

# **OUTSOURCING AND ORGANISATION'S PERFORMANCE IN CROWN BEVERAGES LIMITED KAMPALA CITY-UGANDA**

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A Thesis

Presented to the College of  
Higher Degrees and Research  
Kampala International University,  
Kampala- Uganda

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In partial fulfillment of the requirement for the Degree  
Of Masters in Business Administration (Procurement and Supplies)

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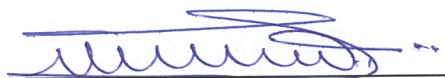
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### **DECLARATION A**

"This thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".




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## DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my/our supervision".

  
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### APPROVAL SHEET

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## **DEDICATION**

The researcher dedicates this work to the family members for their comfort during the period of writing this report.

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## **ABSTRACT**

This study established the relationship between Outsourcing and organization's performance in Crown Beverages Ltd Kampala city. Specifically, the study sought to determine (i) profile of the respondents, (ii) extent of outsourcing, (iii) level of Organization's performance, (iv) whether there was a significant relationship between Outsourcing and Organization's performance.

A descriptive correlation and descriptive comparative were used in the study; data were collected from 129 respondents using research devised questionnaire as the key data collection instruments. Data were analyzed at univariate level using frequency counts, mean, Pearson Linear Correlation Coefficient and regression analysis at bi-variate level. The findings revealed that there was a low extent of Outsourcing in Crown Beverages Ltd in Kampala city, that the level of Organization's Performance in Crown Beverages Ltd was low, that outsourcing in Crown Beverages Ltd in Kampala city was significantly correlated with Organization's Performance, rejecting the null hypothesis and the findings of the study concurred with Urquhart (2002), Resource Based Theory to which this study was based.

Recommendations based on the findings were that (i) Crown Beverages Ltd should have adequate planning before outsourcing should be done, internal versus external analysis of the Organization should be considered as a key element before Outsourcing is done, and final results of the Outsourcing decision should be usually put into perspective before the decision is made, (ii) Crown Beverages Ltd should always set its objectives before Outsourcing, (iii) Suppliers should always be selected based on their competences, (iv) Proper Outsourcing procedures should be followed by Crown Beverages Ltd and costs should always be evaluated prior to the decision to outsource.

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## **CHAPTER ONE**

### **THE PROBLEM AND ITS SCOPE**

#### **Background to the study**

Outsourcing has grown in importance today because economic and competitive pressures have made it imperative for Organizations of all sizes to focus on their core competencies and turn to third-parties to assume responsibility for other secondary corporate functions. Leveraging third-party alternatives can reduce costs and improve operating efficiencies. It was in this line that Crown Beverages Ltd developed a strategy to outsource some of its non-core activities, which include cleaning, security and maintenance, recruitment, legal services, consultancy among others in order to improve its performance. Despite this, performance did not improve. For example, savings decreased year to year, with large gains often achieved at First but diminishing returns recorded thereafter.

During the years, the struggle to achieve independence, Lake Victoria Bottling Company Limited very much associated with the parties which were struggling to achieve independence, paid off dividends when the main competitor was thrown out of the country because of its ally with apartheid. The Company almost enjoyed 100% market share holding of the soft drinks industry in Uganda.

Lake Victoria Bottling Company Limited was the first company to be privatized on 25th January 1993 by the Government. It was bought off by three indigenous Ugandans namely; Amos Nzei (CMM), Chris Kayoboke and Engineer Dan Kigozi (Maggie Kigozi), who owned 100% shares. They injected in more capital by installing a second bottling line and introducing new brands like 7Up, and Mirinda Fruity. The new company was named Crown Bottlers Limited. In November 12th 1997, CBL went into joint ownership

with IBCI (International Bottling Company) of South Africa, who bought 51% shares in the Company and injected in more capital and also had a controlling team. The Company was renamed Crown Beverages Limited. However, the joint ownership did not go well as planned.

To achieve what Crown Beverages Ltd was created, the company has to perform to the expectations of all stakeholders which caused the company to carry out a restructuring exercise in 2002 in a bid to make more profits, get a bigger market share among others.

### **Statement of the problem**

Has one ever wondered why one organisation thrives while others struggle to perform well even though they are operating in the same environment? A glance at newspapers, business journals, or cable news channels reveals corporations struggling to perform well, and often failing, becoming bankrupt. In such tough times, knowing how to perform well is more critical, but one thing organisations can do to perform well is to outsource, given its associated benefits such as it leads improved product quality, increases product range, creates new markets, leads to reduction in labour costs, reduction in materials needed, reduces energy consumption, reduces environmental damage, conformance to regulations, improved production process, among others.

Unfortunately, however, organisation's performance in Crown Beverages Limited has been reported to be low making very little sales, sometimes getting losses, having very small market share, yielding very little earning per share to shareholders, poor customer satisfaction, poor sustained growth, and poor employee stewardship among others, which puts the performance of Crown Beverages Limited operating at risk.

While as asserted by Urquhart's (2002) theory, there could be several contributory factors of low organisation's performance but, outsourcing may play a big role; hence the need for the study to establish how outsourcing affects organisation's performance in Kampala city.

### **Purpose of the study**

The study explored various dimensions of Outsourcing, Organization's Performance and the cause-effect relationship of the two variables, test hypothesis of no significant relationship between Outsourcing on Organization's Performance to bridge the gaps of previous studies and to validate existing information based on the theory the study is based.

### **General objective**

To establish the relationship between Outsourcing and Organization's Performance in Crown Beverages Ltd in Kampala city.

### **Specific objectives**

The specific objectives included:

1. To determine the profile of the respondents in terms of Age, gender, educational level, position and the number of years worked in the organization.
2. To identify the extent of Outsourcing process in Crown Beverages Ltd in Kampala city.
3. To determine the level of Organization's Performance in Crown Beverages Ltd in Kampala city.
4. To find out if there is a significant relationship between Outsourcing and organization's performance in Crown Beverages Ltd in Kampala city.

### **Research questions**

The research questions were;

1. What is the profile of the respondents in terms of Age, gender, educational level, job position and number of years in the Organization?
2. What is the extent of Outsourcing process in Crown Beverage Ltd in Kampala city?

3. What is the level of Organization's Performance in Crown Beverages Ltd in Kampala city?

4. What is the relationship between outsourcing and organization's performance in Crown Beverages Ltd in Kampala city?

### **Null hypothesis**

There is no significant relationship between Outsourcing and Organization's performance in Crown Beverages Ltd in Kampala city.

### **Scope of the study**

#### ***Theoretical Scope***

This study is based on Urquhart's (2002), Resource-Based Theory which says that Organizations wish to maintain a distinctive product (competitive advantage) and need to plug gaps in resources and capabilities in the most cost-effective manner and that outsourcing is easier to rationalize using resource-based theory as this emphasizes that cost-effective solutions are required to perform some of the major activities, in order to fulfill the main aim of the Organization (provide organized access to resources).

#### ***Geographical Scope***

The study was carried out in the divisions of Kampala city.

#### ***Content Scope***

The study established how Outsourcing affects Organizations performance in Crown Beverages Kampala city.

#### ***Time Scope***

The study covered a period from March 2011- march2012.

## **Significance of the study**

The findings of this research shall be used by government agencies such as Private Sector Foundation, Uganda National Chamber of Commerce among others to evaluate the role of outsourcing on business performance as they come up with policies affecting Soft drinks industry in Kampala city.

The findings further shall help stakeholders such as suppliers, procurement officers and Human resource officers, finance officers and heads of department on how to attach performance onto the decision to Outsource, knowing that Outsourcing should have a direct linkage on performance.

Future researchers shall use the findings of this research as reference as they embark on similar studies, this study having contributed to operational definition of concepts, literature and methodology.

## **Operational Definitions of Key Terms**

**Organizational Performance** comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

**Outsourcing** is a strategy by which an Organization contracts out non core activities to specialized and efficient service providers, to allow the organization to concentrate on core activities.

**Process of Outsourcing.** This deals with planning, acquisition, implementation and evaluation of the outsourcing exercise.

**Productivity.** The amount of output per unit of input (labor, equipment, and capital).

**Transition.** Passage from one form, state, style, or place to another.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **Concepts, Opinions, Ideas from Authors/Experts**

##### **Outsourcing**

Hayes (2000) asserts that since outsourcing is a strategic option, the mission and objectives of the business must be understood together with critical success in particular in terms of customer and shareholder demanding in order to realize the overall corporate strategy. This stage is concerned with identifying the key activities that are performed in order to create and deliver the range of products and services offered by the organization.

This involves identifying the key activities that the organization performs internally as well as those performed by the external source. The best practice under this approach is to establish whether or not outsource an activity is to assess both the strategic values of the activities and the company's ability to competitively perform the activity relative to the supplier as part of the overall capability classification process. The activity that is outsourced possesses a low level of competitiveness relative to the supplier and the low strategic importance of resources (Saunders, 1997).

