The Effect of Strategic Partnerships in Outsourcing Relationships among Large Scale Food Processors in Kenya

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ABSTRACT

The purpose of this study was to establish the effects of strategic partnerships in outsourcing relationships among large sale food processors in Kenya. A quantitative research was adopted using a survey design. The target population was the 181 large scale food processors in Kenya registered under Kenya Association of Manufactures. The large scale food processing firms for each category of the study were selected using stratified random sampling. This study worked with a sample size of 123 large scale food processors representing 68% of the large scale food processing firms in Kenya. The questionnaire was the primary data tool. Through analyzing data, the study found a strong positive correlation between strategic partnerships and outsourcing relationship and ultimately concluded that (r =0.822) whose significant value was 0.000 being less than 0.05.Therefore, it concluded that there is a significant relationship between strategic partnerships and outsourcing relationships.

Key Words: Strategic Partnerships, Strategic Management Practice, Outsourcing Relationships, Large Scale Food Processing Firms

1.0 INTRODUCTION

The market for processed foods has become insatiable leading to the complexity of outsourcing relationships (IFCF, 2010). With an increase in urban population, demand for processed foods continues and is projected to rise (Sathe & Sharma, 2009). According to Barnes (2010), the world population is expected to grow from 6.9 billion to 9.3 billion in 2050.Therefore, there will be demand for more food, more diverse types of food and higher-quality food leading to a steady increase of the global food processing industry (Bugusu, Bhide, Slavin, & Ohlhorst, 2012). Africa is no exception. Agro-processing, of which food processing presents a bigger percentage, is one of the most significant manufacturing activities in Africa and is projected to be at $1 trillion industry in Sub- Saharan Africa (SSA) by 2030 (Aksoy & Anil, 2011). The agricultural sector also plays the leading role in the economy of Kenya directly contributing 24% of the Gross Domestic Product (GDP) annually valued at Kshs 342 billion (ASDS, 2009).

Kenya's economy depends largely on Agriculture, which accounts for above one third of the GDP and approximately two thirds of exports. Agriculture remains the utmost key economic activity in Kenya (KPMG, 2014) and is supplemented by manufacturing, commerce and tourism, which collectively accounts for an additional 25% of the GDP (Republic of Kenya, 2014). For that reason, it has directed most of its resource towards enriching that sector to the benefit of the food production sector. Food processing is thus one of the key activities in Kenya's agro-processing industry. As Kenya’s population soars, the challenge of feeding its people also grows.

The vivid expansion of the food processing industries in Kenya leads to expansion of such firms in outsourcing services to focus on their core competences. This in turn leads to creation of outsourcing relationships that need to be enhanced to ensure efficiency at all angles of the food production process till the end of consumer utility and satisfaction process. Pratap (2014) argued that it is possible for organizations to focus on strategic partnerships as key strategic management practices to enhance the outsourcing relationships. This study thus explores how mutual value can be co-created most effectively, examining the outsourcing relationship from the perspective of both the vendor and the client through the effects strategic partnerships as a strategic management practice in the large scale food processing industry.

1.2 Statement of the Problem

Building a foundation through strategic partnerships as a strategic management practice is advantageous for any enterprise (The World Bank Group, 2015). Strategic partnerships as a strategic management practice promote interdependence, institutionalisation and integrity in the outsourcing relationships. The prominence is on cooperation with the concerned parties. This approach stresses the development of trust, information sharing and common interest amongst members (Lacity & Willcocks, 2014). If both parties reciprocate well, whilst maintaining positive outsourcing relationships, they are likely to reap benefits from each other.

Large scale food processors must propagate connections that provide resources they do not possess in house and enable them to move quickly to profit. Large scale food processors that outsource their services ensure utilisation of different strategic intents regardless of the type of the outsourcing relationships (Jones, 2010). The effects of strategic partnerships as a strategic management practice is mutually beneficial in both parties so as to gain an advantage by such partnerships (Roloff, Aßländer, & Nayir, 2015). The emphasis is not competition and conflict but act as a basis upon which a joint competitive advantage is developed (Shu-Tzu, 2010). Having a partner to manage activities may have a direct value, but there could also be an indirect value from having a service provider help the vendor companies improve and streamline their own processes (Gammelgaard, Rajesh, & Verner, 2013).

