

Influence Of Management Risk On Performance Of Manufacturing Firms In Kenya

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ABSTRACT

The aim of this paper was to assess the influence of management risk on performance of manufacturing firms in Kenya. Management risk is one of the risks encountered during logistics outsourcing. It is aligned with the administrative differences between the outsourced company and the manufacturing firm, which could affect the effectiveness of the cooperation towards enhanced performance. The study also sought to address the moderating effect of information flow on the relationship between management risk and performance of manufacturing firms. The study was informed by core competency theory. Both descriptive and explanatory research designs were adopted. The unit of observation was the supply chain administrators of manufacturing firms in Kenya. Stratified sampling was conducted on all the one thousand one hundred and twenty three manufacturing firms registered by KAM, simple random sampling was carried out on the strata to identify a sample size of 295 firms. The study relied on primary data which was collected through semi-structured questionnaires that were administered to administrators charged with the management of supply chain within the selected firms. Data analysis was done using descriptive statistics namely percentages, mean and standard deviation through the help of SPSS. The findings revealed that management risk significantly influenced the performance of manufacturing firms in Kenya. The findings further revealed that information flow had a positive but insignificant moderating effect on the relationship between management risk and performance of manufacturing firms in Kenya. The study concluded management risk is essential in the performance of manufacturing firms in Kenya.

Keywords: Management risk, Logistics Outsourcing, Information Flow, Firm Performance, Manufacturing Firms

1.0 INTRODUCTION

1.1 Background of the Study

In the current 21st century, most business are enhancing the efficiency and effectiveness of their supply chain through outsourcing logistics. This process has seen most of the leading companies across the globe achieve their short-term and long-term goals through focusing on their core business. Outsourcing is being preferred in most firms because of the extensive structural changes that have caused dwindling budgets, shrinking in house workforce and organizational restructuring. The alternative to transfer all or part of a company's business function to an external unit plays an ever more important role in the strategic configuration of organizations (Sanchez, 2015). Companies have been pressed to look neutrally and critically at business processes due to competition pressures.

Firms have been outsourcing manufacturing operations, business services and even entire business lines for a period now (Akbari, This publication is licensed under Creative Commons Attribution CC BY.

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2018). Many companies are applying outsourcing as a strategic option to advance their competitive situation and targeting business objectives through minimized costs, maximized revenues and profits. However, outsourcing logistics has its risks. One of these risks is the management risk. This is a type of risk that results from the difference between management methods and the culture of the company used by the provider and client (Aguzzoul, 2014).

In the cooperation between the industrial or circulation enterprise and logistics provider, the variance of their management methods and enterprise culture possibly cause the administrative risk of logistics services outsourcing. If the outsourcing enterprise cannot appropriately deal with their cultural encounters, fully gauge logistics provider, effectively manage logistics provider with the result that logistics outsourcing fails to be accomplished (Yang & Zhao, 2015).

In the operation procedure of logistics outsourcing, there exist all categories of complications. Case in point, if the service provider adjusts the outline of logistics service, which may influence all the staff and even be boycotted by them, the normal production and operation may also be influenced. In addition, the logistics outsourcing may affect the interests of some employees hence reducing their loyalty and morale (Joto & Odock, 2019). The 3PL may probably lack know how of the company's core business and may have margins as their focal point and optimization of the contractual terms. The company may face incompatible culture and ethos from the commissioning company and consequently experience sinking standards in terms of services and products. This could affect customer service due to reduced concentration on their requirements.

In logistics outsourcing structure, each party may be pushing a divergent objectives so there exist commercial variations between business and the partnerships are being replicated from different perspectives. Other conflicting factors are management approaches and levels of bureaucracy within the firms. For the partnership to succeed, consideration of these factors is crucial to ensure feasibility of the collaborative endeavor (Vagadia, 2012). Many entities who may be considering outsourcing logistics function are more concerned of inability to control running of their business. Good example of these uncertainties is the lack of control over the universal management of the sector or function that has been outsourced. This may manifest itself as a loss of direct control over the transport of the products and could potentially disturb the customer's experience (Ansari *et al.*, 2010).

