



BUSINESS SERVICES OUTSOURCING AND FINANCIAL PERFORMANCE OF PAINT MANUFACTURING COMPANIES IN KENYA

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Abstract

Outsourcing business services is an important strategy for companies seeking to concentrate on core competencies, reduce costs, and utilize external expertise. This study focused on the impact of outsourcing on the financial performance of selected paint manufacturing companies in Kenya. The study examined the effects of outsourcing operational activities, information technology processes, security services on financial performance, and assessed the moderating role of government regulations and policies. The study was anchored on the Transaction Cost Economics theory, resource-based view, and contingency theory. The study adopted a mixed research approach using an explanatory sequential design. Stratification was used to select respondents from all the paint manufacturing companies in Nairobi according to their sizes. Purposive sampling was used to select the Chief Executive Officers (CEOs) and Chief Finance Officers (CFOs) interviewed. Data was collected through self-administered questionnaires and

interview guides. Findings were presented using descriptive and inferential statistics, including correlation and regression analysis. The study revealed that outsourcing of operational activities improved financial performance, while outsourcing information technology processes had a significant negative effect. Outsourcing security services had no significant effect. Government regulations and policies significantly influenced financial performance and moderated the relationship between outsourcing of business services and financial performance. The study concluded that outsourcing of business services enhances financial performance when strategically implemented. The study recommended that paint manufacturing companies prioritize outsourcing of operational activities, involve employees in outsourcing decisions, implement formal outsourcing frameworks, and that the government of Kenya implement supportive policies.

Keywords: Business process outsourcing, financial performance, operational activities, information technology outsourcing, government regulations, paint manufacturing companies

INTRODUCTION

Manufacturing sector across the world is declining due to several factors. The factors vary across different geographical contexts. For instance, in the USA, the manufacturing sector decline is attributed to de-industrialization involving relocation of industries from USA to other countries that were offering lower wages and high return on investment, promotion of deregulation and liberalization of capital, goods and services and globalization (Siddiqui, 2025). Ndung'u, Shimeles, and Ngui (2022) attributed the stagnation of the manufacturing sector in Africa to institutional and economic fundamentals. On the other hand, the Kenya Association of Manufacturers (KAM) 2025, cited rising cost of production, decrease in demand, financial constraints, regulatory uncertainty, and high taxes as factors affecting the manufacturing sector. These challenges in the manufacturing sector are making the companies seek solutions. Kapoor et al. (2021) suggest the need for strategizing, repurposing, and targeted policies to help the companies to survive.

One of the strategic business decisions adopted by companies is outsourcing business processes. It is noted by Muiruri, Shale, & Osoro (2025) that outsourcing of non-core functions to external service providers lowers operational costs, increases efficiency, enhances profitability, and improve organizational performance. In Kenya, the Kenya Association of Manufacturers (2024) observes that the manufacturing sector contributes to Kenya's economic growth through jobs and taxes. It is, however, observed that the sector is faced with multiple

challenges as previously indicated. The challenges undermine business liquidity, profitability, and overall performance (KAM, 2025; Kapoor, et al. 2021).

The paint manufacturing companies are faced with similar challenges of high operational costs, high taxations, high cost of raw materials, unhealthy competition (Crown Paints Kenya, 2024; KAM, 2025). Business outsourcing is one of the strategies adopted by companies to help solve some of the challenges and have a competitive edge. Several authors, including Mbanje (2024), Muo & Sei (2023), and Muiruri, Shale & Osoro (2025), assert that outsourcing helps companies to focus on key activities to improve efficacy. Therefore, outsourcing among paint manufacturing companies in Kenya is considered a strategic cost management approach. This may improve the financial performance of paint manufacturing companies by increasing profitability, efficiency, and liquidity. The study seeks to examine the effect of business process outsourcing on the financial performance of paint manufacturing companies in Kenya.