Before outsource is undertaken, an analysis has to be made to ascertain core competencies and non-core (Lysons 2006). Core competencies which include skills, technologies, capabilities or processes cannot be outsourced as they formulate a company's competitive advantage and long-term sustainable advantage. The strategic value of the activity and company relative to supplier is done and the one with low strategic value and low competitiveness is undertaken. It is perceived by customers as



adding value and offering a unique value proposition. Determining the importance level of activities is central to outsourcing evaluation (Ramirez, 2002).

Baily (1998) argues that once an activity has been selected for potential outsourcing, it is vital to clearly define articulate it. It is essential to fully analyze those processes which have been identified as potentially outsource able, assess their business criticality and understand their competitive value. Under this still, the company will need to define the scope of outsourcing, describe what is to be outsourced, what the required deliverables and outputs are and how the outsourced activity will interfere with the business. The next step is to develop request for information (RFI) which is sent to identify suitable service providers.

According to Robins (2002) this stage is concerned with evaluating the implications of the strategic sourcing options based upon the importance level and capability of the organization in the activities under scrutiny in comparison to external sources. Through request for information, research and discussion with suitable vendors, the basic feasibility of outsourcing, the selected process is tested against vendor claims and documented business practices and case studies laid down. At this point, specification for the out sourced services may well be modified or changed to accommodate what outsourced candidate can or cannot provide. (Christine, 2004)

Lysons (2006) is of the view that after an organization has developed a business case, a formal invitation to tender is undertaken to get a shortlist of potential suppliers. In depth commercial due diligence takes place on these suppliers to ensure that they are financially sound and likely to be able to deliver as promised. Activity levels, the impact of changes on activity levels, the key performance indicators (KPIS) and the

measurement process are just some of them that have to be agreed upon in the service level agreements (SLA) all specified in clear, unambiguous and measurable form.

Barrar (2002) asserts that, negotiations and contracts with service provider will follow in outsourcing process. Procurement and negotiation skills as well as legal skills and in depth knowledge of the subject matter under consideration that is to say experts who understand the current processes and their scope, strengths and weaknesses. Contracts are about identifying costs and deliverables sharing of risk, service level agreements and control processes.

The implementation must be carefully planned, wherever possible in phases to maximize risks. The human resource issues need careful handling and such legal issues like consultation and redundancy must be well managed. Full involvement of all stakeholders is obviously important and for any major outsourcing project this will be a key senior executive role (Smith, 1998).

Lysons (2006) is of the view that once the program is implemented, there is an ongoing need for supplier relationship management to ensure that the outsourced process is fully integrated with the business and the process performance is monitored to meet contractual and business need. If critical business processes are outsourced, it is paramount that the supplier is integrated into the client's management processes and communication is well ensured (Kruse, 2004).

According to Chalos (1999) many organizations are motivated by cost considerations in adopting outsourcing strategies, it enables the customer to benefit from supplier cost advantages such as economies of scale, experience and location.

Suppliers may take on investment and development costs while sharing these risks among many customers and thereby reducing supplier costs for all customers.

Many specialists can achieve much higher levels of performance in certain activities than can be achieved internally by the outsourcing company. This performance advantage is based not only in the form of reduced costs, specialist suppliers can also provide the outsourcing company with a higher level of service quality (Kutnick, 1999).

According to Quinn (1999) many organizations have attempted to control the majority of activities internally on the assumption that controlling supply sources eliminates the possibility of short run supply shortages or demand imbalances in product markets, however, such a strategy is both inflexible and inherently fraught with risks, due to issues such as rapid changes in technology, reduced time to market and increasingly sophisticated consumers becomes difficult for the organization to control and excel at all the activities that create competitive advantage. Therefore outsourcing can provide the organization with flexibility.

Furthermore he suggested that Outsourcing can allow an organization to concentrate on areas of the business that drive competitive advantage and outsource more peripheral activities enabling it to leverage the specialist skills of the supplier, though extensive outsourcing organizations have created networks of product and service providers specializing in their own distinct area of expertise.

Many organizations are reluctant to outsource because they fear they may lose the capability for innovation in the future. However, in many supply markets there exists significant opportunities to leverage the capabilities of suppliers into the product and service of the customer organization rather than attempt to replicate the

capabilities of a supplier network, which can be much more prudent to use outsourcing to fully exploit the suppliers' investments (James, 2003).

**Public opinion-** There is a strong public opinion regarding outsourcing that it damages the local labor market. Outsourcing is the transfer of the delivery of services which affects both jobs and individuals. It is difficult to dispute that outsourcing has a detrimental effect on individuals who face job disruption and employment insecurity; however, its supporters believe that outsourcing should bring down prices, providing greater economic benefit to all. There are legal protections in the European Union Regulation called the Transfer of Undertakings (Protection of Employment). Labor laws of Uganda are not as protective as those in the European Union. A study has attempted to show that public controversies about global outsourcing have much more to do with class and ethnic tensions, than with actual impacts of outsourcing (Ganesh, 2007).

**Language skills-** In the area of call centers end-user-experience is deemed to be of lower quality when a service is outsourced. This is exacerbated when outsourcing is combined with off-shoring to regions where the first language and culture are different. The questionable quality is particularly evident when call centers that service the public are outsourced. There are a number of the public who find the linguistic features such as accents, word use and phraseology different which may make call center agents difficult to understand. The visual clues that are present in face to face encounters are missing from the call center interactions and this also may lead to misunderstandings and difficulties (Alster 2005).

**Social responsibility-** Outsourcing sends jobs to the lower-income earners where work is being outsourced to, which provides jobs in these areas and has a net

equalizing effect on the overall distribution of wealth. Some argue that the outsourcing of jobs exploits the lower paid workers. A contrary view is that more people are employed and benefit from paid work. On the issue of high-skilled labor, such as computer programming, some argue that it is unfair to both the local and off-shore programmers to outsource the work simply because the foreign pay rate is lower. On the other hand, one can argue that paying the higher-rate for local programmers is wasteful, or charity, or simply overpayment. If the end goal of buyers is to pay less for what they buy, and for sellers it is to get a higher price for what they sell, there is nothing automatically unethical about choosing the cheaper of two products, services, or employees (Sara, 2008).

Quality of service- Quality of service is measured through a service level agreement (SLA) in the outsourcing contract. In poorly defined contracts there is no measure of quality or SLA defined. Even when an SLA exists it may not be to the same level as previously enjoyed. This may be due to the process of implementing proper objective measurement and reporting which is being done for the first time. It may also be lower quality through design to match the lower price. There are a number of stakeholders who are affected and there is no single view of quality. The Chief Executive Officer may view the lower quality acceptable to meet the business needs at the right price. The retained management team may view quality as slipping compared to what they previously achieved.

The end consumer of the service may also receive a change in service that is within agreed SLAs but is still perceived as inadequate. The supplier may view quality in purely meeting the defined SLAs regardless of perception or ability to do better. Quality

in terms of end-user-experience is best measured through customer satisfaction questionnaires which are professionally designed to capture an unbiased view of quality (Maddock, *et al*, (2005).

**Staff turnover-** The staff turnover of employee who originally transferred to the outsourcer is a concern for many companies. Turnover is higher under an outsourcer and key company skills may be lost with retention outside of the control of the company. In outsourcing offshore there is an issue of staff turnover in the outsourcer companies call centers. It is quite normal for such companies to replace its entire workforce each year in a call center (Kobayashi,2007) .

**Company knowledge-** Outsourcing could lead to communication problems with transferred employees. For example, before transfer staff have access to broadcast company e-mail informing them of new products, procedures etc. Once in the outsourcing organization the same access may not be available. Also to reduce costs, some outsource employees may not have access to e-mail, but any information which is new is delivered in team meetings.

**Qualifications of outsourcers-** The outsourcer may replace staff with less qualified people or with people with different non-equivalent qualifications: Stein, R (2005). In the engineering discipline there has been a debate about the number of engineers being produced by the major economies of the United States, India and China. The argument centers on the definition of an engineering graduate and also disputed numbers. The closest comparable numbers of annual graduates of four-year degrees are United States (137,437) India (112,000) and China (351,537) (Wadhwa, 2005).

Standpoint of labor within countries on the negative end of outsourcing this may represent a new threat, contributing to rampant worker insecurity, and reflective of the general process while "outsourcing" process may provide benefits to less developed countries or global society as a whole, in some form and to some degree - include rising wages or increasing standards of living - these benefits are not secure (Krugman,2006).

Further, the term outsourcing is also used to describe a process by which an internal department, equipment as well as personnel, is sold to a service provider, who may retain the workforce on worse conditions or discharge them in the short term. The affected workers thus often feel they are being "sold down the river." There is evidence to suggest that when organizations outsource to achieve cost reduction that costs do not decrease as expected and in some cases can increase when organizations outsource to achieve cost reduction, there is normally an early anticipation of cash benefits and long term cost savings, however, many organizations fail to account for future costs and in particular that of managing the outsourcing process (Cox, 1999).

