

Assessment of the relationship between outsourcing and organization's financial performance in Igara Growers Tea Factory in Bushenyi District.

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ABSTRACT

This study examined the relationship between outsourcing and organization's financial performance in Igara Growers Tea Factory in Bushenyi District. A conceptual framework was developed relating outsourcing functions and indicators of financial performance. This research findings will be employed by government agencies, private sector foundations for example Uganda National Chamber of Commerce among others to evaluate the role of outsourcing on financial performance. The results will also help business stakeholders on how to attach financial performance to the decision to outsource and finally the study will help future researchers as a source of references on a similar studies. Simple random and purposive sampling techniques were used to select the respondents. Cross sectional and descriptive research designs were used in the study to collect data from the field. Qualitative and quantitative approaches were also used. Pearson's linear correlation coefficient was used to determine the relationship between outsourcing and financial performance of the factory. The researcher found out that outsourcing and organization's financial performances are "two sisters of the same blood" they are closely related. This is based on various factors. The researcher found out that outsourcing promotes the volume of sales of Igara Grower's Tea factory and increased sales go hand in hand with profitability. In conclusion, when outsourcing is done; the financial performance of the origination improves. Likewise when the organization's financial performance improves it enables the organization to do outsourcing because then it has the financial capacity to meet outsourcing obligations. Keywords: Assessment, relationship, outsourcing, financial performances, Igara Growers and Tea Factory

INTRODUCTION

After World War II, certain developments made business more global and this involved outsourcing. The first use of outsourcing in recent history was in the 1950s with time sharing among organizations" [1, 2, 3]. Globally, outsourcing usage grew to 35 percent in 1997 and the total market for outsourced services was expected to increase to \$200 billion by the year 2001 [4, 5, 6]. A recent study was conducted by Yankelovich Partners indicated that two-thirds of companies world-wide already outsourced at least one business process to an external third party. "This practice appears to be

most common in the U.S., Canada, and Australia, where 72 percent of outsourcing is being sought" [7]. Outsourcing has become an important part of today's business as many organizations rely on out sourcing to organize their production models. In 2002 US manufacturers were outsourcing more that 70% of their products [8] and in the UK a survey realized in 2000 showed that 68% of the organizations outsource their activities including manpower. In a survey of outsourcing in Australia, [9], found a further impediment to outsourcing was formulating and quantifying requirements

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and many researchers have not gone a step ahead to find out how outsourcing does formulation and quantifying organizational requirements [10]. Outsourcing is not a new concept. Firms already started outsourcing in the 1970s, with a major wave of outsourcing starting in the early 1990s. However, the nature of the functions being outsourced is changing radically [11]. Traditionally, outsourcing was restricted to activities like distribution and manufacturing, and support activities, like payroll services, human resources, and information technology provision [12]. Today, firms are increasingly outsourcing strategic functions that are relatively more crucial to their businesses such as new product development and front-end processes like customer support [13]. Outsourcing in Uganda has improved because economic and competitive pressures have made it imperative for Organizations of all sizes to focus on their core competencies and turn to third-parties to assume responsibility for other secondary corporate functions. Leveraging third-party alternatives has reduced costs and improved operating efficiencies of business organizations.

Aim and Objective of the study

The aim of this study was to evaluate the relationship between outsourcing and organization's financial performances in

Research Questions

What is the effect of outsourcing on capital structure of IGTF? What is the effect of financial performance of IGTF?

Geographical scope

The study was carried out in Igara Grower's Tea Factory in Kyamuhunga Sub county Bushenyi District south western

TIME SCOPE

The study was based on financial information and other information of Igara Growers Tea Factor. The study was carried

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Many organizations in Uganda have outsourced business functions such as cleaning services, medical services, auditing services and security services. (Uganda Management Institute Journal 2011) [14,15]. The management of Igara Tea Factory like all other smallholder tea factories in Uganda is by Uganda Tea Growers Corporation (UTGC), a government parastatal established in 1966 [16]. The Board hires the Management services of Uganda Tea Development Agency Ltd (UTDAL), a subsidiary company owned by the two small holder factories of Igara Growers Tea Factory and Kayonza Tea Factory [17]. IGTF needs to outsource resources like human resources such as experts and specialized personnel including auditors, senior financial officers, and senior managers to provide management skills, services like Medical services for their employees so that instead of the factory having its own hospital, it can take its employees to other hospitals when they are sick, security services, information Technology and agricultural services from agricultural experts [17].

Igara Growers Tea Factory in Bushenyi District.