In Kenya, business outsourcing processes are anchored in various policy documents such as Vision 2030 and the National Policy on Business Process Outsourcing (2025), (Ministry of Labour and Social Protection, 2025; Larsen, Mkalama & Mol, 2023). There are more than 300 companies operating in BPO in Kenya in 2025, and the estimated market value of BPO is 430 million US dollars, driven by the growth of digital services and interest from multinationals (Tarentum, 2025). This is an indication that Kenya is emerging as a BPO hub. Beyond the policy frameworks, businesses are adopting outsourcing as a strategic management tool (Muo & Sei, 2023). This may give businesses a competitive edge, lower operating costs, and reduce capital expenditure. On the other hand, acquiring specialized expertise through BPO services enables firms to concentrate on their key competencies (Muo & Sei, 2023; Mbanje, 2024). This enables companies to improve overall financial performance (Mbanje, 2024; Shale & Osoro, 2025). While outsourcing services is viewed as a positive strategic tool providing numerous opportunities, it also presents systemic risks and threats. This may include loss of control of operations, unmet contract terms, and dependency on external services.

The paint manufacturing sector is part of the wider manufacturing sector that is expected to drive economic growth in Kenya as part of the vision 2030. However, the growth of the manufacturing sector is faced with several challenges such as inflation. The Kenya National Bureau of statistics (2026) reported an annual average inflation rate of 4.1% in 2025. In addition, the KNBS (2026) reported a 2.4% increase in prices in the housing, electricity, water, fuel, and other fuels category in 2025, which is relevant to the operating environment of paint manufacturing companies. Apart from inflation other challenges affecting the paint manufacturing sector as noted by major players in the paint manufacturing sector such as Crown paints include fluctuations in currency, high costs of production, regulatory uncertainty,

and diminished demand (Crown Paints Kenya, 2025). These challenges may increase operational expenses, lower profit margins, shrink market share, and limit growth. Thereby potentially affecting the overall financial performance of paint manufacturing companies. This in turn affects the overall financial performance of paint manufacturing companies. To mitigate these challenges the paint manufacturing companies are therefore adopting various strategies. One of the strategies involves outsourcing of business services. However, the efficacy of outsourcing of business services in improving financial performance remains unclear.

Empirical evidence on outsourcing of business services is available with studies such as Nguyen and Tang (2025), which focused on outsourcing and logistics; Senga, Senga, and Simuka (2024) examined outsourcing and competitive advantage and Muo & Sei (2023), which focused on strategic outsourcing and firm performance. However, the studies focused on the relationship between outsourcing and different variables. This creates a conceptual gap regarding the relationship between outsourcing and financial performance. Additionally, most empirical evidence on outsourcing is concentrated in other sectors such as finance and general manufacturing rather than the paint manufacturing sector in Kenya. Although studies by Mumbua & Nekesa (2023) and Wachuka, Odunga & Nekesa (2025) were on financial performance of manufacturing firms in Kenya, they focused primarily on tax incentives and didn't include the aspect of BPO, which is the focus of this study. The study sought to investigate the impact of outsourcing of business services on the financial performance of paint manufacturing companies in Kenya and address the knowledge gap from the various studies.

LITERATURE REVIEW

Theoretical Review

The study employed Transaction Cost economics (TCE) theory, Resource-Based View theory (Barney, 1991), and Contingency Theory to explore the impact of outsourcing of business services on financial performance in the paint manufacturing sector.

The resource-based view theory was developed by Jay Barney in 1991 (Leiblein, 2011). The RBV theory focuses on the firms' resources as a means of gaining competitive advantage (Narayanan et al., 2025). The RBV explores how a firm's resources, capabilities and organizational assets impact performance, growth and diversification strategies within a competitive landscape. The theory proposes that a firm's resources are heterogeneous and immobile (Barney, 1991). Because firms' resources are heterogeneous, they can implement a variety of strategies as a result of their distinct combinations of resources. According to Barney (1991), a firm's resources should have four attributes to be a source of competitive advantage; they should be valuable, rare, imperfectly imitable, and not substitutable.

The theory was deemed appropriate for examining the outsourcing of business services and how it affects the financial performance of paint manufacturing companies. Businesses outsource services to enhance productivity, gain competitive advantage, and improve effectiveness (Ejechi & Oshodin, 2019). In outsourcing business services, the RBV theory explores how the strategy can impact on financial performance of paint manufacturing firms in regard to saving on costs, increasing efficacy, and improving productivity. By outsourcing business services, a firm can concentrate on its primary operations. Additionally, it can mobilize external resources that could be internally unavailable but of value to the firm.