According to Fersht, (2006) organizations can encounter significant risks when they use supply markets for activities that they have performed internally in the past. Over dependency on a particular supplier can lead to significant risks in terms of costs, quality and supplier failure. Therefore, an organization may decide to keep an activity in house in order to guarantee quality and reliability of supply. Duhamel, (2003) suggested that outsourcing can lead to the loss of critical skills and the potential for innovation in the future., in the long term an organization needs to maintain innovation capacity in a number of key activities in order to exploit new opportunities in its

respective markets. If an organization has outsourced a number of critical activities, its ability to innovate may be severely diminished.

Finally outsourcing has significant social implications for an organization. It can lead to the redeployment of staff within the customer organization or the transfer of staff to the supplier organization, the demand associated with outsourcing transcend organizational boundaries and therefore, the approach to managing the change process must ensure that complementary activities and behavior are exhibited within and between organizations.

### **Organization's Performance**

Organization's performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Specialists in many fields are concerned with organization's performance including strategic planners, operations, finance, legal, and organization's development.

In recent years, many organizations have attempted to manage performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: Financial performance (e.g. shareholder return) - customer service - social responsibility (e.g. corporate citizenship, community outreach) - employee stewardship. Organizational performance refers to the organization ability to attain its goals by using sources in an efficient and effective manner. This is essential diagnostic function, tracking the progress of organization achievements against preset objectives and ultimate responsibility of managers is to achieve high performance.



According to Stoner et al (1996) performance is the result of an undertaking in comparison with set standard (it compares planned results and actual results management is interested in evaluating every aspect of the firm's performance. Steven (2004) postulates that financial performance indicators are in the form of ratios which cover a number of concepts and are grouped as profitability, liquidity, utilization, financial structures and investment.

However, financial performance indicators are in the form of ratios which cover a number of concepts and are grouped as profitability, liquidity, utilization, financial structures and investment. It is believed that when managers motivate employees, effectiveness and efficiency is achieved with in any organization Mullins (2002). The following factors portray the effect they have on organizational performance.

Armstrong et al (1992) stresses that good working conditions at work improves performance because it makes employees like their jobs, work places and maintain commitment at work. Working conditions certainly influence the motivation and morale of the employees.

A fair and good remuneration system is the reward given to employees in exchange of their services where performance is a result of aggregate relationships between labor and management. Output of employees is needed to reflect the value of money paid to them that there should be devotion and commitment to employees, and once they are remunerated, they can really work towards the performance of the organization and once they are not remunerated effectively, they tend to relax hence leading to the poor performance of different Organizations (Frank , 1999).

Ahujja (1992) suggested that effective communication is the most important aspect relating to improving employee productivity. An effective system of communication must be affected to ensure effective and efficient utilization of labor once labor understands what is being communicated, then work internally goes on well to enhance the performance of the organization.

Flippo (1984) contends that welfare service as a major factor in determining employee performance and hence organization performance. He states that workers' welfare services compliment workers' salaries and well being. These include provisions for canteen, rest rooms, counseling, group insurance, education of their children and medical care.

According to Taylor *et al* (1991), training and development of employees was well brought out. They conceived that the organized process for increasing the knowledge and skills of people for a defined purpose is important. The purpose of training is to achieve a change in the behavior of those being trained, in the industrial situation which means that the trained employee will acquire new skills technical knowledge, problem solving abilities and attitudes hence effecting performance. Balunywa (2005) suggests that once employees participate in the management and decision making of an organization, there can be no doubt that people shall be more motivated to increase their performance.

Quality of work life as suggested by Stoner *et al* (2002) argues that the systems approach to job design and promising development in a broad area of job enrichment combined with a grounding in the sociotechnical systems approach to management engineers motivation hence increases employee performance. Davar (1997) argued that in an organization when managers guide than order, employees tend to understand and

increase their activities to produce positive results and increase organizational performance. Performance can also be evaluated in two ways using effectiveness and efficiency and productivity and profitability as seen below.

Effectiveness refers to the extent to which the organization achieves desired outcomes or stated objectives. Efficiency by contrast refers to the level of resources that were consumed to achieve a certain level of output. Thus efficiency variances focus on ratios of inputs like raw materials, money and people to produce a desired volume of output. This was further supported by (Bender, 2008).

Performance can be measured in financial and non financial terms. Financial performances measures provide quantitative and common yard sticks to evaluate achievements relative to a plan. Non financial performance measure includes quality of goods and services, customer satisfaction, productivity, customer, loyalty all of which have influence on financial performance. For the purpose of this research organizational profitability has been exploited as measure of performance which is supported that profitability as the main qualitative measure of business success, which is the excess of revenue over expenses (Quinn, 1999).

Profit is the total net gains from the business, which exceeds interest on capital at current rates. Profitability means different things to different people, accountants, economists, tax collectors and workers attach different meanings to profit and it is often used in a sense that bares its significance (Kotabe ,2008).

Jennings (2001) stated that, in general sense, profit is income accruing to the equity holders. Accountants show profit as excess of revenue over all paid out costs including both manufacturing and over head expenses. Economists say it is pure profit or economic profit while layman, profits are incomes that flow to investment.

Richard (1985) shows that figures of profit is meaningless unless it is compared to the resources which have been employed in earning of the profit. This requires the analysis and interpretation of financial statement so as to afford full diagnosis of the profitability ratios. These ratios indicate the ability of the firm to earn a return. This return is normally a margin either of sales, a proportion of capital invested or assets used. Therefore profitability is assessed using the following ratios.

Net profit margin is given by:

$$\frac{\text{Earnings after tax}}{\text{Total Sales}} \times 100$$

It shows a return on every unit of sales, after taking into account both cost of sales and expenses. The higher the margin, the more profitability the business Return on Investment which is:

$$\frac{\text{Earnings after tax}}{\text{Investments}}$$

An investment would refer to any of the following: total assets employed, net assets employed ordinary share capital or preference share capital.

According to Norman (1998), profit maximization is the ground objective that a firm strives to achieve when profits are maximized, and then the owner of the business will be satisfied as their objective is to maximize their returns. Maximizing profits is a sign of efficiency and therefore a yard stick against which performance is measured.

Saunders (1997), states that a firm strives to achieve when profit are maximized, then the owners of the business will be satisfied as their objective is to

maximize their returns. Maximizing profit is a sign of efficiency and therefore yard stick against which performance is measured.

### **Theoretical perspectives**

According to Resource-Based Theory, Organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner. Outsourcing is easier to rationalize using resource-based theory as this emphasizes that cost-effective solutions are required to perform some of the major activities, in order to fulfill the main aim of the Organization (provide organized access to resources) (Urquhart, 2002).

With Resource Dependent theory, the environment of the Organization is almost as important as the Organization itself. The principle is that Organizations adopt strategies to gain access to critical resources, to stabilize relationships with the external environment and to secure survival. With this theory, collaborative licensing deals are easy to rationalize. Collaboration allows access to resources (more effectively and more efficiently than without), deals lessen the problems of negotiations with many publishers on an individual basis, and survival (managing diminishing budgetary resources) is more assured. Some individual choice over selection has gone, but more is gained for apparently less effort in staff time.

According to Urquhart (2002), if the decision is made to outsource, then the aim is to reduce those transaction costs as much as possible, and that can be done by collaborative working with other institutions, which require a similar product or service, to share the work involved in setting up and monitoring the contract. The transaction cost theory (TCT) perspective is useful in examining the contributions to transaction costs, and how these might be reduced.

Agency cost theory expands on one aspect of TCT, as it deals with the different perspectives of risk that client and supplier have and differentiates between outcome-based contracts, and behavior-based contracts (Eisenhardt, 1998). If the client distrusts the supplier then the extent of monitoring required will be greater for the client, than it would be if the client could wholly trust the supplier to deliver.

The client has two main choices: a contract which stipulates payment by results (an outcome-based contract), or a contract that states the supplier should do certain things at stipulated times, or spend a certain amount of time on certain functions, If one cannot trust a supplier to deliver a product some months down the line, then it might pay to ensure that it looks as they are doing something (Eisenhardt, 1998). Agency cost theory helps to distinguish the most productive and fairest method of minimizing risks for both client and supplier.

The institutional influence is especially powerful to explain organizational phenomena in industries where structures are solid, external regulations are strong, and practices are well established institutional theory pinpoints to what extent outsourcing practices should reflect the participants' unique characteristics versus mimicking industry best practices which means focusing on the contingency factors that give the necessary balance between industry's best practices and participants' unique characteristics (Rundquist, 2007).

### **Related studies**

Fersht (2006) asserts that the traditional outsourcing emphasis on tactical benefits like cost reduction (for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills. The

market for providers of outsourced services of all types is growing rapidly. In 1996, American firms spent over \$100 billion in outsourced business activities. Other estimates place the total U.S. market for outsourcing at more than \$300 billion by the year 2001.