Organizational performance consists of three specific areas of firm outcomes: financial performance (profits, return on property, earnings on investment); performance of products in the market (sales, market share); and shareholder return (total shareholder return, economic value added) (Monday *et al.*, 2015). Performance measurement refers to the process of measuring the action's efficiency and effectiveness. Performance measurement is the transference of the complex reality of performance in organized symbols that can be related and relayed under the same circumstances.

Many Manufacturing firms in Kenya have relocated or restructured their operations opting to serve the local market through importing from low-cost manufacturing areas such as Egypt, South Africa and India therefore resulting in job losses (Nyabiage & Kapchanga, 2014). This is an indication that many manufacturing firms in Kenya are experiencing performance challenges with many reporting profit warnings due to challenges in the operating environment (RoK, 2018). Statistics from World Bank show that manufacturers operate in Kenya registered stagnation and declining profits for the last five years due to a turbulent operating environment (World Bank, 2019).

The manufacturing sector in Kenya has been growing at a rate lower than the economy, which dipped to 4.9% in 2017. This indicate a reducing contribution of manufacturing sector to GDP over time hence it can be argued that the country is going through premature deindustrialization in a context where manufacturing and industry are still moderately under-developed. Manufacturing is the industry

with the highest demands regarding logistics services and consequently it is judged as the most appropriate industry for comparisons within the logistics context (Gotzamani *et al.*, 2010).

The Kenyan manufacturing industry continues to grow from strength to strength in spite of challenges in economic status of the country. The manufacturing industry in Kenya brings about 14 percent to the country's Production (GDP) and offer over 2 million jobs (KAM, 2016). According to Awino (2011) the sector is essential and contributes significantly to the country's economic advancement. In the vision 2030, the industry is among the top economic pillars and positioned to move the nation to a middle level income country by the year 2030.

According to data from KAM (2019), there was over 1123 registered multi-sector manufacturing firms in Kenya. These companies produce different products and vary in size which is determined by the number of staff they employ. Through export of their products, the industry has the capacity to generate foreign exchange earnings which will enhance the country's economy and create job opportunities. The country's share of manufacturing exports to the international market is projected to be about 0.02 percent which is favorable compared with its immediate East Africa neighbors (Kenya Institute for Public Policy Research and Analysis, 2013). Manufacturing sector grew by 4.8 percent in 2013 in comparison to a revised growth of 3.2 per cent in 2012 and was projected to uphold that growth path through 2014 (KNBS, 2014). PwCIL (2010) and Okoth (2012) show Kenya's expanded manufacturing subsector has a challenging past in terms of its performance, unstructured strategy and use of obsolete technology.

1.2 Statement of the Problem

While some companies in the country's manufacturing sector have opted for outsourcing their logistics services, their performance has continued to deteriorate and thus several manufacturing companies are in a dilemma on whether to perform in-house logistics services or to outsource the services from logistics providers (Joto *et al.*, 2019). In the year 2000 manufacturing sector was the second largest sub sector of the economy after agriculture but in 2018, it was in the fourth place behind agricultural segment, distribution and small scale trade, transport and communication (World Bank, 2019). Unfortunately for Kenya, the share of the manufacturing sector to gross domestic product (GDP) has been on a declining trend from 11.8% in 2011 to 8.4% in 2017 and contracting by 3.9 % in 2020 (KNBS Quarterly Gross Domestic Product Report, 2020). There had been a decrease in expansion of manufacturing sector from 3.6% in 2015 to 3.5% in 2016 (KNBS, 2016). The performance of the sector in Kenya has not been stable, it decreased by 0.4% in 2015 from 3.2% in 2014, contributing a reduction of more than \$62 billion; 10.3% on GDP.

