

**BUSINESS PROCESS OUTSCOURCING AND PERFORMANCE OF
SAVINGS AND CREDIT CO-OPERATIVE ORGANISATIONS
(SACCOS) IN NAIROBI**

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this study to my beloved wife Winnie Jackinda and my two sons Ryan Andy and Ivan Harry for their endless support during this research project. Many a times, daddy would be away during their time, but because of their understanding, I was encouraged more and this enabled me to reach this far.

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ABSTRACT

Adoption of business process outsourcing is increasing in world of business, private and public, small and large, governmental and non-governmental. SACCOs need BPOs to streamline their systems and processes. This study sought to establish the influence of ICT enabled business process outsourcing on the performance of SACCOs in Nairobi City County. This is a descriptive research study whose target population was 137 SACCOs in Nairobi County from which 44 were sampled though only 37 responded. Primary data was collected using semi-structured questionnaires. Data analysis involved the use of descriptive statistics of mean, standard deviation, frequencies and percentages. Inferential analysis was done using multiple linear regression analysis. The findings reveal that business processes outsourced mostly was debt collection, internal audit, ICT and human resource. The least outsourced function was credit and loaning. The outstanding benefit of outsourcing was improved businesses concentration on core mandate though there was the challenge of breaches in data privacy. Outsourcing positively and significantly influenced SACCOs' performance. The study recommended that SACCOs should outsource their non-core functions to improve performance.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Information Communication Technology (ICT) is a field that brings about communications technologies which is enabled by the integration of telecommunications (telephone lines and wireless signals), hardware such as computers, software, middleware, storage, and audio-visual systems. All these are brought together for the sole ability to enable users to access, store, transmit, and manipulate information (Harriet & Pieter, 2000). ICT and Information Systems (IS) are organized business systems used for the collection, organization, storage and communication of information. IS is used to harmonize networks which people and organizations use to collect, filter, process, create and distribute data. (Prapaporn Noparatayaporn, 2014) Usually, there exists automated and manual information systems. Automated IS provides users with minimal interaction between data input, processing, storage and retrieval. On the other hand, manual IS requires a lot of user intervention at each stage of information processing. Several electronic devices are used to achieve information processing in an automated ICT facility. These devices include; Computers, Servers, Telephones, Routers, Switches, printers e.t.c. All these devices perform different functionalities. Businesses need a combination of all these devices, users, processes to build an automated system (John & Johan, 2008).

ICT is used in business processes. There are various Business Processes that can be automated using ICT. According to Sanjay (2009), these are processes such as; Payroll Management, Accounts Receivables, Accounts Payables, Petty Cash Management, Credit Control, Inventory Management, Asset Management, Customer Relationship

Management, Business Intelligence, Financial Management, and many other business processes. Some processes are core mandate of a business whilst other processes can be termed as peripheral processes which basically are support processes. Businesses need to focus more on their core processes. The question that businesses need to ask therefore is what do they need to do in order to concentrate on their core processes? The answer to this question is to outsource some of the ICT enabled processes.

1.1.1 Business Process Outsourcing

There has been several definitions of business process outsourcing (BPO). According to Rick and Thomas (2004), they define BPO as a subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider. Kern, (2002) defines BPO as the contracting of a specific business task, such as payroll, human resources (HR), accounting, or Information and Communication Technology services e.t.c. to a third-party service provider. Lastly, BPO is the contracting of non-primary business activities and functions to a third-party provider (Greaver, 1999). For purposes of this research, I will use the third definition provided by Greaver (1999) which defines BPO as the contracting of non-primary business activities and functions to a third-party provider. This means that the primary activities shall be left solely to the business to concentrate on whilst those non-primary activities shall be given to third parties to manage.

There are numerous advantages that can be derived from BPO activities. Kirkegaard, (2004) indicates that the advantages of BPO could be; businesses concentrate on their core mandate, there is enhancement of speed and efficiencies of outsourced business processes,

businesses can be able to access latest technologies, it provides flexibility in business operations, there is quick and accurate reporting, businesses are able to save on staff costs related such as hiring, training, medical e.t.c.

Whilst BPO may sound good for businesses, it definitely has its own demerits. According to Klepper (1997), business process outsourcing can lead to the following demerits to an organisation; there could be breaches in data privacy, increase in running costs for services provided by third parties, there could be overdependence on Service Providers to perform certain duties, Communication break downs can be witnessed between the business and the BPO service provider e.t.c. However, our research will still endeavour to find out whether the pros of BPO outweighs its cons within an organization.

1.1.2 Business Performance

Performance is an important aspect to the management and development of organizations. Andy (2002) views performance as the key driving forces towards achieving organizational goals, which, he says, has a strong link to organization's strategy. It involves measuring actual output against the desired input. Previously, business performance was measured in terms of work done, number of staff, number of branches, organizational structure e.t.c. With time, new parameters are being developed to measure business performance. According to Vincent & Mukesh, (2014), business performance can be measured using parameters such as; extent of embracing ICT, Financial Management, Human Resource Management, Resource Allocation and Utilization, Environmental Management and other such like parameters.

1.1.3 Savings and Credit Co-operative Organisations in Nairobi

The word SACCO means Savings and Credit Cooperative Organization. A SACCO is owned, managed and run by its members who usually have a common bond. SACCOs work in a model where individual members contribute various amounts of money according to their capability. This money is put together in a pool and members are then able to access their money in various ways including; Withdrawal over the counter or through any other alternative channels e.g. mobile, agency, and ATM or through Credit facility advanced to members in form of loans. For purposes of managing this pool of funds, the members meet annually at an Annual General Meeting (AGM) to elect Board of Directors who will govern and oversee the running of the institution. The SACCO Societies Regulatory Authority (SASRA) is a public corporate body enacted through an Act of Parliament. Its mandate is to regulate the deposit taking SACCO Societies in Kenya. It has defined some key parameters for monitoring the performance of SACCOs.

SACCO's by their nature are owned and controlled by the members. These members usually hire other persons to take care and run the business on their behalf. The SACCOs by nature of their incorporation are public bodies and are therefore regulated by the government. The business owners and the government have devised parameters for monitoring business performance. These parameters according to SASRA Report of 2015 include; Number of members, Number of branches, Total deposits received, Number of products introduced and Total loans taken. This study will use the SASRA indicators of performance.

The SACCO Societies Regulatory Authority (SASRA) recently produced prudential guidelines for SACCOs seeking to be allowed to start taking deposits directly from its members. Part of these prudential guidelines requires SACCOs to maintain strong systems of Internal controls and effective ICT systems. SACCOs whilst they need to comply with these regulations, they are on the other hand required to concentrate on their core mandate of mainly increasing member numbers, increase loan book and manage the members savings.

