

1 **THE IMPACT OF COST- DRIVEN STRATEGIC OUTSOURCING ON THE**
2 **ORGANIZATIONAL PERFORMANCE OF MANUFACTURING COMPANIES IN**
3 **NIGERIA.**

4
5
6 **Abstract**

7 *The pivotal roles of manufacturing sector in economic growth and sustainable development in*
8 *developed and developing countries. However, the highly competitive environment along with*
9 *customers' demands for tailored products and services has forced manufacturing companies*
10 *especially in Nigeria to experience slow growth. The main objective of this study is to determine*
11 *the impact of cost drive outsourcing strategy on organizational performance of manufacturing*
12 *companies in Nigeria. The questionnaires were administered among the one hundred and twenty*
13 *(120) management staff members of the sixty selected manufacturing companies in Nigeria*
14 *through purposive sampling method, and this was done personally by the researcher. Linear*
15 *regression was used to analyzed and interpret the data use in this research. The study reveals*
16 *that cost-driven is a major strategy that help an organization in achieving its stated objectives in*
17 *global competitive environment. The findings further show that cost driven has a significant*
18 *impact on the organizational performance of manufacturing sector in Nigeria. Subsequently, the*
19 *study recommends that management of manufacturing companies should adopt strategic and*
20 *well thought out outsourcing partnerships in order to continuously reduce operating costs for*
21 *growth.*

22 **Keywords:** Cost-Driven, Outsourcing, Competitive Environment, Performance, Manufacturing

23
24 **Introduction**

25 The pivotal roles of manufacturing sector in economic growth and sustainable development in
26 developed and developing countries have been acknowledged by scholars, professionals and
27 economists. The sector is the major determinant of the level of industrialization and the real
28 growth of any economy by providing intermediate inputs, finished goods, increasing foreign
29 exchange earnings, positive spillover effects and employment opportunities. However, the
30 highly competitive environment along with customers' demands for tailored products and
31 services has forced manufacturing companies especially in Nigeria to experience slow growth.

32 This is evidenced by Manufacturing Association of Nigeria (2016) that 30percent of the
33 manufacturing firms are moribund, 60 percent were classified as ailing while only 10 percent
34 were classified as operating at a sustainable level. In another report, National Bureau of
35 Statistics (2017) also revealed that manufacturing sector's contribution to the economy has
36 dropped from N8.97tn as of the end of December 2015 to N8.89tn as of the end of December
37 2016.

38 Outsourcing is a management strategy through which a company assigns some non-core
39 functions to more specialized, more effective and more efficient service providers such that the
40 organization can be left to perform and concentrate with the core business activities. Outsourcing
41 activities have existed for centuries. The earliest outsourcing activities were found in the
42 prehistoric Roman Empire (Kakabadse & Kakabadse, 2002) where tax collection was done
43 through outsourcing. In the history of America, it used to outsource the production of wagon
44 covers to Scotland, and the raw materials for production process was imported from India,
45 (Kelly, 2002). Driven by globalization pressures resulting from an urge to deal with both
46 opportunities and threats brought about by global competition, firms from different corners of the
47 world started looking for more affordable resources available in different offshore locations
48 Strategic outsourcing has been recognized by the researchers and managers as one of the
49 managerial tools that keep a business competitive in this century. Nyangau, Mburu and Ogollah
50 (2014) acknowledge that the world has embraced the phenomenon of outsourcing and companies
51 have adopted this principle to help them expand into other markets. According to Maku and
52 Iravo (2013), outsourcing focuses on the achievement of the overall business benefits, whether
53 enhancing an organization's competitive position in the marketplace or improving shareholder
54 returns. A study by International Business Machine (IBM) (2010) also posits that outsourcing is
55 a strategic business decision that is likely to boost a company's performance. Outsourcing is the
56 replacing of in-house provided activities by subcontracting it out to external agents. Agburu,
57 Anza and Iyortsuun (2017) observe that outsourcing avails organizations the opportunity to
58 concentrate her core competencies on definable preeminence business area and provides a unique
59 value for customers.

