results revealed that majority of the respondents believed that 50% of
outsourcing was done in payroll services, IT services, credit control, procurement services, general accounting services, purchase to pay process and distribution services. On the other hand, only 25% of human resource procurement was done via procurement as shown in table 4.5

Table 4.5: Level of Outsourcing

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Procurement</td>
<td>2.61</td>
<td>1.029</td>
<td>.865</td>
<td>1</td>
</tr>
<tr>
<td>Credit Control</td>
<td>3.73</td>
<td>1.353</td>
<td>.616</td>
<td>2</td>
</tr>
<tr>
<td>Purchase to Pay Process</td>
<td>3.12</td>
<td>1.431</td>
<td>.318</td>
<td>3</td>
</tr>
<tr>
<td>Procurement Services</td>
<td>3.58</td>
<td>1.714</td>
<td>.050</td>
<td>4</td>
</tr>
<tr>
<td>IT Services</td>
<td>3.70</td>
<td>1.045</td>
<td>-.145</td>
<td>5</td>
</tr>
<tr>
<td>General Accounting Services</td>
<td>3.30</td>
<td>.728</td>
<td>-.190</td>
<td>6</td>
</tr>
<tr>
<td>Distribution Services</td>
<td>3.42</td>
<td>1.521</td>
<td>-.201</td>
<td>7</td>
</tr>
<tr>
<td>Payroll Services</td>
<td>3.79</td>
<td>1.219</td>
<td>-.697</td>
<td>8</td>
</tr>
</tbody>
</table>

4.3.4 Reasons Why Company Outsourced

The reasons as to why the company would seek to outsource some services were also researched upon. As per table 4.6 below, most of the respondents agreed that the reason behind outsourcing was to improve quality (4.18), and offer wider experience and knowledge (4.18). On the other hand, there was uncertainty of the organization seeking outsourcing services to save costs, undertake cost restructuring, operationalize expertise, as a form of time zone rationalization or to enhance operational efficiency.
Table 4.6: Reasons Why Company Outsources

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Zone Rationalization</td>
<td>3.58</td>
<td>.708</td>
<td>.198</td>
<td>1</td>
</tr>
<tr>
<td>Save costs</td>
<td>3.82</td>
<td>.808</td>
<td>.069</td>
<td>2</td>
</tr>
<tr>
<td>Wider Experience and Knowledge</td>
<td>4.18</td>
<td>1.014</td>
<td>.004</td>
<td>3</td>
</tr>
<tr>
<td>Improve Quality</td>
<td>4.18</td>
<td>.808</td>
<td>-.163</td>
<td>4</td>
</tr>
<tr>
<td>Enhance Operational Efficiency</td>
<td>3.97</td>
<td>.728</td>
<td>-.174</td>
<td>5</td>
</tr>
<tr>
<td>Operational Expertise</td>
<td>3.94</td>
<td>1.029</td>
<td>-.179</td>
<td>6</td>
</tr>
<tr>
<td>Cost Restructuring</td>
<td>3.97</td>
<td>.637</td>
<td>-.186</td>
<td>7</td>
</tr>
</tbody>
</table>

4.4 Factors That Lead To Choice Of Outsourcing Company

Using the 5 point Likert scale with, factors that educate the choice of an outsourcing partner was researched upon by collecting views from respondents in Damco Kenya Limited.

4.4.1 Choice of the Outsourced Company

Respondents were asked to rate the factors that educated the choice of an outsourced partner and the results as indicated in table 4.7 show that most of the respondents were not sure on whether outsourcing purchase reduces cost of operation, cost of operation seen to be lower when outsourced to professionals, outsourcing of some department functions reduces cost of operation or outsourcing contributed to the performance of the organization.
Table 4.7: Choice of the Outsourced Company

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing of some department functions reduces cost of operation</td>
<td>3.91</td>
<td>.723</td>
<td>.133</td>
<td>1</td>
</tr>
<tr>
<td>Cost of operation seen to be lower when outsourced to professionals</td>
<td>3.33</td>
<td>1.109</td>
<td>.086</td>
<td>2</td>
</tr>
<tr>
<td>Outsourcing purchase reduces cost of operation</td>
<td>3.52</td>
<td>.626</td>
<td>-.023</td>
<td>3</td>
</tr>
<tr>
<td>Outsourcing contributes to the performance of the organization</td>
<td>3.88</td>
<td>.650</td>
<td>-.196</td>
<td>4</td>
</tr>
</tbody>
</table>

4.4.2 Criteria Used in selection of Outsourcing Partner

Based on the outcome of the survey and as displayed in Table 4.8 below, majority agreed that the 75% of the criteria used in the selection was level of professionalism (4.61), to manage complexity (4.36), increase efficiency (4.33), in order to focus on core business (4.27) and for cost consideration (4.18) and to reduce work load (4.15). Issues pertaining to the location were only considered 50% of the time (3.45).

