

# EFFECT OF MARKETING OUTSOURCING ON ORGANIZATIONAL PERFORMANCE OF AUTOMOTIVE ASSEMBLING FIRMS IN NAIROBI CITY COUNTY, KENYA

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**Abstract:** Automotive Assembling firms in Nairobi County, Kenya, have faced significant challenges over the last 15 years, including lack of supporting standards, low-capacity building, a huge influx in second-hand motor vehicles, which account for 80% of motor vehicles, these challenges contributed to decline in the organizational performance. Most of them have embraced Outsourcing Strategies to improve their organizational performance. However, they are still facing stagnant operational performance. Organizational performance in this study was measured using sales, profitability and market share, therefore most of the firms experienced low sales, non-profitability and reduced market share. Therefore, this study sought to investigate the effect of marketing outsourcing on organizational performance of automotive assembling firms in Nairobi City County, Kenya. The study applied a descriptive survey design. The research narrowed to Procurement staff in managerial positions at 13 automotive assembling firms. This research focused on official staff in the procurement department in automotive assembling firms totaling 114 employees to collect the relevant data. A census of 114 respondents was done. Data was collected using questionnaires. Pilot Study was conducted where the questionnaire was administered to a few selected respondents from the automotive assembling firms in Nairobi Kenya. Quantitative data was analysed using descriptive analysis. Multiple regression model inferential statistics was applied to obtain the correlation between variables. The study concluded that customer relations and follow-up are conducted on a regular basis through different public media outlets in the automobile assembling firms. The study recommended that the firm management must develop partnerships with the suppliers, and they should not be taken as contractors, which will help share value and missions over the long term.

**Keywords:** Marketing outsourcing, Organizational Performance, Outsourcing strategy.

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## 1. INTRODUCTION

Organizational performance has been one of the main drivers in automotive assembling firms and much focus given in the ever-changing markets that companies find themselves operating in (Vinod, 2016). To achieve the required organizational performance, firms have different strategies to improve their organizational performance (Magableh, 2018). The best and most used strategy is outsourcing. It helps companies to improve efficiency while reducing operating costs. A firm adopts a strategy by placing its trust and faith in a third party to add value to the organization's capabilities (Sumo, 2015).

In European countries and the US, outsourcing firms' activities and strategies are prevalent in production, marketing, technology, and human resources outsourcing (Scott, 2011). The research revealed that outsourcing largely influenced the organizational accomplishment of individual enterprise regarding production and sales. Outsourcing enhanced successes through the reduction in costs and improved efficiencies. An example of this is General Motors Company, the biggest

automobile company in the United States of America with 53.66 Billion USD. The company attributes its impressive organizational performance to deal with the core while outsourcing the context.

Other examples of firms using outsourcing in technological equipment to improve their organizational performance are Chrysler and Ford. According to Gilley and Rasheed (2009), Chrysler company subcontracts the entire manufacture of about half of its subcompact and mini-compact automobile. It means that Ford and Chrysler only produce about half of the total value of their vehicles in-house. In Africa, Outsourcing strategies have been found very key in an organization's performance (Magableh, 2018). Africa Mobility solutions in South Africa have adopted selective outsourcing of their logistics function to concentrate on their core function, effectively facilitate growth and quality value chain delivery across the African region. Recent reports and studies have revealed that outsourcing has become a common business strategy in African countries. Further, the firms have also been involving offshore outsourcing, which has become a priority in businesses. The low-income countries in Africa are taking advantage of this practice to improve their production and performance in the market and economy (Abbott, 2013).

In Kenya, the 2006 Kenya I.C.T. Strategy, Partnership, and Outsourcing, initiated by Kenya's president, provided the basis for Kenya to concentrate on outsourcing global business processes to build jobs for young people and prosperity for local entrepreneurs and investors (ICT Board Kenya, 2012). Toyota Kenya Limited, one of the leaders in the distribution of New Vehicles in Kenya, has embraced the outsourcing of its spare parts and vehicles from South Africa, Japan. Isuzu, based in Kenya, specializes in the distribution of Isuzu New vehicles and assembles their trucks and pickups in Kenya. The CDs for the pickup are imported from South Africa, while the trucks are imported from Japan. Broadcasted studies on subcontracting have previously been conducted for a minimum of eighteen years.

Organizational performance includes the expected performance or goals and expectations compared against the overall performance. Investment returns, market results, and financial outcomes of investors are three main areas in which Richard, Yip, and Johnson (2009) concentrated in the field of organizational performance. Companies and experts in strategic planning and implementation, organizational activities and financial practice, legal and business growth are extremely interested in organizational performance. According to Gilley & Rasheed (2009), this performance is measured using the balanced scorecard analysis.