The sector had a lower growth of 3.6% in the first quarter of 2016 compared to 4.1% growth in the first quarter of 2015. In the third quarter of 2017 the sector's growth rate was 1.9% compared with 3.3% in the same quarter in 2015 (KNBS, 2017). According to KAM, manufacturing priority agenda (2019), the weak performance has been attributed to high production and logistics costs, influx of counterfeits, drought incidences and volatility in international oil prices.

Previous empirical evidence has shown a significant relationship between outsourcing risks and firm performance, and one of the major risks identified is management risk. Tsai (2012) and Gařowska (2017) found that minimizing the management risk in logistics outsourcing influenced the effectiveness of logistics thus enhancing firm performance. The studies have however focused on different contexts and with varied methodologies were used. This study therefore sought to fill the existing gaps by assessing the influence of management risk on the performance of manufacturing companies in Kenya.

1.3 Study Objectives

The specific objectives of this study are:

1. To assess the influence of management risk on performance of manufacturing firms in Kenya
2. To examine the moderating effect of information flow on the influence of management risk and performance of manufacturing firms in Kenya

1.4 Research Hypotheses

The researcher tested the following research hypotheses:

H_{A1}: There is a significant influence of management risk on performance of manufacturing firms in Kenya

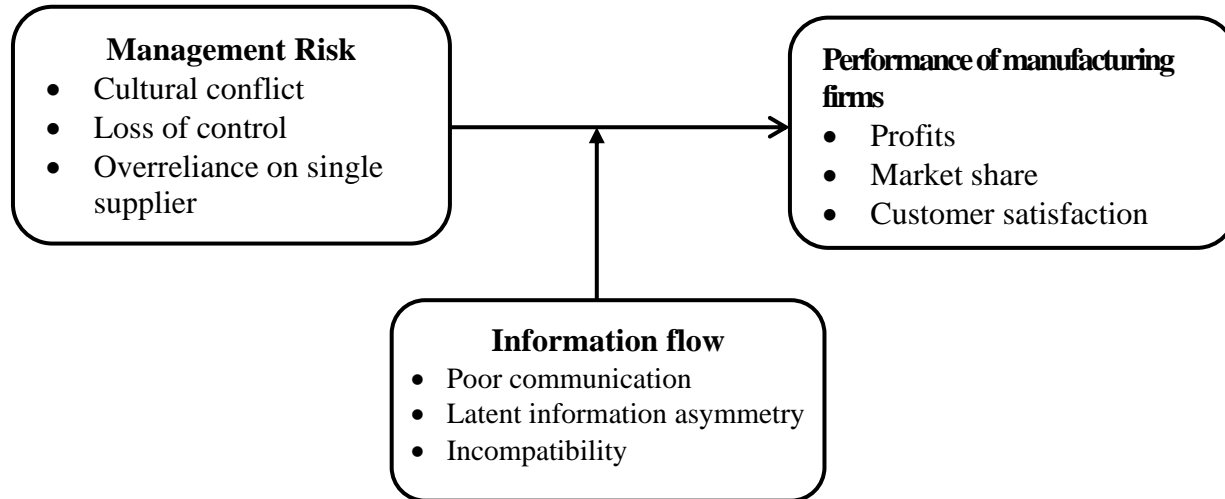
H_{A2}: There is a significant moderating effect of information flow on influence of management risk and performance of manufacturing firms in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

This study was anchored on core competency theory. The theory was pointed out by Simchi-Levi *et al.* (2004). The theory is based on make or buy decision which propose that firm's activities should either be performed in house or by outsourced external service providers. Outsourcing of non-core activities should be offered to best appropriate service providers who are experts in that field. Core Competencies are bundles of skills and competencies that firms built over period of time. They are not ordinary skills that can be acquired by any business organization anywhere in the market, easily (Edgar & Lockwood, 2012). The opinion of traditional approaches to strategy which state that outsourcing aspects of the core business is risky is supported by many practitioners and academics. Companies may lose their competencies and become hollow (Prahalad & Hamel, 1990). Vendors' knowledge on the outsourced activity is an important factor that influences success of the arrangement (Lavina & Ross, 2003). Core competency theory was consequently constructive in measuring the impact of management risks on performance of manufacturing firms in Kenya.