Globally, outsourcing usage grew 35 percent in 1997 and the total market for outsourced services is expected to increase to \$200 billion by the year 2001. A recent study was conducted by Yankelovich Partners indicated that two-thirds of companies world-wide already outsource at least one business process to an external third party.

This practice appears to be most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought (Kutnick, 1999). Successful implementation of an outsourcing strategy has been credited with helping to cut cost increase capacity, improve capacity, improve quality, increases profitability and productivity and can also improve financial performance, lower innovation costs and risks and improve organizational competitiveness (Quinn 2000). However, outsourcing does generate some problems. First of all, outsourcing usually reduces a company's control over how certain services are delivered, which in turn may raise the company's liability exposure. Companies that outsource should continue to monitor the contractor's activities and establish constant communication.

Another big problem with outsourcing comes from the workers themselves as they fear loss of jobs. According to a recent survey 55 percent of outsourcing relationships fail in the first five years. Of these that do manage to stay together, 12 percent are unhappy with their arrangement and regret ever making the deal (Kutnick, 1999).

On the other hand Kotabe (1998) argues that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it inherently difficult for the company to sustain its long-term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies. Other researchers have examined the outcomes of technology-sourcing partnerships from the sourcing firms' point of view.

According to Quinn (2000) equity-based alliances were more effective than contract-based outsourcing, outcomes from technology partnerships for sourcing firms depend on the interaction between technology attributes and the interdependence between source and sourcing firms.

Outsourcing planning and decision making and organizational performance Outsourcing is viewed as a means to reduce costs, improve customer satisfaction, and provide enhanced efficiency and effectiveness.

However, many organizations never realize the full benefits of an outsourcing relationship. Outsourcing relationships fail when they are viewed as short-term or tactical solutions, rather than part of long-term strategic plans. The process of considering and/or implementing an outsourcing solution must be systematic and fully documented to achieve the desired results. A multi-step approach, including Planning, Analysis, Design, Implementation, and Operations phases, along with a contingency exit strategy, is required to achieve a successful outsourcing implementation.

Evans and Lindsay (2001), assert that the decision to outsource can lead to competitive advantages for businesses. For outsourcing to be successful, the decision needs to be an informed one. Good, hard, detailed information in the hands of strong



management can help avoid a costly step, one that is not easily reversed. Ultimately, for outsourcing in any form to be successful, quick response times to strategic opportunities and threats are essential. Effective management of the outsourcing relationships is an organizational imperative. The decision to outsource should address the critical role of information and processes in organizations, including the role that systems play. If an entire function is to be outsourced, sufficient provision should be made in the outsourcing contract to deal with current and future requirements of the organization. Special attention should be given to the potential need for innovative solutions to be provided by the outsourcer, and to the timing of these actions. A number of issues are involved in the decision to outsource organizations resources.

To summarize, key items to analyze are scale economy, outsourcer expertise, short- and long-term financial advantage from the sale of resources, inability to manage the function, strategic realignment, and a need to focus on the core business (Fritsch *et al*, 2002).

Additional issues that typically are involved and need to be considered in the context of a specific firm's situation include impact on company competitiveness; identifying services to be outsourced; the number of suppliers to be used; ability to return to in-house operations if required; supplier reliability; supplier service quality; coordinating with the supplier and evaluating performance; flexibility in the products offered by the supplier; providing the latest/advanced technology and expertise. (Al-Shalabi & Rundquist, 2007).

The specific needs of the organization should be matched with the supplier's capabilities during negotiations to develop a contract around a shared vision (Gibbons, 2005). A cross-functional team with members from a variety of decision-making levels is

required to assess the company's needs. Such a team is also required to manage the contract after its execution. Outsourcers should have the financial and technological incentive to help the company migrate to technology that is suitable to the organization. Suppliers that have a good understanding and an interest in the outsourcing firm's business will be better positioned to help define mutually beneficial goals.

Supplier performance should be evaluated on the twin dimensions of technical and functional quality. Technical quality includes maintaining the required response time, minimizing system down time, providing error-free service, and utilizing leading edge technology. Functional quality, in essence, is the quality of customer service. Eger, Knudson.

Marlowe and Ogard (2002) observe that successful outsourcing has been demonstrated to provide organizations with a number of benefits, most of which result from improved planning and decision-making. Eger *et al* (2002) observe that through the emphasis of "essential" or "core" functions, an organization is able to streamline its operations by maintaining only those resources considered essential to its mission or business model.

They emphasize that because of good planning and decision-making, outsourcing allows firms to expand their market share, pursue new strategic directions, and improve overall competitive advantage. As a result, organizations in both the private and public sector have several incentives to explore their outsourcing options.

Eger *et al* (2002) emphasize the importance of assessing core competencies during planning and decision-making. Most outsourcing decisions should begin with an assessment of the role that the function in question plays in advancing the firm's core

competencies, functions, or mission. The underlying logic is simple - any function the organization performs that is not essential to its mission, can, in theory, be outsourced.

However, assessing a firm's core competencies is often an ambiguous and difficult task. In response to that challenge, current research on this phase of decision-making recommends that firms simultaneously consider the functions that may benefit from outsourcing in conjunction with the core competencies of third parties that could potentially provide outsourced services.

Again, the logic is simple unless a qualified provider can be identified for a specific function, there may be no value added in considering an outsourcing plan for that function. Goldsmith's (2000) piece provided one of the first series of questions any firm should answer in this regard.

However, little is known about the relationships between supplier selection and assessment and a buying firm's performance (Helpman & Szeidl, 2005). Rundquist (2007), observed that supplier selection tactics positively impact a buying firm's manufacturing performance.

They also demonstrated that high performing companies attach greater importance to key supplier selection criteria such as quality and delivery performance than low performing companies. They did not however attempt to relate supplier selection to broader measures of business performance. The supplier assessment literature makes no reference to studies linking assessment criteria and the performance of the buying firm.

According to Rundquist (2007), during the industrial revolution, there were no developed external markets because outsourcing was not formally identified as a business strategy for improving organization's performance until 1989. Therefore, in

order for organization's to minimize costs and thus increase their profits (which are indicators of organization's performance; they produced in-house a wide range of activities upstream or downstream. Only a few firms, if any, during the 1800s and in the early 1900s outsourced parts of their processes as a strategy to improve their organizational performance; they were completely vertically' integrated organizations.

This means that as a strategy for maintaining or improving organization's performance, the organizations produced or mined raw materials, converted their raw material to finished products in plants owned by the firm and then shipped all the finished goods on firm-owned trucks to firm-owned retail stores for marketing. In addition, as a strategy for maintaining or improving organizational performance, the organizations owned their own insurance companies, did their own taxes, employed their own legal services, and had their own architects to construct their buildings without assistance from other firms (Piore & Sabel 1990). This means that they actually outsourced very few activities as a strategy to improve their organization's performance.

Development of special services led to increased contracting as a strategy for improving organization's performance, which is a form of outsourcing and in the 1990s, as organizations began to focus more on cost-saving measures as part of improving their performance. They started to outsource those functions necessary to run a company but not related specifically to the core business (Rundquist, 2007).

He further observes that the first wave of outsourcing as a strategy for improving organization's performance began during the second industrial revolution in the late 19<sup>th</sup> century, and started the growth of services such as insurance companies, tax consultancies, accounting services, lawyers, architecture and engineering services, and

others. The companies performing this work were normally located in the same region, often the same city, as their customers (Piore & Sabel, 1990).

In essence, this was a form of local outsourcing as a strategy for improving organization's performance. The next development step as a strategy for improving organization's performance came with outsourcing manufacturing of low-tech items such as toys, metal parts, shoes, and construction goods and later, more high-tech manufactured items like complex mechanics components and consumer electronics (Rundquist, 2007; Slack, 2003).

More recently outsourcing as a strategy for improving organization's performance has moved also to intangible activities or knowledge intensive activities such as information technology, product development or research and development (R&D) (Quinn, 2000). Today, the outsourcing of selected organization's activities is an integral part of corporate strategy of improving organization's performance.

Historically, third party participation in a company's business to improve organizational performance has generally focused on the manufacture of parts and components and the provision of auxiliary services such as legal and travel services. A more recent phenomenon, however, involves third party participation in the management of the information systems (IS) function to improve organizational performance (Behara *et al*, 1995). There is very little literature about the history of outsourcing as a strategy for improving organization's performance in Africa.

This may be because outsourcing has just started to be embraced in most African countries. The exception in African countries where it has been practiced for some good period is South Africa, Libya and Egypt whose economies are close to the

western countries with industries that have been well developed especially in the service sector (Mallard, 2006).