With the expectations of the outsourcing relationships visibly distinct, a commitment of integrity, interdependence and institutionalisation by both the company and the service provider is seen. Strategic partnerships as a strategic management practice in the outsourcing relationships entail seeing the client as almost an extension of their organisations (Cloud, 2009). When both parties build a partnership that endeavours to improve the way the service is delivered to the benefit of the core activities of the company, then things are expected to work accordingly (Hausman & Johnston, 2010). In addition to that, when both the large scale food processing firms and the service provider (partner) hold integrity amongst each other, they are able to connect with each other well. Consequently, it would build trust and embrace negative unexpected challenges so as to establish an astounding outsourcing relationship (Cann & Sidman, 2011).

Studies related to outsourcing have mainly focussed on the strategic outsourcing, types of outsourcing, offshore and onshore outsourcing and have failed to consider the importance of

these outsourcing relationships vis-a-vis the effects of strategic partnerships as one of the strategic management practices. Furthermore, according to Deloitte (2016) most studies in this area have been done in developed countries like United States of America, Britain and India focusing on the contribution of outsourcing to their economies and very little research done in developing countries like Kenya. Notably very few studies have been done concerning outsourcing relationships among large scale food processors in Kenya. The effects of strategic partnerships as a strategic management practice acting as a guide on ensuring best outsourcing relationships among the large scale food processing firms in Kenya that outsource has not been completely researched on. So far no link has been studied to show the relationship between the effects of strategic partnerships as a strategic management practice and outsourcing relationships. This study therefore aims to bridge the knowledge gap of the effects of strategic partnerships as a strategic management practice in outsourcing relationships with specific focus in the large scale food processing industry in Kenya.

1.3 Research Objective

The study was guided by the following general objective:

To examine the effects of strategic partnerships as a strategic management practice in outsourcing relationships among large scale food processors in Kenya.

1.4 Scope of the Study

The study will target large scale food processing firms in Kenya registered under KAM. The effects of strategic partnerships as a strategic management practice in outsourcing relationships will be integrity, institutionalisation and interdependence.

2.0 THEORETICAL FRAMEWORK

Contingency Theory draws the idea that there is no one best technique to manage organisations. The contingency perspective is drawn from the relationship between a variable drawn from other variables. In this study, the variable is strategic partnerships depending on another variable the outsourcing relationships (Boyd, Haynes, & Hitt, 2012). The fundamental concern of the contingency paradigm is how strategic partnerships fit to contingencies that reflect the situation determining the effectiveness of the outsourcing relationships. Large scale food processors in Kenya develop appropriate managerial strategic practices such as the strategic partnerships so as to enhance the strategic intent which in this case is the outsourcing relationships.

The contingency perspective on strategic partnership as a strategic management practice is seen in this study where the unit of analysis is the relationship between the actors who engage in the exchange, which can be interactions either by individuals, corporate groups, goods, material and non-materials acting as single units (Biron & Boon, 2013). Contingency theory adopts the norm of reciprocity, which refers to responding to a positive action with another positive action, rewarding kinds of actions (Farganis, 2011). Since it assumes actors to behave in ways that facilitate desired outcomes the large scale food processors try their best to maximize their benefits; and when they receive something beneficial, they are indebted to reciprocate (Jasmin, 2014). A trading behaviour requires the active involvement of both trading firms in the outsourcing relationship and is equally meaningful in creating expectations, obligations, and reciprocity for both parties that is the client and the vendor (Majiros, 2013). Establishment of reciprocity relationships between both parties influence positive results (Wittmer, Martin, & Tekleab, 2010).