Table 4.8: Criteria Used in selection of Outsourcing Partner

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Consideration</td>
<td>4.18</td>
<td>.727</td>
<td>.455</td>
<td>1</td>
</tr>
<tr>
<td>Increase Efficiency</td>
<td>4.33</td>
<td>.854</td>
<td>.262</td>
<td>2</td>
</tr>
<tr>
<td>Manage Complexity</td>
<td>4.36</td>
<td>.822</td>
<td>.047</td>
<td>3</td>
</tr>
<tr>
<td>Level of Professionalism</td>
<td>4.61</td>
<td>.609</td>
<td>.022</td>
<td>4</td>
</tr>
<tr>
<td>Reduce work load</td>
<td>4.15</td>
<td>.906</td>
<td>-.156</td>
<td>5</td>
</tr>
<tr>
<td>Location</td>
<td>3.45</td>
<td>1.034</td>
<td>-.364</td>
<td>6</td>
</tr>
<tr>
<td>Focus on core business</td>
<td>4.27</td>
<td>1.008</td>
<td>-.372</td>
<td>7</td>
</tr>
</tbody>
</table>
4.4.3 Localization of Services

Respondents were asked to indicate the level of localization of internationalization of various services which they were to rate as follows: 1 - Local not outsourced, 2 - Local outsourced, 3 - Not sure, 4 International not outsourced, 5 International outsourced. The results established that most respondents were not sure about the level of localization of IT services (3.85), credit control (3.78), and management structure (3.64). Some of the services that were local and outsourced were general accounting (2.82), purchase to pay process (2.50), and human resource procurement (2.48). In addition, those that were local and not outsourced were payroll services (1.88), distribution services (1.78), and procurement services (1.55) as indicated in table 4.9

Table 4.9: Localization of Services

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Services</td>
<td>3.85</td>
<td>1.202</td>
<td>.455</td>
<td>1</td>
</tr>
<tr>
<td>Distribution Services</td>
<td>1.78</td>
<td>.706</td>
<td>.455</td>
<td>1</td>
</tr>
<tr>
<td>Purchase to Pay Process</td>
<td>2.50</td>
<td>1.503</td>
<td>.262</td>
<td>3</td>
</tr>
<tr>
<td>Human Resource Procurement</td>
<td>2.48</td>
<td>1.093</td>
<td>.047</td>
<td>4</td>
</tr>
<tr>
<td>Credit Control</td>
<td>3.78</td>
<td>1.680</td>
<td>.022</td>
<td>5</td>
</tr>
<tr>
<td>Procurement Services</td>
<td>1.55</td>
<td>.564</td>
<td>.022</td>
<td>5</td>
</tr>
<tr>
<td>General Accounting</td>
<td>2.82</td>
<td>1.648</td>
<td>-.156</td>
<td>7</td>
</tr>
<tr>
<td>Management Structure</td>
<td>3.64</td>
<td>1.410</td>
<td>-.364</td>
<td>8</td>
</tr>
<tr>
<td>Payroll Services</td>
<td>1.88</td>
<td>.600</td>
<td>-.372</td>
<td>9</td>
</tr>
</tbody>
</table>

4.4.4 Factors Considered when Determining Outsourcing Partner

When it comes to choosing an outsourcing partner, majority agreed that the firm looked at the ease of communication (4.58), domain experience/ product knowledge (4.56), infrastructure available in vendor (4.27). There was uncertainty on issues surrounding
competency level of staff (3.91), cost consideration (3.75), and ease of getting travel documentation (3.53). Most respondents also disagreed that they choose a partner based on customer references (2.70).

Table 4.10: Factors that influence choice of outsourcing partner

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost consideration</td>
<td>3.75</td>
<td>.984</td>
<td>.420</td>
<td>1</td>
</tr>
<tr>
<td>Competency level of staff</td>
<td>3.91</td>
<td>1.042</td>
<td>.359</td>
<td>2</td>
</tr>
<tr>
<td>Infrastructure available in vendor</td>
<td>4.27</td>
<td>.801</td>
<td>.092</td>
<td>3</td>
</tr>
<tr>
<td>Ease of Communication</td>
<td>4.58</td>
<td>.502</td>
<td>-.164</td>
<td>4</td>
</tr>
<tr>
<td>Customer references</td>
<td>2.70</td>
<td>.918</td>
<td>-.185</td>
<td>5</td>
</tr>
<tr>
<td>Domain Experience/ Product Knowledge</td>
<td>4.56</td>
<td>.669</td>
<td>-.210</td>
<td>6</td>
</tr>
<tr>
<td>Ease of getting travel documentation</td>
<td>3.53</td>
<td>.803</td>
<td>-.317</td>
<td>7</td>
</tr>
</tbody>
</table>

4.5 Outsourcing as a Strategy to Generating Competitive Advantage
The research looked at benefits that are generated when a company implements an outsourcing strategy to generate competitive advantage in the industry. This was based on profitability and performance as indicated.

