

# **EFFECTS OF OUTSOURCING AS A BUSINESS LINKAGE ON THE GROWTH OF DAIRY ENTERPRISES: A SURVEY OF DAIRY ENTERPRISES IN MOUNT KENYA REGION**

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## **Abstract**

*This research aimed at investigating the effects of outsourcing on the growth of micro, small and medium enterprises in the dairy sector in the Mount Kenya region. The first chapter discusses the background and describes the problem studied. The paper reviews of the literature related to the various business growth models while attempting to inquire into the relationship between outsourcing and enterprise growth. It also presents the conceptual framework and an analysis of the empirical data as well as describing the methods used in the study. The study revealed that outsourcing has a positive effect on the growth of the Dairy Enterprises in the Mount Kenya Region especially on profitability, employment, market share, and product base. The key conclusions are that there is a high frequency of outsourcing among the dairy enterprises in the Mount Kenya region particularly on transport. The study concludes that outsourcing is key to the growth of micro, small and medium enterprises in the dairy sub-sector and recommends creation of an enabling environment and provision of incentives for both sizes of enterprises to create mutually beneficial and productive business linkages such as outsourcing.*

*Keywords: Firm, Enterprise, Firm Growth, Outsourcing, MSME, Business Linkages*

## INTRODUCTION

Micro, Small and Medium enterprises (MSMEs) are widely acknowledged in the developing as well as developed countries to play a critical role in generating employment, stimulating growth and creating social cohesion besides other benefits according to a report by Economic Commission for Africa (ECA, 2000). Several literature sources asserts that promoting a country's small scale sector plays a crucial role in maintaining high employment and income generation which is critical for achieving sustainable growth and development among economies (United Nations Conference on Trade and Development (UNCTAD), 2005; Hoang, 2000; Daniels, 1998). Specifically, Daniels (1998) stresses that Small and Medium Enterprises (SMEs) can play a key role in triggering and sustaining economic growth and equitable development in developing countries.

Goldmark and Barber (2005), argues that smaller enterprises operating within a proper framework have the capacity to contribute towards the building of a sound and competitive economy, wealth creation, employment generation and combat poverty and exclusion effectively. This is confirmed in a United States of America International Development report (USAID, 2005) that smaller firms offer a number of potential advantages as partners in value chains, often serving as a flexible and low-cost production resources, offering proximity to markets and other key resources. On the other hand, MSMEs and mainly in developing countries are faced by a myriad growth related challenges. They have limited access to market information and financing, lack management skills or production expertise. They are also unable to match product quality requirements or to scale up quickly (Liedholm, 2001). These enterprises are thus under tremendous pressure to innovate and change, restructure their operations and achieve efficiencies in production but they often lack resources to do so.

To enhance their growth, MSMEs need to focus on a number of key business challenges such as reducing costs, improving employee productivity and building competitive advantage through quality products and services and other entrepreneurial interventions (UNCTAD, 2005). They can only achieve that if they are competitive in terms of price, quality of goods, and able to meet delivery requirements. Business growth involves an increasing number of knowledge-intensive activities such as product design, process engineering, quality management and generally new management routines.

According to Hussain (2000), an emerging opportunity for smaller enterprises to reap the potential benefits of globalization and global trade that will enable them grow is represented by the establishment of business linkages. Enterprise linkages as argued by Pitelis (2002) represent one of the best ways for enterprises to enhance their competitiveness and acquire a series of critical missing assets, such as access to finance, cost reduction, technology,

management skills, specialized knowledge and even international markets that can enhance their chances of growth. The Organization for Economic Co-operation and Development (OECD, 2004), confirms that inter-firm linkages facilitate enterprise growth, and offer the prospect to small firms to compete on a par with larger enterprises. Specifically, the report argues that business linkages can lead to greater specialization amongst small firms, opening opportunities for economies of scope and scale. Productivity, innovativeness and competitive performance, can also be enhanced through business linkages (UNCTAD, 2005). Narain (2005), argues that the long term policy goal of business linkages must necessarily be geared towards achieving growth and competitiveness in a firm, nationally and globally by addressing the various challenges facing every industry including competition, inadequate technology and technological skills, high production cost and informational related problems.

### **Outsourcing as a Business Linkage**

Outsourcing is a key business linkage widely practiced and entails shifting business transactions previously governed internally to an external party through a long-term contract, and involves the transfer of the transaction to a vendor as argue by Milberg and Winkler (2013). The search for an external provider is largely based on costs, provided a minimum level of quality is obtained. It is a long-term link related to the development of determined activities or tasks that are not essential to the enterprise by specialized professionals, who, in time, become strategic partners (Kakabadse & Kakabadse (2000)). Drahokoupil (2015) explains that the advantages of outsourcing can, from a company perspective, include the pursuit of higher specialization, access to external expertise and other sources of strategic differentiation, quality improvements and operational cost savings. These gains need to be weighed against the risks of losing strategic flexibility and control over knowledge critical to a company's strategic advantage.

The government of Kenya recognizes the importance of business linkages including outsourcing in the overall growth of a business and particularly the Micro and Small enterprises. Sessional paper no. 2 of 2005 (GOK, 2005), recognizes that weak business linkages is one of the causes of poor market access by MSEs in Kenya. Accordingly, the Government undertakes to provide incentives to the private sector to invest in areas that enhance development of business linkages between MSEs and large enterprises. These areas include establishment of trade information centers and improvement of the quality of MSME products. The government policy is work out modalities for providing appropriate fiscal incentives to both large and small firms to encourage market/supply linkages. To enhance linkages between smaller enterprises and the large-scale enterprises, the Government undertakes to identify suitable zones with

basic infrastructure, which will serve as incubators, and improve the image of MSEs and their visibility.

### **An Overview of Kenyan Economic Growth**

In the year 2007, the Kenyan economy sustained its growth momentum that begun in 2003 to register a Gross Domestic Product (GDP) growth of 7.0 per cent compared to a revised growth of 6.4 per cent in 2006 (GOK, 2008). This growth was attributed to the economy's resilience, improved business confidence, stable macro-economic environment and a rebound of the global economy. The government also reportedly pursued stringent macro-economic policies that led to the increased appreciation of Kenyan shilling against the major world currencies and the easing of inflationary pressure on the economy in 2007 (GOK, 2008). The Kenyan manufacturing sector contributes about 10 per cent of the GDP annually. Its Gross Value Added (GVA) grew by 6.2 per cent in 2007 mainly due to exports of the products to the region markets. Growth in business investment on the other hand led to increased output in manufacturing hence contributing to the overall economy.

The sub-sectors which recorded growth, according to the Kenya Economic Survey (GOK, 2008), were among others, the dairy business sub-sector. The significant growth in the sub-sector was mainly due to the opening up of new processing plants, diversification of products and increased capacity utilization. Further, some dairy firms diversified their products and increased their range of manufactured goods in the market in addition to outsourcing their production to other firms. There was also increased competitiveness due to reduced cost of doing business by the government and the creation of an enabling environment for investment (GOK, 2008). Despite the slowed economic growth in 2008 due to the sluggish economic activities in the first quarter of the year as a result of political skirmishes that led to loss of business capital, damage on the country's image abroad and business uncertainty, the Economic Survey (GOK, 2008), reports of renewed prospects owing to the formation of a coalition government, increased demand for goods and services by emerging economies and sound policy frameworks to support growth. Similar sectorial growth trends are reported in the 2012 economic survey (GOK, 2012).