This research will concentrate on SACCOs within Nairobi City County. Nairobi County is one of the 47 counties of the Republic of Kenya. It is the smallest in size yet the most populous of all the counties. It is also the capital city of Kenya. Nairobi County has a total area coverage of 696 km² out of a total 581,309 km² for the entire nation Kenya. According to the Kenya National Bureau of Statistics, the National Population and Housing census showed that Nairobi County has an approximate population of 3.375 million people living in the capital city, making it one of the most populous counties in Kenya. These factors have led to the coming up of Savings and Credit Co-operative Societies within Nairobi.

1.2 Research Problem

Business process outsourcing has been generally accepted in the world of business today. Businesses have derived numerous advantages through outsourcing some of its non-core functions. With this, BPO is generally gaining acceptable standards globally both from small to large businesses. Many studies have been done around outsourcing services for businesses. In Kenya, a lot of BPO research has been done on commercial banks. However, no research has been done on SACCOs.

SACCOs are in the business of receiving contributions from members and issuing loans at a specified interest rate in order to make profits. These type of organisations rely heavily on ICT to automate their business processes (Uday & Vandana, 2006) so as to achieve their goals whilst at the same time protecting their assets. The automation of the SACCO business processes assist the SACCO's to work efficiently and effectively. This therefore requires these type of businesses to outsource the non-primary activities so as to concentrate on their core primary activities. The problem with SACCO's being member driven is usually the lack of enough funds pumped into the operations of the business. More often, the staff capacity in SACCO's is usually lean. The Members, through a view of cost cutting in order to maximize on the profits usually tend to hire staff who are not well qualified. These challenges pose a great threat to the development of the SACCOs. This problem can well be achieved through the provision of BPO services to the non-core activities. The only problem that would arise with the outsourcing to third parties may include; breaches in data privacy, increase in running costs, overdependence on Service Providers, Communication break downs e.t.c.

Many studies in Kenya (Munene and Muturi, 2013) have been carried out on SACCOs in sectors such as; the ICT, agriculture, teachers' and so on. From the empirical literatures, it is evident that factors contributing to success or failure of co-operatives are multiple and depends on the operating environment of the specific SACCO. These studies have evaluated just a handful of factors with ICT enabled services within the SACCOs coming out strongly. The above studies done in Kenya do not investigate the relationship between ICT enabled BPO and the performance of SACCOs. This research filled the knowledge gap by investigating the influence of BPO on performance of SACCOs in Nairobi City

County. Hence, the research question was: What is the influence of business process outsourcing on the performance of Savings and Credit Co-operatives in Nairobi City?

1.3 Research Objectives

The general objective of this research study was to evaluate the influence of ICT enabled Business Process Outsourcing on the performance of Savings and Credit Co-operatives in Nairobi City County. Specifically to;

- i. Determine the extent to which SACCOs have outsourced their ICT enabled processes
- ii. Establish the benefits of outsourcing ICT enabled processes within SACCOs
- iii. Determine the effects of BPO on the performance of SACCOs in Nairobi City County.
- iv. Establish the challenges of outsourcing ICT enabled processes within SACCOs

1.4 Importance of this study

SACCOs by their nature operate in the Financial Services Sector. Their main role is to receive contribution from members in form of savings, accrue the money and issue the money in form of loans to members. These loans are issued at an interest rate making the money grow. In order to achieve this key mandate, SACCOs rely on strong ICT Systems to be able to; track members, monitor contributions, monitor savings, charge interests, penalties and other accruals.

These strong systems need to be secured and monitored keenly. It is also a requirement of the SACCO Societies Regulatory Authority (SASRA) for SACCO's to set up and maintain strong internal systems that safeguard the organizational asset. However, in order to

concentrate on their core business functions, SACCO's cannot fully be engaged in the administration of ICT Services. This study therefore focusses on evaluating the needs for SACCO's to outsource some non-core functions to third parties as they concentrate on delivering on their core mandate.

This research adds to a contribution of knowledge in the business process outsourcing services to various industries. Many people have researched on business process outsourcing, however, my research will be adding to the body of knowledge on ICT business process outsourcing specifically in the Savings and Credit Co-operative Societies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter begins by discussing the theories relevant to this study. The concept of the study was also developed under the conceptual framework section and finally reviews of empirical studies that have previously been conducted on the area of business process outsourcing.

2.2 Theoretical Foundation

This study focuses on three Information System theories that are relevant to BPO in contemporary businesses.

2.2.1 Dynamic Capabilities Theory

This theory was suggested by Teece et al. (1997). The theory defines dynamic business capabilities as ‘the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments’. This theory requires us not to ignore factors surrounding resources. Considerations such as how resources are developed, incorporated within the firm and how they are released should be taken into account. According to Wade and Hulland (2004), IS resources may take on many of the attributes of dynamic capabilities, and therefore may be particularly useful to firms operating in fast changing business environments. Organisations adopting BPOs should make sure that this propels them into the next level as they meet their goals. Whether IS resources do not directly lead the firm to a position of higher sustained competitive advantage, they may nevertheless be critical to the firm’s longer-term competitiveness in unstable environments. This is so if they help the firm to develop, add, integrate and release other key resources

over a period of time. BPO practices are widely accepted today and they have enabled businesses across the globe to concentrate on their core functions.

2.2.2 Organizational Information Processing Theory

Information processing is the change of information from one state usually the data state to another state, usually the more meaningful information state. This is according to (Denning and Bell, 2012). The Organizational Information Processing Theory identifies three important concepts: information processing needs, information processing capabilities, and a mix between the two to obtain the best performance for an organisation. Organizations need quality information to cope with the ever changing uncertainty and in order to improve on their business decision making efforts. With BPO, organisations are able to outsource the processing and production of real time meaningful information for an organisation. This eventually adds value to the organisation as it concentrates on its primary activities.

The theory further suggests that organizations have two strategies to cope with uncertainty and increased information needs. One, organisations need to develop strategies to reduce the effect of uncertainty, and secondly, organisations need to implement operational mechanisms and information processing capabilities. This will enhance information flow within the business and thereby reduce risks within the business. Organisations, therefore, if they feel that they are growing and would be in dire need of a third party to assist then in managing other business processes, then BPO will be their best bet.

2.2.3 Technology Acceptance Model

Organisations and users accept technology in different forms, manners and rates. This has been of interest to the Information Systems community for far too long, over 20 years according to Chuttur (2009). Technology Acceptance Model (TAM), proposed by Davis (1991), indicates that the major hindrance to successful adoption of new information systems is the lack of user acceptance. Businesses and users therefore need not only to know that technology fast changes but to accept the fact too. Davis further noted that businesses face challenges whenever users do not accept new technologies. To counter this challenge, Taylor and Hogenbirk (2000) suggests that businesses need not to worry with the ever increasing technological changes and the growing user rejection of new information systems. All these can be outsourced to a third party in form of BPO to address all the emerging issues as the business concentrates on its core functions. TAM assumes that the adoption of new IS systems depends on factors such as; perceived usefulness, perceived ease of use, behavioral intention to use and the actual system in use. These may however, not be the only factors affecting technology acceptance as advanced by TAM.