The Transaction Cost Economics theory is used in this study to explain finance performance and how it is influenced by business outsourcing processes practices in paint manufacturing companies in Kenya. Transaction Cost Economics Theory was developed by Oliver Williamson based on earlier works of Ronald Coase 1937 theory (Jimmick, 2025). Its origin is in economics, organizational theory, contract law and business history (Williamson, 2025). It explains economics of organization and governance. It has been used in studies across various disciplines such as (Jimmick, 2025; Senga, Senga and Simuka, 2024).

TCE theory focusses on make or buy decisions as to be part of focal transaction, whereby organizations choose between internal production and outsourcing to external service providers (Senga, Senga and Simuka, (2024). This is in comparison whether outsourcing costs are lower than in-house services. The theory posits that the choice of governance elicits different contractual incentives (Williamson, 2025).

The study is anchored on contingency theory, particularly in the organizational structure's perspective, to explain how the government rules and regulations act as moderating factors. The theory was proposed by scholars such as Jay Lorsch, Paul Lawrence, Joan Woodward, and Fred Fiedler, in 1967 (Mark & Erude, 2023; Onwuchekwa, 2021). Over time it has been applied in various areas, including leadership, strategy, and organizational design (Karani, Munga, & Mbithi, 2025; Mark & Erude, 2023; Narayanan et al., 2025).

A core construct of contingency theory is the "fit" that emphasizes that management approaches and organizational structures are not universally applicable to all situations (Narayanan, et al, 2025). The success of the management decisions in achieving their goals depends on the prevailing conditions in which organization functions (Mark & Erude, 2023). Furthermore, the theory highlights the significance of contextual factors, which can arise from either the internal business environment or from external circumstances. The external environment for paint manufacturing companies affects the company's operations. The government rules and regulations such as labor laws, taxation policies, and regulatory compliance requirements are treated as external factors that can either support or constrain the

adoption of business outsourcing processes (BPO). The theory therefore underscores the need for organization to align organizational strategies with prevailing environmental conditions to achieve better performance outcomes (Narayanan et al., 2025).

Empirical Review

Financial performance reflects a company's financial status over the years. Financial performance is assessed using a range of indicators including capital adequacy, liquidity, leverage, solvency, and profitability (Amoa-Gyarteng & Owusu-Adusei, 2024; Chaidir 2024). There are also non-financial indicators that could be influenced by BPO and could indirectly affect financial outcomes, such as customer retention and brand loyalty.

A study conducted by Wagh (2025) on financial performance of Asian paints relied on secondary data obtained from published financial statements. The analysis applied ratio analysis, trend analysis and comparative statement techniques to evaluate performance for over five years, from 2016 to 2021. Its study examined key financial performance indicators including liquidity, efficiency, solvency, and overall financial stability. The results indicated that the Asian paints maintained a strong financial performance, which was attributed to sound fundamentals and effective strategic management practices. These enhanced stakeholders value. While the Wagh study focused on financial performance of Asian paints manufacturer, it used secondary data which is restrictive. It excluded primary data that could have provided deeper insights into factors influencing financial performance. Additionally, the findings cannot be generalized to wider population within the paint manufacturing sector because the study was based on a single firm. The study was also conducted in another geographical location, therefore cannot be generalized to the Kenyan context due to the differences in market structure and economic conditions.

Senga, Senga and Simuka (2024) examined the impact of outsourcing and competitive advantage in the financial sector in Zimbabwe. The study adopted a quantitative research design with a sample of 148 respondents. The findings revealed that Business Process Outsourcing (BPO) was positively associated with sustainable competitive advantage. This was attributed to the outsourcing of accounting services, human resources, customer care, call center and IT processes that are non-core functions. Outsourcing resulted in cost reduction, access to specialized expertise and improved efficiency. In particular, outsourcing of tax services was found to be cost-effective largely because hiring in-house tax specialists is expensive due to their limited availability. Consequently, outsourcing enabled organizations to reduce operational costs while allowing accounting departments to focus on their core performance functions.