#### **Overview of the Dairy Business Sub-Sector**

According to Shepherd (2007), the dairy industry in Kenya plays an important role in the lives of many people and the growth in the sub-sector will lead to much greater overall growth. As argued by Leksmono, Muriuki, Young, Hooton & Romney (2006) that since milk market liberalization in May 1992, competition in milk processing and marketing has increased significantly in the industry. Since then, the Kenya Dairy Board (KDB) has licensed over 40

private and dairy co-operative processors to process and market milk and milk products. There are all types of players in the sector ranging from small holder producers, milk bars, processor up to large scale manufacturers.

According to the Economic Survey (GOK, 2008), the dairy products sub-sector registered significant growth of 24.4 per cent although the sub-sector experienced significant output challenges with producer prices of raw milk going up by over 16 percent during the period between 2006 and 2007. Also output of milk processed grew significantly by 27 percent from 228.3 million litres in 2006 to 289.9 million litres in 2007 although this was not enough to meet the local and export demand. This trend continued and according to the 2012 Economic Survey (GOK, 2012), the quantity of milk delivered to processors continued on an upward trend for the last three years from 2008. Indeed, the raw milk uptake by processors increased from 515.7 million litres in 2010 to 549.0 million litres in 2011 partly because of the increased processing capacities in the country. Other products such as cheese, butter, cream and ghee recorded improvements. This sub-sector has attracted massive interests from both the government and other development agents mainly because of its potential for growth. This was also the critical consideration in its selection for study.

### **Problem Statement**

One sector that has potential for growth in Kenya is the Dairy Industry which according to the EPZ (2005) on the Kenya Dairy Industry, is well-developed and has witnessed phenomenal growth with the entry of many players since 1992 when the Government liberalized it. However, despite all the potential, the sector is faced with a number of challenges that impedes further growth. In terms of capacity for example, all the industry players (100%), large and small, operate below the installed capacity. Essentially, this capacity underutilization in processing can be projected to the other levels of operations such as value addition activities and marketing which directly affects the productivity, competitiveness, performances and overall growth of an enterprise.

Studies in other sectors show that outsourcing as a business linkage can help address such problems to ensure businesses attain desired growth. There is strong evidence that business linkages in form of outsourcing, networking, sub-contracting, joint venturing and licensing small scale enterprise to grow and compete effectively (UNCTAD, 2006). By working together, firms can gain the benefits of collective efficiency, enabling them to link with larger producers and break into national and global markets. But despite the various documented evidences of the contributions of business linkages to the growth of firms such as in tourism and

textile industry among others, little is known over how outsourcing in the dairy business sub-sector in Kenya has affected growth of dairy firms.

### **Study Objectives**

The study objective is to determine the contributions of outsourcing as a business linkage on the growth of micro, small and medium dairy enterprises in Mt. Kenya region.

### **THEORETICAL FRAMEWORK**

Business linkage or business partnership building is an entrepreneurial activity and thus can be explained using entrepreneurship theories which have their roots in economics, psychology, sociology, anthropology, and management. In this study, both the entrepreneurship and firm growth theories are critically analyzed in search of a befitting theoretical framework. Upon analysis of the key driving forces behind companies' decisions of which activities should be vertically integrated, which variables affect decisions to make or buy, and what defines the boundaries of the firm, several authors cite the TCE and RBV theories as bases for defining a firm's boundaries (Williamson, 1979; Madhok, 2002; McNally & Griffin, 2004; Jacobides & Winter, 2005; Tadelis, 2010).

### **Transaction Cost Economics (TCE)**

In Coase's seminal work *The Nature of the Firm* (1937), the author examines why firms exist in a specialized exchange economy. The distinguishing purpose of firms is to replace coordination through the price mechanism with coordination through the entrepreneur or manager of the firm. This substitution occurs because the price mechanism has costs, including the costs of researching relevant prices, the costs of trading, and costs associated with contract preparation. Thus, an entrepreneur, in setting up a firm, could avoid these costs, allowing transactions to migrate to the market within the firm. However, in Coase's (1937) view, the indefinite growth of a firm may result in diminishing returns for the entrepreneur, and the firm may reach a point at which the marginal cost of organizing an internal transaction is greater than the cost of transacting in the market or the cost of organizing the transaction with another entrepreneur. At this point, the firm would cease to grow.

Extending Coase's studies, Williamson (1979) described two factors that can lead to transaction costs. The first is related to limited rationality, the inability of humans is to predict all matters relating to a transaction. The second factor is the risk of opportunism. This occurs when one party involved in the transaction benefits from unanticipated changes in conditions surrounding the transaction (including changes in quality, technology, and market conditions of

supply and demand) and, taking advantage of this situation, the stronger party requires contract modifications that bring them undue advantage. Analyzing TCE from the perspective of the decision to "make or buy," the theory predicts that managers will implement the organizational form that minimises transaction costs (Van Hoek, 2000). This decision is driven by economic factors of investments in specialised assets and uncertainties (Williamson, 1979). One risk exposed by Fine (1998) is that the firm becomes more dependent on a supplier as tacit knowledge is lost. In this case, the loss of knowledge to the supplier creates an idiosyncratic investment by him and may generate opportunistic actions.

### **Resource Based View (RBV)**

The literature points to Penrose's studies as the source of the RBV theory. This origin is evidenced in such works as Foss (1997), Williamson (1999), Jacobides and Winter (2005), Barney and Clark (2007) and Ifandoudas and Chapman (2009). According to Penrose (1959), a firm should be construed as an administrative structure that connects and coordinates the activities of many individuals and groups. Overall, it should be viewed as a set of productive resources. Penrose (1959) observed that the set of resources controlled by different firms could vary significantly and that, within the same industry, firms are fundamentally heterogeneous.

In Wernerfelt's (1984) analysis, the strategy of a firm should be viewed in terms of positioning its resources and not its products and markets, in contrast to Porter's (1980) analysis. The author defined resources as anything that can be perceived as a strength or weakness of a particular firm, including brands, existing internal technological expertise, trained employees, trade contracts, machinery, efficient procedures, and capital, among others. Wernerfelt (1984) was interested in defining strategies that would ensure a competitive advantage and suggested that firms should analyze the range of the current and future resources of the firm that would have an impact on their competitive advantage. Rumelt (1984) stated that firms, at the most primitive level, might simply differ in the relative efficiency with which they extract or process homogeneous goods. However, in the absence of perfect intermediate markets for these goods, firms would have incentives to integrate.