The productivity of an enterprise can be quantified through financial indicators then again by non-financial indicators. Some of the financial indicators of performance include Net Profit Margin, Debt to Equity Ratio, Return on Capital Employed (ROCE) (Kahindi, 2010). Non-financial indicators include brand awareness, new customers, after-sales service quality, value-added services, strategic development of new retail stations, customer feedback, or product quality. Firms need to measure their performance to evaluate how best to utilize their assets, serve their customers, and better the organization's reputation. It boosts consumer trust acts as a support when they command a premium price (Gilley & Rasheed, 2009). Kaplan and Norton (1996) recommend a balanced scorecard tool covering financial, customer outcome, innovation, and processes.

Khantimirov (2017) adopted market and profitability as performance measures in his study of financial accountability in marketing procedures within a firm. Farris, Bendle, Pfeifer, and Reibstein (2010) concluded that sales and customer are among the key indicators of market competitiveness, amongst various results measures, that is, how a company performs against its competitors. The study has used the balanced scorecard model; of sales, profitability, production output, and customer satisfaction to measure the organizational performance of automotive assembling firms in Kenya. The study used Balance score card used since it captures both financial and non-financial measures and, therefore, provided an accurate evaluation of the organization's outsourcing strategies.

Outsourcing is a strategic decision in an organization that emphasizes how to leverage capital, risk, and profit across a company instead of looking at its competitive advantages in its business strategy to reduce costs. Outsourcing method is sometimes done as contracting out. According to (Hayes, 2012), outsourcing strategy refers to internal development and planning based on relationships formed with external providers. It helps companies to improve efficiency while reducing operating costs. It involves delegating major, non-core business capacities of a firm to a specific productive specialist to concentrate on core business. Further, it involves a firm placing its trust and faith in a third party to advance the organization's strength.

Marketing outsourcing involves engaging an external partner or supplier for a prolonged period to help strategically manage processes in marketing and supply of their products (Watkins, Swidler & Hannan, 2012). Both parties commit dedicated people and financial resources to the deal. Because of its strategic, long-term, and demanding nature, it is considered a

complex outsourcing strategy. Scott, Lundgren and Thompson (2011) express that marketing outsourcing in the business field engages with suppliers over time to manage extensive processes across all organization functions; however, the buyer or organization still does strategic planning and client management.

### **STATEMENT OF THE PROBLEM**

Organizational Performance is beneficial to automotive firms as it helps automotive firms measure not only the level of Shareholder, customer satisfaction but also its level of relevancy and its ability to fit in the environment and whether ability to survive and grow. The automotive industry has faced significant challenges over the last decade in Kenya. It includes rising cost of operations, stiff competition from second-hand imports, among other challenges. These challenges have adversely impacted the organizational performance of the organizations. In the last four years, there has been a steady recovery; however, the numbers achieved are lower than those attained a decade ago, raising the alarm on customer satisfaction (Sumo, 2015). It is resultant from sales claiming that the brand products that are on sale have been in the market for the past too long and become less attractive to the customers, limiting the market share.

Busoro (2016) researched studying the corporate strategic planning that different automobile franchise holders located in the capital city of Kenya and noted that the automotive assembly firms further face influx of the second-hand cars into the Kenyan automotive industry. Firms have strategized on focusing their extra efforts in outsourcing operations to achieve organizational performance in the new consistent and dynamic business field. It is done either wholly or partly while others have not. It has become part of most firms to engage in outsourcing in one or more functions in performing their business. The choice of what functions to outsource or execute internally is determined by the quest to invest, grow skills, infuse resources, and stay averse with the ever-developing technological advancements (Ochweri, 2012).

## **2. LITERATURE REVIEW**

### **Theoretical Literature Review**

The study was guided by core competence theory which was initially presented in 1990 by Prahalad and Hamel. It defines Core Competencies simply as an organization's shared knowledge about bringing together various productive skills needed in the organization and the unification procedures of different technologies. It focuses on actions that firms takes to obtain a competitive edge over its rivals in its marketplace. Prachi (2018) avers that it is essential for Firms to fully focus on their strengths or areas to maximize their abilities/resources fully. There are two classifications for these competencies; non-core core and competencies. The Core one is those functions that are directly merged into the service and product development. On the other hand, non-core competencies directly relationship with the products and services production (Power et al., 2006). Most organizations prefer to maintain crucial activities in-house while subcontracting non-crucial activities externally (Arnold, 2000).

