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INFLUENCE OF BUSINESS PROCESS OUTSOURCING ON PERFORMANCE OF SUPERMARKETS IN MACHAKOS COUNTY

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ABSTRACT

The study aimed at establishing whether business process outsourcing significantly influenced performance of supermarkets in Machakos County. The general objective was to establish the influence of business process outsourcing on performance of supermarkets within Machakos county. The findings revealed that there was a negative and insignificant relationship between security services and organizational performance. Secondly, there was a positive and insignificant relationship between computer and software services on performance. Finally; the study concluded that there was a positive and significant relationship between procurement and logistic services and legal services on performance of supermarkets within Machakos. The researcher concluded that unit increase or decrease had a consequent impact on business process outsourcing strategy on the performance of the organization. Recommendations were that supermarkets and other related trade agencies should adopt business process outsourcing in some critical areas

such security service, computer and software services, procurement/ logistic services and legal services in order to lower liquidity issues, expertise services as well as lowering cost.

Keywords: *Business process outsourcing, Transaction cost, GDP, ROA, RBV*

INTRODUCTION

Background of Study

Increase in competition has brought about the advent of globalization in many organizations, leading many companies in the world to come up with strategies to curb challenges of competition as more focus is based on their core competencies thus assign some of their non-core competencies to the outside players. According to Feeny and Lacity (2014), emergence of new market structures has triggered business to shift from the normal grading of marketing methods that involves greater standards of participation thus business process outsourcing (BPO) gaining a lot of relevance among other set up strategies to curb competition. This process is known as “outsourcing”. Business process outsourcing occurs when an organization subverts the management and come up with effective methods of business process outsourcing to a third party which conducts the activity in regard to a set of well calculated performance measures. An organization can be influenced to outsource its activities in order to cut down cost, enhance their services through hiring of expertise, provision of world class services, focus on core business objectives, as well as meeting compliance requirements by government, all being aimed at improving the performance of a firm. (Brown & Wilson, 2012; Tas & Sunder, 2018).

Business Process Outsourcing (BPO) is a vital corporate strategy in management of transferring functions that are not core into more specialized external service providers (Benton, 2014) who are either based offshore, onshore or near shore. The basic proposal of BPO is for firms to only focus on what they are best at and leave everything else to other strategic partners (Lysons & Farrington, 2016). Notably, many firms mainly those in developed economies have passionately adopted business process outsourcing with Asian countries being the most favored business process outsourcing destinations (Stanko

& Olleros, 2013). BPO has proved to be valuable to business process outsourcing clients in terms of enhancing competitive advantage as well as accessing new technology.

A strong and positive relationship between business process outsourcing and firm performance for both short term and long term objectives have been proposed by researchers such as McCormack, Johnson & Walker, (2015) and Mohiuddin, (2013). Bernard & Schott, (2011) outlined the relationship between business process outsourcing and firm performance to be determined by the number of employees working in the firm, the age of the firm, capital structure, firm ownership structure as well the liquidity levels of the organization. Most cosmopolitan countries have noted the great benefits of outsourcing which lead to increased market speed, expert knowledge on products and services, innovation and creativity, and avoidance to production of repetitive products among others.

Organizational Performance

Carton and Hofer, (2013) defines performance as a measure of how well an organization can achieve its goals and objectives in terms of revenue generated after a certain period of time. Kaplan, (2017) has also indicated organizational performance as an analysis done by a firm to determine whether the goals and objectives were obtained within a certain time span. Performance also relates to outcomes output derived from processes, production and services that allows assessment and standards expressed in technical terms, monetary and non- monetary terms. Performance metrics are quantitative aspects of the cost, amount, or outcome of various activities that demonstrate how well or badly an organization is performing both financially and non-financially in the market (Carton and Hofer, 2013).