2.2 Conceptual Framework



Independent Variable

Moderating Variable

Dependent Variable

Figure 1: Conceptual Framework

2.3 Empirical Review

Kamanga and Ismail (2016) studied effects of outsourcing on organization performance in manufacturing sector in Kenya: a case of Del Monte Kenya limited. Results showed that Cost, quality, technology adaption and organization performance had a significant strong positive relationship. There was an insignificant positive weak relationship between risks and organization performance. Based on the study findings, the researchers recommended that: Organizations should not outsource an activity fully until they have confirmed beyond doubt that the service provider is capable of handling the activity, Organization should engage the service provider on the quality standards which are expected before entering into the contract, Organizations should select the service provider on the basis of consistent technical and managerial capabilities, Service providers should only handle particular risks which even if they occurred would not affect the entire organization performance

Bosire (2011) investigated on the consequences of logistics outsourcing on delivery time and customer service among supermarkets in Nairobi. Results came out that outsourcing these services in supermarkets has a direct effect on the lead times of product delivery and that amongst those chains that have outsourced procurement of products from the suppliers; lead time to deliver the same products to their warehouses has immensely condensed. Onyebueke *et al.*, (2019) investigated various challenges of logistics outsourcing that can lead to failure or ineffectiveness when not properly managed, which included: Poor maintenance culture and poor service condition of the Staff of logistics providers, Late payment of invoices by logistics consumers, poor communication management, hidden charges and pricing issues, poor or inadequate documentation, Use of unskilled personnel, change in management or difference in Policy /Modus Operandi (mode of operation), company's secret been at risk and delay. The research was informed by the existence of positive relationship between these challenges and performance of Oil and Gas companies hence the need to investigate how to overcome these challenges in this sector.

Wanjiru and Nyamwange, (2017) explored on challenges of import logistics outsourcing by manufacturing firms in Nairobi county. The outcome showed that of the essence, outsourcing motives were satisfying in expounding the decision by manufacturing entities to

outsourcing. The factors of outsourcing are essential in deciding to outsource import logistics. The range of challenges the importers come across when importing services also determined the verdict to outsource in the firms. Mulama *et al.*, (2012) on their study on effect of Logistics Outsourcing Practices on the Performance of Large Manufacturing Firms in Nairobi found that the companies were involved in transportation services, warehouse management and material handling controlling.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study utilized jointly descriptive and explanatory research designs which allow for both observational data and formulation of a problem for more accurate investigations (Bordens & Abbott, 2014). Both provide the collection of relevant evidence with minimal expenditure of effort, time and funds; the resolve of the research transpires to be an accurate descriptive of condition and investigation of the affiliation between variables.

3.2 Target Population

The study population was all the manufacturing firms in Kenya and the target population was all the manufacturing companies listed by Kenya Association of Manufacturers (KAM). According to (KAM, 2019) there are 1,123 manufacturing firms registered in KAM directory 2019.

3.3 Sampling

To achieve optimum sample, this study followed the formula proposed by Saunder *et al.*, (2016) since it is simple to use, scientific and can be used in cases of large populations. Thus, to calculate the sample size from 1,123 companies in Kenya, the study specified a 5% margin of error as shown in equation below:

$$n = p\% * q\% * \left(\frac{Z}{e\%}\right)^2$$

Where;

n – Minimum sample size required

p - No. of target population that conforms to the characteristic of the sample required

q - No. of target population that don't conform to the characteristic of the sample required

e – Margin of error (0.05)

Z = the value corresponding to the confidence level required (1.96 for 95% level of confidence)

Using the above formula, a study sample of 295 companies was derived.