A study by Mbanje (2024) on the influence of business outsourcing on the productivity of mobile telecommunication companies utilized a descriptive survey design. It employed structured, closed-ended questionnaires to collect data from 1035 participants from two mobile telecommunication companies. The findings revealed a significant relationship between the adoption of BPO and a firm's output, measured by total sales/revenue, asset turnover, inventory turnover, market share, and employee productivity. The total sales/ revenue and asset turnover are indicators of financial performance. This is an indication that BPO has an impact on financial outcomes. Mbanje (2024) asserts that activities in which the firms maintain a superior resource position or capabilities will likely be maintained in-house; conversely, those for which resource position or capability is weak are candidates for outsourcing. The study by Mbanje (2024) was conducted in telecommunication companies, therefore the findings cannot be generalized to paint manufacturing companies. The study reveals a contextual gap, which this study seeks to address by examining the impact of BPO on financial performance of paint manufacturing firms in Kenya.

A study by Mtsweni, Mokwena, & Moeti (2021) investigated the relationship between outsourcing information technology (IT) functions and business operations. It employed qualitative research design and purposive sampling methods. Data was obtained through interviews for in-depth insights of the participants' experiences. According to the findings IT outsourcing had mixed outcomes. It had both positive and negative effects on organizational performance. On the negative outcomes, the majority of the respondents reported an increase in operational costs. The findings contrast with studies such as Senga, Senga and Simuka (2024), which identifies IT outsourcing as one of the cost reduction strategies in organizations. The study had some limitations; it was based on a single case study design and a small sample of ten IT personnel. The limitations make it difficult to generalize the findings to a broader population. The reliance on qualitative data also limits the ability to quantify the extent of the impact, making it difficult to measure the cost implication associated with ITO.

A study by Larsen, Mkalama & Mol (2023) examined outsourcing in Africa, focusing on Kenya as a case study for IT outsourcing. It adopted a qualitative approach and explanatory research design, using both secondary data and primary data collected through interviews. The study identified challenges within the BPO sector, such as inadequate infrastructure, weak contract enforcement, and instability in government policies affecting the BPO sector. The study provides an in-depth and context specific analysis into BPO sector in Kenya. However, the study relied on qualitative data, limiting generalizability of the findings. It did not employ any statistical metrics to assess the impact of BPO on organizational performance. Thus, the study fails to establish measurable relationship between outsourcing and organizational performance.

This creates a gap for the current study which seeks to examine the relationship between outsourcing and financial performance.

A study by Kisaingu & Njoka (2025) on internal control and financial performance in security firms in Nairobi employed causal research design and stratified sampling to select 25 security firms. Data was collected through structured questionnaires. The study noted private security companies are hired by various organizations and businesses to transport money to different destinations. The hiring of private security firms by companies may indicate potential outsourcing practices, which are relevant to this study. The findings showed that internal control systems had a significant influence on financial performance and enhanced security reduces operational risks and strengthens financial performance. Although the study was not directly connected to outsourcing services, it provides indirect evidence in outsourcing of security related operations such as money transportation. The study was limited by use of a small sample size which restricts generalizability of the findings. The study also focused on internal controls within security firms rather than outsourcing decisions from client organizations.

A study by Gituma (2019) on business outsourcing and organizational performance of commercial banks in Kenya adopted both explanatory and descriptive design. The population comprised 32 commercial banks in Kenya, with a sample of 128 respondents. The study indicated that outsourcing security processes serves as an effective strategy for enhancing the performance of commercial banks in Kenya, evidenced by a mean score of 4.4 and a standard deviation of 0.803. The findings further revealed a significant correlation between outsourcing of security services and organizational performance. In addition, the study established that outsourcing of security services transfers risks related to loss of cash to the vendor. It also enables the banks to access modern security technologies provided by specialized vendors without having to directly invest in such technologies (Gituma, 2019).

In Kenya, legal frameworks such as, the Competition Act (2010), the Employment Act (2007), and Consumer Protection Act (2012), outlined by Ministry of Labour and Social Protection (2025) influence outsourcing practices by defining labour standards, contractual obligations, and regulatory requirements. These regulations influence strategic decisions by facilitating outsourcing through clear guidelines or constraints through strict compliance demands.