The question of which activities can be outsourced, based on RBV, has been systematized by Quinn and Hilmer (1994). For these authors, firms must focus their resources on a set of core competencies in which they have definite advantages over their competitors and offer unique value to their customers. In addition, the authors recommend the outsourcing of activities for which the firm has no critical strategic need or special skills. According to Teece (1986), if outsourcing exposes the firm to a leakage of proprietary information (i.e., knowledge that is not patentable), then the firm will take self-protective measures to reduce the loss of such

knowledge. Goods and services can be contracted out in a regime in which proprietary knowledge is secure. Otherwise, they will be internally conducted within the firm.

### **Opportunity-Based Theory of Entrepreneurship**

According to the opportunity-based theory, developed by Peter Drucker and Howard Stevenson, entrepreneurs do not cause change as claimed by the Schumpeterian or Austrian theories but exploit the opportunities that change creates such as in technology, consumer preferences among others (Drucker, 1985). Drucker indeed argued that the entrepreneur always searches for change, responds to it, and exploits it as an opportunity. Stevenson (1990) extended Drucker's opportunity-based construct to include resourcefulness. Stevenson concluded that the nucleus of entrepreneurial management is the pursuit of opportunity without regard to resources currently controlled. Therefore, what is apparent in this Drucker's construct is that entrepreneurs have an eye more for possibilities created by change than the problems. This is supported also by Compans (2005) in his argument on exploitation of entrepreneurial opportunities.

Based on these arguments, the Opportunity-Based Theory of Entrepreneurship advises entrepreneurs to seek to create and exploit opportunities within their environments. As regards this study, many changes are being experienced within the dairy industry such as new production, processing and marketing technologies that entrepreneurs can take advantage of through beneficial linkages. Through sub-contracts, the technology rich dairy firms for instance can produce for the smaller one, thus utilizing their capacity, enjoying economies of scale as the smaller one improve on their product quality and image. While an opportunity-based approach provides a wide-ranging conceptual framework for entrepreneurship research (Shane, 2000), the theory is weak in that it does not explicitly recognize the deliberate efforts of an entrepreneur to cause change and thus undermines the innovative minds.

This is in line with Shane and Shane (2000) interpretation of the field of entrepreneurship that focuses on the discovery of opportunities and subsequent exploitation of such opportunities by individuals as could happen with recognition for business linkage opportunities. In this framework, entrepreneurial activity depends upon the interaction between the characteristics of opportunity and the characteristics of the people who exploit them such as the discovery of novel means-ends relationships, through which new goods, services, resources and agency are created (Casson, 2005).

### **Choice of the Theory**

The TCE, RBV and Opportunity Recognition theories creates the basis of this study. The RBV provides three bases to help firms in the strategic decision of which activities should be



conducted within its boundaries. These are that: 1) The firm does not have all of the resources it needs to compete successfully with other firms, 2) It is very difficult, in terms of costs to the firm, to create within itself an indispensable resource for its success, and 3) It is very difficult, in terms of costs, for a firm that does not have a resource that is essential for its success to acquire it by buying a firm that already owns the resource. When one of these three conditions occurs, a decision to outsource based on transaction costs may lead the firm to jeopardize its competitive success (Barney; Clark, 2007).

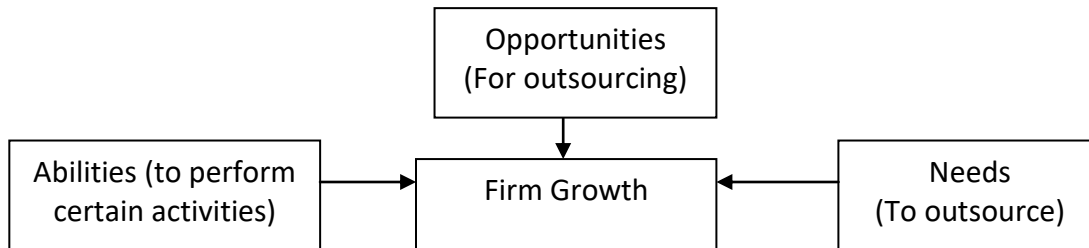
The decision to outsource an activity should focus on economic factors, while integrating the concepts of transaction costs and core competencies (Williamson, 1979). According to this author, the asset's specificity is the most significant feature of the transaction in defining the firm's boundaries. Following the RBV concept, the notion of core competencies determines the boundaries of firms. According to Arnold (2000), the approaches to outsourcing dictated by TCE and RBV complement each other perfectly because, while TCE is a short-term approach based solely on costs, RBV adds a long-term perspective and includes strategic importance as one of the qualities of the transaction.

Transaction costs and capabilities are fundamentally intertwined in determining the vertical scope of firms (Jacobides; Winter, 2005). They argue that the presence of different capabilities among firms is a necessary condition for vertical integration and that a reduction in transaction costs leads to specialization only if the capabilities along the value chain are heterogeneous. According to them, determination of a firm's boundaries in the short run is made by comparing its capabilities with the capabilities available in firms in the market. Thus, if the firms differ in their abilities, a reduction in transaction costs will allow significant expertise to be gained. On the other hand, if all firms are similar, the same reduction in transaction costs will not promote specialization and disintegration.

The Opportunity Recognition Theory is strong and builds on the work of the Schumpeter [1934] who recognized the importance of the entrepreneur in exploiting opportunities, though did not pay attention to where opportunities come from. Schumpeter, like others, did not believe that the entrepreneur had to worry about where opportunities come from. But for the study of entrepreneurship as a field, the question where opportunities come from is central. Indeed, according to Acs and Audretsch (2005) the creation of new knowledge such as a business relationship gives rise to new opportunities and therefore, entrepreneurial activity does not involve simply the arbitrage of opportunities but also the exploitation of new ideas not appropriated by incumbent firms.

## The Conceptual Model of Entrepreneurship

SME growth theories suggest that a conceptual framework could be developed incorporating three antecedents of small firm growth, namely; abilities (of entrepreneurs), opportunities (provided in the environment) and needs (of the firm).



Source: Davidsson, Delmar & Wiklund, (2006)- Adapted and modified

This entrepreneurial conceptual model is supported in Comanys (2005) in his analysis of the nature, discovery and exploitation of entrepreneurial opportunities for firm growth. It is also supported by Wiklund (2003) and knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses respectively.