60 In spite of the increasing trend in outsourcing arrangements, there are inadequate studies
61 on how outsourcing activities affect organization performance in manufacturing sector in
62 Nigeria. In order to bridge that gap, this research seeks to study the effect of strategic
63 outsourcing on organization performance in manufacturing companies in Nigerian.

64

65 **Research Objectives**

66 The general objective of the study is to determine the impact of cost driven outsourcing strategy
67 on the performance of manufacturing sector in Nigeria.

68

69 **Specific objective of the study**

70 i. To determine the impact of cost-driven outsourcing strategy on organizational
71 performance of manufacturing sector in Nigeria..

72 **Research Hypothesis**

73 The following hypotheses was tested and formulated in a null form.

74 **H₀₁:** Cost-driven outsourcing has no significant effect on organizational performance of
75 manufacturing sector in Nigeria.

76 .

77 **Justification of the study**

78 This study is justify the needs for detail to enable the management of Nigerian manufacturing
79 sector to understand how the outsourcing strategy would influence the performance of the
80 company, and further shed more light on how they can optimize on it to gain and retain
81 competitive advantage in today's turbulent business environment. The study would also
82 contribute to the existing literature in the field of strategic management for the manufacturing
83 industry in Nigeria. It should also act as a stimulus for further research to refine and extend the
84 present study especially in Nigeria

85

86 **Literature Review**

87 **Concept of Strategic Outsourcing**

88 The concept of strategic outsourcing is not new especially in developed countries. According to
89 Karam, Fariba, and Arash (2014), strategic outsourcing originated way back in the 1960s and
90 1970 and is deeply rooted in the history of the growth of modern business enterprise. Strategic
91 outsourcing has led many enterprises to review the core activities and concentrate on their core
92 competences, i.e. what the organization believe they do best (Lysons, 2014). Lacey and
93 Blumberg (2005) defined outsourcing as “reliance on external sources for manufacturing
94 components and other value adding activities”. Some focus on international sourcing of
95 components, sub-systems and completed products (Kamuri, 2010). Outsourcing involves

96 performing a function or process such as manufacturing operation and other value-additions
97 activities with reliance on external sources, a third-party or supplier, so as to attain business level
98 benefits (Lei & Hitt, 1995). Strategic outsourcing includes “make-or-buy” (Chanzu, 2002)
99 decision which produces the company's product internally or subcontract to other service
100 providers. Some researchers focus on international sourcing of components, sub-systems and
101 completed products (Feenstra & Hanson, 1996). According to Sako (2006), outsourcing can be
102 defined as the act of one company contracting with another company to provide services that
103 might otherwise be performed by in-house employees. It was further described as a contract
104 service agreement in which an organization hires out all or part of its operations to an external
105 company. The major characteristics of outsourcing are; the activities initially performed in-house
106 are transferred to an external party, the assets, knowledge and in some cases, people; there will
107 be an external relationship between the parties involved over a long period of time, that in
108 transferring the activity to the external party the buyer is exposed to a cost and a risk profile,
109 both of which are new to the companies involved (Maku & Iravo, 2013).

110

111 **Concept of Organizational Performance**

112 According to Pitt and Tucker (2008), organizational performance is defined as “a vital
113 sign of the organization, showing how well activities within a process or the outputs of a process
114 achieve a specific goal”. It is also defined as “a process of assessing progress towards achieving
115 pre-determined goals, including information on the efficiency by which resources are
116 transformed into goods and services, the quality of these outputs and outcomes, and the
117 effectiveness of organizational objectives” (Amartunga & Baldry, 2003). Rosenzweig (2007)
118 also describe organizational performance as the actual output or results of an organization as
119 measured against its intended outputs (or goals and objectives). Pierre, Timothy, George, and
120 Gerry (2009), however define organizational performance as the ability of an organization to
121 fulfill its mission through sound management, strong governance and a persistent rededication to
122 achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused,
123 entrepreneurial, outcomes oriented and sustainable.

124 An organizations performance can be measured through organizational financial results
125 however; there are other measures that can be used. These measures include customer
126 satisfaction/dissatisfaction, customer retention/behaviour, product and service quality, waste,

127 flexibility, organizational capabilities and yield/ productivity. These measures however have to
128 be in tandem with the organization's mission and goals.