3.4 Data Collection

The study used questionnaires with closed and open questions to collect data from 295 manufacturing businesses.

3.5 Data Analysis and Presentation

Both quantitative and qualitative techniques were adopted in the analysis of the collected data. The data was scrutinized and cleaned for any errors and coded in SPSS version 24. Using the coded data, the researcher generated tables, graphs and pie-charts which were

used in presenting the results of the study. Qualitative data was checked through and compared based on the relevancy and presented in form of explanations. Regression analysis was carried out to test for the relationship between the independent variables and the dependent variable. The following regression model was adopted:

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

4.0 RESEARCH FINDINGS

4.1 Response Rate of the Study

The study was carried out using 295 respondents who were surveyed using a structured questionnaire. Out of the 295 surveyed respondents, 233 returned dully filled questionnaires for analysis. This represented a response rate of 78.9%. This was considered adequate for the study..

4.2 Management Risks

The fourth objective of the study was to establish the effect of management risks on the performance of manufacturing firms in Kenya. The main aspects used to assess management risk included cultural conflicts, loss of control and overreliance of a single supplier. A Likert’s scale was used whereby the respondents were asked to indicate their levels of agreement or disagreement with specific statements on contractual risks. The findings are as shown in Table 1. The findings concur with those by Mukaddes *et al.* (2010) who established that one of the main bottlenecks that affect the effectiveness of outsourcing is the risks of managing the internal values of both the outsourced party and the outsourcing party. This in turn affects the ability of the organizations to gain full benefits of outsourcing thus not getting value for the investment in outsourcing. The results are in line with those by Sodhi *et al.* (2015) who established that through continued focus on management risks in the supply chain, there is high likelihood of solving any managerial differences between the outsourced suppliers and the organization thus promoting a smooth flow of activities for better performance.

Table 1: Descriptive Results on Management Risks

| Statements | Mean | Std. Dev. |
|---|------|-----------|
| There have been cases of conflicts between employees and outsourced parties | 3.73 | 0.96 |
| There are conflicting cultures between our organization and some of the contracted suppliers | 3.24 | 1.13 |
| The hierarchy of decision-making between our company and the contracted suppliers has affected the flow of business | 3.28 | 1.15 |
| Alignment of strategies, goals, objectives and aims has been poor between our company and the outsourced parties | 3.88 | 0.91 |
| There have been instances of employees being reluctant in accepting changes in the logistics processes | 3.15 | 1.10 |
| There have been instances of poor power and responsibilities sharing between our company and the outsourced parties | 2.82 | 1.14 |
| Our company has experienced lack of organizational boundaries with the outsourced parties | 2.71 | 1.16 |
| There are policies and procedures that are not clear to the outsourced parties | 2.94 | 1.16 |
| There have been incidences of lack of evaluation and monitoring of outsourced parties | 3.08 | 1.11 |
| We have had instances where a supplier did not deliver and we ran out of options | 3.97 | 0.89 |
| There have been failures in delivery schedules due to suppliers being unable to deliver failures | 2.87 | 1.22 |
| The outsourced partners have previously withdrawn of services hence paralysing the operations of the company | 2.68 | 1.37 |

4.3 Information Flow

The study sought to assess the moderating effect of information flow on the relationship between management risk and performance of manufacturing firms in Kenya. Information flow determines the ability of an organization to effectively communicate both internally and externally, thus affecting the effectiveness of the process and relationships within and outside the organization. In this study, information flow was assessed through three key aspects which were; poor communication, latent information symmetry and incompatibility of the information. The findings are as shown in Table 2. The findings compare with those by Yousefi, and Alibabaei (2015) who found out that through effective communication and information sharing, the operations flow more efficiently thus leading to better organizational performance. The findings compare with those by Mukaddes *et al.* (2010) who established that as a result of poor information flow between the outsourced firms and the outsourcing entities, it became difficult to coordinate activities effectively for mutual benefit. Liu *et al.* (2015) also indicated that the information sharing within and out of the organization was essential in steering the effectiveness of operations thus enhancing customer satisfaction and continued performance.