According to Gentry and Shen, (2019), it is important to measure the performance of a firm to establish whether there is increased brand awareness, improved customer focus, resulting to greater consumer trust as well as the ability to command a premium price for the products. Performance of a firm is measured to determine a firm's position in the market as well as showing the success rate at which the firm is growing (Alenezi, 2015). Several perspectives may be used to analyze the performance of a firm, which includes the internal business perspective, customer perspective, financial perspective and the learning and growth perspective. A firm may consider using some certain types of ratios

to measure performance of a firm. Such ratios may include current ratios for example return on investment (ROI), return on assets (ROA), profitability ratios. Organizational performance can also be measured using non-financial methods which include customer satisfaction levels, quality services, markets shares and process efficiency. Ultimately, organizations require a well implemented outsourcing strategies that are in regard to the main tasks of the organizations vision. It is therefore a requirement to engage deeply and personally in order to determine the outsourcing strategies to be applied in consideration with the environment as well as the needs of the organization, (Ireland 2016)

Statement of the Problem

It is important for firms to highly consider the rapid growth of outsourcing and its benefits on performance. Outsourcing is made to improve service delivery or product delivery to its final customer along the supply chain. According to a study carried out by Zeichick (2014), the researcher found some of the benefits of outsourcing on performance of an organization as; it led to reduced costs by eliminating annual processing, enhancement of revenue through real time processing in outsourcing which led to improved efficiency in the functioning of major department in the organization. A study carried out by kongo, (2015) on logistic companies found a positive relationship between business process outsourcing and performance with most activities such as loading and offloading of manpower were being outsourced and other components of logistic such as sorting activities were the least outsourced. In conclusion the researcher established that logistic companies should outsource order processing, warehousing and transport simultaneously and not isolation for optimal results in order to improve performance of the organization.

Kwong,(2012), concluded that businesses would expand their networks on different locations and even go internally if they outsource none core activities to third party thereby obtain competitive advantages over other business although this study was limited to only financial performance. According to Leuschner and Craig, (2013) a firm is able to perform well if it outsources from within although it all depends on firms' intention to outsource.

Mutero (2014) evaluated the impact that outsourcing had on the quality and cost of the outsourced services namely cleaning services at the university of Nairobi. The researcher

was able to discover that engaging cleaning services to third party had improved the level of cleanliness in the university compound and therefore the university would save a great amount of the resources unlike when the service was done internally. The researcher identified gaps in that the research only focused on cleaning services and therefore would recommend more research on other services such as security services computer and software services, procurement and logistics services, and legal services.

A study carried out by Achonjo (2014) on the impact of outsourcing on performance of parastatals in Kenya was unclear on the tools used to measure the effectiveness of the outsourcing strategies applied by those firms. The research further outlined challenges facing those firms while outsourcing. These challenges outlined were as a result of poor planning, failure to adhere to quality systems, increased rates of redundancies, holding unrealistic objectives, increase in costs of administering the outsourcing functions, poor readiness prior to outsourcing, and provision of unclear specifications and dilution of control. These challenges needed a guiding methodology to the management. The researcher recommended further research on outsourcing strategies in the private sector since it only dealt with the public sector that is the parastatals. In Kenya, majority of the businesses or firms have not realized the benefits of outsourcing since the concept has not gotten remarkable recognition and also the effects of outsourcing on organizational performance are not well documented. Deloitte, (2014) established that majority of the large firms that applied outsourcing strategy with the intention of cost saving did not achieve its goals all rather the costs increased by 9% although there was improved customer satisfaction with increased efficiency. Although several studies were undertaken, they did not outline the impact of outsourcing on performance of the said firms and especially in the private sector especially in supermarkets. This research therefore extended to establish the influence of business process outsourcing on performance of supermarkets in Machakos County.

General Objective

The main objective of this study was to establish the influence of business process outsourcing strategies on performance of supermarkets in Machakos County.

Specific Objectives

- (i) To establish the influence of security service outsourcing on performance of supermarkets in Machakos County.

- (ii) To establish the effect of computer and software service outsourcing on performance of supermarkets within Machakos County.
- (iii) To determine the influence of outsourcing procurement services on performance of supermarkets in Machakos County.
- (iv) To evaluate the influence of outsourcing legal services to improve on performance of supermarkets in Machakos County.

Research Questions

- (i) What is the influence of outsourcing security services on performance in supermarkets in Machakos County?
- (ii) What is the effect of outsourcing computer and software services on performance of supermarkets in Machakos County?
- (iii) What is the influence of outsourcing procurement services on performance of supermarkets in Machakos County?
- (iv) How has outsourcing of legal services influenced performance of supermarkets in Machakos County?