In the large scale food processing firms' context, outsourcing activities is embedded in networks of relationships so as to gain competitive advantage (Liao, 2008). Contingency theory tries to explain the reason why organizations enter into such outsourcing relationships with other parties. It generally assumes that through a series of exchanges, it will be beneficial (Ritzer, 2010). Strategic partnerships offer opportunities in additional services to clients that would not be available. This will enable the large scale food processors to offer its clients a whole new realm of services without losing focus on its capabilities and its specialized services, realise economies of scale through high volume, low cost and mass distribution. Consequently, this leads to interdependence among firms leading to a crucial importance of maintaining good outsourcing relationships whereby both parties benefit as agreed (HsinHsin, Yao-Chuan, Shu-Hui, & Guei-Hua, 2015).

The efforts and continuous improvement towards such strategic partnerships can enhance the total performance of the large scale food processing firms once outsourcing relationships are maintained successfully (Sun, Ho, & Ni, 2012). Strategic partnerships can lead to advances in operational processes. In addition, it can as well enhance better knowledge diffusion and knowledge sharing or transferring knowledge in the outsourcing relationships. Consequently, it would lead to improved work systems, productivity enhancement, competitive advantage and the sustainability of the outsourcing relationship (Hsin Hsin *et al.*, 2015). In this way, large

scale food processors can develop and strengthen their outsourcing relationships through best strategic management practices (Dongduk & Myongji, 2015).

3.0 RESEARCH METHODOLOGY

3.1 Research Design

A quantitative research was adopted using a survey design. A quantitative approach was employed for data analysis. Quantitative approach puts importance on measurement and data is analysed in a numerical form. The study used a quantitative approach for the reason that the data collected using questionnaires from the respondents was analysed using statistical procedures. A survey research design was appropriate in this study. According to Creswell (2013), surveys are relatively inexpensive and useful in the description of characteristics of a large population. Moreover, they ensure a more accurate sample to gather targeted results in which to draw conclusions and make important decisions.

3.2 Target Population

Kothari (2012) describes target population as total items from which information is to be chosen from. The study worked with the sample size of 123 large scale food processors in Kenya registered under Kenya Association of Manufactures. The study targeted one respondent chosen randomly in each firm. The study respondents in each firm was made up of either Chief Executive Officers, Managers and other managers who were either the Heads of Departments in Operations, Food Production, Quality, Finance, and Human Capital Administration. However, the research instrument was targeted upon the operations manager.

3.3 Data Collection Methods

Primary data and secondary data was used for data collection. The primary data was collected using semi-structured questionnaires whilst secondary data was done through a review of literature. The semi-structured questionnaires to be used contained both closed ended and open ended questions. A pilot study was then conducted to check for the reliability and validity of the questionnaire. Cronbach's Alpha Coefficient was applied to test for reliability. After the pre-test, the semi-structured questionnaires was administered to randomly sampled employees in the 123 firms through email, hand delivery or drop and pick method. The data collected was sorted, coded and entered into Statistical Package for Social Science software (SPSS) version 24 to facilitate for analysis using descriptive statistics.

4.0 RESULTS FINDINGS AND RESULTS

4.1 Response Rate

Out of the 123 questionnaires distributed, 106 were completed and received back hence the response rate was 94%. This response rate was sufficient for the study.

4.2 Reliability Analysis

Strategic partnerships on outsourcing relationships had 7 items in the questionnaire. The study used assessment of new capabilities, increased shared knowledge, institutionalisation of partners, and rate of organisational performance, reduction in risk, integrity and interdependence as the components of strategic partnerships. The variables recorded a Cronbach alpha of 0.805 which was acceptable for this study.

Table 4.1 Reliability Analysis

Variable	Number of items	Cronbach Alpha
Strategic Partnerships	7	0.805

4.3 Tests for Regression Model Assumptions

When the assumptions of the regression model are correct, there is an efficient and unbiased estimates of the parameters. Violations of these assumptions can lead to various types of problematic situations. To ensure that there was no violation of the assumptions, this study tested for multicollinearity, linearity, homoscedasticity, normality and autocorrelation.