4.5.1 Descriptive on Profitability
As indicated in table 4.11, majority agreed that outsourcing has benefited the company (4.00), however most experiences indifference on whether the firm enjoys significant competitive advantage in outsourcing (3.82), outsourcing strategy enhances profitability (3.58), employee efficiency and effectiveness is satisfactory (3.52), the business turnover is satisfactory (3.36) or the firm has had a significant increase in corporate revenue (3.18). Most however disagreed that there is no challenge in managing outsourcing relationships (2.12).
Table 4.11: Descriptive on Profitability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant competitive advantage in outsourcing</td>
<td>3.82</td>
<td>.683</td>
<td>.141</td>
<td>1</td>
</tr>
<tr>
<td>Outsourcing strategy enhances profitability</td>
<td>3.58</td>
<td>.830</td>
<td>.125</td>
<td>2</td>
</tr>
<tr>
<td>Business Turnover is satisfactory</td>
<td>3.36</td>
<td>.822</td>
<td>.066</td>
<td>3</td>
</tr>
<tr>
<td>Employee efficiency and effectiveness is satisfactory</td>
<td>3.52</td>
<td>.834</td>
<td>.023</td>
<td>4</td>
</tr>
<tr>
<td>Outsourcing has benefited the company</td>
<td>4.00</td>
<td>.661</td>
<td>-.021</td>
<td>5</td>
</tr>
<tr>
<td>There is no challenge in managing outsourcing relationships</td>
<td>2.12</td>
<td>.960</td>
<td>-.130</td>
<td>6</td>
</tr>
<tr>
<td>Significant Increase in Corporate Revenue</td>
<td>3.18</td>
<td>.808</td>
<td>-.320</td>
<td>7</td>
</tr>
</tbody>
</table>

4.5.2 Performance

As per table 4.12, majority agreed that outsourcing delivers expertise to the firm (4.39), helps company focus on key competencies (4.18), helps management improve on organizational structure (4.15), and is strategic in organizations performance (4.09). However most of the respondents could not figure out if the organization has performed well with outsourcing (3.79), or if performance of organization is better than those of others in the industry (3.45) or employee morale is high in the organization (3.18).
Table 4.12: Descriptive on Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Coefficient</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing helps management improve on organizational structure</td>
<td>4.15</td>
<td>.972</td>
<td>.595</td>
<td>1</td>
</tr>
<tr>
<td>Organization has performed well with outsourcing</td>
<td>3.79</td>
<td>.781</td>
<td>.371</td>
<td>2</td>
</tr>
<tr>
<td>Outsourcing is strategic in organizations performance</td>
<td>4.09</td>
<td>.579</td>
<td>.173</td>
<td>3</td>
</tr>
<tr>
<td>Performance of Organization is better than those of others in the industry</td>
<td>3.45</td>
<td>.905</td>
<td>-.229</td>
<td>4</td>
</tr>
<tr>
<td>Outsourcing helps company focus on key competencies</td>
<td>4.18</td>
<td>.846</td>
<td>-.250</td>
<td>5</td>
</tr>
<tr>
<td>Employee morale is high in the organization</td>
<td>3.18</td>
<td>.917</td>
<td>-.366</td>
<td>6</td>
</tr>
<tr>
<td>Outsourcing delivers expertise to the firm</td>
<td>4.39</td>
<td>.998</td>
<td>-.660</td>
<td>7</td>
</tr>
</tbody>
</table>

4.6 Inferential Statistics

4.6.1 Correlation

A Pearson correlation done between (dependent variable) outsourcing decision and (independent variables) performance and profitability revealed that there was a negative correlation between outsourcing decisions and; performance (r=-0.093, P>0.05), profitability (r=-0.218, P>0.05). However, there was a positive and significant correlation between profitability and performance (r=0.711, P<0.05) as indicated in table 4.13

Table 4.13: Correlation between Outsourcing Decision, Performance, and Profitability

<table>
<thead>
<tr>
<th>Outsourcing Decision</th>
<th>Performance</th>
<th>Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.093</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.607</td>
<td>.223</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.093</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.607</td>
<td>.000</td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.218</td>
<td>.711**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.223</td>
<td>.000</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.6.2 Regression

As indicated in table 4.14, a regression analysis done between outsourcing decision, performance and profitability indicated that the R square was 0.055 and therefore 5.5% of the variations in decision making were as a result of the variations in performance and profitability.

Table 4.14: Goodness of Fit

<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>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>.235&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.055</td>
<td>-.008</td>
<td>.36228</td>
<td>.055</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), profitability, performance

The ANOVA analysis revealed an F critical value of 0.880 and the level of significance was 0.425 and therefore insignificant (P>0.05) as indicated in table 4.15

Table 4.15: ANOVA analysis

<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>Regression</td>
<td>.231</td>
<td>2</td>
<td>.115</td>
<td>.880</td>
<td>.425&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>3.937</td>
<td>30</td>
<td>.131</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.168</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: outsourcing decision
b. Predictors: (Constant), profitability, performance

As indicated in table 4.16, the research intended to establish the relationship between outsourcing decision, performance and profitability where the equation

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \]

becomes

\[ Y = 3.985 + 0.078 X_1 - 0.174 X_2 \]
Table 4.16: Coefficient of Outsourcing Decision, Performance and Profitability

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.985</td>
<td>.419</td>
<td></td>
<td>9.516</td>
</tr>
<tr>
<td>1 Performance</td>
<td>.078</td>
<td>.157</td>
<td>.126</td>
<td>.498</td>
</tr>
<tr>
<td>Profitability</td>
<td>-.174</td>
<td>.143</td>
<td>-.307</td>
<td>-1.219</td>
</tr>
</tbody>
</table>

Where Y is the dependent variable outsourcing decision

$X_1$ – Performance

$X_2$ – Profitability

The regression equation illustrated in Table 4.16 has established that taking all factors into account (performance and profitability) all other factors held constant outsourcing decisions increase by 3.985. The findings presented also showed that with all other variables held at zero, a unit change in performance would lead to a 0.078 increase in outsourcing decisions, and a unit change in profitability would lead to 0.174 decline in outsourcing decision. Performance and profitability were not significant ($p>0.05$), this implies that in the firm decisions to outsource are pushed by other factors such as to improve quality and a wider experience and knowledge and not necessarily as a result of performance and profitability.