LITERATURE REVIEW

Theoretical Literature Review

Theoretical framework is the structure that support a theory of a research study and outlines the theories that explains why the research problem under study. This study is grounded on numerous theories related to business process outsourcing such as resource-based view (RBV) and transaction cost theory (TC). These theories underpin the current study and play an important role explaining the study variables.

Resource Based View Theory

This theory was first proposed by Wernerfelt (1984) which tends to argue that resources and capabilities vary differently for different firms though they can be made stable. The theory also makes emphasis that a firms' strategic resources are key determinants of an organizations competitive advantage and performance. A firm enjoys great profits with establishment of unique opportunities that help develop sustainable competitive advantage over its competitors, (Barney, 1991). Barney and Hesterly, (1996) suggested

that a firm may apply the resource-based view in outsourcing in order to improve their value, obtain rare resources as well as animate and organize resources and capabilities that would enhance improve their weakness.

Transaction Cost Theory

According to Coase, (1960), external outsourcing may be more effective than in sourcing in a competitive market environment. In business process outsourcing set up transaction costs may refer to the cost of monitoring mechanisms to prevent opportunistic behavior from service providers. It is also considered as the relationship between the client and service provider. Abdul-Halim & Chetta, (2009); Fill & Visser (2000), however views outsourcing of a firm's non- core operations to an external service provider may result to lower production and coordination costs.

Agency Theory

Agency theory was popularized by Jensen and Meckling (1976) and remains to be one of the most applied theories in social sciences. Agency theory describes the relationship between principals, such as stockholders, and agents, such as managers of various firms (Femi, 2013). Under agency relationship, the principal hires or delegates an agent the responsibility to carry out some work. Originally, agency theory was founded as a mechanism of instituting a good relationship between the management and the stakeholders (Jensen & Meckling, 1976). Eventually, agency theory has been extended to also involve the relationship between the inter-firm subjects (Lubis, Torong & Muda, 2016). In this context, agency theory is associated to understanding the linkage between the vendor and the outsourcer.

Empirical Review

This section presents various studies that were carried out by other researcher on business process outsourcing to test the models and theories. Their findings, research methodology research gaps, theoretical gaps, methodological gaps and contextual gaps. Several academicians and researches have been done in the area of business process outsourcing and performance although most researches have not confirmed their results, (Jiang & Qureshi, 2006). An assumption is made by these researchers that a high concern is on financial results of outsourcing for which in most cases is provided by managers whose estimates are from available accounting data. Generally, many methods have been applied to measure the business process outsourcing process/ outcome. Lacity and

Hischmei (1994) have concluded that most methods used in outsourcing are case studies and interviews. The other methodologies have focused on the stock prices and financial accounting, (Hayes, Huston & Rech, 2000).

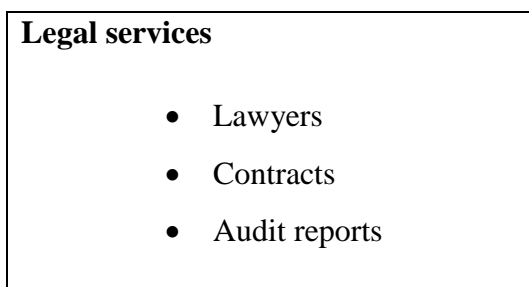
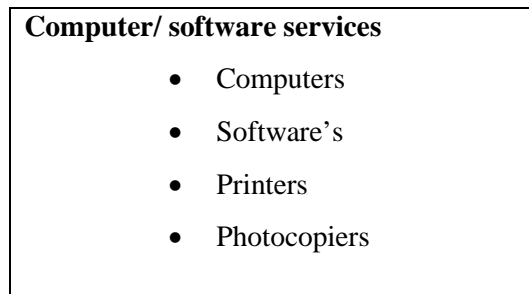
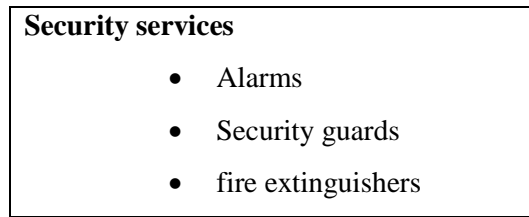
Most studies conclude that outsourcing improves efficiency but not profitability and productivity. Wang (2008) developed in their study a conceptual framework that was made to test the impact of IT outsourcing on how firms performed. In their study, a sample of 20 firms was put into test within a period of 1993 to 2003. The outcome of the study suggested that IT outsourcing firms have higher SGAs (selling, general, advertising, expenses) and lower return on asset (ROA) compared with other outsourcing counterparts in the year. Some studies of similar nature of IT outsourcing on banking industry have very limited scope; most of their methodologies revolve around case studies or surveys.