129

130 **Theoretical Framework**

131 This study anchors on Core competency theory because the theory is relevant to this study. Core
132 competency theory explains how to coordinate diverse production skills and integrate multiple
133 streams of technologies for organizations in order to have competitive advantage in global
134 competitive environment. This theory suggests that firm activities should either be performed in
135 house or by external service providers. It is based on make or buy decision. Non-core activities
136 should be considered for outsourcing to the best suited service providers who are experts in that
137 field.

138 However some few non-core activities which have a big impact on competitive advantage
139 should be retained in house (Chandra & Kumar, 2000). According to Akinbola, Ogunnaike and
140 Ojo (2013), core competency can take various forms, including technical/subject matter know-
141 how, a reliable process and/or close relationships with customers and suppliers. It may also
142 include product development or culture, such as employee dedication, best human resource
143 management (HRM), good market coverage etc. Core competencies are particular strengths
144 relative to other organizations in the industry which provide the fundamental basis for the
145 provision of added value. Core competencies refer to the collective knowledge of the production
146 system concerned in particular knowledge of procedures and how to best integrate and optimize
147 them (Simchi-Levi, Keminisky&Simchi-Levi, 2004).

148

149

150 **2.1 Cost-Driven Outsourcing and Organizational Performance**

151 The past few decades have witnessed a boom of outsourcing in which firms transfer their
152 non-core business activities to third-party service providers. Functions that have seen substantial
153 outsourcing include information technology management, support services, manufacturing,
154 logistics, and customer support. The biggest motivation for such outsourcing has been to
155 maintain a competitive edge by reducing costs and focusing on core competencies (Zhao, Xue &
156 Zhang, 2014).

157 Today, outsourcing has become a strategic lever in the global economy and it is widely
158 expected that this trend will continue in the near future. Kenyon and Meixell (2011) found out

159 that outsourcing works better for international markets where labor and cost of doing business is
160 lower. However, as Insinga and Werle (2000) point out, outsourcing at the operational level can
161 easily lead to the development of dependencies that create unforeseen strategic vulnerabilities.

162 The fact that outsourcing can be strategic is in no doubt. However, the most important
163 thing is a foremost recognition of the strategic value that outsourcing can generate to any
164 organization if handled correctly. As Insinga and Werle (2000) note, the real risk is in losing the
165 strategic intent of outsourcing in the day-to-day hustle and bustle of the organization's
166 operations. "At this level," they point out, "the dominant success metric of outsourcing becomes
167 lower cost, period." (p. 58). They further argue that in order to avoid losing sight of the strategic
168 intent, firms must institutionalize a robust decision making process to govern the outsourcing
169 relationship in such a way that hard-wires the operations to the strategic.

170 Mella and Pellicelli (2012) emphasized on the strategic concept of outsourcing and the
171 growing demand for offshore outsourcing and contract manufacturing in lower cost countries
172 such as India and China, fueled by these countries' comparative advantage. Their work clearly
173 advocates for a strategic approach to outsourcing in foreign countries

174

175 **Empirical Review**

176 Prior studies reveal that outsourcing offers numerous advantages and the potential benefits
177 include cost savings, efficiency gains, improved flexibility, access to world-class expertise and
178 focus on core competencies. However, outsourcing also poses numerous risks that must be
179 managed in order for outsourcing to be successful. For example, Kamanga and Ismail (2016)
180 study the effects of outsourcing on organization performance in manufacturing sector in Kenyan
181 firms. The population of the study consist of 42 management staff from three major departments
182 namely: Production, transport and agriculture, Engineering. The data was quantitatively analyzed
183 based on research objectives. Both correlation and regression analysis were used to analyse the
184 data. The results reviewed that cost, quality, technology adaption have significant effect on
185 organization performance.