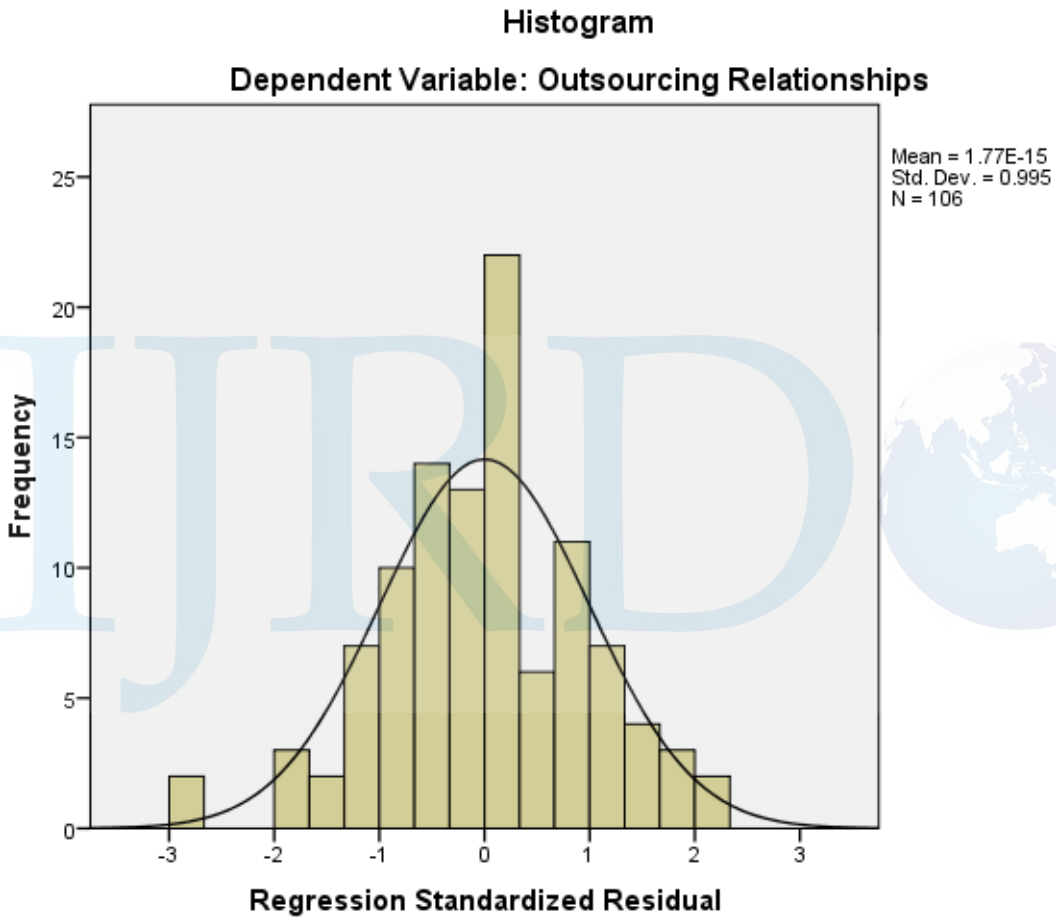
4.3.1 Test for normality of data

Normality is crucial in determining the shape of distribution and helps to predict the dependent variable score. If the assumption of normality is violated, analysing and interpretation may not be valid. The normality of data distribution was assessed. (Ghasemi & Zahediasi, 2012). In this study, the assumption for normality was tested by plotting residual values on a histogram with a fitted normal curve and by reviewing a Q-Q-Plot (Razali & Yap, 2011).

Table 4.19 depicts a histogram depicting a bell shaped curve. The histogram indicates a symmetric, moderate tailed distribution. To ascertain normality, then the suggested subsequent step was a normal probability plot. In the normal probability plot, the observed value for each score is plotted against the expected value from the normal distribution, where, a reasonably straight line suggests a normal distribution. If the points depart from a straight line, then the

assumed distribution is called into question (Pallant, 2010). The normal probability plot is clearly illustrated in figure 4.1. The Normal P-P Plot of standardized residuals indicated that the data showed points that were not completely on the line, but close to it hence can be deduced to contain approximately normally distributed errors. This depicts a linear indicating that it is a normal distribution which is a good model for the data.