Table 2: Descriptive Results on Information Flow

| Statements | Mean | Std. Dev. |
|---|------|-----------|
| Our company has not adopted the latest information technology to aid communication in and out of the company | 3.23 | 1.07 |
| The hierarchy of communication in our organization is only based on top-bottom approach | 3.79 | 1.01 |
| Giving feedback to the customers has not been effectively upheld in our company | 2.56 | 1.32 |
| The employees do not give and receive feedback to the management timely and efficiently | 2.58 | 1.33 |
| There are no effective approaches and strategies to ensure the internal information of the organization is not leaked | 2.11 | 1.56 |
| There are is unequal sharing of information among the employees in our organization | 3.36 | 1.34 |
| Staff members are held responsible in cases of leakage or misuse of internal organizational information | 3.45 | 1.32 |
| For any information shared the recipients are informed on the level of confidentiality on such information | 3.42 | 1.36 |
| There is no clarity in the information shared in our organization | 3.54 | 1.21 |
| The management has not been committed towards ensuring consistency in information sharing in and out of the firm | 3.34 | 1.33 |
| The communication procedures in our company are not flexible | 3.41 | 1.41 |
| There have been cases of inaccurate information being shared in our organization | 3.81 | 0.98 |

4.4 Performance of Manufacturing Firms

The study sought to unveil the performance of manufacturing firms in Kenya. The findings are as shown in Table 3. As the findings portray, the respondents disagreed that their respective companies had recorded an increase in the quality of services as shown by a mean of 2.31 and a standard deviation of 1.48. The respondents also disagreed that there had been a decrease in number of customer complaints in their respective organizations over the recent past as shown by a mean of 2.33 and standard deviation 1.52. The respondents disagreed that the sales revenues had increased in their respective organizations and that the profit margin of the firms had been growing annually over the years as shown by a mean do 2.71 and a standard deviation of 1.73. The findings imply that the performance of the manufacturing firms has not been as impressive which is an indication of a distressed industry.

Table 3: Descriptive Results on Performance

| Statements | Mean | Std. Dev. |
|---|------|-----------|
| The company has recorded an increase in quality of services in the recent past | 2.31 | 1.48 |
| There has been a decrease in number of customer complaints in our organization over the recent past | 2.33 | 1.52 |

| | | |
|--|------|------|
| Our company has seen a surge in the customers loyalty over the recent past | 2.56 | 1.43 |
| The market share for the company has been on the increase in the past two years | 2.44 | 1.53 |
| The sales revenues have been on increase in the recent past | 2.53 | 1.61 |
| The profit margin of the firm has been growing annually over the past five years | 2.71 | 1.73 |

The findings as shown in Figure 2 revealed that the performance trend of the manufacturing industry has been unstable with declines in revenues recorded the year 2016 and 2017 (from Kshs3,490million to Kshs2,932million) and from Kshs.4,085million in the year 2019 to Kshs.2,716million in the year 2020. The same trend was observed in the average profit margins where decline in the average profits was seen 2016 and 2017 and between 2019 and 2020. While this trend could be attributed to other aspects outside the logistics outsourcing risks, there could also be a high likelihood of lack of effective logistic processes to have affected the performance (Li-jun, 2012; Shanker, Sharma, & Barve, 2021; Elock, Müller, & Djuatio, 2019).