2.3 Business Process Outsourcing

Businesses are usually conceptualized from an idea from someone. This idea may be shared to one or more persons who may end up incorporating it as a sole legal entity. As a business is incorporated, usually for a start there is no much information about it. Maybe just its name, address, physical location, contacts and the names of the promoters. All this information can be stored in one's memory. As the business matures, new information comes in. These are information such as client names, address, physical location, contacts, creditors, debtors e.t.c. Jeston and Nelis (2008) acknowledges that at this stage, the

businesses need information systems to store all this information. This is in order to avoid the risk of losing on any crucial data or information such as who owes the business. At this stage, Information Systems are adopted and accepted by all users in the organisation as suggested by Chuttur (2009) in his Technology Acceptance Model. As the business grows, more and more information is received. This information sometimes require quick and real-time processing. Denning and Bell (2012) in their Organisation Information Processing Theory highlights that at this stage, businesses have information processing needs, information processing capabilities, and the fit between the two to obtain the best performance. During initial stages, organisations can provide this through recruitment of extra staff capacity to handle these processes. However, as the businesses mature, they get to a point that they can no longer concentrate on their core business since the non-core activities are demanding. It is at this point that businesses adopt BPO.

There are several processes which can be outsourced. Payroll Processing is one good example. When organisations become bigger, staff capacity increases. With an increase in staff capacity, the payroll becomes bigger and bigger. This is because of several factors such as salary advances, promotions in between the months, statutory requirements, individual credit facilities with other financial institutions, numerous or various allowances, transfers across departments, changes in bio data, changes in tax brackets, changes in government policies e.g. personal relief and many other factors. These information becomes too much for the Human Resources or Finance department to comprehend and factor in.

According to Ledgerwood *et al*, (2013), organisations that fail to remit HR statutory deductions stand high chances of getting into trouble with the regulatory authorities. This therefore calls for businesses to outsource the Payroll function if they want to concentrate on their core functions. With outsourcing of payroll processing organisations are able to achieve a lot. First, Implementing and managing payroll management systems in companies can be draining on resources (Thompson, 2005). Effective payroll systems require the purchase and maintenance of extensive infrastructure such as hardware, software, network capabilities and nowadays, cloud technology. Outsourcing to a specialized provider of payroll processing services removes this difficulty. Secondly, Maintenance of payroll in-house requires the recruitment and training of staff which can be quite expensive. Outsourcing to a specialized payroll processing services provider can help save these costs and the maintenance issues that come up with maintaining a dedicated in-house payroll processing management system. Third, with increasing incidences of financial embezzlements, frauds and other financial crimes happening within businesses, companies would be best placed to entrust their payroll data to an expert in payroll processing as they have dedicated infrastructure, storage and security measures in place to safeguard the data of their clients. Lastly, the complex nature of payroll processing places additional responsibility on the payroll processing team to ensure compliance with all regulations including payroll regulation and taxation stipulations (Jeston and Johan, 2008). Income tax deductions from the employee payroll need to be done meticulously and accurately. Procedures related to this such as calculating tax obligations, tax returns filing, payroll tax reporting among others can be complex and pose a significant challenge for companies of all kinds grappling with major business objectives to achieve. Outsourcing

to a Tax preparation service expert specializing in payroll processing can ensure that this critical process is carried out efficiently and that deductions are made accurately.

Another business process that can be outsourced is the Finance and Accounting (F&A). Bangemann (2005) recognizes that F&A can grow so big in businesses until managing or running the function can be very difficult. Bragg (2011) also recognizes the fact that F&A need not necessarily be big to be outsourced. Small business functions can also outsource the F&A process so as to concentrate on its core functions and eventually grow the business. The advantages of outsourcing the F&A process is that you get a specialist accounting services company which would give you utmost priority to manage your customers well as they concentrate on managing your finances. Outsourcing F&A would allow your business to focus on revenue generation instead of worrying about issues emanating from accounting processes and systems (Bangemann, 2005). Equally, a capable accounting outsourcing company can provide the improved technology for less than the cost of the organisation's old technologies. Businesses can also take advantage of the fact that the outsourcer is likely to have a much larger and more skilful staff than a business has, therefore the business can take advantage of this (Jeston and Nelis, 2008). F&A as a process equally has so many reporting to be done, which, at the end of a period say at the end of the quarter or year can be tiresome to generate. Outsourcing F&A therefore eases the burden of financial reporting of an organization as it concentrates on its mandate. Lastly, Vagadia (2011) recognizes that BPO helps businesses shift the burden of risk.

The other business process that can be outsourced is the provision of ICT services. Organisations consume a lot of ICT services. These include services such as ICT Help

desk, repairs & maintenance, networking, database administration and systems administration. Hansen and Christensen (1995) recognizes that ICT is nowadays an integral part of businesses. They further argue that for businesses to grow, they need to leverage on ICT in order to grow to the next level. These ICT services may be small in nature but very crucial to businesses. Many organisations from small, medium to large have outsourced their ICT enabled services at various levels within their businesses as observed by Charles and Mukesh (2014) in their book *Business Performance Measurement and Management*. Therefore ICT enabled services, as small as the activities may be, they can be taken as a whole and outsourced as an ICT process. In fact, the Republic of Kenya SACCO Supervision Annual Report 2015 shows that some SACCOs in Nairobi Kenya have considered outsourcing ICT repairs and maintenance services to other third parties.

2.3.1 Benefits of BPO

Organisations are in the businesses of making profits. This is usually their main objective. To achieve this objective, organisations engage in activities such buying and selling of goods and services for a markup. In order to achieve this key core objective, organisations need to focus on key activities that will deliver this key objective. However, as businesses grow, other support activities grow too. It is at this point that businesses start considering BPO (Neely, 2002). BPO therefore provides numerous benefits to organisations. Notably, businesses are able to concentrate on their core mandate. If for instance, the core mandate of SACCOs is to receive member deposits and issue loans at a specified interest rate, they are able to concentrate on this key activity whilst other support functions such as Human Resource Management and Financial Management are outsourced to other third parties.

BPO enhances the speed and efficiencies of outsourced services (Jeston & Nelis 2008). If a third party is left for a service to deliver, it concentrates on it fully as its core business. It therefore works with speed to deliver the service. Concentrating on that activity also makes sure that the third party works efficiently. Over time, BPO firms develop easy and faster ways of delivering their services. This means that an action that would take quite a longer time to perform for a business can be done quickly and more efficiently with a BPO firm.