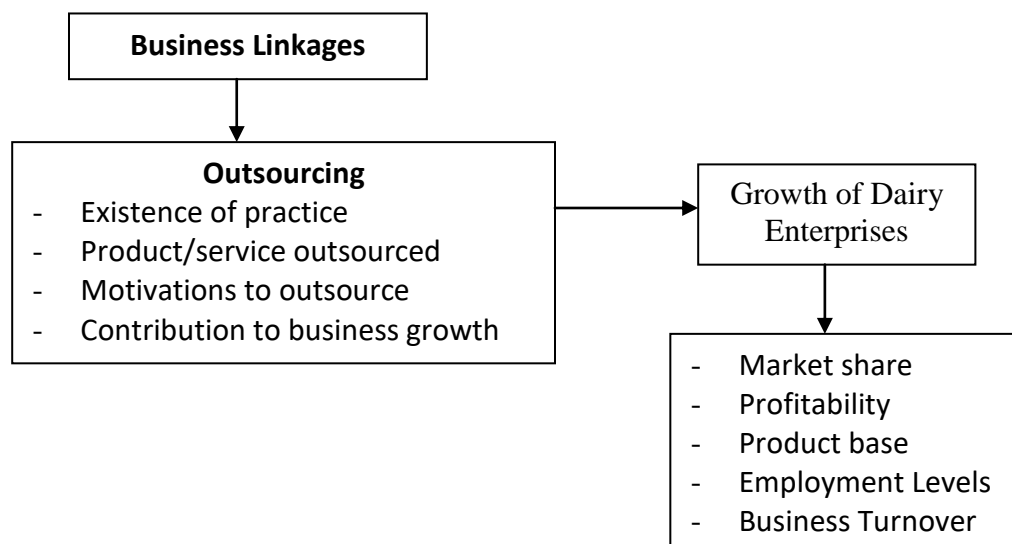
## Conceptual Framework

According to Perenyi (2008), firm growth is an increase of size and other quantifiable measures and the processes of changes and improvements. Therefore, firm growth is a distinguishing factor in entrepreneurship and is understood as an open process with an unpredictable outcome in evolutionary terms which is also related to adaptation and learning which occurs in the process of dealing with the business environment. Nieman and Bennett (2002) identified growth as an important factor of entrepreneurship and one that distinguishes the entrepreneurial venture from just a small business. The entrepreneurial venture usually has a great deal more potential for growth than the small business because the entrepreneurial venture is usually based on a significant innovation. A small business operates within its market; the entrepreneurial venture is in a position to create its own market. Nieman and Bennett therefore argues that firm growth is, inter alia, measured in financial terms such as; turnover, profit, total assets, net assets, net worth, and number of employees.

However, Baum, Locke and Smith (2001), argues that firm growth cannot be adequately explained from a single perspective, but individual, organizational and environmental research domains predict venture growth better when the web of complex indirect relationships among them is included. The size of a business is a poor guide to whether it is entrepreneurial or not.

Indeed several entrepreneurial theories have been used to explain the role of entrepreneurs in the business linkage activities (Scott, 1987; Bhide, 2000). First, firm growth can be seen from the notion of entrepreneurship on behalf of the owner-management of independent firms (the dairy firms). The entrepreneur's ability to facilitate and manage business linkages can be of great significance to firm growth and this is highly supported by both the Managerial Schumpeterian (innovations or new combinations) theories. This means that firm growth is non-linear which means the ability (innovation, managerial, opportunity recognition, ability to develop social networks and risk taking abilities) of the entrepreneur to initiate some programs including linkage programs can lead to firm growth in terms of profitability, size, employment and turnover. In the entrepreneurial view, managing firm growth requires certain characteristics such as creativity, innovativeness and risk taking (Scott, 1987; Companys, 2005).

### The Conceptual Framework



### Empirical Review

Empirical studies on the outcome of outsourcing, especially its effects on firm performance are scarce. The various researches conducted can be divided into two major strains. On the one hand authors measure outsourcing indirectly by using different proxies for the vertical integration of firms and thus determine the correlation of vertical integration and firm performance without referring to any outsourcing event. On the other hand, researchers use survey techniques or press cuttings to gather data on outsourcing and compare the performance of firms that have outsourced business functions with that of non-outsourcing firms. However, of the above one study analyzes the direct effects on firm performance within

one year after the outsourcing event, while other research does not take into account the date of the outsourcing event.

In Germany, Görzig and Stephan (2002) analyze the impact of outsourcing on the firm level performance of German manufacturing firms in the period between 1992 and 2000 using a large dataset of 43,000 firm-year observations. They used three proxies to capture the degree of outsourcing of the firms: material inputs over labor cost, representing the “make or buy”-type of outsourcing, external contract work over labor costs as proxy for the outsourcing of production functions, and external services over labor costs. They can show that all three types of outsourcing lead to better performance in terms of return per employee. On the other hand, only increased material input has a positive influence on overall firm performance measured as return over sales while services outsourcing has a negative effect. In Ireland, Gorg and Hanley (2004), analyzed the effects of outsourcing, measured by total bought inputs over value add in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. Distinguishing service outsourcing and material outsourcing, they find that only large plants profit from material outsourcing while they can derive no clear-cut results for service outsourcing.

In smaller businesses there's only a limited access to resources and ideas and outsourcing allows the business to garner new ideas and innovations. It could also result to possible cash influx due to the transfer of assets to the new provider. For SMEs, outsourcing allows them to work with the minimum of labor and equipment expenditure. For instance, Quélin & Duhamel (2003) found that a small firm outside the city limits can outsource its transport, thus making it unnecessary for it to acquire its own, cutting the cost of fuel and saving its resources.

According to Penrose (1995), firm growth is the increase of certain parameters of the firm such as employment, revenues, profit, assets etc. The boundaries of the examined entity (the firm) may however change in time, thus measuring growth is ambiguous. SME growth is also defined simply as an increase in the number of firm employees, which may not be sustainable. But growth accompanied by improvements in productivity is likely to contribute to the desired developmental effects. The argument that firm growth causes higher productivity is based on the assumption that economies of scale exist; meaning that firms experience a decline in average costs as output increases. The flaw in this argument becomes clear when one considers that MSMEs tend not to operate in industries where economies of scale are present (Tybout, 2000), precisely because these are not industries where they are likely to be competitive. Small and Medium firms must be innovative and highly adaptive to attain the desired growth.

The growth of a firm is an evolutionary process and can be defined from two different angles; as increase of size and other quantifiable measures such as employees or profits, and as a process of changes or improvement. While firm growth is a process, firm size is a state. Firm expansion can be organic or through acquisitions to extend the firms' operations by broadening its structure gradually through a set of activities, and by means of drawing in resources in the form of already existing firms (Penrose 1995).

Studies by Atieno (2009) as well as Okpara and Wynn (2007), revealed that one of the main reasons why firms form linkages is the ultimate improvement of their performance which has direct bearing on the firm growth and can be measured with different indicators, such as profitability and growth in employment, production level, or even sales. However, other studies indicate that firms also have their own performance indicators and growth can be expressed in the conventional terms of turnover, profits, value of assets-total, fixed or net, number of employees, market share and equity of the firm (McCormick, Mitullah and Kinyanjui, 2003); Okech, Mitullah & Atieno 2002).

Critics however have argued that all these indicators have both advantages and disadvantages. Atieno (2009) argues that profitability measure, for example, is problematic because most small firms do not keep records, nor share income information readily. On the other hand, some firms may opt not to expand, preferring to diversify into other activities to minimize risks. This is supported by Penrose (1995) who indicates that growth of a firm when measured in terms of fixed assets has its limitations in that a firm may be large simply because the firm is unable to expand its operations fast enough to make use of its cash resources. She recommends taking long-term profits as the optimum measure as it is the ultimate determinant of a firm's ability to reinvest. Few, if any, firms would want to invest for the sake of growth if the return is negative. Therefore Penrose argues that to increase the long-term profits of the firm is equivalent to increasing the rate of growth.