186 Jirawuttinunt (2015) also verify the relationships among human resource outsourcing of
187 four activities such as recruitment activities, training administration, payroll management, and
188 human resource information system and organizational performance through HR cost efficiency,
189 effective HR development and HR flexibility. The model is tested by using data collected from
190 mail survey questionnaires of 165 multinational firms and using a questionnaire as the

191 instrument. The results of OLS regression analysis show that HRM outsourcing has a significant
192 impact on organizational performance both direct and indirect via HR cost efficiency, effective
193 HR development and HR flexibility. Vivian and Christopher (2015) also examine the effect of
194 Information Technology Outsourcing (ITO) practices on the performance of banking sector in
195 Kenyan. Balance Scorecard was used to measure performance as it considers both financial and
196 non-financial aspects. The study took the form of a descriptive survey design with a target
197 population of 14 commercial banks operating in Kenya. Primary data was collected from
198 structured questionnaires and secondary data was collected from the banks past financial records.
199 Results revealed that connectivity and Help desk support were the most outsourced IT functions
200 in the commercial banks. The study also revealed the two main drivers for ITO were strategic
201 focus and cost reduction. The study further revealed that ITO has a positive and significant effect
202 on financial performance, learning and growth, customer satisfaction and internal processes.

203 Akinbola, Ogunnaike and Ojo (2013) also examine the effect of enterprise outsourcing strategies
204 on marketing performance of fast food industry in Lagos State, Nigeria. Copies of questionnaire
205 were distributed purposively to ten fast food outlets in Lagos, Nigeria. Two hypotheses were
206 developed and were subjected to descriptive and regression analysis. Results reveal that
207 outsourcing contributed to increase in marketing performance. Dapper (2013) carries out to study
208 personnel outsourcing and corporate performance. In carrying out this study, the researcher used
209 AGIP Oil Company in Port Harcourt as a case study. A total number of fifty one (51)
210 questionnaires were administered to employees in the personnel department of the company. The
211 Yaro Yemen's formula was adopted during the determination of the sample size. Hypotheses
212 were also formulated and t tested using the chi-square statistical/mathematical technique. The
213 researcher uncovered that there is a significant effect of personnel outsourcing on corporate
214 performance. Kenyon and Meixell (2011) find out that outsourcing works better for international
215 markets where labor and cost of doing business is lower. Nordin (2008) also asserts that
216 outsourcing of some value chain activities can generate operational efficiency by reducing
217 capital investment and commitment as well as ensuring maximum utilization of the existing
218 resources in a way that generates maximum value from the least possible inputs

219 However, as Insinga and Werle (2000) point out, outsourcing at the operational level can
220 easily lead to the development of dependencies that create unforeseen strategic vulnerabilities. In
221 the same vein, Yeboah (2013) examines the relationship between outsourcing and organizational

222 performance in the services sector. The result reveals that outsourcing has no significant effect
223 on organizational performance.

224 **Methodology**

225 **Research Design:** The study adopted a quantitative research design. Quantitative research
226 design was employed because is an efficient way of gathering data to help address a research
227 questions and one can collect unbiased data and develop sensible decision based on analyzed
228 results (Van de van, 2007).

229 **Sampling Method and Sample Size:** Purposive random sampling technique was used to select
230 two management staff each from the sixty (60) selected manufacturing companies in Nigeria
231 totaling one hundred and twenty (120) respondents as a sample size for the study.

232

233 **Data Collection Instruments:** A structured questionnaire was used to collect the relevant
234 information from the study's participants.

235

236 **Regression Model**

$$237 Y_1 = \alpha + \beta_1 X_1 + \mu$$

238 Where the variables are defined as:

239 Y₁ - Organizational Performance

240 X₁ - Cost driven outsourcing

241 α = regression output (constant)

242 μ - Error term.

243

244 **Data analysis**

245 Data analysis is the process of data to make meaningful information (Saunders, Lewis &
 246 Thornhill, 2009) defined data as mechanism for reducing and organizing data to produce findings
 247 that require interpretation by researcher. According to Hyndman (2008) data processing involves
 248 translating the answers on a questionnaire into a form that can be manipulated to produce
 249 statistics. This involves coding, editing, data entry, and monitoring the whole data processing
 250 procedure. Data collected was analyzed by the use of statistical package for social sciences
 251 (SPSS) version 20.0 computer software. Thus any mean score up to 3 and above was interpreted
 252 as acceptable by respondents while 2.99 and below is adjudged rejected by the respondents.
 253 Regression Analysis was used to test the hypotheses.