Table 4.3 Histogram of regression standardised residual



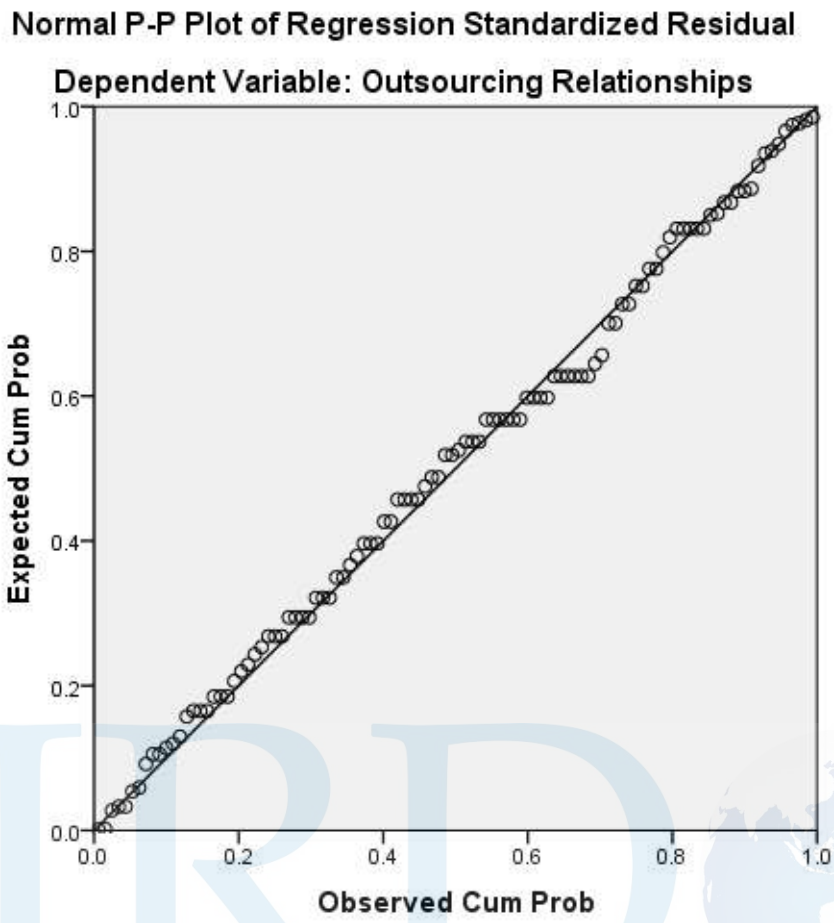


Figure 4.1 Normal P-P Plot of regression standardized residual.

4.3.2 Test for Homoscedasticity

If variances differ, the chance of reaching incorrect conclusions about the data increases. Breusch-Pagan and Koenker was used to test the null hypothesis that the error variances are all equal versus the alternative that the error variances are a multiplicative function of one or more variables. Breusch-Pagan and Koenker test the null hypothesis for homoscedasticity.The above tests confirm that the model is reliable and can be used for prediction purposes. It is therefore safe to conclude that strategic partnerships as a strategic management practice is significantly related to outsourcing relationships.

This is detailed in table 4.4.

Table 4.4Testing for Homoscedasticity

	LM	Sig
Breusch-Pagan	68.695	.000
Koenker	13.535	.000

Null hypothesis: heteroscedasticity not present (homoscedasticity)

4.3.3. Test for Autocorrelation

The Durbin-Watson' was used to test and indicate that the residual variables are not linearly auto-correlated. It assumes values between 0 and 4, and values around 2 indicates no autocorrelation. As a rule of thumb values of $1.5 < d < 2.5$ shows that there is no auto-correlation in the multiple linear regression data (Berenson, Levine, & Krehbiel, 2014). The value from table 4.5 indicates it is 2.168 indicating no autocorrelation with our data.

Table 4.5.Testing for Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.822[a]	.676	.673	.330	2.168

a. Predictors: (Constant), Strategic Partnerships, Strategic Quality Control, Employee Capacity Building, Strategic Planning

4.3.4 Test for multicollinearity

The VIF and tolerance measures were used to check for multicollinearity for each independent variable relative to the other independent variables in this study. If the VIF value lies between 1 and 10, then there is no multicollinearity and if the VIF <1 or > 10, then there is multicollinearity. The data was within the acceptable range indicating absence of multicollinearity, thus this study utilized all the independent variables since all the values lied between 1 and 10.