A study by Wachuka, Odunga & Nekesa, (2025) examined the effects of tax policy reforms on the financial performance of food manufacturing companies in Nairobi. The study used an explanatory research design. It collected quantitative data using structured questionnaires from managers in medium-sized food manufacturing companies. The findings showed that tax digitization ($r=.583$) and regulatory changes ($r=.544$) had a significant

relationship with the financial performance of food manufacturing companies in Nairobi, Industrial area. They suggest that digital tax systems and fiscal reforms contribute to improved operational efficiency and support growth in sector, which in turn enhances overall financial performance. However, the study focused on food manufacturing industry, whose operational and regulatory environment differs from that of paint manufacturing companies. As a result, the findings may not be fully applicable to the paint manufacturing sector, creating a contextual gap that this study aims to address.

An analysis of the literature on outsourcing and financial performance reveals that although outsourcing has been widely studied in different sectors and contexts, as evidenced in the empirical review there is limited evidence on its influence on financial performance within the Kenya's paint manufacturing sector. Existing studies have focused on other sectors, geographical locations and variables, creating a knowledge gap that this study seeks to address.

RESEARCH METHODOLOGY

An explanatory sequential design was adopted in this study, and quantitative data and qualitative data were collected. Quantitative data was collected and analyzed first followed by qualitative data. The two sets of data were analyzed separately and then compared, integrated and interpreted together to provide a comprehensive understanding of the research question (Creswell and Creswell, 2023).

The explanatory sequential design was appropriate for investigating the impact of outsourcing on the financial performance in Kenyan paint manufacturing companies. It made it possible to collect both quantitative and qualitative data. Statistical data provided measurable data on financial performance on profitability and efficacy. While qualitative data offered in-depth information on managers' perception of outsourcing services and their challenges. The triangulation of data from the two approaches strengthened the findings and provided in-depth insights on the relationship between outsourcing and financial performance.

The population included 52 paint manufacturing companies in Nairobi County. The choice of companies in Nairobi was informed by their accessibility, and Nairobi is where most of the paint manufacturing companies are concentrated. Some of the paint companies listed in Dun & Bradstreet business directory (2025) include Crown Paint Kenya, Royal Paints, Basco Products (K) Ltd, Galaxy Paints and Coating Ltd, United Paints Limited, Kansai Plascon Ltd, Berger Paint Kenya Ltd, Solai Paints, Novel Paints, Glory, and Amaris Chemical (Dun & Bradstreet directory, 2025).

The respondents from the target population consisted of senior and middle level managers in charge of various functions. This includes but is not limited to senior/chief executive officers (CEO'S), procurements, operations and production, and finance. As noted by Min-Hieu, Thu-Thao & Tran, (2024) and Tarentum, (2025). The managers are drawn from functions that may outsource their services such finance, procurement, operations and production functions among others. The managers hold important information regarding their departments, and they are involved in the management of companies and decision making. From the population of 52 paint manufacturing companies, the study obtained a representative sample of 155.

The sampling was done in two levels: that is, the participating companies and the respondents in the companies. A census was adopted for the paint manufacturing companies in Nairobi County. For the respondents the companies were grouped according to the size of the company: small, medium and large enterprises. A proportionate stratified sampling was adopted to allocate the sample across the three strata among the 52 paint manufacturing companies. After allocation of proportionate samples among the three strata, random sampling was used to select respondents in five key functions in the manufacturing companies to participate in the study. This includes finance, procurement, operations, HR, and production functions across 52 paint manufacturing companies in Nairobi County. Purposive sampling was also used to select the CEOs and chief finance officers (CFOs) from the participating companies interviewed.

The target population (N) consisted of 260 managers drawn from the 52 paint manufacturing companies in Nairobi County. The sample was determined by utilizing Cochran's formula, with a confidence level set at 95% and a margin of error (e) of 0.05 (5%), resulting in a sample size of 155.

Of the 155 questionnaires distributed, 121 were completed and returned, representing a response rate of 78.1%. Fifteen CEOs and CFOs were selected for interviews, of whom 11 participated, yielding an interview response rate of 73.3%.