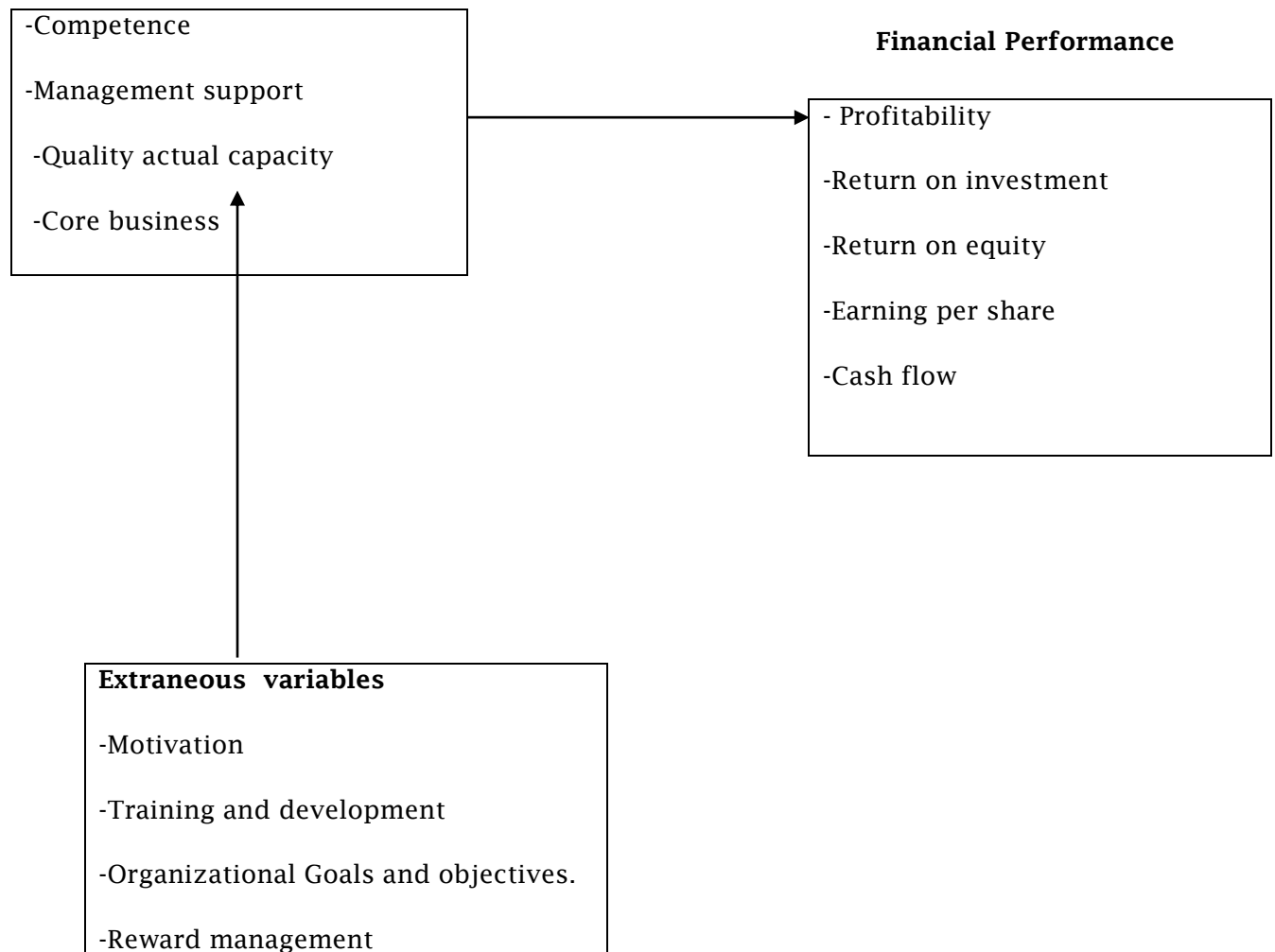
What is the relationship between Outsourcing and financial performance in Igara Grower's Tea Factory in Bushenyi District?

Uganda. The factory is located along Mbarara-Kasese high way approximately five kilometers from Ishaka town.

out using information for the last eleven years (2003 up to 2014).

Figure 1. Conceptual Framework showing the Relationship between Outsourcing and Financial Performance.

Out sourcing



Source: Developed by the Researcher (2014)

The conceptual framework above shows that outsourcing which includes competence, management support, quality actual capacity and core business has an effect on financial performance of Igara Growers Tea Factory. Apart from outsourcing, there are other factors that affect financial performance and these include Motivation of workers, training and development, Reward management, Organizational Goals and objectives. Outsourcing affects profitability in that when certain activities and services of an organization are outsourced, then cost and expenses like salaries are reduced and this leads to increase in profits. Outsourcing affects earnings per share in a sense it decreases the amount of funds that

organizations spend on full time staff and this also increases the profits. As profits increases, the shareholders have their earning per share increased. The return on organization's investments also increase that when an organization saves money due to outsourcing, This is so because buying of raw materials and other inputs and selling of products are all high and the organization can invest some of these funds. Outsourcing some business functions affects the financial performance of an organization in that it reduces the overall costs of the organization. This is because when workers are contracted when needed, it saves funds than keeping workers on a fulltime basis for example an Auditor can

be hired during a certain period of the year and if the audit activity is finished the

auditor leaves the organization and this reduces the payroll expenses.