BPO firms enable businesses to access latest technologies. Since businesses concentrate on their core functions, they do not have the time to invest on latest technologies (Click & Duening, 2004). Outsourcing services to BPO firms enables businesses to adopt latest technologies. BPO firms are able to research on latest technologies and bring this on board to the businesses that they support.

Outsourcing provides flexibility in business operations. Businesses are able to work without minding about other support functions. Whenever a support function is required, the business simply invokes a request to the BPO firm and the request is made available at an agreed contracted timeframe (Click & Duening, 2004). This provides a lot of flexibility to the businesses that have outsourced the service.

According to Charles and Kumar (2014), there is a quick and accurate reporting when services are outsourced. BPO firms collect data from businesses on a daily or real time manner. This data is continuously updated and analyzed using pre-defined or pre-developed procedures. At any one time when a business requests for information, the BPO firms can readily and quickly produce these reports. These are usually more accurate than

reports requested by businesses at any time and then the business employees sit down to generate the same.

Businesses that have specifically outsourced the HR functions are able to save on staff costs related to hiring, training, medical e.t.c. As organisations grow, their HR function equally gets bigger and bigger. In their book Hunter and Saunders (2007) analyzes the cost benefits of having a human resource department internally or outsourcing the function to a third party. Other than the risk of data loss and privacy to information, Hunter and Saunders (2007) encourages all businesses to outsource the HR function in order to concentrate on the core functions.

2.3.2 Challenges of BPO

According to Klepper (1997), business process outsourcing can lead to breaches in data privacy. Hunter and Saunders (2007) have identified three main risky areas that data privacy can be affected with regards to BPO. These, they elaborate are; leakages in financial performance of companies, sales & marketing strategies and the private human resource data. Any leakage in any of the three areas can bring down the organization. They further argue that data leakage in any of the remaining business areas can be mitigated by other measures. BPO outsourcing can lead to increase in running costs for services provided by third parties (Bangemann - 2005). For as long as a business does not negotiate properly, BPO firm can charge exorbitantly for their services. Bangemann (2005) encourages businesses to carry out a cost-benefits analysis prior to engaging any BPO services. At times, other cost-benefits analysis actually proves that it is better off for a business to undertake a support process on its own rather than to outsource.

There could be overdependence on Service Providers to perform certain duties which have been left entirely for them to perform. Kirkegaard (2004) advises that that in as much as outsourcing is a good businesses practice, organisations should be alive to the facts of the processes that they have outsourced. This, Kirkegaard (2004) further argues that it will enable businesses be able to continue in the event of abrupt service termination by the BPO provider.

Lastly, (Taylor and Hogenbirk, 2000) in their paper indicates that there are possibilities of communication break downs which have been witnesses between the business and the BPO service provider. They urge businesses to develop proper communication guidelines with the BPO service providers. Without this, communication break downs may lead to loss of business since the communication may be needed very fast and promptly to make a business decision.

2.4 Business Performance

Business performance is the measure of performance management and analytic processes that enables the board and management of a business to achieve one or more of its set goals and objectives (Kern et al, 2002). Performance is an important aspect to the management and development of organizations. Andy (2002) views performance as the key driving forces towards achieving organizational goals, which, he says, has a strong link to organization's strategy. It involves measuring actual output against the desired input. Previously, business performance was measured in terms of work done, number of staff, number of branches, organizational structure e.t.c. With time, new parameters are being developed to measure business performance. According to Vincent & Mukesh, (2014),

business performance can be measured using parameters such as; extent of embracing ICT, Financial Management, Human Resource Management, Resource Allocation and Utilization, Environmental Management and other such like parameters.

In Kenya, several studies have been done to measure performance of SACCOs. Many Scholars such as; Nyoro and Ngugi (2007), Bhuyan (2007), Pollet (2009), Kiaritha (2009), Unal, Guclusoy& Franquesa (2009), Hakelius (2006), Chombo (2009) have conducted studies on performance within the SACCO sector using various variables such as; adoption of ICT enabled services; members knowledge, firm's staff skill level, operating environment, and financial status as key issues contributing to the performance of SACCOs. However, according to The Republic of Kenya SACCO Supervision Annual Report 2015, SACCOs performance can be measured using parameters such as; number of members recruited in a year, number of branches opened in a strategic period, total deposits received in a fiscal year, number of products introduced in a given period and the total loans taken as shown in the loan book. In this study, we will use these SACCO performance indicators as defined by SASRA.

2.5 Empirical studies on BPO and Performance

Approximately one-third on the Savings and Credit Co-operative Societies have outsourced at least one business process or another Mumanyi (2014). There has been continuous rise in debates alongside BPO in the financial services sector. Some businesses have been seen to prosper due to their concentration in core businesses while outsourcing the support processes. Noparatayaporn (2014) did a study on how banks competitions in Singapore forced most of the institutions to outsource their non-core processes so that they

can concentrate in a busy competitive financial sector. In his study Noparatayaporn (2014) was able to link the best performing banks in Singapore in 2015 to their business act of outsourcing non-core functions.

Studies have shown that most employees only think around their areas of concentration / field as opposed to the entire organization structure and performance (Mohapatra, 2009). In the end, the small non-core business processes that are outsourced collectively feed up into the entire organizational success. More studies have shown that BPO can improve business cost-efficiency. This however does not directly increase its productivity and profitability (Kern et al, 2002) according to a research that was done. This research was regarded as the first that empirically tested the relation between BPO and the firm's financial performance Neely (2002). Vincent Charles and Mukesh Kumar (2014) conducted a review aimed at ICT outsourcing between 2013 and 2015. Their research revealed that the outsourcing determinants and reasons why firms choose to outsource are the most frequently studied topics in the IS field. Studies concerning the outcomes of ICT outsourcing are very well developed focusing on different areas.

A Survey was carried out in more than forty commercial banks in Kenya on the area of the perceived benefits and risks of BPO and the factors of banks' decision to outsource. It was found out that Bank size measured as total asset is significantly associated with BPO decisions. Bank performance measured as Return on Assets and ratio of Non- Performing Loan (NPL) was not statistically associated with BPO decisions. Moreover, banks wage bill and total operational expenses were not significant elements of outsourcing decisions Akinwumi (2006).

2.6 Summary of Literature

From the literature reviewed, empirical studies show that BPO in the financial services sector concentrates mainly on the drivers and risks associated with BPO. Most of the research methodologies that were used were either case studies, interviews or surveys. The studies have revealed that BPO is not a new factor to businesses. This is a business act that has been practiced for a long time. The studies further revealed that big businesses that have grown stood a high chance in succeeding in their core functions if they outsourced their non-core processes.

The studies also revealed that it did not make business sense to outsource services when the organization was still new. This was because more resources would be needed in nearly all the entire business processes during a business' early stages. The data used in these studies were mostly subjective data obtained from surveys, case studies or interviews. Most studies that were carried out did not focus on Kenya as a country. This means that some of the findings may not be applicable in the Kenyan scenario given that financial services are influenced differently.