4.7 Chapter Summary

This chapter presented the findings established from the data analysis done and this is presented in four sections with the first part bringing forth the findings from the demography and the other three sections presenting the findings based on the three specific objectives of this study. Chapter five presents the recommendations and conclusion established from the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter brings forth the discussions in line with the findings established from the data analysis done. This is done by comparison of the findings achieved to previous studies done in relation to this topic. The chapter will also make conclusions as well as recommendations for the current and future studies.

5.2 Summary
The general objective of this study was to investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary in a multinational company: a case of Damco Kenya Limited. The specific objectives of the study were to investigate the source of outsourcing decision in a multinational subsidiary (parent company or subsidiary decision), to investigate factors that educated or led the choice of Outsourcee Company (outsourced locally or internationally), and to investigate the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary.

The research design selected for this study was a descriptive research. Descriptive design tends to identify and explain association between variables. The dependent variable competitive advantage and the independent variable was outsourcing strategy implementation, cost efficiency, and management attitude to outsourcing success. The target population is all the employees of Damco who are estimated to be in total about 94 in the company. To attain the most appropriate sample size, this study used two approaches: the stratified simple and within the strata, random sampling technique for respondents based on managerial level and convenience/purposive sampling especially for senior level managers based on ease of access. The researcher purposively targeted 35% of the population across the strata resulting into sample of 35 respondents. The research design selected for this study will be descriptive research. Descriptive design tends to identify and explain association between variables.

An analysis of the first objective revealed that majority of respondents believed that the decision to outsource was largely made by the parent company. On the other hand, over three quarter of staff believed that top level managers were responsible for making the outsourcing
decision. The study also revealed that majority of respondents agreed that outsourcing frees time for organization to focus on core business, however, there was uncertainty on whether conflicts that arise during outsourcing decision making, and if local subsidiary was involved in decision to outsource. In addition, most respondents neither agreed nor disagreed on whether outsourcing decision take a long time to be made, or if top management are accountable for the outsourcing activity. Respondents disagreed that the decision to outsource was easy to make. The study also sought to establish level of outsourcing performed for each of business functions. The results revealed that majority of the respondents believed that outsourcing was done in payroll services, IT services, credit control, procurement services, general accounting services, purchase to pay process and distribution services. On the other hand, only 25% of human resource procurement was done via procurement. The reasons as to why the company would seek to outsource some services were also researched upon. Most of the respondents agreed that the reason behind outsourcing was to improve quality, offer wider experience, and knowledge. on the other hand, there was uncertainty of the organization seeking outsourcing services to save costs, undertake cost restructuring, operationalize expertise, as a form of time zone rationalization or to enhance operational efficiency.

An analysis of the second objective established that most of the respondents were not sure on whether outsourcing purchase reduces cost of operation, cost of operation seen to be lower when outsourced to professionals, outsourcing of some department functions reduces cost of operation or outsourcing contributed to the performance of the organization. Based on the outcome of the survey majority agreed that the 75% of the criteria used in the selection was level of professionalism, to manage complexity, increase efficiency, in order to focus on core business and for cost consideration and to reduce work load. Issues pertaining to the location were only considered 50% of the time. Respondents were asked to indicate the level of localization of internationalization of various services and the results established that most respondents were not sure about the level of localization of IT services, credit control, and management structure. Some of the services that were local and outsourced were general accounting, purchase to pay processes, and human resource procurement. In addition, those that were local and not outsourced were payroll services, distribution services, and procurement services.
When it comes to choosing an outsourcing partner, majority agreed that the firm looked at the ease of communication, domain experience/ product knowledge, infrastructure available in vendor. There was uncertainty on issues surrounding competency level of staff, cost consideration, and ease of getting travel documentation. Most respondents also disagreed that they choose a partner based on customer references.

Analysis of the third objective revealed that that outsourcing has benefited the company however, most experiences indifference on whether the firm enjoys significant competitive advantage in outsourcing, outsourcing strategy enhanced profitability, employee efficiency and effectiveness is satisfactory, the business turnover was satisfactory or the firm has had a significant increase in corporate revenue. Most however disagreed that there was no challenge in managing outsourcing relationships. Majority agreed that outsourcing delivers expertise to the firm, helps company focus on key competencies, helps management improve on organizational structure, and is strategic in organizations performance. However most of the respondents could not figure out if the organization has performed well with outsourcing, or if performance of organization is better than those of others in the industry or employee morale is high in the organization.

5.3 Discussion

5.3.1 Source of Outsourcing Decision in a Multinational Subsidiary

An analysis of the first objective revealed that majority of respondents believed that the decision to outsource was largely made by the parent company. Kostova, Nell, & Hoenen, (2016) considered the agency relationship that exists between the parent company and the subsidiary and the potential for misuse of delegated responsibility. They argue that subsidiaries as agents would make decisions that only suit the subsidiary and not the parent company or the group (Kostova et al., 2016). Indeed, Najafi Tavani, Giroud, & Anderson, (2014) contend that MNCs are more and more moving away from Head Office focused operation and increasingly advancing roles to subsidiaries.