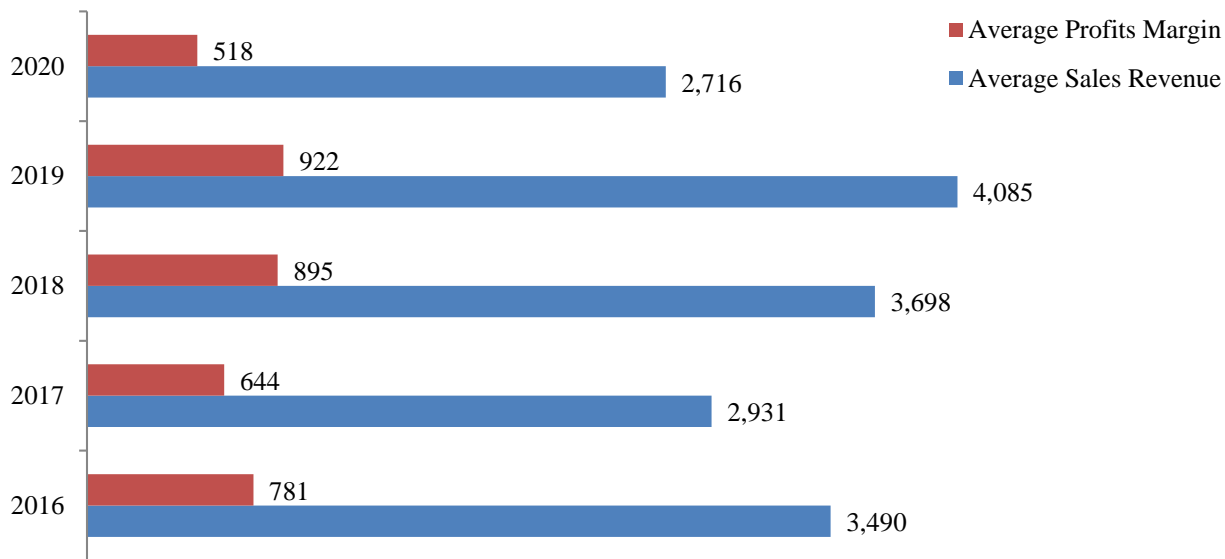


Figure 2: Performance of Manufacturing Firms

4.5 Inferential Analysis

4.5.1 Correlation Analysis

Pearson's correlation was carried out to establish the relationship between the management risk and performance of manufacturing firms in Kenya. The correlation between management risks and performance of manufacturing firms had a Pearson correlation coefficient of -0.665 at significance level of $0.000 < 0.05$. This implies that the correlation between management risk and performance of manufacturing firms is strong and negatively significant.

Table 4: Correlation Results for Management Risks

| | | Performance of Manufacturing Firms | Management Risk |
|------------------------------------|---------------------|------------------------------------|-----------------|
| Performance of Manufacturing Firms | Pearson Correlation | 1 | |
| | Sig. (2-tailed) | | |
| | N | 233 | |
| Management Risk | Pearson Correlation | -.665** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 233 | 233 |

** . Correlation is significant at the 0.01 level (2-tailed).

4.5.2 Hypothesis Testing

H_{A1}: There is a significant influence of management risk on performance of manufacturing firms in Kenya

The study sought to test the alternative hypothesis which was that there is a significant relationship between management risk and performance of manufacturing firms in Kenya. The model summary results are as shown in Table 5. As the results portray, the R² for the model was 0.443. This implies that management risks influences up to 44.3% of the variation in performance of manufacturing firms in Kenya.

Table 5: Model Summary for Management Risk

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .665 ^a | .443 | .440 | .59209 |

a. Predictors: (Constant), Management Risk

The ANOVA results for the model are as shown in Table 6. As the results portray, the F-statistic for the model was 183.620 at a significance level of 0.000<0.05. This implies that the model is statistically significant and can predict the relationship between management risk and performance of manufacturing firms in Kenya.