BPO in the end proves to improve business performance in terms of efficiencies and effectiveness. It has been revealed by the studies that BPO reduces cost and helps organisations achieve their targets depending on their maturity level at any given time.

2.7 Conceptual Framework

Independent Variables

Dependent Variables

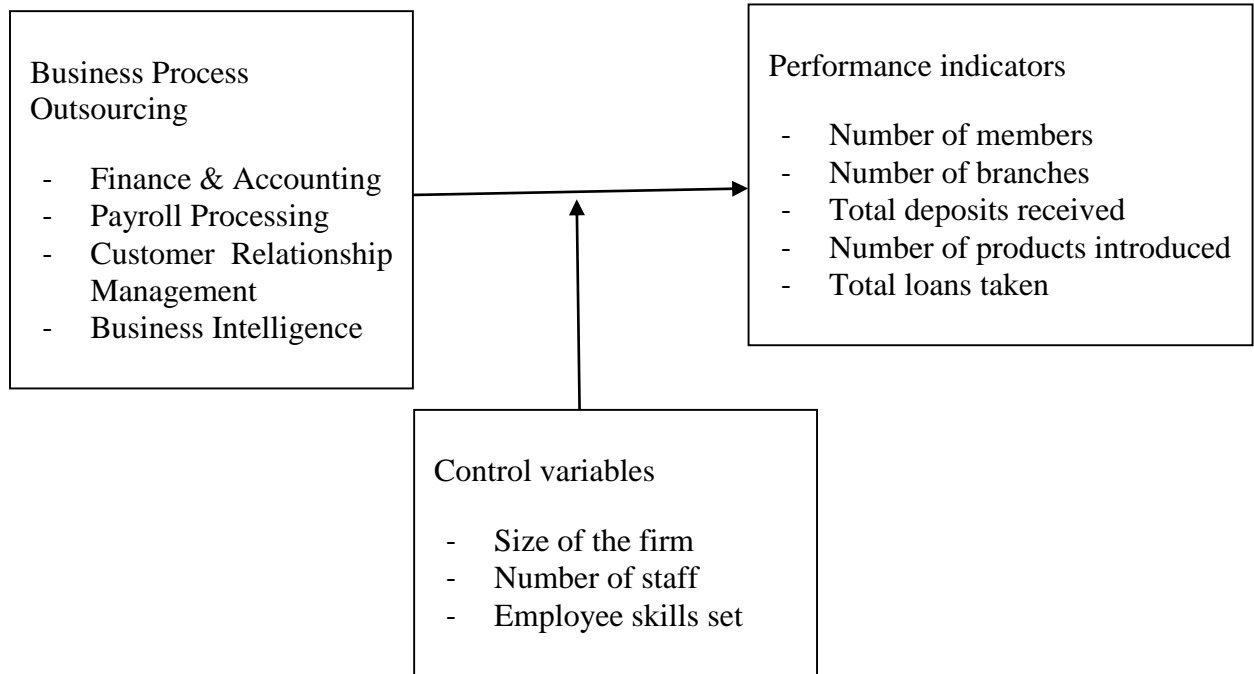


Figure 1: Conceptual Framework

This study examines how BPO affects the performance of Savings and Credit Co-operative Societies in Nairobi City County. The conceptual framework assumes that the performance of an organization is dependent on other factors of the business. It further assumes that there are other control variables that must be taken into account prior to achieving the desired business performance objectives.

CHAPTER THREE: METHODOLOGY

3.1 Research Design

The research design can be defined as the general strategy a researcher chooses to bring together the different components of the study in an articulate and logical way, thus ensuring the research problem will be effectively addressed (Jones, 1997). Taylor & Hogenbirk (2000) stated that a research design provides the adhesive that holds a project all together.

This study adopted a descriptive research design that is aimed at studying the effects of business process outsourcing and the performance of Savings and Credit Co-operatives Societies in Nairobi County within Kenya. This was because according to Mohapatra (2009), descriptive studies are designed to gain more insight on the relationship between BPO and performance of SACCOs.

3.2 Target Population and Sample Design

Taylor and Hogenbirk (2000) defined study population as the entire set of individuals that meet the sample criteria of the research. The population of this study comprised of 44 SACCOs out of the 137 Savings and Credit Co-operative Societies within the Nairobi City County, as per The Republic of Kenya SACCO Supervision Annual Report 2015. Nairobi City County was the area of choice since it's where most SACCO Headquarters are situated. Most CEOs and ICT Managers also manage the SACCO business processes centrally from these head offices. The targeted respondents for this study included either CEO, ICT Manager or the Operations Managers.

3.3 Data Collection

Self-administered questionnaires were used to collect primary data. It was made up of three sections. General Bio-data information on the respondent and the institution were captured in section A, whilst the extent of business process outsourcing, challenges of outsourcing and performance indicators were captured in section B, C and D respectively. In addition, the questions contained in the questionnaire were both open and closed-ended for quantitative and qualitative analysis, respectively. The questionnaire was administered through drop and pick later method to the ICT and operations managers. The questionnaire has also adopted a Likert scale format whereby 5 represented a strong positive response and 1 the weak response.

3.4 Data Analysis

The data was analyzed and checked for completeness, accuracy and clarity using specialized statistical software available off the shelves. The data was then summarized, coded and tabulated. Data presentation was done by the use of charts, tables and graphs for ease of understanding and interpretations. The study further analyzed the data using regression analysis to establish the relationship between the various variables. This was in a view to determine the extent to which SACCOs have outsourced, the benefits, effects and challenges of outsourcing within SACCOs. The formula that was used for regression analysis is as shown below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where by Y = Performance of SACCOs, X_1 = BPO, X_2 = Firm Characteristics, ε = error term, β_0 = Constant, and β_1 and β_2 are regression model coefficients.

CHAPTER FOUR: DATA FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter presents analysis and findings of the study as defined in the research methodology. The questionnaires were targeting either the ICT manager, operations manager or the CEO for each SACCO in the study population. This is because they have a better understanding of the effects of BPOs within their organizations (Author, 2017). The findings are as presented in the next sessions.

4.1 Response Rate

A total of 44 questionnaires were distributed to the SACCOs listed in Appendix II. These are SACCOs operating and headquartered within Nairobi City County. 36 out of 44 questionnaires distributed were returned to the researcher. This represented a response rate of 82%. This percentage response was considered sufficient for this study. The 18% who did not return the questionnaires cited busy schedules and prevailing high political temperatures in the country making them not to access the office as the main reasons for not finding time to fill them.