On the other hand, the findings established that over three quarter of staff believed that top level managers were responsible for making the outsourcing decision. Casale, (2001) adds that in any outsourcing arrangement, the board of directors and senior management of the
financial institution retain full accountability for the outsourced activity as if the service were being performed in-house. In no case does outsourcing permit an abdication or transference of management accountability. Festus & Adenike, (2011) believe that this assessment is performed at the very highest levels of management and is integral to the institution’s strategic planning efforts. Based on this analysis, outsourcing objectives are set and specific outsourcing activities evaluated.

The study also revealed that majority of respondents agreed that outsourcing frees time for organization to focus on core business. Dube & Kaplan, (2008) noted that only the day-to-day managerial oversight is delegated to a third-party service provider. At the outset, the financial institution needs to identify the role of outsourcing given their overall business strategy and objectives. It was also noted the decision to outsource was not easy to make. Dube & Kaplan, (2008) in their study advised that management needs to develop a robust understanding of what outsourcing is capable of achieving for their organization.

The findings also established that the reason behind outsourcing was to improve quality, offer wider experience, and knowledge. According to Amos, (2012) the decision to outsource business operations or specific accounting functions is generally the outcome of broad operational, technological, and financial issues which a business may no longer manage reasonably or in appropriate terms. Therefore, this is an attractive option for most business to outsource significant group-wide functions and operations to states where the skilled specialists are present at comparably favorable terms.

On the other hand, there was uncertainty of the organization seeking outsourcing services to save costs, although this contradicts previous studies like Maku & Iravo, (2013) who noted that in several situations apart from the cost of money involved in the outsourcing process, outsourcing often results in significant savings especially for small firms when done within the proper context and circumstances. Mohiuddin & Su, (2013) also noted that outsourcing is effective in the control of capital costs where it converts fixed costs into variable costs while releasing capital for investment in more productive areas of the business. Mohiuddin & Su, (2013) further noted that this process is especially beneficial for new companies as it allows the conservation of valuable capital that could be wrongly invested in building a large and costly pool of staff.
Based on the outcome of the survey majority agreed that the 75% of the criteria used in the selection was level of professionalism, to manage complexity, increase efficiency, in order to focus on core business and for cost consideration and to reduce work load. It was also established that outsourcing was done in payroll services, IT services, credit control, procurement services, general accounting services, purchase to pay process and distribution services. Rothberg (2013) notes that while payroll is essential as a business function, it is not a core competency for the business; therefore, payroll service providers are outsourced to provide this service. This freed up both human and financial resources and increased the focus on value adding factors of the business that distinguishes it from its competitors. He further adds that outsourcing eliminates distractions for the outsourcing firms and provides them the opportunity to concentrate on its key competencies.

5.3.2 Factors That Educated or Led the Choice of Outsourcee Company

An analysis of the second objective established that most of the respondents were not sure on whether outsourcing purchase reduces cost of operation or contributed to the performance of the organization. This is in contrary to the general perspective where Lacity et al., (2008) where they noted that globally fierce competition has driven business to encompass immense economics cross-border transfers and the exchange of goods and services, knowledge and people, and different intermediate activities making global value chains. Otieno, (2013) noted that as a consequence, emerging research increasingly proposes that companies are outsourcing and the off-shoring outsourcing knowledge intensive activities to enhance their competitive advantage through exploiting the local expertise and talent in the host economies.

Based on the outcome of the survey majority agreed that the 75% of the criteria used in the selection was level of professionalism, to manage complexity, increase efficiency, in order to focus on core business and for cost consideration and to reduce work load. Rothberg, (2013) notes that many companies, services, and other forms of businesses depend on outsourcing processes for the facilitation of cost effective means for achieving certain ends. The primary goal of an outsourcing vendor is meeting the needs of the client while ensuring the maintenance of similar quality of products and/or services expected by the client. At the same time, they are required to ensure the overhead costs involved with the provision of such services are reduced.
Respondents were asked to indicate the level of localization of internationalization of various services and the results established that most respondents were not sure about the level of localization of IT services, credit control, and management structure. Engagements in outsourcing may lead to situation where the outsourcing agent may become over reliant on the vendors for elements such as IT, Information Systems (IS), and needs of the business. If the vendor does not meet these needs they outsourcing firm may fail to realize the benefits of outsourcing. Through outsourcing, a firm exposes itself to increased risk of losing its internal competencies, capabilities to innovate, cross-functional skills, and processes (Otieno, 2013). For projects and tasks that are peripheral in nature to the core business of a firm, it is non-sensible for a firm to hire and train employees for such projects. Moreover, it is illogical to shift the employees’ focus from the core competencies of business to tasks related to the peripheral projects (Rothberg, 2013). Outsourcing allows the concentration of not only financial but also human resources where they generate maximum value to the business.

Some of the services that were local and outsourced were general accounting, purchase to pay processes, and human resource procurement. Even though outsourcing has a lot of merits like lower production cost, obtain external scarce resources, implementation of outsourcing process, and due development, firms will be faced with a lot of uncertainties and business risks. Hence, to avoid hazards of outsourcing, it is critical to fully analyze and consider its effect (Festus & Adenike, 2011). Sonenshein, (2014) also narrates that negligence of any one could trap enterprises with risks which may not only greatly negatively impact revenue; this may even lead to loss of core competencies and control. Generally, the factors which influence outsourcing primarily have the following aspects: overall strategy of the firm, nature of business, degree of asset specificity and outsourcing vendor selection.