RESEARCH METHODOLOGY

Research Design

The study was both cross sectional and descriptive. the study involved descriptive correlation in that it had a large sample and it was descriptive in that data collected was used to describe a phenomenon, the study was correlational in that it was interested in relating outsourcing to organization’s financial performance and pertinent data was collected from the respondents once and for all to reduce on time and costs involved on such a large population. The study also used qualitative methods to get information from respondents. Qualitative research used data collection methods such as interviews and, closed and open ended questionnaires, and finally the findings were conveyed subjectively

through descriptions using words rather than numbers. The study took a quantitative approach in that it was based on variables measured with numbers and analyzed with statistical procedures. The qualitative research design was descriptive in nature and this enabled the researcher to meet the objectives of the study. The quantitative research design was used in form of mathematical numbers and statistics assigned to variables that may not be easily measured using statements or theme. The researcher used a cross sectional research design that is analytical and descriptive to understand the relationship amongst the study variables.

Target Population

In this study the target population comprised of 41,101 people. The figures were got from IGTF report that was presented at the 2012 annual General meeting. These included employees, customers, suppliers, shareholders, of Igara Tea Grower’s Factory and regulatory agencies including Uganda Tea Growers

Corporation and Uganda Tea Development Agency Limited. All the categories of employees (top level managers, middle level managers, and lower level managers) were involved because they can all be directly affected by whatever policy is made on outsourcing which in turn affects its organization’s financial performance.

Sample Size

The sample size was computed using the Sloven’s formula, which states that, for any given population, the required sample size was given by;

Factory Bushenyi District, a sample was 985 respondents computed as follows,

$$n = \frac{N}{1 + N(e^2)}$$
 , Where; n = the required

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sample size; N = the known population size; and e = the level of significance, which is = 0.05. Given a total population of 41,101 respondents in Igara Tea Grower’s

Where; n = the required sample size;
N = the known population size;
e = the level of significance, which is = 0.05

The sample size was chosen from the respondents using Sloven’s formula as shown below.

Table 1. Sample Size Computation

S/N	Category of respondents	Total population	Sample size	Sampling Technique
1	Employees	340	184	Purposive sampling
2	Customers	40000	400	Simple random sampling
3	Suppliers (both for raw materials and outsourced services)	261	158	Simple random sampling
4	Shareholders	470	216	Simple random sampling
5	Regulatory agencies(Uganda Tea development Agency)	30	27	Purposive sampling
	Total	41,101	985	

Sampling Procedures

The target population of 41,100 included employees, shareholders, customers and regulators of Igara Growers Tea Factory. Respondents being large, a sample size to represent the population was chosen using sloven's formula. Purposive sampling and simple random procedures were applied in selecting the sample size. Purposive sampling was used to select respondents basing on their roles and duties in the

factory. Where important personnel of the factory were selected and simple random sampling was used to select the respondents who were many in number and they were selected according to their department and category. This also helped to reduce costs and time of doing research and to increase the degree of accuracy of the study.

Research Instruments

There was in three sets of research devised questionnaire directed towards employees, employers, customers and regulators of Igara Grower's Tea Factory Bushenyi District.; one was be on the effect of outsourcing on capital structure, another one was on the effect of outsourcing on organizational financial structure. The last one was on the relationship between outsourcing and organizational financial performance. The questionnaire also consisted of the main title and introductory letter, with a section of bio-data questions, to help the

researcher to classify respondents. All questions in this section were close ended, based on Likert Scale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree, 3=Agree, 4= Strongly Agree, 5=Not sure. An interview guide was also used in qualitative research to describe the conversations with some respondents with the purpose of obtaining valid and valuable information during the course of conversation. This was mostly used to the respondents that cannot easily read English words and interpret them and even write.

Data Gathering Procedures

The following data collection procedures were implemented:

Before the administration of the questionnaires

The researcher requested for an introduction letter from the Directorate of Postgraduate studies and Research addressed to the authorities of Igara Tea Grower’s Factory Bushenyi District to be permitted to conduct the study. The letter contained the criteria for selecting the respondents and the request to be provided with the list employees from

Igara Tea Grower’s Factory Bushenyi District. After approval, the requested list of respondents provided to the researcher Igara Tea Grower’s Factory Bushenyi District was used by the researcher as a guide in identifying the participants of the study, after which pre-testing of the instrument was followed.

During the Administration of the Questionnaires

Specifically, the researcher requested the respondents: (1) to sign the informed consent; (2) to answer all questions and not to leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires. The

researcher also tried to retrieve the questionnaires within two weeks from the date of distribution. All questionnaires retrieved were checked if completely filled out.

After the Administration of the Questionnaires

After the data was collected; it was organized, summarized, statistically treated and drafted in tables using the

Statistical Package for Social Scientists (SPSS) version 16.

Data Processing

To determine the profile of the respondents, the frequency and percentage distribution were used. The mean was used to compute the relationship between Outsourcing and the Table 2:

Organization’s financial performance. To interpret the obtained data, the following numerical values and descriptions were used:

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very Low

Descriptive statistics will be used to test for the effect of Outsourcing on capital structure.

Validity and Reliability of the Instruments

The researcher tested for validity and reliability on the questionnaires for the effect of outsourcing on capital structure, effect of outsourcing on financial

performance, and assessing the relationship between outsourcing financial performance.