In Uganda, like most other African countries, outsourcing as a strategy for improving organization's performance is a new phenomenon but the country is becoming more involved in this phenomenon (Mallard, 2006).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **Research design**

The study used a descriptive correlation and descriptive comparative. The study involved a large sample; descriptive in that data collected were used to describe a phenomenon; co-relation in that it were interested in relating Outsourcing to Organization's performance and pertinent data was collected from the respondents once and for all to reduce on time and costs involved on such a large population. The study also took a quantitative approach in that it was based on variables measured with numbers and analyzed with statistical procedures.

#### **Target Population**

In this study the target population comprised of 190 employees of Crown Beverages limited in Kampala city. All the categories of employees (top level managers, middle level managers, and lower level managers) were involved because they were all directly affected by whatever policy is made on out sourcing which in turn affects organization's performance.

**Table 1**  
**Sample size distribution**  
**n=129**

<b>Category</b>	<b>Population</b>	<b>Target sample</b>
Procurement officers	6	6
Finance officers	21	13
operations staff	100	70
Sales staff	63	40
<b>Total</b>	<b>190</b>	<b>129</b>

Source: Primary data 2011

### **Sample Size**

The minimum sample size was computed using the Sloven's formula, which states that, for any given population, the required sample size was given by;

$$n = \frac{N}{1 + N(e^2)} , \text{ Where; } n = \text{the required sample size; } N = \text{the known population size;}$$

and e = the level of significance, which is = 0.05. Given a total population of 190 respondents in the crown beverages Kampala city, a sample was 129 respondents.

Table 1, the first column presents the various categories of employees the study targeted. The second column shows the total population, the third column shows targeted sample. It can be observed that the actual sample that participated in the study was 129 out of a population of 190.

### **Sampling Procedures**

The target population of 190 (which included 6 procurement officers, 21 finance officers, 100 operations staff, and 63 sales staff) respondents being large, a sample size of 129 respondents was used, and stratified random sampling procedure



was applied to reduce costs, time of doing research and to increase the degree of accuracy of the study. Regarding sample size, the sampling frames (i.e employees) in Crown Beverages limited were stratified according to departments in Crown Beverages Limited. Then proportionate systematic random samples were chosen from the respective stratum sampling frames or lists.

### **Research Instrument**

There were three sets of research devised questionnaire directed towards employees in Crown Beverages limited in Kampala city; one was on the profile of the respondents, another was on outsourcing process and another on Organization's performance. The questionnaire also consisted of the main title and introductory letter, with a section of 6 bio-data questions, to help classify respondents.

The questionnaire on outsourcing (independent variable) consisted of 19 questions and questionnaire on organization's performance (dependent variable) consisted of 10 questions. All questions in this section were close ended, based on four LikertScale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree, 3=Agree, 4= Strongly Agree.

### **Validity and Reliability of the Instruments**

The researcher tested for validity and reliability on the outsourcing questionnaire and Organization's Performance which were non-standardized, where content validity was done by ensuring that questions or items in questionnaire conform to the study's conceptualization. Supervisors and other senior staff in KIU who were experts in the field of study evaluated the relevance, wording and clarity of question or items in the instrument. Pre-testing for reliability was done by administering the questionnaire to employees in Crown Beverages Ltd who were not included in the actual study.

Construct validity was ensured using Factor Analysis where reliability of the instrument on multi item variables (e.g Outsourcing process) was tested using the

Cronbach Alpha Methods and a Cronbach alpha ( $\alpha$ ) of at least 0.7 which led the questionnaires to be declared reasonably reliable or consistent (see Appendix V1 for details).

## **Data Gathering Procedures**

The following data collection procedures were implemented:

### *A. Before the administration of the questionnaires*

The researcher requested for an introduction letter from the College of Higher Degrees and Research addressed to the authorities of Crown Beverages Limited to be permitted to conduct the study. The letter contained the criteria for selecting the respondents and the request to be provided with the list employees from Crown beverages limited. After approval, the requested list of respondents provided to the researcher by Crown Beverages Limited used by the researcher as a guide in identifying the participants of the study, after which pre-testing of the instrument followed.

The researcher prepared the questionnaires and discussed with selected research assistants and briefed them on the sampling techniques and data gathering procedures.

The researcher utilized the table on respondents (Table 1) to determine the number of participants.

### *B. During the administration of the questionnaires*

Specifically, the researcher together with researcher assistants requested the respondents: (1) to sign the informed consent; (2) to answer all questions and not to leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher together with research assistants also tried retrieving the questionnaires within two weeks from the date of distribution.

All questionnaires retrieved were checked if completely filled out.

### *C. After the administration of the questionnaires*

The data was collected, organized, summarized, statistically treated and drafted in tables using the Statistical Package for Social Scientists (SPSS).

### **Data Analysis**

To determine the profile of the respondents, the frequency and percentage distribution was used.

The mean was used to compute for the extent of Outsourcing and the level Organization's performance. To interpret the obtained data, the following numerical values and descriptions were used:

<b>Mean Range</b>	<b>Description</b>	<b>Interpretation</b>
3.26-4.00	Strongly Agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very Low

The t-test for difference in means was utilized to test the hypothesis for difference between means at 0.05 level of significance.

The t-test and Fisher's one way Analysis of Variance (ANOVA) to test for significant difference in the level of Outsourcing and level of Organization's performance in Crown beverages limited in Kampala city.

Pearson Linear Correlation Coefficient (PLCC)) was used to test the hypothesis on correlation between Outsourcing and Organizations performance in Crown Beverages ltd Kampala city at 0.05 level of significance.

Regression Analysis was used to determine the relationship between Outsourcing and Organization's performance in Crown Beverages Limited in Kampala city.

### **Ethical Considerations**

To ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following were done:

1. All questionnaires were coded to provide anonymity of the respondents.
  2. The respondents were requested to sign the informed consent.
  3. Authors quoted in this study were recognized through citations and referencing.
1. Presentations of findings were generalized.

### **Limitations of the Study**

The researcher claimed an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study.

Extraneous variables such as honesty of the respondents where some of the respondents were expected not to answer the truth but the researcher probed further to establish the truth when it deemed necessary, personal biases beyond the researcher's control also were encountered but the researcher did all it takes to avoid biases. Beyond that other threats to validity of the findings such as testing and instrumentation were solved during the data collection.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Respondents in this study were described in terms of Age, gender, educational level, position and number of years served in the organization. Their responses were summarized using percentage distributions and frequencies as indicated in table 2.

**TABLE 2**  
**Profile of Respondents**  
**n=129**

Main category	Subcategory	Frequency	Percentage (%)
Gender	Male	80	62
	Female	49	38
	<b>Total</b>	<b>129</b>	<b>100</b>
Age	20-30	70	54
	31-39	30	23
	40-49	20	16
	50 and above	09	07
	<b>Total</b>	<b>129</b>	<b>100</b>
level of education	O 'level	04	03
	A' level	10	08
	Diploma	35	27
	Institution/university	80	62
	<b>Total</b>	<b>129</b>	<b>100</b>
Job designation	Procurement officer	06	05
	Finance officer	10	08
	Operational staff	73	56
	Sales staff	40	31
	<b>Total</b>	<b>129</b>	<b>100</b>
Experience	1-5years	90	70
	6-10 years	30	23
	11 and above	09	07
	<b>Total</b>	<b>129</b>	<b>100</b>

Source; primary data 2011

From table 2, findings showed that majority of the respondents were male (62%) while the minorities were females (38%). However, the difference in gender participation in the study was not very big. This implies that the study tried to have a balanced representation of respondents by gender to participate in the study which enabled the study to capture issues regarding the study topic that could arise because of gender.

Regarding age, findings revealed majority of the respondents were of the age 20-30 (54%), while minority were of the age bracket 50 and above (7%) while age group 31-39 were 23% and age bracket of 40-49 were (16%). The findings showed that the composition of staff at crown beverages ltd is composed of the youths and the old working category.

In relation to education level, the majority of the staff were degree holders, (62%) followed by Diploma holders (27%), A' level certificate holders (8%) and while (3% were o' certificate holders. The results show that most of the respondents who participated in the study had a university level of education while the remaining portion had attained tertiary level of education. The findings show that the respondents who participated in the study were literate and were able to understand the questions presented to them about the study topic and so the possibility of making mistakes due to failure to understand the question was minimized.

On rank, the majority were the operational staff representing (56%), followed by sales officers with (31%), finance officers (8 %) while the remaining were procurement officers (5%). Regarding work experience, respondents had served for a period of 1-5 years (70%), (23%) of the respondents had served for a period of 6-10 years, while (7%) had served for a period of 11 and above years in crown beverages Ltd. From Table 2, the majority (70%) of the respondents' had worked for crown beverages ltd for a period of

1-5 years. Followed by those had served for a period of 6-10 years while (7%) respondents had served for a period of 11 and above years in crown beverages Ltd. This implies that the study endeavored to involve respondents who had stayed with crown beverages ltd for some time to be knowledgeable about the topical issues that the study sought.

