

## Extent to which Cement Manufacturing Firms in Kenya Outsource Services

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### Abstract

Service outsourcing is a concept that has been widely adopted by many manufacturing firms in today's world. Globalization has been the main reason of outsourcing. Companies have therefore worked tirelessly in order to find out new ways of running their business without losing track of their main reasons for existence. This has therefore prompted them to outsource services and this includes having their non-core functions being performed by third parties. Cement manufacturing firms namely:-Mombasa Cement Ltd, ARM Cement Ltd, Bamburi Cement Ltd, Savannah Cement Ltd, East African Portland Cement Company Ltd and National Cement Ltd., outsource their non-core functions which include:- security guard, laundry, cleaning, catering, transport and logistics, information technology and customer care services. This study therefore sought to establish the extent to which cement manufacturing companies in Kenya outsource services. The research used a descriptive research design. Primary data was collected using questionnaires and administered to 53 heads of department in the cement manufacturing firms in Kenya and sampled purposively. The data was analyzed using descriptive analysis (mean and standard deviation). The study established that cement manufacturing firms outsourced services to a greater extent in order to reduce their operating costs, concentrate on their main functions, increase quality and to improve response to the changing market demands

**Keywords:** Extent, Cement manufacturing firms, Outsourcing

### 1. Introduction

Globalization has posed numerous challenges to businesses. This has forced many businesses to look for alternative means of running their operations without losing track of their main reasons for existence. It is an efficient cost cutting strategy if well utilized. Companies sometimes find it affordable to purchase goods than to produce them internally. Service outsourcing is one of the ways in which businesses use to lower costs associated with their non-core functions. This is important to organizations since they get the chance to concentrate on their main duties (Brown and Wilson, 2005).

In the past, the main functions of outsourcing were to cut costs (Johnson 2008 and Leavitt, 2007). With the growth of outsourcing as a function, the aims have changed. Kakabadse and Kakabadse (2000) assert that the main aim of outsourcing is no longer cost reduction but rather value addition. Value addition is evident in many organizations since they strive to ensure quick delivery of services, at the right place, at the right time and in the right qualities. Service outsourcing is still experiencing growth and study shows that it is responsible for the increase of GDP in the United States (Aron and Anand 2006).

Some of the service outsourcing practices include: customer service support, transport and logistics services, laundry, cleaning, security guard services, information technology and catering services.

Quinn (1999), defined outsourcing as the act of devolving the day to day performance of services to an outside party or agency. Outsourcing as a function cuts across all business processes including: product design; manufacturing; Information Technology; customer care; catering; procurement and many more services. According to Corbett (1999), outsourcing refers to a management strategy where business unit or organization devolves its non-core major functions to an efficient and specialized service provider.

According to Brown and Wilson (2005), service outsourcing is a growing function. Some of the services that that were studied and were to grow tremendously between 2008 and 2009 were the news services, supply chain, medical, legal and financial services. The Gartner group study approximated that the worldwide outsourcing market was set to grow by 8.1% in the year 2008. Aron and Anand (2006) cited external studies which projected the growth of global business process outsourcing form \$123.6 billion in the year 2001 to over \$230 billion in the year 2015. In the United States of America, a huge chunk of the service outsourcing practices are service related.

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Cement manufacturing firms have been in existence for decades in Kenya. Some have been newly formed while others are still in the process of formation. Cement is an essential building material used in the construction industry in Kenya. World Bank and OECD (1998) found out that industries in Kenya contribute 18% of Kenya's GDP. Initially, the Kenyan government relied heavily on importation of finished products. In the early 1990s, import substitution industrialization strategy was introduced in the manufacturing sector. Its main aim was to enhance local manufacturing by blocking and discouraging manufacturing imports from abroad. With the growing knowledge, the government adopted export oriented industrialization in order to replace import substitution industrialization (World Bank and OECD, 1998).