According to Prahalad and Hamel (1990), they are several ways of identifying core activities: firstly, activities or business functions enabling the organizations to access its product market; secondly, functional inputs that enable the organization to achieve customer retention /satisfaction, and finally they must be difficult to emulate. A company may lose its competitive advantage or suffer a disclosure of sensitive business information, giving them an edge in the market by Outsourcing the core function. Subcontracting reduces the organization's inventiveness capacity and increases the competition degree (XU, 2009). The theory shows how automotive assembling firms can improve organizational performance through production processes and marketing outsourcing by focusing on the core functions while outsourcing the non-core ones.

### **Empirical Literature Review**

McGovern and Quelch (2010) researched outsourcing marketing in American manufacturing firms. The study involved a range of manufacturing firms in different states by sampling a total of 74 companies. This research used primary data collected through questionnaires. The study revealed that to create more results from the marketing, the in-charge managers need to be experts in developing, monitoring, and integrating their work by networking even with the outside suppliers. The latter have capabilities to bring new strategies likely to improve the marketing capabilities of the firm. Further, the study suggested that the firm management must develop partnerships with the suppliers, and they should not be taken as contractors, which will help share value and missions over the long term. This study analyzed how automotive assembling firms can leverage on partnerships with outsourced marketing firms to improve organizational performance.

Walker, Sartore, and Taylor (2009) investigated the empirical consequences and issues with subcontracting within the context of Thailand's intercollegiate marketing. The study employed Fact finding research design with a intended audience

of 32 marketing firms randomly selected. The intention of the explore was to find out how outsourcing relates to communication-employee commitment. The study showed that marketing managers regard outsourcing as important and experience frustration with interaction, frequency, and direction. The study indicated that managing the right commitment in work with an outside company is important to marketing departments. However, there's need to explore how improved communication-employee commitment can help organization improve customer experience resulting in improved organizational performance through increased sales. This study showed how automotive assembling firms can leverage improved communication-employee commitment to improve their organizational performance through improved customer service.

Research by Ahearne and Kothandaraman(2009) investigated the consequences of outsourcing relating to business-to-business marketing. The study revealed that with increased globalization, businesses had focused more on their outsourcing decisions. The study divulges outsourcing as a strategic arm in their clothing started to be implemented beyond tactical companies. More businesses, both large and developing, are focusing on outsourcing techniques. The study focused on business-to-business marketing. This study focused on how automotive assembling firms in Nairobi can leverage on business-to-business marketing outsourcing to improve organizational performance.

Cuzakand Vizjak(2009) examined the outsourcing of marketing in Slovenia. The target population was made up of 44 manufacturer companies that deal with pharmaceuticals. Outsourcing is beneficial when the outsourcing provider can improve performance at lower expenses. Feedback allows marketers to consider what improved quality entails at lower costs. The study revealed that marketing outsourcing could increase productivity, but specifically where, when, and how is needed. If the organization knows the entire marketing strategy, it can build an outsourcing system. This method then enables the organization to highlight different opportunities useful for improvement through subcontracting or outsourcing. The growth champion's marketing outsourcing partner needs to match the client's focus on growth delivery. The plan and strategic execution must be solid, and it must guide the feedback process, that is, the transformation of activities into the real contribution of enterprises. The study focused on the importance of feedback in the outsourcing process, however, there is need for continuous improvement from such feedback. This study focused on how automotive assembling firms in Nairobi can use marketing strategy outsourcing feedback for continuous improvement to enhance organizational performance.

Kanyiva (2014) conducted a study to assess how different outsourcing strategies faired in Kenya among the three leading mobile phone operators. The study found that companies must be versatile to satisfy consumers' expectations to provide an economical product or service and constantly increase the costs, Standard, and authenticity of the goods and services provided to survive and prosper in this growing and competitive international market. Further, findings revealed the need to respond regularly to market changes, and the challenge of predicting their course means that companies marketing outsourcing. The study focused on the various outsourcing strategies that affected organizational performance of automotive assembling firms in Nairobi County, Kenya.

### 3. RESEARCH METHODOLOGY

The study applied a descriptive survey design. The research narrowed to Procurement staff in managerial positions at 13 automotive assembling firms. This research focused on official staff in the procurement department in automotive assembling firms totaling 114 employees to collect the relevant data. A census of 114 respondents was done. Data was collected using questionnaires. Pilot Study was conducted where the questionnaire was administered to a few selected respondents from the automotive assembling firms in Nairobi Kenya. Quantitative data was analysed using descriptive analysis. Multiple regression model inferential statistics was applied to obtain the correlation between variables.