### **Extent of Outsourcing Process**

The second objective was to identify the extent of Outsourcing process in Crown Beverages Ltd. To measure this, respondents were asked to indicate the extent to which they agree or disagree with each of the questions by identifying the numbers that described their perception. All responses on outsourcing process were put on a Likert scale using 4 points ranging from 1-4. 4 = Strongly Agree, 3 = Agree, 2= Disagree, 1 = Strongly Disagree. Their responses were analyzed and described using mean and Standard deviation as summarized in the table 3.

**Table 3**  
**Extent of Outsourcing Process**  
**(n =129)**

<b>Outsourcing Process</b>	Mean	Standard Deviation	Rank	Interpretation
Crown beverages carries out adequate planning before outsourcing	3.8	1.026	1	very high
suppliers are selected basing on their competences	3.7	0.321	2	Very high
Crown beverages evaluate outsourcing to determine if the saved resources can be reinvested	2.8	0.066	3	High
Performance of suppliers is regularly monitored	2.7	0.471	4	High
Crown beverages usually evaluate the performance of the outsourced services	2.6	0.233	5	High
Supplier reliability is always considered before outsourcing	2.6	0.804	5	High
Internal analysis of the organization is considered as a key element before outsourcing is done in crown beverages	2.5	0.656	6	High
Regular performance reviews to measure the provider's performance are usually carried out	2.2	0.380	7	Low
Management indentifies internal service capabilities and designs of business plans outsourcing	2.1	0.235	8	Low
Outsourced partners are usually carefully examined	2.1	0.203	8	Low
The kind of dependence on the third party is normally considered before outsourcing in crown beverage	2.0	0.383	9	Low
The criteria for outsourcing service providers of crown beverages is clearly followed	2.0	0.482	9	Low
Crown beverages and the outsourced suppliers usually	1.9	0.320	10	Low



have a shared vision				
In crown beverages, the objectives are usually set before outsourcing	1.9	0.143	10	Low
The final results of outsourcing decision are usually put into perspective before the decision to outsource is carried out	1.8	0.371	11	Low
A lot of importance is attached to the suppliers in order to enhance outsourcing in crown beverages	1.8	0.118	11	Low
The decision to outsource is usually done after assessing the net gain or loss inefficiency	1.8	0.132	11	Low
crown beverages seeks opinions and ideas of stakeholders before the decision is considered	1.7	0.283	12	Low
Costs are evaluated prior to the decision to outsource	1.7	0.354	12	Low
<b>Overall Average Mean</b>	<b>2.30</b>			<b>Low</b>

Source: Primary data 2011

#### Mean range and interpretation

<b>Mean Range</b>	<b>Description</b>	<b>Interpretation</b>
3.26-4.00	strongly agree	very high
2.51-3.25	Agree	high
1.76-2.50	Disagree	low
1.00-1.75	Strongly Disagree	Very low

The results in Table 3 indicated that the level of outsourcing process in Crown beverages was rated to be low, where adequate planning before outsourcing was rated high, considering (mean = 3.8) which is equivalent to strongly agree on the Likert scale, internal analysis of the organization was rated high (mean=2.5) which is equivalent to agree on the Likert scale, seeking of opinions and ideas of stakeholders

before the decision is considered was rated low (mean= 1.7) which is equivalent to disagree, outsourcing decision was rated low (mean = 1.8) which is equivalent to disagree, the dependence on the third party before outsourcing was rated low (mean= 2.0) which is equivalent to disagree, objectives set before outsourcing was rated low (mean= 1.9) which is equivalent to disagree, the internal service capabilities and designs of business plans was rated low (mean =2.1) which is equivalent to disagree on the likert scale, selection of suppliers based on their competences was rated high (mean = 3.7) which is equivalent to strongly agree on the Likert scale, monitoring of suppliers Performance was rated high (mean=2.7) which is equivalent to agree on the Likert scale, evaluation of outsourcing to determine if the saved resources was rated high (mean= 2.8) which is equivalent to agree, the evaluation outsourced services was rated high (mean= 2.6) which is equivalent to agree, supplier reliability before outsourcing was rated high (mean= 2.5) which is equivalent to agree, regular performance reviews was rated low (mean = 2.2) which is equivalent to disagree, the examination of outsourced partners was rated low (mean= 2.1) which is equivalent to disagree, decision to outsource after assessing the net gain or loss inefficiency was rated very low (mean 1.5) which is equivalent to disagree, criteria for outsourcing service providers being followed was rated low (mean =2.0) which is equivalent to disagree on the likert scale, attachment of suppliers in order to enhance outsourcing was rated low (mean =1.8) which is equivalent to disagree on the likert scale, and evaluation of costs prior to the decision to outsource was rated low (mean =1.7) which is equivalent to disagree on the likert scale.

Findings concurred with Grossman, Helpman and Szeidl *et al*, (2005) who affirm that organizations should ensure that suppliers can create value for the buying

organization, and that once selected, supplier performance should be consistent with the buying firm's expectations.

However the findings disagreed with Hancox and Hackney's (2000) who emphasizes that organizations seeking to outsource should consider the net gain or loss in efficiency and cost-effectiveness of using outsourcing before any outsourcing decision is made. The findings agreed with Houscman (2006) who asserts that outsourcing will not work unless it is properly implemented.

### **Level of Organization's Performance**

The third objective of this study was to determine the level of Organization's performance in Crown Beverages Ltd which was measured using different closed ended questions to indicate the extent to which respondents agree or disagree with each of the questions by ticking the number that described their perception.

All the questionnaires on Organization's performance were put on a Likertscale using 4 points ranging from 1 = Strongly Disagree, 2= Disagree, 3 = Agree 4 = strongly agree. Their responses were analyzed and described using means and Standard deviation as summarized in the Table 4.

**Table 4**  
**Level Organization's Performance**  
**(Item analysis n =129)**

<b>ORGANISATION'S PERFORMANCE</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Rank</b>	<b>Interpretation</b>
Cost efficiency has been achieved in crown beverages ( a lot of money is saved through the decision to outsource)	3.6	0.321	1	Very high
Crown beverages saves a lot of money	2.8	0.066	2	High
Performance of crown beverages has improved	2.7	0.471	3	High
Crown beverage has reduced its overhead expense	1.9	0.233	4	Low
Crown beverages are efficient in its service delivery	2.2	0.380	5	Low
Outside firms provide better quality service	2.1	0.203	6	Low
There is improved quality of work by crown beverage staff	1.8	0.132	7	Low
Outsourcing has led to increased customer satisfaction in crown beverages	1.7	0.354	8	Low
The productivity of crown beverages as an organization has improved	1.6	0.118	9	Low
<b>Overall Average Mean</b>	<b>2.26</b>			<b>low</b>

Source: Primary data 2011

### Mean range and interpretation

<b>Mean Range</b>	<b>Description</b>	<b>Interpretation</b>
3.26-4.00	strongly agree	very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very Low

Overall Organization's performance in Crown Beverages Ltd was rated to be low (mean=2.3) which is equivalent to Disagree on the Likertscale where cost efficiency was rated high (mean=3.6) equivalent to strongly agree, improvement in performance was rated high (mean=2.7) equivalent to agree, saving a lot of money was rated high (mean=2.7) equivalent to agree. On the other hand, efficiency in service delivery was rated low (mean=2.2) equivalent to disagree, provision of better quality service was rated low (mean=1.5) equivalent to disagree, the reduction of overhead expense was rated low (1.9) equivalent to disagree, the improvement in the quality of work was rated low (1.8) equivalent to disagree, the increase in customer satisfaction was rated low (mean=1.7) equivalent to disagree.

### **Relationship between Outsourcing and Organization's Performance**

The fourth objective in this study was to determine if there was a significant relationship between Outsourcing and Organization's performance in Crown Beverages Ltd - Kampala city, for which it was hypothesized that the two variables are not significantly related. To test this hypothesis, Pearson's Linear Correlation coefficient (PLCC) was used. The summary of r-value and sig. value of those variables is presented in table 5.

**Table 5**  
**Relationship between Outsourcing and Organization's Performance**  
**(sig. 0.05)**  
**n = 129**

Variable correlated	r – value	Sig. value	Interpretation	Decision on Ho
Outsourcing process Vs organization's performance	0.970	0.000	Positive and significant	Rejected

Source: Primary Data

Table 5 indicated that correlation between Outsourcing and Organization's performance was positive and significant ( $r = 0.970$ ),  $\text{sig} = 0.000$ ) which led to the rejection of the null hypothesis that Outsourcing does not have significant effect on Organization's performance in Crown Beverages Ltd.