Regarding enterprise growth policies, Levitsky (1996) argues that virtually all countries, at whatever stage of economic development, recognize the importance of smaller enterprises and the need to support their development. In some cases the enthusiasm for MSMEs becomes excessive, giving enterprises privileges which may distort market forces to the point that the MSMEs fail to achieve the very objectives for which the sector was supported in the first place. Over zealotry for small enterprises making them sole producers of certain items (as in the past in countries such as in India) and providing subsidized finance at substantially less than commercial rates, only contributes in the end to the maintenance of weak, uncompetitive SMEs. Firms within such a cosseted SME sector will inevitably become inefficient and will not create employment at low levels of capital investment which is considered to be one of the major

comparative advantages of small enterprises in countries where capital is scarce and labour relatively abundant (USAID, 2005). There are many legal and organizational options available to institutionalize inter-firm cooperation, and an even greater variety of informal mechanisms that have been used as a means of helping SMEs grow. Perhaps more important than the mechanism per se is the principle that business collaboration must be commercially grounded because grouping arrangements will hold together only as long as there are clear incentives that reinforce mutually beneficial behavior as argued by Rasiah, (2005).

In this study, firm growth is based on specific indicators that incorporate both the enterprises' own growth measures as well as the conventional measures. Following the extensive literature review, it is hypothesized that the different forms of linkages (the independent variables) play a positive role on firm growth (dependent variables). The key measures of a dairy enterprise growth are measured by market share, sales turnover, profitability, product base and employment Levels.

## **METHODOLOGY**

According to Saunders, Lewis & Thornhill (2007), research design is the general plan of going about answering the research questions and testing hypothesis. It is the "blueprint" of the research; a "plan for getting from here to there" (Yin, 2003b), where "here" are the questions and "there" are the conclusions. The purpose of this study was to investigate the role business linkages play in enhancing the growth of small and medium enterprises in the dairy business sub-sector in Kenya. In order to address these issues, the study adopted a mixed model design. Mixed model combines both quantitative and qualitative data collection and analysis approaches as opposed to a distinct quantitative or qualitative research (Saunders et al., 2007). Therefore both quantitative and qualitative research approaches (triangulation) were adopted due to the varying issues under investigation.

The study adopted a descriptive research design and the subject of analysis was a dairy enterprise. The quantitative approach allowed the researcher to familiarize with the problem studied, and helped generate hypotheses for testing. In this paradigm; the emphasis is on facts and causes of behaviour (Yin, 2003b); the information is in the form of numbers that can be quantified and summarized; the mathematical process is the norm for analyzing the numeric data and the final result is expressed in statistical terminologies. Therefore this approach enabled the researcher gather information on business linkages and other issues of descriptive nature.

The study was designed to collect quantitative and qualitative data from a sample picked from the target population of dairy enterprises within Mt. Kenya region with the aim of describing

growth phenomenon and determining the causal relationship between the independent and dependent variable as hypothesized in the conceptual framework. The study was therefore descriptive and explanatory in nature, portraying accurate profile of persons, events or situations. This is supported by Mugenda and Mugenda (2009) who argues that descriptive research determines and reports the way things are and portrays the facts as they really are and if another researcher goes to the field later, he or she would find the situation as described. Further, Saunders et al., (2007) explains that a descriptive study describes phenomenon while an explanatory study establishes causal relationship between the identified independent variables and the associated dependent variable.

Data was collected using the survey methods. All the quantitative data was analyzed using quantitative methods while qualitative was analyzed using qualitative methods, to generate themes and categories relating to business linkages and employment growth among dairy enterprises. All the data of qualitative nature arising out of questionnaires were quantized and analyzed using statistical methods. According to Saunders et al., (2007), quantizing qualitative data means converting it into numerical codes so that it can be analyzed statistically. Quantitative data was compiled and analyzed using SPSS.

The target population, made up of 309 dairy enterprises around the Mount Kenya districts of the larger Meru, Embu, Kirinyaga and Nyeri was obtained through the Kenya Dairy Board and updated by way of inquiries from the regional Kenya Dairy Board Offices in Embu, Nyeri and Meru that service the region. These comprised of 106 in the larger Meru, 114 in Nyeri, 37 in Kirinyaga and 52 in Embu making a total of 309 enterprises of different sizes and characteristics.

Since the information available from the Kenya dairy Board website was not complete to ascertain the exact location (region) of the enterprise, further inquiries were made at the regional Dairy offices to enable develop complete sampling frames. This is supported by Saunders et al., (2007) who argues that it is important that the sampling frame is current and accurate. Sampling is the selection of individual observations intended to yield some knowledge about a population of concern, especially for the purposes of statistical inference (Mugenda & Mugenda 2009). This is echoed by Yaunt (2006) that sampling is the process of selecting a group of subjects for a study in such a way that the individuals represent the larger group from which they were selected.

Since the study involved undertaking statistical analysis on the sample to enable inferences about the population to be made on the basis of the sample, it was necessary to have a sample size that was more robust and ensured inferences about the diverse population characteristics. Therefore the Central Limit Theorem which provides that when the sample size

is at least 30 the approximation to the normal distribution of the sample means is complete and the confidence interval for the population parameter of interest can be determined from the sample mean at a specified level of confidence (Namusonge, 2010; Saunders et al., (2007).

However, notwithstanding the above sample size on the basis of the Central Limit Theorem, the selected sample size was also guided by the 5% level of significance at which the formulated hypotheses were to be tested. The level of significance is the statistical standard which is specified for rejecting the null hypothesis (Namusonge, 2010). At this level of significance confidence, the level of confidence is 95%. This is the level of confidence normally used for research in the social sciences (Saunders et al., 2007).

Mason, Lind and Marchal (1999) explains that the minimum sample size for the population of 10, 000 and more may be computed by the following formula

$$N = p (1-p) (z/e)^2 \dots\dots\dots (1)$$

Where,

n is the minimum sample size required

p is the proportion of the population possessing a particular characteristic under study

z is the z value in the standard normal distribution to the corresponding level of confidence

e is the margin of acceptable error

Mason et al., (1999) explains that if an estimate of the proportion that possess the particular characteristic under study is known, whether from a pilot study or any other source, then this may be utilized to compute the sample. A proportion of 0.5 was used to compute the sample size which according to Mason et al., (1999) gives the largest sample size at a given confidence level. At 95% level of confidence therefore;

$$Z = 1.99$$

$$e = 5\%$$

Substituting these in formula (1) above gave a sample size of 384. Saunders et al (2007) explains that this can be reduced where the population is smaller than 10, 000 as in this case with 309 by application of the formula:

$$n' = n/(1+ (n/N)) \dots\dots\dots (2)$$

Where,

n' = the adjusted minimum sample size,

n = the minimum sample size as calculated above for a population of 10, 000 and larger was 384

N = the size of population 309

Substituting these values in formula (2) above gave the minimum sample size as n' = 156.73 or 59.14% of the target population.