Table 4.1: Response Rate

Response Rate	Frequency	Percentage
Returned	36	82%
Un-returned	8	18%
Total	44	100%

Source: Author, 2017

The questionnaire was designed in line with the objectives of the study. The first section contained general information of the respondent and the organization whilst the rest of the sections contained information on BPO activities within their organisations.

4.2 General Information

The general information that the study required of the participants included the following: their gender, age group, organization name, position held within the organization, the period they have worked for the organization, the existing business processes and the extent of business process outsourcing within their organizations. The results are as explained below.

4.2.1 Gender of the Respondents

The study sought to find out the gender of the respondents who participated in filing and completing the questionnaires. From the findings, 78% of the respondents were male whilst 22% of the respondents were female.

Table 4.2: Response Rate

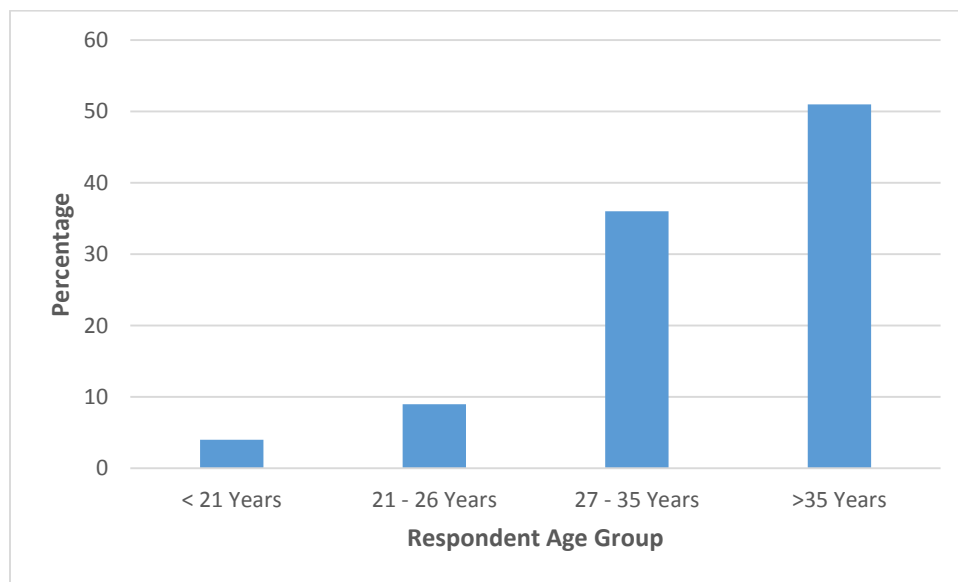
Respondent Gender	Frequency	Percentage
Male	28	78%
Female	8	22%
Total	36	100%

Source: Author, 2017

4.2.2 Age of the Respondents

The study sought to find out the age of the respondents who participated in filing and completing the questionnaires. From the findings, 4% of the respondents were aged less than 21 years old, 9% of the respondents were aged between 21 – 26 years, 36% of the respondents were aged between 27 – 35 years and 51% of the respondents were aged more than 35 years.

Figure 2: Age of the Respondents



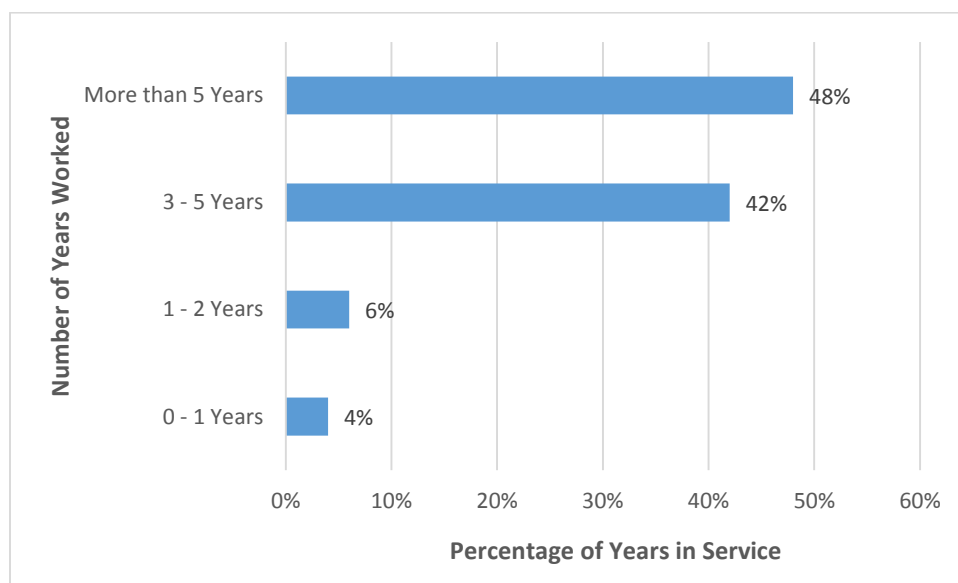
Source: Author, 2017

4.2.3 Duration in Years Respondent Has Worked with the Organization

The study required to establish the length of time that the respondents had worked within the organizations. From the findings, 48% of the respondents had worked for the organizations for more than 5 years, 42% of the respondents had worked for the organizations for 3 – 5 years, 6% of the respondents had worked for the organizations for

1 – 2 years and 4% of the respondents had worked for the organizations for a period of less than 1 year. These results indicate that most of the respondents had worked long enough in their respective organizations to understand how the SACCOs operate. This was an indication that the respondents had adequate working experience and therefore possessed the necessary knowledge and information which is considered valuable for this study.

Figure 3: Period the Respondents had worked in the Organizations



Source: Author, 2017

4.3 Extent of Business Process Outsourcing in the SACCOs

The study sought to obtain the findings on the question of the extent to which the Saccos outsource their business processes. The results are as shown in the table 4.3 below. These results were based on the likert scale rating of 1 – 5 where 1 represented Not at all, 2 represented Rarely, 3 represented Under consideration, 4 represented Most of the time while 5 represented All the time.

Table 4.3: Extent of Business Process Outsourcing in the SACCOs

Business process	Mean	Std. Deviation	N
Credit and Loaning	1.6944	0.790935335	36
Finance and Accounting	2.0556	0.691730809	36
Human Resource	3.0278	0.605341936	36
Payroll Processing	2.9167	0.657733357	36
ICT	3.1111	0.714866387	36
Internal Audit	3.5278	0.8169296	36
Debt Collection	4.4167	0.988748429	36
Members recruitment	2.6389	0.098209275	36
Sales and Marketing	2.7778	0.52318	36

Source: Author, 2017

4.4 Benefits of Business Process Outsourcing in the SACCOs

The study sought to obtain the findings as to whether there was any benefits of business process outsourcing to SACCOs. The results are as shown in the table 4.4 below. These results were based on the likert scale rating of 1 – 5 where 1 represented Not at all, 2 represented Rarely, 3 represented Under consideration, 4 represented Most of the time while 5 represented All the time.