Data from the participants was gathered using structured questionnaires. The participants were requested to fill in self-administered questionnaires. A Likert scale ranging from 1 to 5 was adopted to assess respondents' perception of BPO practices and its influence on financial performance. Semi-structured interviews were conducted with CEO's Chief Financial Officers and heads of functions in the paint manufacturing firms.

Secondary data on the financial performance of paint manufacturing companies in Kenya was obtained from printed and electronic sources, such as financial reports, annual reports, and company published records.

A pilot study was conducted in a selected paint manufacturing firm to test the reliability of the research instruments; the participating companies were, however, excluded from the main research. The pilot study included ten participants.

Content analysis was used to analyze textual data. Textual data was coded into categories and analyzed using conceptual analysis. Quantitative data was analyzed through Statistical Package for Social Sciences (SPSS) to produce descriptive statistics, including percentages, means, and standard deviations, as well as inferential statistics, such as correlation analysis and regression analysis.

FINDINGS AND DISCUSSION

Descriptive Statistics

The findings indicated production support services ($M = 3.15$, $SD = 1.138$) were outsourced to a moderate extent, suggesting that while some companies depend on external providers for production support, others still to continue to perform these activities internally. The higher standard deviation indicated greater variation in outsourcing practices across the paint manufacturing companies.

The mean score for Human Resource Management (HRM) services ($M = 2.88$, $SD = 1.042$) and Marketing and Customer Care services ($M = 2.87$, $SD = 0.991$) were both below 3.00, indicating the extent of outsourcing of these functions is relatively low.

The overall findings imply that paint manufacturing firms in Kenya practice stronger emphasis on outsourcing logistics and supply chain management and production support, while human resource management, or marketing and customer care services were outsourced to low extent.

The mean score for network installation and maintenance ($M = 3.83$, $SD = 1.011$) was the highest among outsourced IT processes. This indicates that numerous paint manufacturing companies depend on external service providers for the installation and maintenance of their network infrastructure. This enabled the companies to access specialized technical expertise while minimizing the expenses related to maintaining an internal network management team. IT technical support and help desk services had ($M = 3.64$, $SD = 0.921$) an indication the paint manufacturing companies also outsourced IT technical support to a moderate extent This finding suggests that firms commonly engage external IT professionals to provide user support and resolve technical issues efficiently. Information systems development and maintenance had ($M = 3.10$, $SD = 1.325$) and was outsourced to a moderate extent.

The lowest mean score was observed for data management, backup and cybersecurity services ($M = 2.65$, $SD = 1.188$) indicating that security services are outsourced to a relatively

low extent. This suggests that many firms may prefer to retain control over company's data and cybersecurity functions. These findings are consistent with Mahida, (2024) who observed that enterprises possess confidential data, trade secrets and intellectual property and outsourcing such sensitive information may expose firms to hacking, data breaches, corporate espionage, as well as legal and financial consequences. These findings imply that the relatively low extent of outsourcing data management and cyber security services among paint manufacturing companies may be attributed to concerns over data security and the need to protect sensitive information as highlighted by (Mahida, 2024).

Overall, the mean score for information technology processes was 3.31. This was an indication that the paint manufacturing firms in Kenya outsource information technology processes to a moderate extent. This suggests that firms, while companies relied on external providers to an extent particularly for IT support and helpdesk services, network installation and maintenance, they also retained greater control over IT functions involving data management and IT security.

The highest mean score was recorded for provision of security guards and physical surveillance services ($M = 4.18$, $SD = .730$). This suggests that many paint manufacturing firms rely on professional security firms to provide guarding and physical surveillance services rather than maintaining in-house security teams to a high extent. The relatively low standard deviation indicates a consistent level of agreement among respondents regarding this practice.

Similarly, installation and maintenance of CCTV and access control systems ($M = 4.02$, $SD = 1.041$) was also outsourced to a high extent. This finding implies that firms highly engage external specialists to install and maintain surveillance technologies and electronic access control systems due to the specialized technical expertise required.

The mean score for security monitoring and alarm response services was ($M = 2.96$, $SD = 1.172$) indicating that these services were outsourced to a low extent. This suggests that although some paint manufacturing companies rely on external providers for security monitoring and alarm response, others prefer to manage these functions internally.