After a period of slow growth in Kenya, the manufacturing sector picked up between 2004 and 2005 with the outputs increasing by 4.1% (World Bank, 2007). This was after the government had given incentives to the sector and demands for the products had risen. There are six (6) cement manufacturing firms in Kenya namely ARM cement, Bamburi cement, East African Portland cement, National cement, Mombasa cement and Savannah cement. Others are still in the process of formation including Cemtech in West Pokot and Dangote cement in Kitui. Common wealth network (2016) confirms that the manufacturing sector is of great significance to the Kenyan economy. In 2011, 254,000 people had been employed in the manufacturing sector and this translates to 13% of the total Kenyan employment and this contributed \$285,698 towards the GDP.

According to the East African cement producers association (2009), cement consumption in east Africa is continuously growing and this indicates economic growth and strength of the country. However, the performance of the manufacturing sector has been faced by various challenges that the government needs to look into in order to save the Kenyan citizens. Underdeveloped institutional frameworks, physical infrastructure and limited financial access have led to higher costs of carrying out the business and lowered the capital injection (Mars Group Kenya, 2011). Through government subsidies to the cement manufacturing firms, it will be easier for the firms to manufacture the products at lower costs and also sell to the end user at lower costs.

### 1.1 Research Problem

Service outsourcing is a function that has evolved due to globalization and dynamic business environment. The urge to meet the changing market demands prompt business organizations to reduce supply chain costs (Leavitt, 2007), concentrate on their core competencies (Brown and Wilson, 2005) and increase flexibility (Johnson, 2008). Service outsourcing will increase Kenya's GDP if emphasized in business organizations. Outsourcing a provider whose expertise will address a firm's weakness, analyzing performance data and cost cutting

are some of the strategies that will ensure supply chain efficiency and increased productivity (Manpower Group, 2012).

Service outsourcing is increasingly being adopted by cement manufacturing firms in Kenya since they are able to concentrate more on their core functions (Brown and Wilson, 2005), while achieving speedy delivery of services, improved quality, flexibility and access to new talents and innovations in delivering value to the end user (Kakabadse and Kakabadse, 2000). The main challenges that cement manufacturing firms in Kenya are facing today is how to deliver the right products, in the right quality and quantity, at the right place and in the right time. Failure to address these challenges leads to lack of trust hence reduced customer loyalty and reduced market share. By looking at the practice in other industries, cement manufacturing firms in Kenya have turned to service outsourcing in managing some of their business aspects. This will enhance value creation and value addition (Kakabadse and Kakabadse, 2000).

Mazlan and Ali (2006) studied the relationship between outsourcing and supply chain management. They found out that outsourcing was a very significant tool in implementing supply chain management. Willi and Knolmayer (2007) studied the effect of outsourcing announcements on market values of Swiss firms. The study revealed that outsourcing announcements on a company's market value can be contradictory and to some extent ambiguous. Willi and Knolmayer (2007) studied the effect of outsourcing announcements on market values of Swiss firms. The study revealed that outsourcing announcements on a company's market value can be contradictory and to some extent ambiguous.

Locally, Muriithi (2014) studied outsourcing and performance of savings and credits society in Nairobi. The study revealed that outsourcing was practiced to a great extent by the SACCOs but the effect of outsourcing on performance was not significantly seen. From the above studies, not much has been done on the extent to which cement manufacturing firms outsource services. This research therefore attempts to answer the following question; to what extent do cement manufacturing firms in Kenya outsource services?

## 2. Methodology

A descriptive research design was used to determine the extent to which cement manufacturing firms outsource services. Any research study where information is gathered without changing or manipulating the environment is referred to as a descriptive study. The population of interest for this study was cement manufacturing firms in Kenya of which they were six in number. All the cement manufacturing firms in Kenya were used in this study since the population was small.

Primary data was used in this study where the respondents were heads of departments or their

equivalent. In Savanna cement ltd, there were 8 departments, Bamburi Cement Ltd, 10 departments, ARM Cement Ltd, 10 departments, EAPCC Ltd, 10 departments, National Cement Ltd, 7 departments and in Mombasa Cement Ltd, 8 departments. This totalled to 53 departments. The questionnaires were designed on a five point likert scale and administered using the drop and pick up later method (1 week). Descriptive statistics (Mean and standard deviation) was used to analyze the questionnaire. The findings were presented in tables.