254 **Validity and Reliability of Research Instruments:** The instruments used in this study were
 255 submitted to a panel of experts for validation. The panel carried out a content analysis of each of
 256 the questionnaires and eliminated items found to be irrelevant to the research problem. After
 257 necessary modifications, the panel of experts recommended the use of the instruments for the
 258 study. The scales were subjected to further item analysis as to determine their psychometric
 259 soundness as indicated in Table1 below:

260 Table 1: Summary of Results of the Measurement Instruments Validation

Scale	No of Items	Meaning Bartlett	KMO	Eigenvalue of the principal Component	% of the Variance	α of Cronbach
Cost-driven Outsourcing Questionnaire	7	p = .000 (significant)	0.734	3.107	76.19%	0.77

261 Source: Field Report, 2019

262 From Table 2 above, factor loads of all the indicators are higher than 0.5 which shows that the
 263 questions highly explain the variance of their variables so we can say that the measurement
 264 model has high factor validity.

265
 266
 267
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 269
 270

271 **Results and Discussion**

272 **Table 2: Distribution of respondents by effect of cost-driven outsourcing on organizational**
 273 **performance**

Statement	Mean	Rank
Outsourcing has reduced costs (overheads and fixed costs) in the organization	4.04	Accepted
Outsourcing has reduced the risk of doing business	3.98	Accepted
The cost of outsourcing has been lower than the cost of acquiring more resources to do work internally	4.01	Accepted
Since we started outsourcing, we have seen a great improvement in efficiency	3.88	Accepted
Outsourcing has created better short term performance	3.87	Accepted
Outsourcing has created better long term performance	4.03	Accepted
Outsourcing has created better intellectual value in the long run	4.05	Accepted
Grand mean	3.97	

274 **Source:** Field report, 2019

275 In Table 3, the grand mean of 3.97 which is above the criterion mean of 3 shows that
 276 respondents agreed that cost-driven outsourcing has significant effect on organizational
 277 performance. Furthermore, respondents believe that outsourcing has created better intellectual
 278 value in the long run, Outsourcing has reduced costs (overheads and fixed costs) in the
 279 organization, outsourcing has created better long term performance, the cost of outsourcing has
 280 been lower than the cost of acquiring more resources to do work internally and outsourcing has
 281 reduced the risk of doing business with mean values of 4.05, 4.04, 4.03, 4.01 and 3.98
 282 respectively. The result is similar to the study of Musau, (2016) that cost –driven outsourcing is a
 283 major determinant of organizational performance.

284 **Table 3: Impact of Cost-Driven Outsourcing on Organizational Performance**
 285

Model	R	R ²	Adjusted R ²	Std error of the estimate
1	0.688	0.473	0.445	0.352

Explanatory variable	B	Std error	t – value	p- value	Remarks
Constant	17.693	0.464	15.105	0.000	
Cost-driven outsourcing	0.260	0.125	0.233	0.017	S

286 **Source:** Field report, 2019

287 From the table above it indicated that cost-driven outsourcing ($\beta = 0.26$; $t = 0.233$ $P < .05$)
288 has positive and significant impact on organizational performance. Result also indicated that
289 cost-driven outsourcing has 37.2% decisive influence on organizational performance. This means
290 that cost-driven out sourcing has strong impact on organizational performance. The study
291 conforms to Kamanga and Ismail (2016) and Jirawuttinunt, (2015) that cost–driven outsourcing
292 is a strong predictor of organizational performance

293 Therefore, the null hypothesis which states that cost-driven outsourcing has no impact
294 organizational performance is rejected, while the alternative was accepted.

295 **Conclusion and Recommendation**

296 This study examines the impact of cost driven strategic outsourcing on organizational
297 performance. The study revealed that cost driven strategic outsourcing is a major strategies that
298 help an organization to achieve its objectives in global competitive environment.. Subsequently,
299 the study recommends that management of manufacturing companies should adopt cost driven
300 strategic outsourcing in order to continuously reduce operating costs for growth.

301

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