Cash-in-transit security services recorded a mean score of ($M = 2.95$, $SD = 1.384$) indicating these services were outsourced to a relatively low extent. The relatively high standard deviation suggests a considerable variation in respondents' opinions. This implies that the extent to which the outsourced cash-in-transit services varies greatly across paint manufacturing firms.

Overall, the security services mean score was 3.52. The findings indicate the most extensively outsourced services are provision of security guards and physical surveillance and installation and maintenance of CCTV and access control systems. This indicates the paint

manufacturing companies in Kenya engaged specialized security providers in these areas. In contrast, security monitoring and alarm response and cash-in-transit security services are outsourced to a low extent, suggesting that companies selectively outsourced security services depending on their operational needs and security requirements.

The responses suggest that government regulations are perceived to affect the extent to which companies outsource business services as reflected by a mean score of ($M = 3.86$, $SD = 0.778$). Additionally, respondents acknowledged that labor laws in Kenya play a role in influencing outsourcing decisions ($M = 4.08$, $SD = 0.702$). However, respondents maintained a neutral opinion regarding the extent to which government policies support Business Process Outsourcing (BPO) activities within manufacturing companies in Kenya ($M = 3.03$, $SD = 0.670$). This suggested uncertainty or mixed perceptions regarding government support. Respondents agreed that tax policies and regulatory compliance increase the operational cost of outsourcing recorded with the highest mean of ($M = 4.31$, $SD = 0.592$).

Overall, the mean score for the four variables was 3.82, indicating the respondents were in agreement regarding the influence of government regulations and policies on business outsourcing services and financial performance.

The assertion that outsourcing has increased the company's sales revenue received the highest mean score ($M = 4.50$, $SD = 0.593$). Outsourcing has improved profitability followed with ($M = 4.12$, $SD = 0.714$). The respondents also noted outsourcing improved Return on Investment (ROI) ($M = 4.08$, $SD = 0.571$). The respondents were in agreement that outsourcing improved productivity ($M = 4.02$, $SD = 0.816$) among paint manufacturing companies, on whether outsourcing reduced operational costs, the mean score was ($M = 3.99$, $SD = 0.871$). In addition, respondents agreed that outsourcing provides better value for money than in-house service provision ($M = 3.94$, $SD = 0.830$). The statement overall, outsourcing has improved the company's financial performance ($M = 3.66$, $SD = 0.802$) recorded the lowest mean score among the financial performance indicators. Overall, the mean for the seven variables was 4.04. An indication that respondents generally agreed that business service outsourcing has a positive influence on the financial performance of paint manufacturing firms in Kenya.

INFERENTIAL STATISTICS

Correlation analysis

The correlation analysis showed a positive and statistically significant relationship between outsourcing of operational activities and financial performance ($r = .264$, $p = .003$). The correlation between information technology (IT) outsourcing and financial performance was negative and statistically insignificant ($r = -.148$, $p = .105$). A positive but statistically

insignificant relationship was also observed between security services outsourcing and financial performance in Kenyan paint manufacturing companies ($r = .107$, $p = .242$). government regulations and policies have a positive and statistically significant relationship with financial performance of paint manufacturing companies in Kenya ($r = .382$, $p < .001$).

Regression analysis

The results indicate a multiple correlation coefficient (R) of 0.514, which signifies a positive relationship between the combined independent variables of operational activities outsourcing, technology outsourcing, security services outsourcing, and government regulations and policies and financial performance. The coefficient of determination (R^2) of .264 indicates that the independent variables in the model explained 26.4% of the variation in the financial performance of the paint manufacturing companies in Kenya. It means the remaining 73.6% was attributed to other factors not included in the study. This suggests that the financial performance of the paint manufacturing companies in Kenya could be influenced by other factors beyond this study.