In addition, those that were local and not outsourced were payroll services, distribution services, and procurement services. Rothberg, (2013) believes that firms outsource those tasks that could be costly when undertaken in-house. For example, IT related activities that need special training. Companies that have no staff that have this form of specialized training benefit from outsourcing the task (Rothberg, 2013). The costs of retaining the contractual services of experts are high. However, the expert complete the tasks in a more efficient compared to the task being done in-house because an in-house employee would take a longer time and hence have a greater cost implication for the firm in the long run.
When it comes to choosing an outsourcing partner, majority agreed that the firm looked at the ease of communication, domain experience/ product knowledge, infrastructure available in vendor. Dickmann et al., (2008) notes that businesses today no longer focus on the outsourcing companies to simply provide help on a temporary basis, permanent placement, or executive search. They have over the last fifteen (15) years gravitated towards the concept of flexible staffing so ensure the efficient running of the firms and hence the industry has become a flexible staffing industry which is a service provided by outsourcing agencies. Additionally, Festus & Adenike, (2011) states that another innate factor is that outsourcing almost inevitably results in changes in the financial institution’s business practices and processes, which contributes to operational risk. These changes may be required to capture economies of scale and operational efficiencies, or simply reflect a different way of doing business by the service provider. Consequently, business processes that were customized for individual business units or for the financial institution may now be changed and converted to a more standardized format.

5.3.3 Effects of Outsourcing as a Strategy to Generating Competitive Advantage

The data analysis done revealed that revealed that outsourcing has benefited the company. Festus & Adenike, (2011) noted that competitive advantage is the architecture used to describe and assess the strategy linked to the behavior of a firm. To achieve this, an investigation focusing on the value chain of a company in regard to strategic activities of the firm and their cost and role in differentiation. Casale, (2001) noted that organizations outsource because of economic, strategic, and technological factors with the most vital drive economically being the anticipated reduction of costs. The purpose of outsourcing according to is the reduction of and control of costs through the exploitation of the economies of scale involved in the process and the scope provided by the outsourcing vendors.

However, most experiences indifference on whether the firm enjoys significant competitive advantage in outsourcing, outsourcing strategy enhanced profitability, employee efficiency and effectiveness is satisfactory, the business turnover was satisfactory or the firm has had a significant increase in corporate revenue. Shaviya, (2013) noted that achieving efficiency in costs is the primary reason for outsourcing. Companies make evaluations of outsourcing to establish if it is possible to reduce the current costs of operation and if the resources saved can be reinvested in processes that are more competitive. As noted by Shaviya, (2013)
scholars have contended that outsourcing is among the most efficient ways of cost reduction as it increases the access of a firm to economies of scale and expertise that an outsourcing vendor can provide. Decisions to outsource are often driven by the desire of the management to transform fixed costs to variable costs as aforementioned.

Majority agreed that outsourcing delivers expertise to the firm, helps company focus on key competencies, helps management improve on organizational structure, and is strategic in organizations performance. Firms granting contracts for outsourcing engage in different activities outside the core activities. Through the outsourcing of such activities, they can focus their resources on the firm’s core businesses where they possess unique economies of skills/knowledge (Shaviya, 2013). For instance, Continental Bank’s IT outsourcing in the United States of America. Through the reduction of the overall costs, a firm attains competitive advantage. According to Thompson et al., (2009), outsourcing is cheaper than an in-house undertaking as the organization can operate at reduced costs hence resulting in competitive advantage.

Outsourcing can also be undertaken to improve various institutional factors, for instance, the organizational structure, management style and complementing the design of the organization and gain competitive advantage through the achievement of a unique success combination of internal capabilities with those of the outsourcing vendors (Otieno, 2013). Other benefits of outsourcing include developmental convenience and flexibility, projects implementation and upgrading, managing change, technical risk protection, and improving productivity and quality (Lacity et al., 2008). Therefore, outsourcing enables better management of the business and knowledge of the organization including the generation of superior intelligence of the business and rapid growth and innovation of better products and/or services.

However most of the respondents could not figure out if the organization has performed well with outsourcing, or if performance of organization is better than those of others in the industry or employee morale is high in the organization. Shaviya, (2013) illustrated that the receivers of outsourcing contracts serve many clients; therefore, they achieve have lower unit costs compared to any single company that provides the same goods and/or services. Lacity et al., (2008) indicates that outsourcing is vital in the running of any back-office business and that sound strategies in outsourcing start by assuming that any back office should be
considered to be a portfolio of activities and capabilities. Very few outsourcing projects turn out as expected and this is despite concerted by lawyers, economists, managers, and bureaucrats to transform this (Dube & Kaplan, 2008).

5.4 Conclusion

5.4.1 Source of Outsourcing Decision in a Multinational Subsidiary

The ultimate decision to outsource is largely made by the parent company and the decision to do so is a privilege offered to top level managers. Such tasks have been employed to enable organization to focus on core business. Despite this, decision to outsource is not easily arrived at. Most of the firms use outsourcing in payroll services, IT services, credit control, procurement services, general accounting services, purchase to pay process and distribution services with very few in human resource procurement. The decision is made to improve quality, offer wider experience, and knowledge.