Validity

Content validity was done by ensuring that questions or items in questionnaire conform to the study’s conceptualization. Supervisors and other senior staff in KIU who are experts in the field of study evaluated the relevance, wording and clarity of question or items in the

instrument. Construct validity was ensured using Factor Analysis where reliability of the instrument on multi item variables was tested using the Cronbach Alpha Methods and a Cronbach alpha (α) of at least 0.8 which led the questionnaires to

be declared reasonably reliable or consistent as calculated below

$$\begin{aligned}
\text{CVI} &= \frac{\text{Number of relevant items}}{\text{All items in the questionnaire}} \\
&= 19/24 \\
&= 0.79 \\
&= 0.8
\end{aligned}$$

Table 3: Content Validity Index for instrument

No. Items	0 Unrated	1 Very Irrelevant	2 Irrelevant	3 Relevant	4 Very relevant	Total	CVI
On objective 1	0	0	1	4	2	7	<u>6</u> 7 = 0.85
Overall average CVI							0.85

Reliability

Reliability is a measure of the degree to which research instruments yielded consistent results after repeated trials. Pre-testing for reliability was done by administering the questionnaire to some of the employees, shareholders, customers and regulators of Igara Grower’s Tea Factory who were included in the a study to measure consistency of instruments so

that the questions are reliable enough to give the required and related data. After some time, the same questions were administered to the same people (using test- retest technique).And the two sets of scores were correlated using Pearson product moment correlation and results evaluated. The coefficient was above 0.7 and the instrument was reliable.

Ethical Considerations

To ensure utmost confidentiality for the respondents and the data provided by

them as well as reflect ethics practiced in this study, the following were done:

Informed consent

The researcher took time to explain to the respondents the purpose of the study and seek their consent. The respondents

requested to sign the informed consent form when they agree.

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEACH FINDINGS:

Bio Data of the Respondents.

In the study, the researcher administered 1000 questionnaires to the study respondents. This was because the researcher anticipated some of the respondents not to return the

questionnaires or to fill them poorly. For this reason, the researcher was able to collect 985 questionnaires from respondents and data analysis was based on those filled the questionnaires.

Table 4: Gender, marital, Age, education and departments of respondents

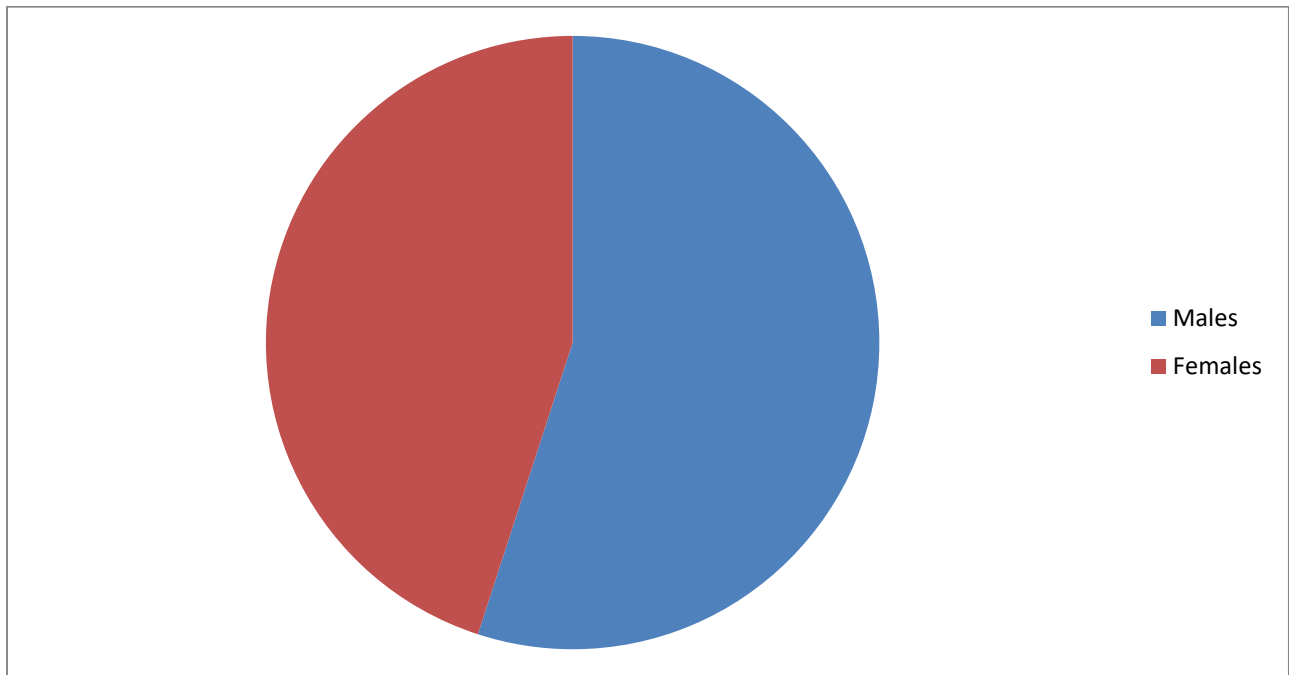
Category	Number	Percentage
Gender		
Males	540	55%
Females	445	45%
Total	985	100%
Marital status		
Married	518	53%
Single	260	26%
Divorced	67	7%
Widowed	140	14%
Total	985	100%
Age group		
20-30 yrs	78	08%
31-40 yrs	443	45%
41-50 yrs	268	27%
51-60 yrs	177	18%
60 yrs and above	19	02%
Total	985	100%
Education level		
Below certificate	335	35%
Certificate	249	25%
Diploma	159	16%
Degree	200	20%
Post Graduate	42	4%
Total	985	100%
Department		
Procurement	60	6%
Finance	100	10%
Human Resource	49	5%
Processing	209	21%
Production	417	45%
Marketing	150	15%
Total	985	100%