A study carried out by Ronald (2009), had the conclusion that the main reason behind a firm outsourcing its services is to increase productivity and efficiency while lowering operating costs in an increasingly competitive economy. Goldstein (2006), stated that most American companies have adopted outsourcing which has led to a substantial growth of opportunities as well as improved competitive state. An African study carried out by Philip (2007) revealed that many government agencies have not yet managed to embrace the benefit of business process outsourcing. In Kenya, many organizations are in the process of embracing business process outsourcing and so far only few firms have effectively employed the process. Business process outsourcing in government agencies in information communication technology (ICT) ministry plays an important role by enhancing delivery of quality services such as information communication technology infrastructure and internet services (Eyaa, 2009).

Conceptual Framework

Conceptual Model

Independent variables



Dependent variable



RESEARCH METHODOLOGY

Research Design

A research design outlines the process of gathering information, the methods used in gathering data and how the data is collected by use of some instruments and how that data would be organized and analyzed (Mugenda & Mugenda, 2003). Notably, there are three basic types of research designs, namely exploratory, causal and descriptive. Descriptive research design can further be decomposed into three major categories: survey studies, correlation studies and developmental studies. Moreover, descriptive designs can further be classified into cross-sectional or longitudinal studies. Cross-sectional studies draw samples of a range of elements from a specified population of the study and evaluate the efficacy at one point in time. On the other hand, longitudinal studies refer to a situation where the elements are repetitively measured over time.

Data Analysis and Presentation

Data analysis refers to editing, coding, classification and tabulation of data collected. Cooper and Schindler, (2014) described data analysis as a process of editing and reducing collected data to a convenient size. The researcher analyzed the data collected by use of a certain model ignoring the unanswered questionnaires being omitted to obtain qualitative data. The model used is as shown below:

$$OP = B_1Ss + B_2Cs + B_3Ps + B_4Ls + \xi$$

Where:

OP= organizational performance

B₁, = constant

Ss = security services

Cs =Computer services

Ps = procurement and logistic services

Ls = legal services

e = Error Term

DATA ANALYSIS PRESENTATION AND INTERPRETATION

Correlation Analysis

Correlation is a statistical measure of monotonic association between two variables. It was important to establish the correlations between the study variables since the empirical research was about the association between the variables. Explanatory and response variables were utilized in the correlation analysis. The explanatory variables taken into consideration in the correlation analysis included the security services, computer and software services, procurement and logistic services and legal services. The response variable was organizational performance. From the correlation matrix, the Pearson's coefficient (r) specifies the direction and degree of the correlation between the variables. The coefficient (r) ranges from -1 to + 1 where (r = 1) implies perfect correlation, (r = 0) suggest that the bivariate variables do not vary implying absence of any association whereas (r = -1) reveals perfect negative correlation. Table 4.9 indicates the outcome of correlation analysis.

Correlations Analysis Results

	SS	CSS	PLS	LS	OP
SS	1				
CSS	0.393**	1			
PLS	0.279**	0.317**	1		
LS	0.298**	0.223*	0.354**	1	
OP	0.149	0.272**	0.354**	0.411**	1

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

* . Correlation is significant at the 0.05 level (2-tailed).

From the correlation results, there was a weak positive and significant correlation between security services and computer software services ($r = 0.393$, $p < 0.01$). Procurement and logistic services significantly and positively correlated with both security services ($r = 0.279$, $p < 0.01$) and computer software services ($r = 0.317$, $p < 0.01$). There was a weak positive and significant correlation between legal service and security services ($r = 0.298$, $p < 0.01$), computer software services ($r = 0.223$, $p < 0.05$) as well as procurement and logistic services ($r = 0.354$, $p < 0.01$). Moreover, organizational performance positively and insignificantly correlated with security services ($r = 0.149$, p

> 0.05). In contrast, computer software services ($r = 0.272, p < 0.01$), procurement and logistic services ($r = 0.354, p < 0.01$) and legal services ($r = 0.411, p < 0.01$) significantly and positively correlated with organizational performance.