5.4.2 Factors That Educated or Led the Choice of Outsourcee Company

The factors that determine the choice to outsourcing company include level of professionalism, the ability if the firm to manage complexity as well as increase efficiency by focusing on core business and to minimize work load. To increase efficiency most firms outsource general accounting and purchase to pay processes. In addition, when it comes to choosing an outsourcing partner, firms look at factors such as the ease of communication, experience and capability of the firm before settling for a specific Outsourcee Company.

5.4.3 Effects of Outsourcing as A Strategy To Generating Competitive Advantage

From the study it can be inferred that outsourcing has benefited the firm, however, it is not quite clear whether the firm enjoys significant competitive advantage such as enhanced profitability, employee efficiency and improved business turnover. It is a factual that outsourcing not only delivers expertise to the firm, but also offers the firm the opportunity to focus on its key competencies, helps management improve on organizational structure, and is strategic in organizations performance.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Source of Outsourcing Decision in a Multinational Subsidiary
As far as outsourcing decisions are performed by the top-level managers they need to take
due diligence before making the decision. Firms should also undertake outsourcing whenever
possible in order to focus on core business. There is also a need to have a set timeline for the
duration taken to undertake outsourcing decision. Firms also need adopt outsourcing
whenever possible so as to not only improve quality, but also gain from wider experience,
and knowledge. On the other hand, motives for outsourcing should be clearly states whether
the organization seek to save costs, undertake cost restructuring, operationalize expertise,
time zone rationalization or enhance operational efficiency.

5.5.1.2 Factors That Educated or Led the Choice of Outsourcée Company
Firms need to undertake cost and benefit analysis of outsourcing to the performance of the
organization before taking up the contract. When it comes to choosing an outsourcing
partners there is a need for firms to analyze the profile of the outsourcée firm for experience
and product knowledge. Emphasis needs to There was uncertainty on issues surrounding
competency level of staff, cost consideration, and ease of getting travel documentation. Most
respondents also disagreed that they choose a partner based on customer references.

5.5.1.3 Effects of Outsourcing as a Strategy to Generating Competitive Advantage
To attain competitive advantage organizations need to outsource in order to delivers expertise
and let the institution to focus on key competencies, improve on organizational structure, and
organizations performance. Institutions need to undertake a regular review in order to figure
out if the organization has performed well with outsourcing, or if performance of
organization has improved compared to others in the industry.

5.5.2 Recommendations for Further Studies
The general objective of this study was to investigate the effects of outsourcing as a strategy
to generating competitive advantage to a subsidiary in a multinational company: a case of
Damco Kenya Limited with the main areas of concertation being to identify the source of
outsourcing decision, factors that educated or led the choice of Outsourcee Company, and to investigate the effects of outsourcing as a strategy to generating competitive advantage.

For further studies, there is a need to undertake a study to establish the challenges that the organization encounters when implementing outsourcing strategies. There is also a need to undertake a similar study in other firms in the sector in order to be able to generalize the findings.
REFERENCES


and Possibilities (1st ed.). Frederikberg: Copenhagen Business School. Retrieved from books.google.lt/books?id=wKFG5QNiBm8C&printsec=frontcover&hl=it&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false


APPENDIX 1: QUESTIONNAIRE

QUESTIONNAIRE FOR EMPLOYEES OF DAMCO KENYA LIMITED

Dear Respondent,

This questionnaire is intended to collect data that will help the researcher to examine into the effects of outsourcing as a strategy to generate competitive advantage in transport and logistics industry. The exercise is only meant for academic purposes in partial fulfillment of an MBA Research project. Any information you provide will be kept confidential.

There are 4 sections and will take you about 15 to 20 minutes to complete. Please give your honest opinion as freely as possible.

SECTION 1:

General information
Please complete this form with proper number or tick where necessary.

1. Age:
   a) 18 – 30 years [ ]   b) 31 – 40 years [ ]   c) 41-50 years [ ]   d) above 50 years [ ]

2. Gender:
   a) Male [ ]   b) Female [ ]

3. Department
   a) Accounts [ ]   b) ICT [ ]   c) Administration [ ]   d) other
   (Specify)....................
4. Employment status
   a) Outsourced agency staff [ ]  b) Permanent staff [ ]

5. Educational Attainment
   a) Secondary [ ]  b) Undergraduate Degree [ ]  c) Masters Degree [ ]

6. Marital Status
   a) Married [ ]  b) Single [ ]

7. How many years have you worked with Damco?
   a) Less than 1 year [ ]  b) 1-5 years [ ]  c) 6-10 years [ ]  d) 11-15 years [ ]  e) above 15 years [ ]

SECTION 2:

Investigating the source of outsourcing decision in a multinational subsidiary

1. What is your position within your organization? (tick where appropriate)
   Top-Management [ ]  Middle-Level Management [ ]
   Low-Level Management [ ]

2. According to you who do you think makes the decision to outsource in your organization? (tick where appropriate)
   Parent company [ ]  Subsidiary [ ]

3. Which level of management is concerned in making the outsourcing decision? (tick where appropriate)
   Top-Level Management [ ]  Middle-Level Management [ ]
   Low-Level Management [ ]
According to you, rate each of the following issues based on outsourcing decision making (Please ticking as appropriate)