Source: Primary Data 2015

Gender

The findings of the study show that 55% are males and 45% are females.

Figure 2: A pie chart showing gender of respondents

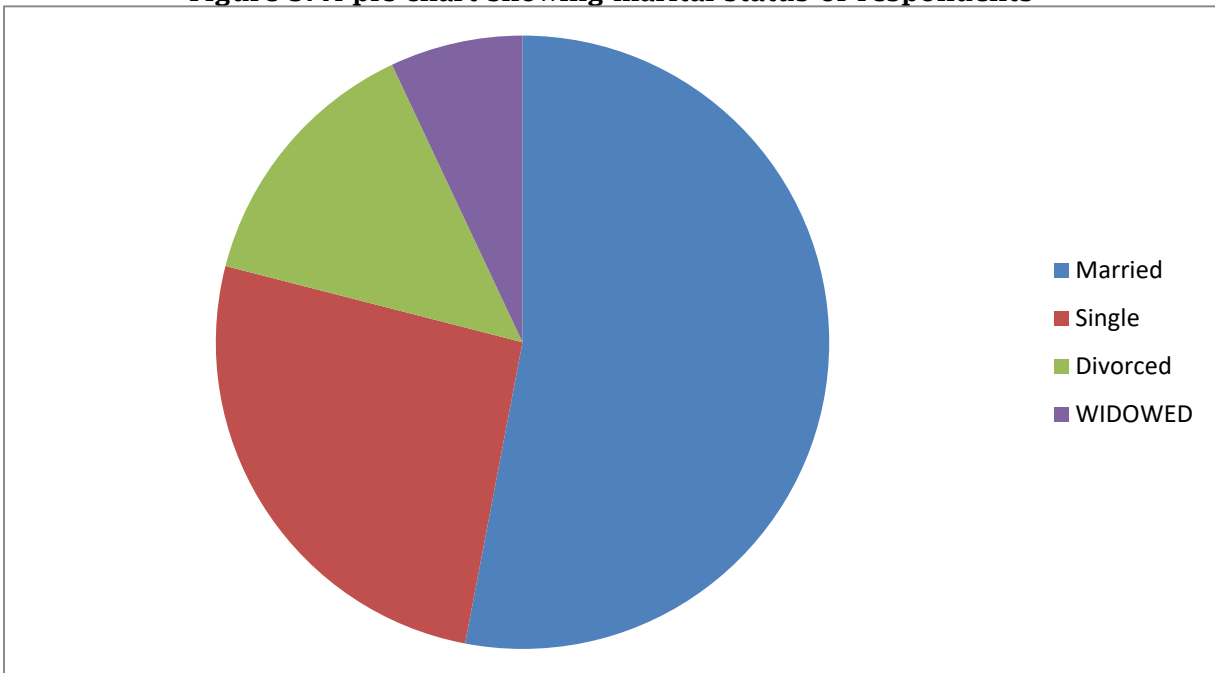


Marital Status

The findings of the study show that the majority of respondents were married i.e. 518 out of 985 (53 %), 26% were single and

7% were divorced and 14% were widowed as shown in the table.