### 3. Findings and discussions

From the data gathered, out of the 53 questionnaires that were disbursed, 37 of them were filled and returned, which represented a 70% response rate. The response rate was considered good to make conclusions and recommendations for the study. Mugenda and Mugenda (2003) asserted that a 50% response rate was adequate, 60% response rate was good and 70% response was rated very good. This is supported by Bailey (1987) that a response rate of 50% was adequate, while a response rate greater than 70% was very good. From this assertion, the response rate in this case was 70% implying very good response rate.

The high response rate was attributed to the data collection methods, where the researcher pre-notified the potential respondents of the intended study, utilized a self-administered questionnaire where the participants completed and these were picked after a week and follow up calls made to clarify queries as well as prompt the participants to fill the questionnaires.

#### 3.1 Extent to which service outsourcing is implemented in cement manufacturing firms in Kenya

This section sought to address the objective which was to establish the extent to which cement manufacturing company in Kenya outsource services. Respondents were requested to show the extent to which service outsourcing is implemented in cement manufacturing firms in Kenya.

**Table 3.1** Extent of service outsourcing practices

Extent to which Service Outsourcing is implemented in Cement Manufacturing Companies			
Variables	N	Mean	Std. Dev
Transport and logistics services	37	3.8649	.71345
Security guard services	37	3.5135	1.07035
Laundry services	37	3.4054	1.27931
Catering services	37	2.6486	1.27402
Cleaning services	37	2.2432	1.29969
IT services	37	1.5946	0.68554
Customer services	37	1.4595	0.83648
<b>Research data (2016)</b>			

The above (table 4.6) indicated that service outsourcing is practiced by cement manufacturing firms, leading with transport and logistics services with a mean of 3.8649, followed by security guard services (mean=3.5135), laundry services (mean=3.4054), catering services (mean=2.6486), cleaning services (mean=2.2432), IT services (mean=1.5946) and lastly customer care services (mean=1.4595) hence this help improve a firms' benefits. This result concurs with Bender (1999), who affirms that the world is embracing the practice of outsourcing and firms too are adopting this phenomenon in order to expand into other global market. Hayes et al. (2000) investigated how information systems (IS) outsourcing announcements affected the market value of publicly traded contract-granting firms. They found that outsourcing announcements had an important positive effect on small firms'. However, its effect on large firms was not significantly seen. Kinyanjui (2014) who conducted a research on procurement outsourcing and supply chain performance of manufacturing firms in Nairobi concluded that manufacturing firms outsourced procurement activities to a great extent except for the purchasing function which was purchased at a moderate extent.

According to Van Hoek (2000), through the analysis of the transaction cost theory with the decision to buy or make predicts that a manager is likely to adopt any form of organization that will tend to lower the transactional costs. Many cement manufacturing companies outsource services with the aim of reducing costs and concentrating on their core functions.

### Conclusion and Recommendations

The objective of this study was to determine the extent to which cement manufacturing firms in Kenya outsource services. The study established that cement manufacturing firms in Kenya outsourced services but the extent varied with each firm. Transport and logistics services, catering services, security guard services, laundry services and cleaning services were outsourced to a great extent in cement manufacturing firms in Kenya. Information technology services and customer care were not outsourced to a great extent in the firms.

The study concludes that cement manufacturing companies have been on the forefront in outsourcing services. The services outsourced included transport and logistics services, security guard services, cleaning services, catering services, information technology services, laundry services and customer care services. Most of the cement manufacturing companies embrace service outsourcing while a few focus on building internal competencies.

This study recommends that cement manufacturing firms should outsource services in order for them to be able to reduce the costs that are related to building internal competencies. This will be significant to cement manufacturing firms as they will monitor the services

which are cheap to outsource and those that can be provided in-house. Through having effective plans or method for evaluation, cement manufacturing companies will be able to reduce costs that are associated with outsourcing.

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