**Table 6**  
**Regression Analysis on the Relationship between Outsourcing and Organization's Performance**

Variables regressed	Adjusted $r^2$	F-Value	Sig. value	Interpretation	Decision on Ho
Organizational performance Vs Outsourcing process	0.970	113.384	0.000	Positive and Significant	Rejected

Coefficients	Beta	t- value	sig	Interpretation	Decision on Ho
(Constant)	-	1.426	0.155	Not significant	Accepted
Planning/decision making	0.486	9.314	0.000	Positive and Significant	Rejected
Selection	0.357	6.077	0.000	Positive and Significant	Rejected
Evaluation	0.079	1.566	0.000	Positive and Significant	Rejected

Source: Primary data 2011

The findings of regression analysis in Table 6, indicated that there was a relationship or between Outsourcing process and Organization performance and Outsourcing process accounts to 97% change in level of Organizational performance indicated by high adjusted  $r^2$  of 0.970. The coefficients table further shows that of all the aspects of Outsourcing process; planning/ decision making ( $\beta = 0.486$ , Sig. 0.000) accounts for the biggest (49 %) variations in organizational performance, as compared to other two types process of outsourcing; selection ( $\beta = 0.357$ , Sig. 0.000) accounting for 36% and evaluation ( $\beta = 0.079$ , Sig. 0.000) accounting for 8%.

**CHAPTER FIVE**  
**FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**  
**FINDINGS**

**Profile of Respondents**

Findings showed that majority of the respondents were male (62%) while minority were female (38%). The difference in gender participation in the study was not very big which implies that the study tried to have a balanced representation of respondents by gender to participate in the study which enabled the study to capture issues regarding the study topic that could arise because of gender.

Regarding age, findings revealed majority of the respondents were of the age 20-30 (54%), while minority were of the age bracket of 50 and above (7%) while age group 31-39 were (23%) and age bracket of 40-49 were (16%). The findings show that the composition of staff at crown beverages ltd is composed of the youths and the old working category. In relation to education level, the majority of the staff were degree holders, (62%) followed by Diploma holders (27%), A' level certificate holders (8%) and while (3%) were o' certificate holders. The results show that most of the respondents who participated in the study had a university level of education while the remaining portion had attained tertiary level of education.

The findings show that the respondents who participated in the study were literate and were able to understand the questions presented to them about the study topic and so the possibility of making mistakes due to failure to understand the question was minimized. On rank, the majority were the operational staff representing (56%), followed by sales officers with (31%), finance officers (8 %) while the remaining were procurement officers (5%).



Regarding work experience, respondents had served for a period of 1-5 years (70%), (23%) of the respondents had served for a period of 6-10 years, while (7%) had served for a period of 11 and above years in crown beverages Ltd. From Table 2, the majority (70%) of the respondents' had worked for crown beverages ltd for a period of 1-5 years. Followed by those had served for a period of 6-10 years while (7%) respondents had served for a period of 11 and above years in crown beverages Ltd. This implies that the study endeavored to involve respondents who had stayed with crown beverages ltd for some time to be knowledgeable about the topical issues that the study sought.

### **Extent of Outsourcing Process**

Findings indicated that the level of outsourcing process in Crown beverages was rated to be low, where adequate planning before outsourcing was rated high, considering (mean = 3.8) which is equivalent to strongly agree on the Likert scale, internal analysis of the organization was rated high (mean=2.5) which is equivalent to agree on the Likert scale, seeking of opinions and ideas of stakeholders before the decisions are considered was rated low (mean 1.7) which is equivalent to disagree, outsourcing decision was rated low (mean = 1.8) which is equivalent to disagree, the dependence on the third party before outsourcing was rated low (mean= 2.0) which is equivalent to disagree, objectives set before outsourcing was rated low (mean 1.9) which is equivalent to disagree, the internal service capabilities and designs of business plans was rated low (mean =2.1) which is equivalent to disagree on the likert scale, selection of suppliers based on their competences was rated high (mean = 3.7) which is equivalent to strongly agree on the Likert scale, monitoring of suppliers Performance was rated high (mean=2.7) which is equivalent to agree on the Likert scale, evaluation of outsourcing to determine if the saved resources was rated high (mean 2.8) which is

equivalent to agree, the evaluation outsourced services was rated moderate (mean 2.6) which is equivalent to agree, Supplier reliability before outsourcing was rated high (mean= 2.5) which is equivalent to agree, regular performance reviews was rated low (mean = 2.2) which is equivalent to disagree, the examination of Outsourced partners was rated low (mean= 2.1) which is equivalent to disagree, decision to outsource after assessing the net gain or loss inefficiency was rated very low (mean 1.5) which is equivalent to disagree, criteria for outsourcing service providers being followed was rated low (mean =2.0) which is equivalent to disagree on the likert scale, attachment of suppliers in order to enhance outsourcing was rated low (mean =1.8) which is equivalent to disagree on the likert scale, and evaluation of costs prior to the decision to outsource was rated low (mean =1.7) which is equivalent to disagree on the likert scale.

### **Level of Organization's Performance**

Overall organizational performance in Crown beverages ltd was rated to be low (mean=2.3) which is equivalent to Disagree on the Likert scale where cost efficiency was rated very high (mean=3.6) equivalent to strongly agree, improvement in performance was rated high (mean=2.7) equivalent to agree, saving a lot of money was rated high (mean=2.7) equivalent to agree. On the other hand, efficiency in service delivery was rated low (mean=2.2) equivalent to disagree, provision of better quality service was rated low (mean=1.5) equivalent to disagree, the reduction of overhead expense was rated low (mean=1.9) equivalent to disagree, the improvement in the quality of work was rated low (mean=1.8) equivalent to disagree, the increase in customer satisfaction was rated low (mean=1.7) equivalent to disagree.

## **Relationship between Outsourcing process and Organization's Performance**

The findings indicated that there is a relationship between outsourcing process and organization's performance and outsourcing process accounts to 97% change in level of organizational performance indicated by high adjusted  $r^2$  of 0.970. Results further indicates that the level of outsourcing process influences level of organization's performance ( $F= 113.384$ ; Sig. 0.000). Leading to a conclusion that correlation between outsourcing process and organizational performance is significant ( $r=0.970$ , sig. = 0.000).

## **CONCLUSION**

It was established that that there is a relationship between outsourcing process and organization's performance and outsourcing process accounts to 97% change in level of organization's performance indicated by high adjusted  $r^2$  of 0.970. Results further indicates that the level of outsourcing process influences level of organization's performance ( $F= 113.384$ ; Sig. 0.000). Leading to a conclusion that correlation between outsourcing process and organization's performance is significant ( $r=0.970$ , sig. = 0.000). Leading to a conclusion that level of outsourcing process significantly explains the high levels of organization's performance in crown beverages ltd. The coefficients table further shows that of all the aspects of outsourcing process; planning\decision making ( $\beta= 0.486$ , Sig. 0.000) accounts for the biggest (49 %) variations in organization's performance, as compared to other two process of outsourcing; selection ( $\beta= 0.357$ , Sig. 0.000) accounting for 36% and evaluation ( $\beta= 0.079$ , Sig. 0.000) accounting for 8%.

The findings agreed with Urquhart's (2002), resource-based theory to which the study was based which states that Organizations wish to maintain a distinctive product

(competitive advantage) and need to plug gaps in resources and capabilities in the most cost-effective manner. Outsourcing is easier to rationalize using resource-based theory as this emphasizes that cost-effective solutions are required to perform some of the major activities, in order to fulfill the main aim of the Organization (provide organized access to resources).

### **RECOMMENDATIONS**

Based on the findings and discussion in this study, the following are the recommendations of this study;

It was established that Crown Beverages Ltd performance was below the expectations because outsourcing, planning and decision-making was not always very systematically carried out. Findings indicate that there is need for Crown Beverages Ltd to ensure that they involve all stakeholders in the outsourcing, planning and decision-making process. Adequate planning before outsourcing should be done, internal versus external analysis of the Organization and should be considered as a key element before outsourcing is done and final results of the outsourcing decision should be usually put into perspective before the decision to outsource is carried out.

The kind of dependence on the third party should be normally considered before outsourcing, and objectives should usually be set before outsourcing. In addition, Crown Beverages Ltd should always leave skeleton staff to oversee the outsourced services in case such services are reverted to the crown beverages ltd when outsourced firms are found to be ineffective in providing the services to Crown Beverages Ltd. The skeleton staff at crown beverages would ensure that services that are reverted to Crown Beverages from the outsourced firms are not entirely disrupted; thus, this calls

for Crown Beverages Ltd to plan for entry and exit strategies in the outsourcing process.

For the Outsourcing process, the following should be considered to improve them. Selection of suppliers should always be based on their competences. Their performance should be monitored regularly and their reliability should always be considered before outsourcing crown beverages' function.

In addition to this, Crown Beverages Ltd should always evaluate outsourcing process to determine if the saved resources can be reinvested and the decision to outsource should usually be done after assessing the net gain or loss in efficiency. The criteria for outsourcing service providers of Crown Beverages Ltd should be clearly followed and costs should always be evaluated prior to the decision to outsource.

Finally, the top management and the department responsible for the implementation of the organizations policies should ensure that the recommendations made by the researcher should be implemented so as to achieve intended objectives.

### **Areas for Further Research**

There is need to do research in procurement laws and Organization's performance, while there is also need to do further research in inventory management and Organization's performance.