Since this study was cross-sectional in nature, the only diagnostic test that was carried out was multi collinearity test which was verified using correlation analysis. Multi collinearity refers to a situation where two or more explanatory variables are linearly related. The most common problems with multi collinearity include instability of parameter estimates, inflation of standard error estimates as well as biased inference statistics. From the study findings, the coefficients were less than the threshold proposed by Alin (2015), $r < 0.7$. This implies absence of multi collinearity among the study variables.

Multiple Regression Analysis

To estimate the influence of business process outsourcing on performance of supermarkets in Machakos County, multiple regression analysis was employed to establish the relationship. The results were as indicated in table 4.10.

Table 4.10: Regression Results

R²	0.239		
Adj. R²	0.207		
F(4, 95)	1.37		
Prob > F	0.000		
N	100		
Variable	Coefficients	t	P-value
Constant	2.092	5.935	0.000
SS	-0.050	-0.681	0.497
CSS	0.129	1.609	0.111
PLS	0.147	2.081	0.040
LS	0.255	3.273	0.001

Dependent Variable: Organizational Performance

Predictors: (Constant), S = Security Services; CSS = Computer & Software Services; PLS = Procurement & Logistic Services; LS = Legal Services

From the findings, the overall regression model was significant $R^2 = 0.239$, $F(4, 95) = 1.37$, $P < 0.05$. This suggests that 23.9% of variation in organizational performance can be explained by variation in security services, computer and software services, procurement and logistic services and legal services while the remaining 76.1% is attributed to other variables not included in the model.

In addition, when all other variables are held to a constant zero, organizational performance would be at a constant value of 2.092. The first objective was to examine the influence of security services on performance of supermarkets in Machakos County. The empirical results confirmed an insignificant and negative influence of security services on organizational performance ($\beta = -0.050$, $t = -0.681$, $p > 0.05$). This implies a unit increase in security services would result to a corresponding decrease in organizational performance by 0.05 units. The findings are in line with those of Giustiniano and Clariori (2013) who found out that there was a negative and an insignificant relationship between security services and performance of the firms. In contrast, the findings of this study do not support those of Elmuti (2014) who established a positive and significant effect of outsourcing security services and operational performance.

The second objective was to determine the influence of computer and software services on performance of supermarkets in Machakos County. The results indicated that computer and software services had an insignificant and positive influence on organizational performance ($\beta = 0.129$, $t = 1.609$, $p > 0.05$) which suggest that a unit increase in computer and software services would result into a corresponding improvement in organizational performance by 0.129 units. The findings concur with those of Kaiyoni (2016) who suggested that computer and software services insignificantly affect the performance of selected firms in Nakuru County. Conversely, the findings are not in line with Wang (2008) who established a significant positive link between computer and software services and performance.

The third objective was to determine the influence of procurement and logistic services on performance of supermarkets in Machakos County. The findings confirmed that procurement and logistic services was a positive and significant predictor of organizational performance ($\beta = 0.147$, $t = 2.081$, $p = < 0.05$). This implies that a unit increase in procurement and logistic services lead into a corresponding increase in organizational performance by 0.147units. The results support those of Kayumba (2019) who found out that procurement and logistic services positively and significantly influences the performance of manufacturing companies in Rwanda. However, the results contradict those of Gaceru (2017) who confirmed a negative and significant relationship between procurement and logistic services and performance of Bidco Africa Company.

The fourth objective was to evaluate the effect of legal services on performance of supermarkets in Machakos County. The beta coefficient ($\beta = 0.255$, $t = 3.273$, $p = < 0.05$) indicated a positive and significant relationship between legal services and organizational performance. This means that a unit increase in legal services leads to enhance organizational performance by 0.255units. The findings are in tandem with those of Eniola and Akinselure (2016) who suggested that there was a positive relationship between legal services and performance. Moreover, the results validate those of Gaceru (2017) Kaiyoni (2016) who established that legal services positively and significantly influence the performance of selected firms in Nakuru County. Since the regression coefficients of security services and computer and software services were insignificant, the regression model was rewritten as specified below:

$$\mathbf{OP = 2.092 + 0.147PLS + 0.255LS}$$

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Key Findings

The main objective of the study was to establish the relationship between business process outsourcing and the performance of supermarkets in Machakos County. To achieve this objective, primary data was gathered from 20 supermarkets within Machakos County. The findings showed that majority of the supermarkets had between 100 and 150 employees. In terms of major departments, most of the supermarkets had between 4 and 6 departments. Most of the supermarkets have been operational for the last 11 to 20 years. Concerning the leadership position, most of the employees were supervisors.