The interview findings complemented the quantitative results. CEOs and CFOs reported that outsourcing logistics improved distribution efficiency and reduced transportation and vehicle maintenance costs. They also indicated that financial performance could not be attributed to outsourcing alone because other organizational and manufacturing factors contribute to profitability and productivity. Interviewees further highlighted dependence on external providers, contract management, employee resistance, data confidentiality, service quality, and changes in taxation and regulatory requirements as important considerations in outsourcing decisions

Quantitative findings

The moderated regression analysis established a statistically significant interaction between business process outsourcing and government regulations and policies ($B = -0.091$, $t = -2.837$, $p = 0.005$). The null hypothesis of no moderating effect was therefore rejected. The negative interaction coefficient indicates that the relationship between outsourcing and financial performance weakens as the measured government regulations and policies score increases.

The regression results showed that outsourcing of operational activities had a positive and statistically significant influence on financial performance ($B = 0.473$, $\beta = 0.302$, $p = 0.001$). Information technology outsourcing had a negative and statistically significant influence ($B = -0.564$, $\beta = -0.293$, $p = 0.001$). Security services outsourcing had a positive but statistically insignificant influence ($B = 0.142$, $\beta = 0.078$, $p = 0.352$), while government regulations and policies had a positive and statistically significant direct influence ($B = 0.846$, $\beta = 0.348$, $p <$

0.001). The overall model explained 26.4% of the variation in financial performance ($R^2 = 0.264$) and was statistically significant, $F(4, 116) = 10.412$, $p < 0.001$

CONCLUSION

The study concluded that outsourcing of operational activities has a positive and statistically significant influence on the financial performance among paint manufacturing companies in Kenya. Outsourcing operational activities including production support services, human resource management services, logistic and supply chain management, and marketing and customer care services enables companies to concentrate on their core competences, improve operational efficiency and enhance overall financial performance.

Outsourcing of Information Technology (IT) processes has a negative and statistically significant influence on financial performance among paint manufacturing companies in Kenya. The findings suggest that, although companies outsourced functions such as IT technical support, helpdesk services, network installation and maintenance they retained greater control over data management, back up and cybersecurity security. The Information systems development and maintenance were moderately outsourced. This indicates selective outsourcing of IT functions may not necessarily translate into improved financial performance.

Paint manufacturing companies selectively outsourced security services. The most outsourced security services include provision of security guards, physical surveillance, installation and maintenance of CCTV and access control systems while security monitoring, alarm response and cash-in-transit security services were outsourced to a low extent. However, despite the relatively high outsourcing of some security services, the study established that outsourcing does not have a statistically significant influence on financial performance of paint manufacturing companies in Kenya.

Government regulations and policies have a positive and statistically significant influence on financial performance of the paint manufacturing companies in Kenya. The findings indicate that compliance with labor laws, tax policies and other regulatory requirements shapes the outsourcing decisions and contributes to improved financial performance among paint manufacturing companies in Kenya. Further, the study concluded that government regulations and policies have a statistically moderating effect on the relationship between outsourcing of businesses services and the effect on financial performance. This implies that supportive government policies and regulation enhance outsourcing outcomes. On the other hand, restrictive policies may reduce financial benefits derived from outsourcing of business services among paint manufacturing companies in Kenya.

RECOMMENDATIONS

Paint manufacturing companies should increase the strategic outsourcing of non-core services such as Human resource management, logistics and supply chain management, marketing and customer care. This will enable the companies to concentrate on their core manufacturing competencies, improve operational efficiency, and reduce operating costs, and improve financial performance.

The study recommends that critical information technology processes such as data management and cyber security should be wholly managed by the paint manufacturing companies. However, companies should outsource technical services such as hardware maintenance and network maintenance. This will enable the companies to access specialized expertise and protect company's data. It will also reduce high maintenance costs.

Paint manufacturing companies should review the outsourcing of security since its impacts on financial performance is statistically insignificant. The review should help the paint manufacturing companies determine whether internal security is more cost effective compared to outsourced services.

The government of Kenya should formulate policies that promote favorable business environment for paint manufacturers in Kenya. This may include reviewing tax policies, giving tax breaks on raw materials among others.

SCOPE FOR FURTHER STUDIES

The study was carried out among the paint manufacturing companies located in Nairobi County. Future studies should consider including paint manufacturing companies operating in the other forty seven counties. This will help determine the research findings are applicable across the different counties and operating environments.

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