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## APPENDIX 1

### INTRODUCTORY LETTER



**KAMPALA  
INTERNATIONAL  
UNIVERSITY**

Ggaba Road - Kansanga  
P.O. Box 20000, Kampala, Uganda  
Tel: +256- 41- 266813 / +256- 41-267634  
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E- mail: admin@kiu.ac.ug,  
Website: www.kiu.ac.ug

**OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT  
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)**

September 13, 2010

**RE: REQUEST FOR MUJUNI ANDREW MBA/43345/92/DU  
TO CONDUCT RESEARCH IN YOUR ORGANIZATION**

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration.

He is currently conducting a field research of which the title is "**Outsourcing and Organization Performance in Selected Industries in Kampala Uganda.**"

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,



Mr. Malinda Ramadhan  
Coordinator

Business and Management, (SPGSR)

*"Exploring the Heights"*

## APPENDIX II

**CROWN BEVERAGES LIMITED**  
(Authorised producers of Pepsi)



16<sup>th</sup> September 2011

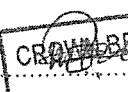
TO: MR. MUJUNI ANDREW

Dear Sir,

**RE: AUTHORITY TO CONDUCT RESEARCH**

Reference is made to your letter dated September 13<sup>th</sup> 2011 from Kampala International University. I am glad to inform you that you have been authorized to conduct research in this Company according to your topic "**Outsourcing and Organizational performance in selected Industries in Kampala**" and you should start immediately.

Thank you and you are well come

  
**CROWN BEVERAGES LTD.**  
MUBANGIZI EDISON  
Sales Coordinator  
Crown Beverages Ltd

**APPENDIX III**  
**TRANSIMITAL LETTER FOR THE RESPONDENTS**

---

Dear Sir/madam

Greetings!

I am a candidate for Masters in Business Administration (Procurement and Supplies) at Kampala international university with a thesis on **"Outsourcing and Organization's performance"** in Crown Beverages Ltd. As I pursue to complete this academic requirement, May I request your assistance by being part of this study?

Kindly provide the most appropriate information as indicated in the questionnaires and please do not leave any item unanswered. Any item from you shall be for academic only and will be kept with utmost confidentiality and will be used for academic purposes only.

May I retrieve the filled out questionnaires after 2weeks after you receive them?

Thank you very much in advance.

Yours faithfully,

MUJUNI ANDREW  
Masters Candidate

**APPENDIX IV A**  
**FACE SHEET: RESPONDENT'S PROFILE**

Gender .....

Age.....

Level of education.....

Experience.....

Job position.....

## APPENDIX IV B

### QUESTIONNAIRE TO DETERMINE THE EXTENT OF OUTSOURCING

Direction: please respond to the options and kindly be guided with the scoring system below. Write your rating in the space provide.

Mean range	Score	Response Mode	Description
3.26-4.00	4	strongly Agree	You agree with no doubt at all
2.6-3.25	3	Agree	You agree with some doubt
1.76-2.50	2	Strongly Disagree	You disagree with no doubt at all
1.00-1.75	1	Disagree	You disagree with some doubt

- 
- \_\_\_ 1 Crown Beverage Ltd carries out adequate planning before outsourcing.
- \_\_\_ 2 Internal analysis of the organization is considered as a key element before Outsourcing is done in Crown Beverages Ltd.
- \_\_\_ 3 Crown Beverages Ltd seeks opinions and ideas of the stakeholders before the decision to outsource is considered.
- \_\_\_ 4 The final results of the outsourcing decision are usually put into perspective before the decision to outsource is carried out.
- \_\_\_ 5 The kind of dependence on the third party is normally considered before Outsourcing.
- \_\_\_ 6 Objectives are usually set before outsourcing.
- \_\_\_ 7 Management identifies internal service capabilities and designs of business plans for outsourcing.
- \_\_\_ 8 Suppliers are selected basing on their competences.
- \_\_\_ 9 Performance of the suppliers is regularly monitored.
- \_\_\_ 10 Crown Beverages ltd evaluates outsourcing to determine if the saved resources can be reinvested.
- \_\_\_ 11 Regular performance reviews to measure the provider's performance are usually carried out.
- \_\_\_ 1 2 Outsourced partners are usually carefully examined.

- \_\_\_13 Crown Beverages Ltd usually evaluates the performance of the outsourced services.
- \_\_\_14 The decision to outsource is usually done after assessing the net gain or loss in efficiency.
- \_\_\_15 The criteria for outsourcing service providers of Crown Beverages Ltd are clearly followed.
- \_\_\_16 A lot of importance is attached to the supplier in order to enhance outsourcing in Crown Beverages Ltd.
- \_\_\_17. Costs are evaluated prior to the decision to outsource.
- \_\_\_18.Crown Beverages Ltd and the outsourced suppliers usually have a shared vision
- \_\_\_19.Supplier reliability is always considered before outsourcing.

## APPENDIX V C

### QUESTIONNAIRE TO DETERMINE THE LEVEL OF ORGANISATION'S PERFORMANCE

Direction: Please respond to each item by using the scoring guide below. Kindly write your best choice in the space before each item. Be honest about your options as there is no right or wrong answers.

Mean range	Score	Response Mode	Description
3.26-4.00	4	strongly Agree	You agree with no doubt at all
2.6-3.25	3	Agree	You agree with some doubt
1.76-2.50	2	Strongly Disagree	You disagree with no doubt at all
1.00-1.75	1	Disagree	You disagree with some doubt

---

\_\_\_\_20 Outsourced partners are usually carefully examined.

\_\_\_\_21 crown beverages ltd usually evaluates the performance of the outsourced services.

\_\_\_\_22Performance of crown beverages ltd has improved.

\_\_\_\_23 crown beverages ltd saves a lot of money.

\_\_\_\_24 crown beverages ltd is efficient in its service delivery.

\_\_\_\_25 Outside firms provide better quality services.

\_\_\_\_26 crown beverages ltd has reduced its overhead expenses.

\_\_\_\_27 There is improved quality of work by crown beverages ltd staff.

\_\_\_\_28The productivity of crown beverages ltd as an organization has improved.

\_\_\_\_29 Outsourcing has led to increased customer satisfaction in crown beverages ltd.

**Thank you**



## APPENDIX V

### Content validity index for instrument

No. Items	0 Unrated	1 V. Irrelevant	2 Irrelevant	3 Relevant	4 V. Relevant	Total	CVI $\frac{3+4}{\text{No. of Items}} \times 100$
Decision making/ planning	1	0	1	4	1	07	$\frac{5}{7} \times 100$ 7 = 0.71
Selection	0	1	1	6	4	12	$\frac{10}{12} \times 100$ 12 = 0.83
Organization's performance	1	0	2	5	2	10	$\frac{7}{10} \times 100$ 10 = 0.70
Overall CVI							0.75

**CVI** = No of items declared valid (N) ÷ Total No. of items (n)

Where

CVI = Content Validity Index

CVI = 0.71 + 0.83 + 0.70 ÷ 3

CVI = 0.75

## **APPENDIX VI- RELIABILITY**

### **Reliability of Outsourcing Questionnaire**

<b>Number of items</b>	<b>Cronbach's alpha co-efficient</b>
19	0.79

### **Reliability of Organization's Performance Questionnaire**

<b>Number of items</b>	<b>Cronbach's alpha co-efficient</b>
10	0.84

**APPENDIX 1VE**  
**SAMPLE SIZE COMPUTATION**

Sloven's formula

$$n = \frac{N}{1 + N(e^2)}$$

Where; n = the required sample size;

N = the known population size;

e = the level of significance, which is = 0.05

$$n = \frac{190}{1 + 190(0.05^2)}$$

$$n = \frac{190}{1 + 190(0.0025)}$$

$$n = \frac{190}{1 + 0.475}$$

$$n = \frac{190}{1.475}$$

$$n = 129$$

## RESEARCHER'S CURRICULUM VITAE

### Personal Profile

Name: MUJUN ANDREW  
Gender: Male  
Date of Birth: 17<sup>th</sup> April, 1962  
Marital Status: Married  
Nationality: Ugandan  
Contact: +256772419279  
Email: amujuni@yahoo.com  
C/o Ministry of Defense  
P.O. BOX 3798-Kampala- Uganda

### Educational Background

2009-2011	Kampala International University	MBA(procurement and supplies)
2006-2009	Kampala International University	Bachelor of Supplies and Procurement
1985-1986	Kyamata S.S.S.	U.A.C
1981-1984	Mbarara S.S.S.	U.C.E.
1970-1980	Murisa Primary school	P.L.E.

### Work Experience

2009-2011	Directing staff school of logistics and engineering -UPDF
2007-2008	Procurement officer ministry of Defense
1992-2006	Clearing officer Ministry of Defense
1987-1991	Paymaster in Uganda peoples defense forces

## REFEREES

1. Dr Gulebyo Muzamir

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