Table 6: ANOVA Results for Management Risk

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1 | Regression | 64.373 | 1 | 64.373 | 183.620 | .000 ^b |
| | Residual | 80.983 | 231 | .351 | | |
| | Total | 145.355 | 232 | | | |

a. Dependent Variable: Performance of Manufacturing Firms

b. Predictors: (Constant), Management Risk

The regression coefficients for the model are as shown in Table 7. As the results portray, the Beta coefficient for management risk is - 0.621 which implies that a unit change in management risk influences the decline in the performance of the manufacturing firms in Kenya by 0.621 units. The P-value for the variable was 0.000<0.05, an indication that the relationship between management risk and performance of manufacturing firms in Kenya is significant. The fourth alternative hypothesis that *there is a positive significant*

influence of management risk on performance of manufacturing firms in Kenya is therefore not accepted, and a conclusion drawn that with increase in management risk, there will be a significant decline in the performance of manufacturing firms in Kenya.

Table 8: Regression Coefficients for Management Risk

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | |
|-------|-----------------------------|------------|---------------------------|-------|---------|------|
| | B | Std. Error | Beta | | | |
| 1 | (Constant) | 5.008 | .138 | | 36.416 | .000 |
| | Management Risk | -.621 | .046 | -.665 | -13.551 | .000 |

a. Dependent Variable: Performance of Manufacturing Firms

H_{A2}: There is a significant moderating effect of information flow on influence of management risks and performance of manufacturing firms in Kenya

The study set to test the hypothesis which was that there is information flow has a significant moderating effect on the relationship between management risks and performance of manufacturing firms in Kenya. The regression coefficients are as shown in Table 9. As the results portray, the interaction effect between management risk and information flow had a Beta coefficient of 0.042 at a significant level of $0.032 < 0.05$. This is an indication that while information flow has a positive and significant moderating effect on the relationship between management risk and performance of the manufacturing firms. It implies that as a result of information flow, the negative impact of management risk on performance of the manufacturing firms in Kenya is reduced, and the firms record a marginal increase in performance.

Table 9: Regression Coefficients for the Moderating Effect of Information Flow

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | |
|-------|----------------------------------|------------|---------------------------|------|-------|------|
| | B | Std. Error | Beta | | | |
| | (Constant) | 1.888 | .249 | | 7.570 | .000 |
| | Management Risk*Information Flow | .042 | .019 | .142 | 2.163 | .032 |

a. Dependent Variable: Performance of Manufacturing Firms

CONCLUSIONS AND RECOMMENDATIONS

The study sought to establish the influence of management risk on the performance of manufacturing firms in Kenya. The findings from the study revealed that there were conflicts between the employees of the manufacturing firms and the outsourced companies in most of the surveyed firms as well as conflicting cultures between the two parties. The decision making between the two parties was also a major issue that affected the flow of operations as well as poor alignment of strategic goals and objectives between the

outsourced companies and the manufacturing firms. These risks as described by Ansari *et al.* (2010) compromise the ability of an organization to fully focus on the main goals and objectives, thus losing the competitiveness to the closer competitors.

The study concluded that management risk was among the integral risks associated with logistics outsourcing that significantly influenced the performance of the manufacturing companies. Through the cultural conflicts whereby the outsourced companies had internal cultures that conflicted with those of the manufacturing companies, the ability to mutually work together was affected, thus undermining the goals and objectives of the manufacturing firms. It was further concluded that the loss of control was major management risk that faced the manufacturing as a result of failure to guide their boundaries against the interference of the outsourced logistics service providers. Further, through overreliance of a single supplier, the companies in given failed to deliver the expectations of the customers, thus affecting the performance of the manufacturing entities negatively.

The management risks are prone to a logistics outsourcing company. The culture of the outsourced company in most cases is different from the outsourcing entity and so is to the interest and prospects of the employees. Therefore, the management risks should be assessed and managed effectively by the manufacturing companies for a better flow of operations with the outsourced company. There should be a framework for ensuring the cultures of the manufacturing companies and the outsourced logistics service providers integrate. The conflicts between the employees from the two companies are also a subject of concern in the entire process of logistics outsourcing. It is essential for the conflicts to be managed and solved with full commitment of the management of the two organizations for a continued cooperation.

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