Table 4.4: Benefits of Business Process Outsourcing in the SACCOS

Benefits of outsourcing	Mean	Std. Dev	N
Improved businesses concentration on core mandate	4.2222	0.3881	36
Enhanced speed and efficiencies in outsourced business processes	3.7222	0.3857	36
Increased access to latest technologies	3.8611	0.4113	36
Flexibility in business operations	3.7778	0.4435	36
Quick reporting	4.0556	0.4858	36
Improved accuracy in reporting	4.0556	0.5243	36
Savings on infrastructure and technology	3.6389	0.5711	36
Access to skilled resources	4.4167	0.6991	36
Savings on staff costs related to hiring, training, medical e.t.c.	3.0278	0.3928	36
Risk sharing for the business	3.5833	0.5317	36

Source: Author, 2017

4.5 Challenges of Business Process Outsourcing in the SACCOS

The study sought to obtain the findings on the weight of challenges of business process outsourcing to Saccos. The results are as shown in the table 4.5 below. These results were based on the likert scale rating of 1 – 5 where 1 represented Not at all, 2 represented Rarely, 3 represented Under consideration, 4 represented Most of the time while 5 represented All the time.

Table 4.5: Challenges of Business Process Outsourcing in the SACCOs

Challenges of outsourcing	Very High	High	Neutral	Low	Very Low	Mean
Breaches in data privacy	30	3	1	2	0	4.6944
Increased running costs to services provided	20	9	3	2	2	4.1944
Overdependence on Service Providers	22	2	5	3	4	3.9722
Communication break downs	19	0	3	3	11	3.3611
There is lack of customer focus	17	6	5	4	4	3.7778
Stretched delivery time frames	14	8	6	3	5	3.6389
Sub-standard quality output	18	6	6	4	2	3.9444
Inappropriate categorization of responsibilities	19	2	7	2	6	3.7222
Reduced quality control	21	5	1	5	4	3.9444
Loss of focus from the service provider	19	1	2	4	10	3.4167

Source: Author, 2017

The study sought to find out how the respondents rated the challenges most experienced by the SACCOs whilst outsourcing some of their business processes. According to the findings, breaches in data privacy was considered the greatest challenge when outsourcing Sacco business processes to third parties as shown by a mean of 4.6944 followed closely by increased running costs to services provided as indicated by a mean of 4.1944. A mean of 3.9722 indicates that there could be over dependence on service providers. The challenges of Sub-standard quality output and reduced quality control were considered to be the same with each challenge having a mean of 3.9444. Further deductions from the findings indicate that with outsourcing, there is lack of customer focus at a mean of 3.7778.

A mean of 3.7222 indicates that there is inappropriate categorization of responsibilities. A mean of 3.6389 indicates that there are stretched delivery time frames for services. With a mean of 3.4167, most respondents reported loss of focus from the service provider. A mean of 3.3611 indicated that there could be communication break downs within the organization, posing as a challenge.

4.5 Regression Analysis

To establish the relationship between business process outsourcing and the performance of SACCOs within Nairobi City County, a regression analysis was performed. The regression analysis is concerned with the distribution of the average value of one random variable as the other variables which need not be random are allowed to take different values. A linear regression model was applied. The regression model was as follows:

The formula used for regression analysis is as shown below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where by:

Y = Performance of SACCOs, X_1 = BPO, X_2 = Firm Characteristics, ε = error term, β_0 = Constant, and β_1 and β_2 are regression model coefficients. Firm Characteristics was measured as a composite index of membership and number of branches, BPO was a composite of finance, accounting, payroll, customer relationship and business intelligence sub-systems.

Table 4.6: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.784a	.615	.592	.32407

a. Predictors: (Constant), Business Process Outsourcing, Firm Characteristics

The Table above on model summary presents the linearity assumption test of ordinary least square (OLS) regression analysis. It illustrates the correlation (R) and coefficient of determination (R^2) which measures presence and strength of linearity, respectively. The study established a correlation coefficient of 0.784 positive a very good linear relationship between BPO and performance of SACCOs. Coefficient of determination value of 0.615 and adjusted to 0.592 depicts a strong relationship. Thus, 59.2% of changes in performance of SACCOs is brought about by BPO.

Table 4.7: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.534	2	2.767	26.347	.000b
Residual	3.466	33	.105		
Total	9	35			

a Dependent Variable: Firm Performance

b Predictors: (Constant), Business Process Outsourcing, Firm Characteristics

Analysis of Variance (ANOVA) was adopted to determine the significance of the regression model by looking at the mean difference of independent variable on dependent variable. An f-value of 26.347 was established at $p < 0.001$. This depicts a very significant

regression model with less than 0.1% of giving false relationship between BPO and SACCOs' performance.

Table 4.8: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.842	.386		2.181	.036
Business Process Outsourcing	.321	.142	.388	2.255	.031
Firm Characteristics	.297	.116	.443	2.57	.015

a Dependent Variable: Firm Performance

The table above presents the model:

$$\text{Performance} = 0.842 + 0.321 * \text{BPO} + 0.297 * \text{Firm Characteristics} \quad p < .001$$

The regression model, thus, shows that when firm characteristics and BPO value is zero, the value of SACCO's performance would be 0.842. Holding Firm Characteristics constant while varying BPO by one unit would lead to 0.321 (p = .031) increase in performance of SACCOs. Besides, unit change in firm characteristics while holding BPO constant would result in 0.297 (p = .015) increase in SACCO's performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents a summary of the study's findings, makes conclusions based on the results and thereafter provides recommendations based on the analysis of the research objectives. Further research limitations and suggestions are equally mentioned.

5.2 Summary of Findings

The study established that most of the senior employees in terms of rank within the SACCOs were male. The questionnaires were distributed to the CEOs, ICT Managers or the Operations Managers who formed our targeted respondents. Out of the 36 respondents, 78% were male whilst 22% were female. The study also established that most of the senior employees in terms of age were more than 35 years old at 51% whilst less than 21 years old were the minority at 4%. Further, the study established that most of the senior employees in terms of rank within the SACCOs had worked within those various organizations for more than 5 years at 48% while the only 4% had worked in those organizations for 1 or less number of years.

An analysis of the extent of business process outsourcing revealed that debt collection as a business process is the most currently outsourced business process with a mean of 4.4167 whereas Credit and Loaning business process, which is the core function of SACCOs, was the least outsourced business function with a mean of 1.6944. All the variables that were meant to establish the benefits of business process outsourcing scored more than 3, the least being Savings on staff costs related to hiring, training, medical e.t.c. at a mean of

3.0278 and the highest being Access to skilled resources at a mean of 4.4167. This means that all the respondents recognized that there were high benefits of outsourcing their business processes. Lastly, the study also revealed that the respondents were aware of business process outsourcing challenges. The highest challenge that was revealed was related to Breaches in data privacy at a mean of 4.6944 whilst the least insignificant challenge that was established was Communication break downs between the client and the service provider at a mean of 3.3611. The findings of this research thus point the benefits of business process outsourcing services within SACCOs.