Due to the geographical dispersion of the enterprises, the Central Limit Theorem and the Mason et al., (1999) formula were used in arriving at a moderate sample of not less than 20% and not more than 57.80% to avoid errors associated to sampling. The two limits were added (20% plus 57.80%) and an average of 38.90% obtained to calculate the sample. Since none of the population was less than 30, the entire population was sampled at 38.90% proportionally because the Central Limit Theorem provides that when the sample size is at least 30, the approximation to the normal distribution of the sample means is complete and the confidence interval for the population parameter of interest can be determined from the sample mean at a specified level of confidence. In this case, none was less than 30 and thus the 38.90% sampled from each region.

The proportionate sample sizes were computed on the basis of the size of the cluster (region) and the target population. This again took into account the minimum sample size for the selected level of confidence and the Central Limit Theorem assuming a response rate of between 50 – 75% for the questionnaires fully completed. A total sample size computed was 119 as shown in the table 3.2 below. This meant the overall percentage of the sample to target population was 38.90%. This is in line with Saunders et al., (2007), who explain that as long as samples are not biased by the law of large numbers, samples of large size are more likely to be representative of the population from which they are drawn than smaller samples. Both primary and secondary data were collected. The secondary data was gathered from review of past studies, dairy sector publications such as Kenya Dairy Board reports, private sector reports and government publications such as the Economic Surveys and Statistical Abstracts. Primary data was collected. Primary data was collected between the months of November 2011 and January 2012 by survey method using a questionnaire administered to the sampled entrepreneurs, managers or employees. The questionnaires were administered to the respondents directly with help from research assistants. The research assistants were thoroughly trained prior to the field work. This process of training research assistants is supported by Yin (2003b) who argued that for questionnaires, no clarifications are given or questions reworded and the order in which questions are asked will be maintained for all respondents to minimize interviewer's bias. In other words, the researcher is restricted to the questions, their wording and their order as they appear on the questionnaire with relatively little freedom to deviate from it (Mason et., 1999). The author further explain that the questionnaire ensures that any variations between responses can be attributed to the actual differences between the respondents and not to variations in the interview and thus reduces the risk that the changes in the way questions are worded and the way they are asked might elicit differences in responses thus need to train research assistants.

In a mixed model research, with both qualitative and quantitative data, either qualitative or quantitative data analysis technique will predominate. Statistical methods were used to analyze quantitative data collected. To the extent also that qualitative data was quantized, quantitative analysis was applied. According to Saunders et al., (2007), quantizing qualitative data means converting it into numerical codes so that it can be analyzed statistically. Data from the open ended questions were subjected to qualitative methods of analysis. A qualitative method of analysis aims at detecting themes, categories and patterns that enable general statements to be made on how categories or themes of data are in terms of observed attributes and their relative occurrences and thus leading to conceptualization. Quantitative analysis utilized descriptive and inferential statistics. Descriptive statistic is an analysis tool used in descriptive research to determine and report quantitatively the things are in the survey sample (Bell, 2004,). In this study, such data as sources of milk, types of business linkages, types of networks, number of employees were described. Statistical computations done included percentages, mean, frequencies etc. which is in line with Mugenda and Mugenda (2009) and Kothari (2009). All data quantitative data obtained as well as quantized qualitative data was analyzed using Statistical package for Social Scientists (SPSS) software.

Data was also subjected to inferential analysis where a logistic regression model was used to analyze the role of the predictor variables (business linkages) to the dependent variable (employment growth).

## **FINDINGS AND DISCUSSIONS**

The study sought to determine the contributions of outsourcing as a business linkage on the growth of micro, small and medium dairy enterprises in Mt. Kenya region. This was against the background of lack of adequate information on the specific outsourcing practices among the dairy enterprises in the Mount Kenya region. Outsourcing among the dairy enterprises was studied in terms of existence of outsourcing as a practice, products or services outsources and the entrepreneurial motivations to outsource. The study further sought to establish how outsourcing as a business linkage affected dairy enterprise growth as measured in terms of market share, profitability, product base and employment.

### **Existence of Outsourcing Practice**

The study sought to determine whether the dairy enterprises in the Mount Kenya region were used in outsourcing or not. This was against the background on the lack of adequate information on whether dairy enterprises within the Mount Kenya region outsource for services or products. The study findings showed that a vast majority of enterprises (82.7%) outsourced

products/services while a mere 17.3% of firms did not outsource. The high number of dairy firms involved in outsourced indicated how valuable outsourcing was considered to be by dairy enterprises.

These findings are not surprising as explained by Quélin and Duhamel (2003) who found that smaller businesses have only limited access to resources and ideas and thus outsourcing allows them to garner new ideas and innovations. Further, they argue that outsourcing by firms could result to possible cash influx due to the transfer of assets to the new provider. The findings are also in line with Görg and Hanley (2004) who found that the high frequency of outsourcing among SMEs, allows them to work with the minimum of labor and equipment expenditure. Similarly, Yang, Narayanan and Zahra, (2009) in a study on the Corporate Entrepreneurship's Decision-Making Process Model on service outsourcing, found cost advantage, productivity or profitability to be behind the high rate of outsourcing activities. Specifically, the study found that one of the most commonly quoted reasons is that managers feel that they can gain cost advantages by employing outside suppliers to perform certain services and produce certain products. They argued that an important foundation of cost reductions is the outsourcing firm's access to economies of scale and the distinctive know-how or expertise that a large outsourcing vendor (supplier) can bring. This is also the perfect justification for the huge number of dairy firms involved in outsourcing.

In a Survey and Analysis of Outsourcing in East China, Fan (2009) found that outsourcing is as important in all sizes of enterprises. For example, the survey found that large firms like Chrysler and Ford outsource most of their mini-compact and subcompact cars and only produce less than one-half of the value of all their vehicles. Similarly, Boeing outsources a large portion of the Boeing 767 to a consortium of Japanese manufacturers including Fuji, Kawasaki, and Mitsubishi (Gilley, 2006; Bartels, 2005) Moreover, outsourcing has also emerged as a major trend in many service industries such as, Tata Consultancy Services (TCS) for example, announcing having signed a 5 year global contract with global telecommunications company Ericsson to deliver application maintenance and development services for Ericssons internal Information Telecommunications (IT) operations. (Geurts, 2009) in a study empirically examined the effect of outsourcing on employment growth at the level of the individual firm in Belgium. The study strongly confirmed the increasing trend towards outsourcing between 2003 and 2008, where 57% of the Belgian firms outsourced at least one business activity which they previously produced in-house.

Based on both the primary and secondary data, outsourcing is today a global phenomenon and ought to be embraced by modern firms wishing to achieve their growth

objective, Business managers need to be acquitted in the concept of outsourcing, explore and establish areas which they need to outsource in.

### **Products /Services Outsourced**

The study sought to determine the type of products or services dairy enterprises outsource. The study results showed, the products and services most outsourced mainly included; raw materials [milk], transport, training, machines and equipment and others. The results also indicated that dairy firms outsourced more than one product or service. This means that outsourcing within the dairy firms is both in form of material outsourcing and service outsourcing. Thus, the benefits derived from the relationship is what determines rather than the form, whether it is a services, equipments or materials. These findings concurred with findings of Quélin and Duhamel (2003) who found that a small firm outside the city limits can outsource its transport, thus making it unnecessary for it to acquire its own, cutting the cost of fuel and saving its resources. These findings are also in line with those by Görg and Hanley (2004) who analyzed the effects of outsourcing, in the Irish electronics industry between 1990 and 1995 and found outsourcing in form of both material outsourcing, and service outsourcing.