The influence of security services on performance

The first objective was to examine the influence of security services on performance of supermarkets in Machakos County. The results show that security services to a larger extent influence performance. In addition, the findings also indicate that security services were positively and significantly correlated with computer and software services, procurement and logistic services, legal and legal services while performance was insignificantly and positively correlated with organizational performance. Estimation results confirmed that there was a negative but insignificant relationship between security services and performance.

The influence of computer and software services on performance

The second objective was to determine the influence of computer and software services on performance of supermarkets in Machakos County. The findings confirmed that computer and software services to a larger extent affect performance. Moreover, the results also show that computer and software services were positively and significantly correlated with procurement and logistic services, legal and legal services organizational performance. Regression results suggest that there was a positive but insignificant relationship between computer and software services and performance.

The second objective was to determine the influence of computer and software services on performance of supermarkets in Machakos County. The findings confirmed that computer and software services to a larger extent affect performance. Moreover, the results also show that computer and software services were positively and significantly correlated with procurement and logistic services, legal and legal services organizational

performance. Regression results suggest that there was a positive but insignificant relationship between computer and software services and performance.

Influence of procurement and logistic services on performance

The third objective was to determine the influence of procurement and logistic services on performance of supermarkets in Machakos County. The outcome suggests that procurement and logistic services influenced performance to a larger extent. Likewise, the findings equally confirm that procurement and logistic services was positively and significantly correlated with legal services and organizational performance. Empirical findings indicate that there was a moderately positive and significant linkage between procurement and logistic services and performance.

The effect of legal services on performance

The fourth objective was to evaluate the effect of legal services on performance of supermarkets in Machakos County. The results indicate that legal services to a larger extent affected performance. Similarly, the results revealed that legal services were positively and significantly correlated organizational performance. Empirical results show that there was a moderately positive and significant linkage between legal services and performance.

Conclusions

Several conclusions were made based on the empirical findings. Security services were found to insignificantly influence organizational performance. The effect was furthermore found to be negative which implies that an increment in security services led into marginal reduction in organizational performance. Therefore, from the findings, it was concluded that increasing cost leadership strategy would result to an increase in organizational performance. Computer and software services were found to insignificantly affect performance of supermarkets. Furthermore, the influence of computer and software services on performance was confirmed to be positive. This meant that there was a positive relationship between computer and software services and performance. Consequently, from the empirical findings, it was concluded that increasing computer and software services would cause an increase in organizational performance.

There was significant effect of procurement and logistic services on firm performance. Moreover, the influence of procurement and logistic services was found to be positive. This was a confirmation that performance of supermarkets in Machakos County was influenced by procurement and logistic services. Therefore, based on the study findings, conclusion drawn was that increment in procurement and logistic services would in turn cause organizational performance to improve.

Legal services were significantly influenced by organizational performance. Similarly, legal services were found to affect the performance of supermarkets positively. This implies that performance of supermarkets was significantly and positively influenced by legal services. From the study outcome, it was concluded that a unit increase legal services leads to an increase in organizational performance.

5.4 Recommendations

The study makes numerous recommendations with respect to theory development, policy formulation and management practices. The study recommends that the scholars in the field of strategic management should take into consideration the empirical evidence adduced to further their research interests going forward. Theoretically, the academics should also consider the outcome of this study to further enhance the theoretical linkages between various dimensions of business process outsourcing and organizational performance.

The study further recommends the findings of this study are essential for policy formulation in regards to business process outsourcing of the merchandising firms in Kenya. The trade and other relevant state agencies in Kenya should apply the study outcome in decision making since it would assist in developing well-informed policies that are geared towards survival of many supermarkets considering the fact that currently most of them are facing a lot of liquidity issues.

Finally, the study recommends that the top management team of the respective supermarkets should use the findings for guidance in making necessary reforms to enhance their organizational performance. Specifically, because the study findings have drawn important lessons for success and best practices for the supermarkets against the backdrop of increased competition from other wholesalers and retailers in Kenya.

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