5.3 Conclusions

The conclusions were arrived at on the influence of the independent variables (Finance & Accounting, Payroll Processing, Customer Relationship Management, Business Intelligence) on the performance of SACCOs in Nairobi City financial services sector based on the findings of the study.

The study concludes that outsourcing non-core business processes helps SACCOs to increase their performance. Core functions of a SACCO such as Credit and Loaning should not be outsourced. The results from the regression analysis supports this, indicating that SACCOs that performed well did not outsource Credit and Loaning which is their core process. The study also showed that SACCOs that outsourced many of its non-core functions performed better than those that did not outsource any of its business processes. Therefore, SACCOs need to identify and classify their core and non-core functions and try and automate its non-core business processes so as to achieve maximum business performance.

5.4 Recommendations

The study has confirmed that business process outsourcing of non-core activities of a SACCO is very significant in enhancing the organization's performance. All SACCOs and other financial services organizations are advised to adopt business process outsourcing practices within their organisations so as to enable them concentrate on their core activities. This increases performance of an organization. SACCOs are encouraged to continue handling in-house their Credit and Loaning activities since this is their core activity as the research revealed that this is one of the activities that less SACCOs would wish to outsource. SACCOs are also strongly encouraged to outsource its non-core activities such as debt collection, internal auditing and ICT Services. This is as shown in the extent of business processes outsourced by SACCOs.

5.5 Limitations of the Study

The findings of this study and application therefore are limited to Urban SACCOs operating and headquartered within Nairobi City County in Kenya. They may not be applicable directly to other SACCOs operating outside Nairobi City County. It is therefore important to note that they can only be used for comparative purposes and not any direct adoption in other similar players in different areas within Kenya.

The research only focused on SACCOs headquartered within Nairobi City County in Kenya. It did not consider any SACCO operating in any other parts of Kenya. This was due to the limited time and resources to conduct this research. Due to the prevailing political situation coupled with busy schedules, a number of the targeted respondents were not able to respond promptly to the questionnaires and requested the documents to be left

at their offices. They made promises of calling back for collection once they had completed filling in the same. This never happened despite numerous follow up phone calls. For some who responded, the questionnaires were picked at the reception. Due to this reason, it was difficult to determine who actually filled in the questionnaires.

5.6 Suggestions for future research

This study has evaluated the influence of business process outsourcing on the performance of Savings and Credit Co-operative Organizations in Nairobi City County. Further research is recommended in evaluating the influence of business process outsourcing on the performance of Rural Savings and Credit Co-operative Organisations that mainly operate outside Nairobi City County. Further research may also extend in evaluating the level of maturity of an organization in influencing the need for business process outsourcing. In addition, the level of an organisations automation, employee skills set and size of an organization may also be evaluated if they could be considered as factors that influence the need for business process outsourcing within the SACCO industry.

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APPENDICIES

Appendix I: Questionnaire

SECTION A: BIODATA

1. What is your Gender?

Male

Female

2. What is your age group?

Less than 21

21 – 26

27 – 35

More than 35

3. What is the name of your SACCO?

.....

4. What is your position in the SACCO?

.....

5. How long have you worked with this SACCO?

0 – 1 years

1 – 2 years

3 – 5 years

More than 5 years

SECTION B: EXTENT OF BUSINESS PROCESS OUTSOURCING

6. To what extent does your SACCO outsource any of the following business processes?

(Please mark the appropriate response with a tick alongside each process)

Business process	All the time	Most of the time	Under consideration	rarely	Not at all
	5	4	3	2	1

Credit and Loaning					
Finance and Accounting					
Human Resource					
Payroll Processing					
ICT					
Internal Audit					
Debt Collection					
Members recruitment					
Sales and Marketing					
Another business process					
Another business process					
Another business process					
Another business process					

SECTION C: BENEFITS OF BUSINESS PROCESS OUTSOURCING

7. Please respond to all the below listed perceived benefits of outsourcing in accordance to your personal opinion for each statement.
(To what degree do you relate the below benefits of BPO to your organization?)

Benefits of outsourcing	Very High	High	Neutral	Low	Very Low
	5	4	3	2	1
Improved businesses concentration on core mandate					
Enhanced speed and efficiencies in outsourced business processes					
Increased access to latest technologies					

Flexibility in business operations					
Quick reporting					
Improved accuracy in reporting					
Savings on infrastructure and technology					
Access to skilled resources					
Savings on staff costs related to hiring, training, medical e.t.c.					
Risk sharing for the business					
Other Benefit					
Other Benefit					
Other Benefit					
Other Benefit					

SECTION D: CHALLENGES OF BUSINESS PROCESS OUTSOURCING

8. Please respond to all the below listed perceived challenges of outsourcing in accordance to your personal opinion for each statement.
(To what degree do you relate the below challenges of BPO to your organization?)

Challenges of outsourcing	Very High	High	Neutral	Low	Very Low
	5	4	3	2	1
Breaches in data privacy					
Increased running costs to services provided					
Overdependence on Service Providers					
Communication break downs					
There is lack of customer focus					
Stretched delivery time frames					

Sub-standard quality output					
Inappropriate categorization of responsibilities					
Reduced quality control					
Loss of focus from the service provider					
Other Challenge					
Other Challenge					
Other Challenge					
Other Challenge					

SECTION E: PERFORMANCE INDICATORS

9. How many members does your SACCO have?
.....
10. How many branches does your SACCO have?
.....
11. What was your total deposits in the last financial year?
.....
12. How many new products did your SACCO introduce in the last financial year?
.....
13. What was the total loans taken in the last financial year?
.....

Appendix II: List of SACCOs headquartered in Nairobi City County

1	Mwalimu National	41	Baraka
2	Harambee	42	Balozi
3	Stima	43	Ufanisi
4	Kenya Police	44	Jacaranda
5	Afya		
6	United Nations		
7	Unaitas		
8	Ukulima		
9	Metropolitan		
10	Kenya Bankers		
11	Hazina		
12	Magereza		
13	Sheria		
14	Tower		
15	Safaricom		
16	Nacico		
17	Waumini		
18	Jamii		
19	Naku		
20	Kenpipe		
21	Nyati		
22	Asili		
23	Fortune		
24	Kenversity		
25	Ardhi		
26	Tembo		
27	Wanandege		
28	Nation		
29	Wanaanga		
30	Nasefu		
31	Telpost		
32	Elimu		
33	Sukari		
34	Kingdom		
35	Comoco		
36	Orient		
37	Airports		
38	Dhabiti		
39	Vision		
40	Nafaka		