It follows therefore that outsourcing is not only limited to either materials of services and that a firm can outsource anything as long as the activity contributes to the overall firm objectives. Many dairy enterprises find it very critical to outsource milk perhaps because of the relative complexity in dairy farming and also training because of the technicalities in the various aspects in dairy training.

### **Motivations to Outsource**

The study sought to determine the factors that motivate dairy enterprises to outsource. The study findings as illustrated in table 1 showed that cost reduction had the highest cumulative score for highest (46.2%) and high (35.1%) for being the main motivating factor for the dairy enterprises to outsource. This is closely followed by the desire to improve product quality with 23.1% highest and 45.0% high. Overall, respondents felt that enhancement of flexibility, sharing risks and outsourcing for strategic relationships were also critical among dairy enterprises.

Studies on outsourcing and focusing primarily on the motive for outsourcing by firms of all sizes to a larger extent tend to support these findings. For instance, Ogbari et al., and Bartels (2005) separately explored the main reasons for the outsourcing, such as changing one business function to make it more centralized in pursuit of improved efficiency.

Table 1. Motivations to Outsource

Factors		None	Least	Average	High	Very High	Totals
Cost reduction	(f)	0	2	15	32	42	91
	(%)	0	2.2	16.5	35.1	46.2	100
Enhance flexibility	(f)	6	9	37	21	18	91
	(%)	6.6	9.9	40.6	23.1	19.8	100
Improved product quality	(f)	2	6	21	41	21	91
	(%)	2.2	6.6	23.1	45.0	23.1	100
Share risks	(f)	2	27	32	21	9	91
	(%)	2.2	29.7	35.1	23.1	9.9	100
Strategic relationship	(f)	2	4	47	20	18	91
	(%)	2.2	4.4	51.6	22.0	19.8	100

A study by Drahekoupil (2015) concluded that cutting labour costs by lowering pay, increasing work intensity and/or shifting flexibility costs to workers are just some of the motivations for outsourcing. Further, a research by Raeside (2002) on outsourcing in Edinburgh and Lothians and suggested that improving the quality of service, focusing on the core business functions, reducing operation costs and accessing advanced technology and management experience were some of the major motivations for outsourcing. Still in line with the study findings, Raeside found that motivations such as sharing risks and forming strategic alliance were not as important as the formers. Further, these studies confirmed findings by Tibor (2006) as well as Shy (2003) who had found that outsourcing helps firms to gain professional technical capacities from the suppliers during the process of corporation.

These findings corroborates with earlier studies by Weaver, Grootveld and Vergrat (2000); Bhattacharya and Sen (2003) and Smith, Douglas, and Robert (1988) which analyzed the financial characteristics of firms with outsourcing, and clearly categorized some motivations: (1) to reduce costs, (2) to concentrate attention on core business functions, (3) to meet the demands for the realization of assets and (4) to obtain the external capacity. These studies similarly found cost reduction the most significant internal motivation for outsourcing which means that using the external resources to provide the same level of services at a lower price than operating it inside. Studies conducted by Green, (2000) focusing on both public and private firms revealed that access to the people with specialized skills may be important motivator for a firm to motivate or not and that a function is more likely to be outsourced if there is a lack of internal human resources to perform it. Tibor et.al., (2006) conducted a multivariate analysis of the literature and found that of the 210 studies, 85 studies referred to cost reduction as a main driver for outsourcing, These findings reveal how the cost factor is important among the dairy enterprises and a key consideration in deciding whether to outsource or not. Like in many other firms, cost reduction is the most single important factor in determining firm profitability and

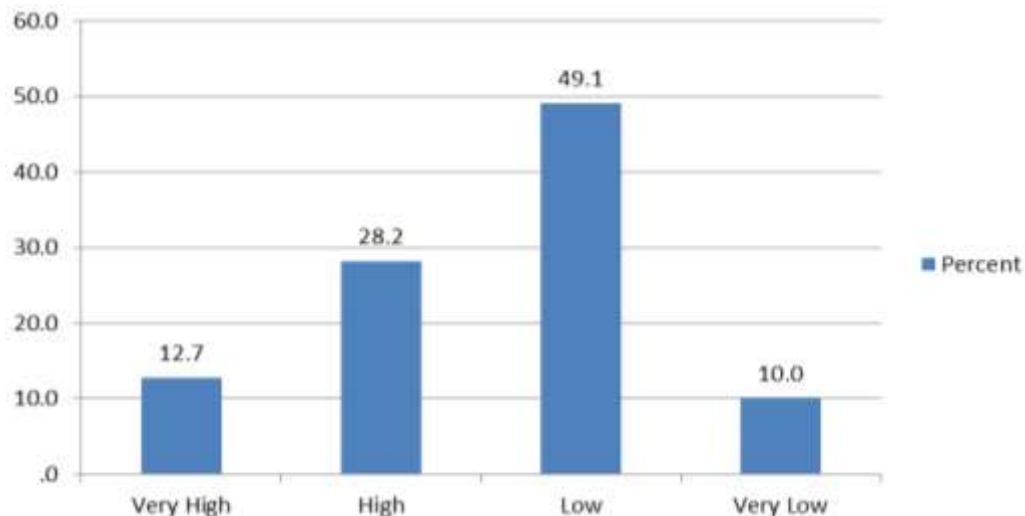
hence growth. It is important therefore for firms to consider carefully opportunities for outsourcing so that they could cut cost, improve product/service quality.

Contrary to the findings of this study, some scholars have found cost savings to have been overestimated and that costs are sometimes higher after outsourcing. Kakabadse and Kakabadse, (2000) found that although social costs of outsourcing may be difficult to quantify, they can be significant. Further, they found that outsourcing may result in low morale, high absenteeism, and lower productivity among others. Further the social costs are not necessarily limited to the organization. Lafferty and Roan (2000) study suggests that the education and skill level of a whole class of workers may be declining due to outsourcing of public services because contractors are less willing to pay for employee education and development.

### Contributions of Outsourcing to Business Growth

The study sought to know how the respondents rated the contributions of outsourcing to the firm growth. This was motivated by the fact that business growth is as a result of multiple factors including business linkage variables. The findings as shown in figure 1 indicated that 49.1% rated the contribution of outsourcing to business growth as low, 28.8% rated it as high, 12.7% rated it as very high while 10% felt outsourcing contribution to business growth to be very low.

Figure 1. Contribution of Outsourcing to Business Growth



Most scholars have focused on the specific indicators of business growth in their studies. Amiti and Wei (2004) study of the effects of service outsourcing on employment among U.S. firms corroborates these findings because the study concluded that there was a small negative effect of service outsourcing on employment when using highly disaggregated data. These findings

are also in line with Görg and Hanley (2004) observations in a study where they analyzed the effects of outsourcing, measured by total bought inputs over value added in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. While distinguishing service outsourcing and material outsourcing, they found huge plants profit from material outsourcing though there were no clear-cut results for service outsourcing.