Table 4.6.Testing for multicollinearity

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.444	.131		3.393	.001		
	SPs	.821	.056	.822	14.722	.000	1.000	1.000

a. Dependent Variable: Outsourcing Relationships

4.4 Factor Analysis of Strategic Partnerships

Factor analysis was done to establish the appropriateness of the factor to be used in further analysis. A Principal Component Analysis was performed on seven strategic partnership measures in order to examine the dimensionality of effects of strategic partnerships in outsourcing relationships among the large scale food processors in Kenya. In addition, the values of KMO and Bartlett sphericity was determined and used to check the suitability of the items defining the objectives. The findings were presented in table 4.6.

Table 4.7 KMO and Bartlett's Test for Strategic Partnerships

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.853
Bartlett's Test of Sphericity	Approx. Chi-Square	180.106
	df	21
	Sig.	.000

The results show that Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.853 with a Bartlett’s test of sphericity being less than 0.05. This indicates that the variable is suitable for further analysis. The component analysis matrix was computed and presented in table 4.7. Any item that did not achieve a factor loading of 0.4 according was eliminated for any further analysis. The component analysis matrix was computed and presented in table 4.8.

Table 4.8 Component Matrix

Item	Component
Performance rate of an organisation when it partners strategically	.622
Strategic partnering reduces overall risk in your organisation	.643
Integrity in strategic partnership promotes trust	.705
Interdependence of strategic partnering enhances organisational performance	.672
Strategic partnering leads to increased shared knowledge	.721
Institutionalising of partners strategically leads to achievement of organisational goals	.650
Strategic partnering allows organisation to access new capabilities	.738

Extraction Method: Principal Component Analysis.

From the results, the seven items have a factor loading of more than 0.4 and hence they were all suitable for further analysis. The factor with the lowest loading had 0.622 while the factor with the highest loading had 0.738.

4.5 Descriptive Analysis of Strategic Partnerships in Outsourcing Relationships

The majority of the respondents agreed that strategic partnerships as a strategic management practice has an effect in outsourcing relationships since the mean ranged from 2.35 to 2.21. Assessment of new capabilities had the highest mean of 2.35 followed by interdependence at 3.32 and followed closely by integrity at 2.29. Performance rate of strategic partnerships and risk reduction of strategic partnerships had the same means at 2.27.This was then followed by institutionalising of partners at 2.22. The lowest mean was increased shared knowledge at 2.21. The highest variance was from increased shared knowledge at 0.966 whereas the least variance was from institutionalising of partners at 0.629. Increased shared knowledge had the highest skewness at 1.471 whereas the lowest skewness was at 0.408 for institutionalising of partners. Table 4.9 provides an illustration of the descriptive statistics in strategic partnerships in outsourcing relationships.

Table 4.9 Strategic Partnerships in Outsourcing Relationships

	N	Mean		Std. Dev.	Variance	Skewness		Kurtosis	
Items	**Stat.**	**Stat.**	**Std. Err.**	**Stat.**	**Stat.**	**Statistic**	**Std. Err.**	**Stat.**	**Std. Err.**
Performance rate of SPs	106	2.27	.079	.811	.658	.548	.235	1.117	.465
Risk reduction in SPs	106	2.27	.080	.823	.677	.497	.235	.947	.465
Integrity	106	2.29	.083	.850	.723	.911	.235	2.961	.465
Interdependence	106	2.32	.081	.834	.696	.939	.235	2.191	.465
Increased shared knowledge	106	2.21	.095	.983	.966	1.471	.235	4.391	.465
Institutionalising	106	2.22	.077	.793	.629	.408	.235	.534	.465
New Capabilities	106	2.35	.082	.840	.706	.539	.235	1.233	.465

4.6 Hypothesis Testing

The researcher conducted regression analysis so as to determine the effects of strategic partnerships in outsourcing relationships among large scale food processors in Kenya. The hypothesis to test for this specific objective was:-

H_O: Strategic partnerships has no significant effect in outsourcing relationships among large scale food processors in Kenya.