Use rating: Strongly Agree (SA), Agree (A), Not Sure (U), Disagree (D) and Strongly Disagree (SD)

<table>
<thead>
<tr>
<th>Issue</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Outsourcing Decision take a long time to be made</td>
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<td>5. There are conflicts that arise during outsourcing decision making</td>
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<td>6. The decision to outsource was easy to make</td>
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<td>7. Local subsidiary was involved in decision to outsource</td>
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<td>8. Top management are accountable for the outsourcing activity</td>
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<td>9. Outsourcing frees time for organization to focus on core business</td>
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</table>

Rate the level of outsourcing performed for each of the following functions: (Please tick all that apply)

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<thead>
<tr>
<th>Function</th>
<th>0%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>100%</th>
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<tbody>
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<td>10. Payroll services</td>
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<td>11. IT Services</td>
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<td>12. Credit Control</td>
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<td>13. Procurement services</td>
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<td>14. General Accounting</td>
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<td>15. Purchase to Pay Process</td>
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<td>16. Distribution Services</td>
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<td>17. Human Resource Procurement</td>
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</table>
Based on your experience(s) / expert judgment, what are the reasons why the company outsources as opposed to using in-house resources (please tick as appropriate)

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<thead>
<tr>
<th></th>
<th>SA</th>
<th>A</th>
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<tbody>
<tr>
<td>18. To save costs</td>
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<td>19. Cost restructuring</td>
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<td>20. Improvements in quality</td>
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<td>21. Wider experience and knowledge</td>
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<td>22. Operational expertise</td>
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<td>23. Time zone rationalization</td>
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<td>24. Enhance operational efficiency</td>
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SECTION 3:

To investigate factors that educated or led the choice of Outsourcer Company

According to you, please rate the following statements:

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<tr>
<th></th>
<th>SA</th>
<th>A</th>
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<tbody>
<tr>
<td>1. Outsourcing of the purchase of raw materials reduces our cost of operation</td>
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<td>2. Our cost of operation is seen to be lower when we outsource our operation to professionals</td>
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<tr>
<td>3. Outsourcing of some departmental functions reduces our cost of operation</td>
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<td>4. Outsourcing contributes to the performance of the organization</td>
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</table>
Based on your experience, what are the basic criteria used to select a company to outsource services to?

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<tr>
<th>Criteria</th>
<th>0%</th>
<th>25%</th>
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<td>5. Cost consideration</td>
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<td>6. Level of professionalism</td>
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<td>7. Location</td>
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<td>8. Reduce work load</td>
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<td>9. Increase Efficiency</td>
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<td>10. Manage Complexity</td>
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<td>11. Focus on core business</td>
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</table>

In your opinion based on the company practice, please answer the following based on level of localization of various services.

Based on your understanding of company practice, indicate the level of localization of internationalization of various services. Rate as follows: 1 - Local not outsourced, 2 - local outsourced, 3 - not sure, 4 international not outsourced, 5 international outsourced (Please tick all that apply)

<table>
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<tr>
<th>Service</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>12. Payroll services</td>
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<td>16. General Accounting</td>
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<td>17. Purchase to Pay Process</td>
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</table>
According to you, what factors were considered when determining the outsourcing partner? Rate the following factors in the table below by ticking:

<table>
<thead>
<tr>
<th>Factors considered in outsourcing partner selection</th>
<th>SA</th>
<th>A</th>
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<tbody>
<tr>
<td>21. Ease of Communication</td>
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<tr>
<td>22. Domain expertise / Product knowledge</td>
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<td>23. Infrastructure available with the vendor</td>
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<td>24. Ease of getting travel documentation</td>
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<td>25. Cost consideration</td>
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<tr>
<td>26. Customer references</td>
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<tr>
<td>27. Competency level of partner company staff</td>
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SECTION 4:

Investigating the effects of outsourcing as a strategy to generating competitive advantage to a subsidiary in a multinational company: a case of Damco Kenya Limited.

Profitability

Please tick as: SA-strongly agree, A-agree, U-undecided, D-disagree, SD-strongly disagree

<table>
<thead>
<tr>
<th></th>
<th>SA</th>
<th>A</th>
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<tbody>
<tr>
<td>1. Corporate revenue has significantly increased</td>
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<td>2. Business turnover has been satisfactory</td>
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<td>3. Employee efficiency and effectiveness has been satisfactory</td>
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<td>4. Outsourcing strategies adopted by our organization enhances profitability</td>
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<td>5. Outsourcing has benefited the company</td>
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<td>6. There is significant competitive advantage in outsourcing</td>
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<td>7. There are no challenges in managing outsourcing relationships</td>
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Performance

Please tick as: SA-strongly agree, A-agree, U-undecided, D-disagree, SD-strongly disagree

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<tbody>
<tr>
<td>8. Overall, the performance of my organization is better than that of other companies in the industry</td>
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<td>9. Overall, I think my organization has performed well with outsourcing as has been expected</td>
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<td>10. Outsourcing has become more strategic in my organizations performance</td>
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<td>11. Employee morale is high in my organization</td>
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<td>12. Outsourcing helps management improve on organizational structure</td>
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<tr>
<td>13. Outsourcing helps company focus on key competencies</td>
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<td>14. Outsourcing delivers expertise to the firm</td>
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