Studies by Perren, 2000 by have also revealed conflicting results to this study relating to firm growth. Specifically, Dodsworth and Constable (2006) reported in their survey that majority of employees cite job security fears as their primary concern during an outsourcing process. On his part, Pitelis, 2002 revealed that managers reported job losses in the outsourced segments which are counterbalanced by a strengthening of other activities in the short term, and by enhanced firm performance in the mid-term, resulting in the creation of new jobs. The study was inconclusive on this key firm growth question on whether the transfer of work to an outside supplier merely leads to a reduction in the workforce of the outsourcer, or alternatively, whether job loss due to outsourcing is offset by the creation of new jobs in other activities, resulting in zero or positive employment growth in the outsourcing firm.

### **Regression Analysis**

Using a multiple regression analysis model, each of the independent variable was subjected to further tests to determine the extent of the contribution of each of the variable to the growth of a dairy firm. To find out whether the model as a whole predicted occurrence better than chance, a model chi-square tests of coefficients was run to test the capability of all predictors (independent variables, that is business linkages) in the model jointly to predict the response (dependent, that is, dairy firm growth). The p-value was compared to a critical value (0.05) to determine if the overall model was statistically significant. The number of degrees of freedom (df) for the model was one degree for each predictor in the model.

### ***Effects of Outsourcing on Profitability***

Outsourcing was found to have significant contribution to the profitability of a dairy enterprise. The study sought to examine whether outsourcing as business linkage can lead to increased profitability among the dairy enterprises. This was found to be significant at 0.000 level of significance and [Exp (B) 18.743] indicating that it was important in enhancing generation of profits among dairy enterprises. This means that there is a positive relation between outsourcing as a business linkage and profitability since the Exp (B) is greater than one (table 2).

Table 2. Effect of Outsourcing to Business Growth among dairy enterprises

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)
Profitability	2.931	.816	12.901	1	.000	18.743
Market Share	2.206	.687	10.328	1	.001	9.083
Product Base	.630	.238	7.009	1	.008	1.878
Employment	1.349	.400	11.391	1	.001	3.853

These findings are in line with Görg and Hanley (2004) observations in a study where they analyzed the effects of outsourcing, measured by total bought inputs over value added in the plant, on the profitability of 215 plants in the Irish electronics industry between 1990 and 1995. While distinguishing service outsourcing and material outsourcing, they found huge plants profit from material outsourcing though there were no clear-cut results for service outsourcing.

Regarding outsourcing and market share, the study sought to examine whether outsourcing as business linkage can lead to increased market share among the dairy enterprises. This variable was found to be significant at 0.001 level of significance and [Exp (B) 9.083] indicating that it was important in enhancing market share among dairy enterprises. This means that there is a positive relation between outsourcing as a business linkage and market share since the Exp (B) is greater than one.

The study sought to examine whether outsourcing as a business linkage can lead to increased product base among the micro, small and medium dairy enterprises in the Mt. Kenya region. This variable was found to be significant at 0.008 level of significance and [Exp (B) 1.878], indicating that it was important in enhancing growth in terms of product base among dairy enterprises. This means that there is a positive relation between outsourcing as a business linkage and product base since the Exp (B) is greater than one.

Regarding outsourcing and employment growth, the study sought to examine whether outsourcing as business linkage can lead to increased Employment levels among the dairy enterprises. This variable was found to be significant at 0.001 level of significance and [Exp (B) 3.853] indicating that it was important in enhancing Employment growth among dairy enterprises. This means that there is a positive relation between outsourcing as a business linkage and Employment growth since the Exp (B) is greater than one.

## CONCLUSIONS

Regarding contributions of outsourcing as a business linkage on the growth of micro, small and medium dairy enterprises in Mt. Kenya region, the study concluded that outsourcing remains an important practice for both MSMEs and larger enterprises because of the numerous benefits associated with outsourcing. The high number of dairy firms involved in outsourced is a



confirmation on how valuable outsourcing was considered to be by dairy enterprises. The benefits derived from the relationship is what determines the form of outsourcing, whether it is a services, equipments or materials. Cost reduction is the most important effects on the firms growth as far as outsourcing is concerned.

## **RECOMMENDATIONS**

### **Promotion/Awareness of Outsourcing as a Business Linkage**

Based on the benefits derived from business linkages, there is high need for awareness creation among players in the dairy industry on identifying linkage gaps and importance of business linkages so that the relationships are beneficial to all parties. Majority of the smaller dairy firms are not aware of the opportunities to collaborate because there exists no forum to share information thus continue to perform even activities that are not cost effective but necessary. In the same line, partners should be encouraged to develop official contracts or agreements between partners so that to define the nature of the relationship. This will ensure a mechanism for promptly attending to business linkage/relationship challenges once they occur to ensure no breakdowns of such relationships in dairy sub-sector.

### **Business Linkage Opportunities**

Both Government and private players should encourage business linkage programs through policy development. This can be done by creating a coordination mechanism within the Kenya Dairy Board to coordinate and promote collaboration among stakeholders for joint approaches in dairy business development to reduce fragmentation of efforts. Such practices as outsourcing of services will enable firms determine what is cost effective to produce or market while working with other firms to offer other services.

### **Development of Management Information Systems**

The Kenya Dairy Board to be facilitated to have a management information system in place so that it can extend its services better to the dairy enterprises in Kenya. For, example, the Board in conjunction with the Dairy Training Institute in Naivasha took the initiative of launching a publication called "Maziwa News". The Ministry of Agriculture and the Kenya Dairy Board need to provide relevant information/data to the mass media for dissemination to dairy farmers and processors. The Kenya Dairy Processors Association in collaboration with the Kenya Dairy Board and the Ministry in charge of Livestock Development to take the lead in this effort. Policy should be geared towards encouraging the processors to adopt cheaper, domestically available packaging materials and technologies. If not locally available, the Government should assist

dairy farmers and other willing investors to acquire appropriate dairy processing technology from abroad. The goal should be to encourage competition and efficiency in packaging across the country.

### **Develop Capacity for Enterprises to Lobby for Infrastructure Development**

Dairy business prayers must collaborate to lobby government for the provision of basic infrastructure such as water, electricity and roads to reduce the cost of business operations. Infrastructures such as the on-going rural electrification and road development means dairy entrepreneurs can invest in coolers and cottage industries in rural areas thus creating jobs. It is also important to form of strong dairy business associations and networks for advocacy and lobbying.

### **Encourage Outsourcing to Enhance Skills Development and Promote Innovation**

Promoting skills development and innovation among MSMEs is necessary in strengthening the supply capacity of local dairy enterprises that, in most cases, face numerous challenges. This requires the development of skills in different fields, ranging from technical skills in production processes to management competences. Education policies with a focus on technical and managerial skills are important. This can be strengthened through research and development in the various forms of business linkages, technologies, production methods among others.

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