Figure 3: A pie chart showing marital status of respondents

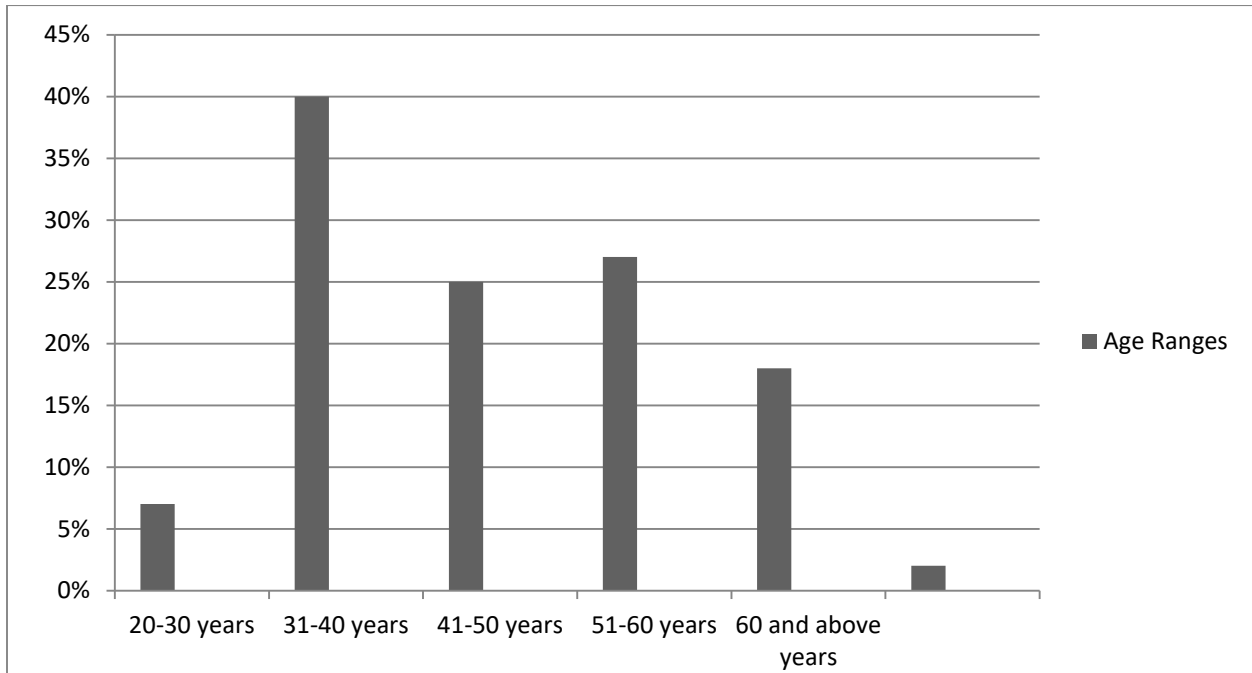


Age of Respondents

Regarding the age of respondents, the researcher found out that the biggest age group in Igara Growers Tea Factory is 31-40 years basing on the age group

distribution of the sample. This age group had 40% of the sample size. While 20-30 years were 7%, 41-50 were 27%, 51-60 were 18% and 60 and above were 2%.

Figure 4: Graph showing the Age of Respondents

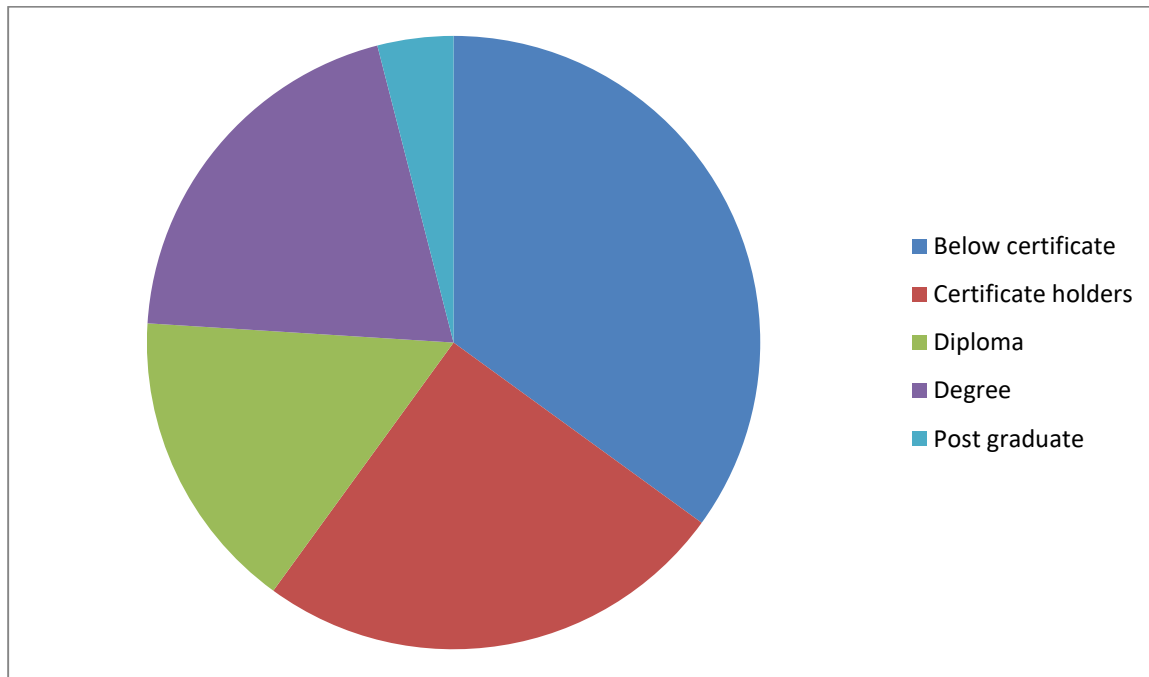


Education Level

With regard to education level, the researcher found out that IGTF employees many respondents were below certificate represented by 35% followed by

certificate holders (25%), the degree with 20% Diploma holders (16%) and lastly post graduate with 4%.