Table 4.10 Model Summary of strategic partnerships

The linear regression model showed adjusted R^2= -0.673 which means that 67.3 % change of outsourcing relationships among large scale food processors in Kenya can be explained by a unit change of strategic planning. The result is shown in Table 4.11.

Table 4.11 Model summary of strategic partnerships

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822[a]	.676	.673	.0330

a. Predictors: (Constant), Strategic Partnerships

b. Dependent Variable: Outsourcing Relationships

From the results there was an indication that one unit change in strategic partnerships translates to 67.3% change of outsourcing relationships among large scale food processors in Kenya. Therefore, employee capacity building has a positive influence in outsourcing relationships among large scale food processors in Kenya. Further test on ANOVA shows that the significance of the F-statistic (216.751) is less than 0.05 since p value, p=0.00, as indicated in Table 4.12.

Table 4.12 ANOVA of strategic partnerships

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.570	1	23.570	216.751	.000[b]
	Residual	11.309	104	.109		
	Total	34.879	105			

a. Dependent Variable: Outsourcing Relationships

b. Predictors: (Constant), Strategic Partnerships

Further test on the beta coefficients of the resulting model, the constant $\alpha = 0.444$, if the independent variable of employee capacity building is held constant then there will be a positive influence in outsourcing relationships among large scale food processors in Kenya by 0.821. The regression coefficient for strategic planning was significant at the 0.05 level ($\beta = 0.444$) with a t-value=14.772 (p-value<0.001). As shown in Table 4.13.

Table 4.13 Coefficients of strategic partnerships

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.444	.131		3.393	.001
	Strategic Partnerships	.821	.056	.822	14.722	.000

a. Dependent Variable: Outsourcing Relationships

The predictor that has a low p-value being a more meaningful addition to the model because changes in the predictor's value are related to changes in the response variable. Therefore, reject the null hypothesis. This implies that for every 1 unit increase in strategic quality control, outsourcing relationships among large scale food processors cannot be predicted by 0.821 units and therefore accept the alternate hypothesis that strategic quality control has a significant effect in outsourcing relationships among large scale food processors in Kenya.

4.7 Regression Coefficient

The intercept is where the regression line meets the Y axis when the independent variable has a value of 0. The study had one predictor variable (strategic partnerships). Therefore, a linear regression model with one predictor variable can be expressed with the following equation:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

The parameters in the model are β_0, the Y-intercept (Constant = 0.444); β1, the regression coefficient (strategic partnerships = .0821). Therefore, the final equation can be expresses as;

Y= 0.444+.0821x

Therefore, a one unit increase to strategic partnerships can lead to a significant increase in the the outsourcing relationships as seen below:-

Y= 0.444 + .0821(1); Y = 0.5221

4.8 DISCUSSIONS

The effects of strategic partnerships was assessed by seven measures namely assessment of new capabilities, increased shared knowledge, institutionalisation of partners, and rate of

organisational performance, reduction in risk, integrity and interdependence as the components of strategic partnerships. The findings implied that the assessment of new capabilities as one of the components in strategic partnership is the highest contributor in the large scale food processing firms. The rate of organisation's performance, reduction in risk, integrity and interdependence also influence positively in terms of ensuring the success of the outsourcing relationship. The significant results revealed that the means were statistically different and the alternative hypothesis was accepted. The findings revealed a statistically significant positive relationship exists between strategic partnerships as a strategic management practice and outsourcing relationships.

4.9 CONCLUSSIONS

This study determines that the effects of strategic partnerships as a strategic management practice positively and statistically significantly affects outsourcing relationships among the large scale food processors in Kenya. In this study, the main resultant expectation is a successful outsourcing relationship when firms partner strategically. Therefore, accomplishment of outsourcing relationships between the clients and vendors is vital to the achievement of an outsourcing arrangement among the large scale food processing firms (Kuchler, 2013).

5.0 RECOMENDATIONS

This study recommends that apart from focussing on strategic partnerships as a strategic management practice, large scale food processing firms should provide a framework on how best they choose the right partners to work with efficiently to ensure success in the outsourcing relationships.

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