### 4. FINDINGS

The findings of descriptive analysis on marketing outsourcing are given in Table 1.

**Table 1: Marketing Outsourcing**

	Mean	Std. Deviation
Customer's relation and follow up is regularly done in various public media to reach out.	3.79	1.137
The firm reaches customers through contractual marketing agents.	4.06	1.003
The company has adopted a specialized marketing department.	4.05	1.009
Campaigns for the company's product are done regularly.	4.01	1.058
The company study's the market to set pricing standards.	3.93	1.163
<b>Average</b>	<b>3.97</b>	<b>1.074</b>

The extent of marketing outsourcing by the automotive assembling firms was established. The results showed that customers were reached more through contractual marketing agents as indicated by the mean score of 4.06, company adopting a specialized marketing department as shown by a mean score of 4.05, and campaigns for the company's product being done regularly as indicated by the mean score of 4.01. Majority also noted that the practice of company studying the market to set pricing standards was done to a great extent. Further, customer's relation and follow up being regularly done in various public media to reach out was practiced vastly as shown by a mean score of 3.79. The average mean scores of 3.97 with a nonconformity of 1.074 shows that automotive assembling firms offer high standard marketing outsourcing through attributes such as high contractual marketing agents, specialized marketing department and campaigns which are crucial for retaining the performance of the organization. The use of contractual marketing agents shows that there is a connection amid marketing subcontracting strategy and organizational performance. Automotive assembling firms outsource their marketing activities to improve their organizational performance.

**Results of Inferential Statistics Analysis**

**Table 2: Correlation Analysis**

		Marketing outsourcing	Organizational performance
Marketing outsourcing	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	102	
Organizational performance	Pearson Correlation	.691	1
	Sig. (2-tailed)	.000	
	N	102	102

The correlation factors were constructive and their corresponding p- principles were less than 0.05 as shown in Table 2. The outcomes of marketing outsourcing had constant values of 0.691 which infers that the marketing outsourcing had a positive link with organizational performance.

**Table 3: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.892a	0.796	0.788	0.232722

According to the results, R Square value of 0.796 showed that a unit increase in marketing outsourcing causes 79.6 percent variation in organizational performance. This presents a gap of 20.4% that represents other variables that were not studied.

**Table 4: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	20.524	1	20.524	387.25	.000 <sup>b</sup>
Residual	5.253	100	0.053		
Total	25.777	101			

A significance value of 0.000 less than 0.05 was achieved. The F statistical value was also 387.25 higher than the 20.524 statistical mean square value. As a result, it was determined that the model was statistically significant in predicting how marketing outsourcing had an effect on the performance of automotive assembling firms in Nairobi County, Kenya.

**Table 5: Coefficients**

		Unstandardised coefficients		Unstandardised coefficients		
		B	Sd.Err	Beta	t	Sig.
Model	(Constant)	.623	.127		4.91	.000
1	Marketing outsourcing	.709	.109	.163	6.505	.001

According to the regression equation established, by putting marketing outsourcing into constant, the performance of automotive assembling firms in Nairobi County, Kenya would be 0.623. The regression coefficient of marketing outsourcing was 0.709 which indicates the extent to which performance was affected by increasing a single unit in marketing outsourcing. This results to the following regression equation.

Performance = 0.623 + 0.709 marketing outsourcing

In addition, the study established that marketing outsourcing had a positive significant effect on performance of automotive assembling firms in Nairobi County, Kenya as indicated by t-value of 6.505 with a significance value less than 0.05 at 0.001.

## 5. CONCLUSIONS

Customer relations and follow-up are conducted on a regular basis through different public media outlets in the automobile assembling firms. The firms occasionally contacts consumers through commercial promotional agencies, who advertise the company and its products on its behalf. Firms that have implemented a specialist marketing team have facilitated and aided this. It was also discovered that product promotions are carried out on a regular basis. The firms conduct market research in order to establish price guidelines.

## 6. RECOMMENDATIONS

The firm management must develop partnerships with the suppliers, and they should not be taken as contractors, which will help share value and missions over the long term. The firms should manage the right commitment in work with other outside companies to ensure there is quality marketing of the firms' products in the existing market. The study divulges outsourcing as a strategic arm in their clothing started to be implemented beyond tactical companies. The organizations should highlight different opportunities useful for improvement through subcontracting or outsourcing.

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