Figure 5: A pie-chart showing the Educational Level of Respondents

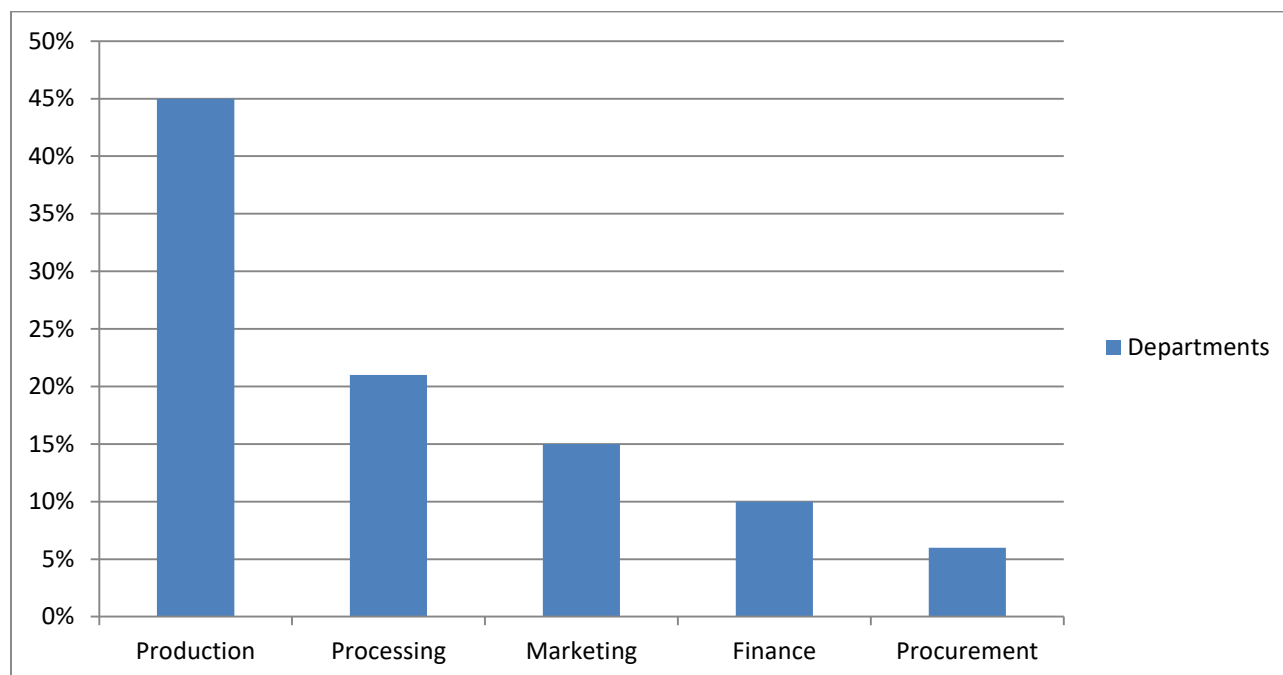


Department

The results indicate that a bigger percentage of respondents of the study come from the production department (45%) followed by processing department

(21%) and the other departments include marketing (15%), finance (10%) and procurement (6%).

Figure 6: A graph showing the Departments of the Respondents



Relationship between Outsourcing and Organization’s Financial Performance in Igara Grower’s Tea Factory.

Table 5: Relationship between Outsourcing and Organization’s Financial Performance.

Variables correlated	r-value	Interpretation	Decision on Null Hypothesis
Increased sales Vs Outsourcing	0.039	Not significant	Accepted
Increase in value of products Vs Outsourcing	-0.022	Not significant	Accepted
Improved competitive position Vs Outsourcing	-1.101	Not significant	Accepted
Cost reduction Vs Outsourcing	-0.030	Not significant	Accepted
Investment Vs outsourcing	0.117	Not significant	Accepted
Innovative performance Vs Outsourcing	0.119	Not significant	Accepted

Source: Primary Data 2015.

Table 5 indicated that correlation between outsourcing and organizational financial performance was significant.

The researcher found out that outsourcing and organization’s financial performance are “two sisters of the same blood” they are closely related. This is based on various factors. The researcher found out that outsourcing promotes the volume of sales of Igara Grower’s Tea factory and increased sales go hand in hand with profitability. Igara Grower’s Tea Factory has been able to improve and maintain its good position in the competitive tea market. This is because there is timely tea leaf collection for processing by the

outsourced services provided and this has greatly improved service delivery both qualitatively and quantitatively improving the organization’s financial performance generally. Out sourcing strategy has been proved to be cost effective. A lot of money is saved as a result of outsourcing, reduced overhead costs, few risks and reduced administration and managerial tasks. When such costs are reduced, the factory is able to invest the difference in capital accumulation leading to improved financial performance.

The researcher found out that outsourcing promotes innovation. For example it was found out that as a result of outsourcing, Igara Grower's Tea Factory has attracted middle men who buy fresh tea leaves from the farmers and sell it to the factory. This is because now such middlemen are sure that their Tea leaf will be timely collected by the contracted, hired private organizations and they will not lose. This is an innovation that has helped Igara Growers Tea Factory to maintain / sustain its competitive position. The researcher noted that the relationship between the two variables; outsourcing and originations' financial performance are

complementary. When the organization does outsourcing, its financial performance level improves but also when the organization's financial performance level improves, such an organization is more able to do outsourcing for more quality - service providers to boost production. It was observed that outsourcing of materials / resources is positively correlated with profits and that there is also a positive relationship between profitability and outsourced services for a sample of German Manufacturing firms and the same was found out to apply in Igara Grower's Tea Factory.

DISCUSSION

The findings of the study show that 55% are males and 45% are females. This implies that the study tried to have almost a balanced representation of respondents by gender to participate in the study and enabled to capture issues that could rise because of gender. This agrees with K Farrington (2006) who stated that more males are involved in outsourcing than females. This is because if an organization is to outsource, it should hire strong people with a lot of energy and competence to perform a specific task that cannot be internally performed by internal personnel of the organization. This implies that the study was able to capture views from all respondents. That is those who were married, single and divorced. [6], stated that financial performance of an organization can improve if it employs psychologically and mentally up right personnel without family and marriage problem especially legally and happily married personnel" This agrees with the findings of the study because many respondents were found to be married (53%). The results of the study agree with [11], who pointed out that the work force between 30 to 40 years are engaged more in outsourcing contracts than any other age bracket. This indicates that this is a working age bracket; it is composed of strong and young people with skills and competences necessary for good financial performance of Igara Growers Factory Tea. The results of the study indicated that this implies that Igara Growers Tea Factory is a

heterogeneous organization and it employs all levels of education. However, data from the respondents in the sample indicate that the most employed education level is certificate. Other higher levels have less number of employees and this is based on the nature of work done. For example tea plucking has the biggest number of workers and most of them have certificate education level or even below. With the department which employs most workers, the researcher found out that the production department is the biggest employer of human resource. This is due to the fact that Igara Growers Tea Factory is a primary processing factory where much of the work is done by people tea plucking, processing and marketing employ a lot of people. The findings of the study agree with [9], who stated that outsourcing of services and products is mainly involved in production processing and marketing service providers. This indicates that outsourcing has various advantages and therefore is a strategy for capital development in Igara Growers' Tea Factory. The researcher found out that Igara Grower's Tea Factory cannot produce enough tea for sustainable production. It therefore outsources from out growers to increase and sustain its productivity. The researcher found out that outsourcing impact on the capital structure in organizations. From the respondent point of view, outsourcing has encouraged Igara Growers Tea Factory to increase its capital structure because it makes savings as part

of its earnings. Because with outsourcing, Igara Growers' Tea Factory soloists more resources to promote production and profitability. Factory because of the high figures of respondents who strongly agreed and those who agreed. This implies that the level of profitability has improved due to out sourcing reducing on operational and costs and expenses and generally out sourcing has lead to improved service financial performance of Igara Grower's Tea Factory. This is because increase in value of products, increased sales, improved competitive position, cost reduction, investment innovative

Relationship between outsourcing and organization's financial performance in Igara Grower's Tea Factory.

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performance, are all positive and significant which led outsourcing to have a significant relationship on financial performance of an organization. However there was no significant relationship between outsourcing and financial performance the results indicated that though not significant, Increase in sales and outsourcing are positively related(r value=0.039). The implication of this is that outsourcing may increase on the volume of sales of an organization and if the volume of sales increases, the financial performance of the organization is most likely to improve.

its competitive position. The researcher noted that the relationship between the two variables; outsourcing and originations' financial performance are complementary. When the organization does outsourcing, its financial performance level improves but also when the organization's financial performance level improves, such an organization is more able to do outsourcing for more quality - service providers to boost production. The same idea was reached by [16], when they found a significant relationship between out sourcing and profitability margin. They found out that Chrysler's profit margin was four times as high as that of General Motors (GM) because the former was doing outsourcing while the later was not. Still, in the study carried out by [7], it was observed that outsourcing of materials/resources is positively correlated with profits and that there is also a positive relationship between profitability and outsourced services for a sample of German Manufacturing firms and the same was found out to apply in Igara Grower's Tea Factory. Igara Tea Growers Factory is making numerous losses which was precipitated by high levels of Spoor management practices by its directors and senior managers and leaf clerks. The factory which makes an approximate profit of 10 Billion annually is falling to pieces. At least 2 Billion is lost in bad deals every leaf year. The company has been hijacked by mafia wealthy farmers. Some clerks are implicated in an internal audit for

declaring ghost tea leaves amounting to 1.3000.000kgs of tea leaves. There was a time when 50KG fertilizer bags supplied were less the declared weight by 5kg each

(IGTF report on the 2012 General meeting. All these if rectified and good management practices exercised, Igara Grower's tea Factory can benefit from outsourcing.

CONCLUSION

Regarding the relationship between outsourcing and organizational financial performance, the researchers concluded that the two are highly correlated and play complementary roles. When outsourcing is done, the financial performance of the

origination improves. Likewise when the organization's financial performance improves it enables the organization to do outsourcing because then it has the financial capacity to meet outsourcing obligations.

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