CREATING COMPETITIVE ADVANTAGE THROUGH OUTSOURCING: A SURVEY OF CLASSIFIED FIVE STAR BUSINESS HOTELS IN NAIROBI.

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DECLARATION

This Research project is my original work and has not been submitted to any other University for academic award.

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

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DEDICATION

I dedicate this research work to the Regional General Manager in charge of Africa, Intercontinental Hotels Group – Karl Hala who never fails to teach, encourage and guide me; to my lovely wife Debra who supports me in everything, to my family and friends who are always there for me and most of all to the Almighty God who continues to give me strength, good health and makes all things possible at his own appointed time.

ABSTRACT

Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non- core company work. More companies prefer to own brand rather than physical assets; they are de-capitalising. A few companies are moving toward hiring outside parties to provide almost all services companies outsource a wide range of services all aimed at creating competitive advantages (Kotler, 2003).The study employed a descriptive survey design in establishing the effect of outsourcing strategy on competitive advantage of different five star hotels used to enhance their performance. The population of interest consisted of five star Hotels in Kenya that had been inspected, assessed and classified as five star Hotels in Nairobi and published as five star hotels in the Kenya Gazette. The main instrument in data collection was through semi structured questionnaires targeting at least three senior managers in each Hotel. Data collected quantitative in nature was analyzed by the use of descriptive statistics and was represented by means of SPSS package and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts. The study concludes that there are a number of potential sourcing strategies for improving performance which include investing to perform internally which involves investing the necessary resources in order to address the performance disparity in this process. The selection of this option will be influenced by the significance of the disparity in performance. Where the disparity is not significant, there is the potential to invest resources in order to perform the process internally. The study recommends that managers developing and implementing outsourcing strategies for their business processes should look beyond the headline indicators of poor process performance. Rather than perceiving outsourcing as the only vehicle to improve poor internal performance, it is important to understand the causes.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non- core company work. (Kotler, 2003) more companies are preferring to own brand rather than physical assets; they are de-capitalising. A few companies are moving toward hiring outside parties to provide almost all services (Kotler, 2003) companies outsource a wide range of services all aimed at creating competitive advantages. The trend towards outsourcing both locally and offshore has been increasing dramatically throughout the developed economies of the world. The drive for greater efficiencies and cost reductions has forced many organizations to increasingly specialize in a limited number of key areas. Outsourcing is increasingly being employed to achieve performance improvements across the entire business. Leading firms have been adopting more sophisticated outsourcing strategies and have been outsourcing core processes such as design, engineering, manufacturing, and marketing (Argyres, 1996).

These organizations have been benefiting greatly from accessing the specialist capabilities of suppliers in a range of business processes (Aron & Singh, 2005). Many specialist suppliers can develop a greater depth of knowledge, invest more in systems and processes, and achieve efficiencies through economies of scale and experience. Leveraging the capabilities of more capable suppliers allows organizations to outsource more critical business processes and enhance their own internal core capabilities that drive competitive advantage. However, many organizations are failing to capitalize on the opportunities offered by outsourcing.

Many organizations continue to make outsourcing decision son a piecemeal basis and fail to develop outsourcing strategies for their processes that allow them to compete in the global economy (Gottfredson et al., 2005). In many cases, the choice of which parts of the business to outsource is based on ascertaining what will save most on overhead costs, rather than how the decision impacts upon the long-term capabilities of the organization. In some instances, organizations are outsourcing processes that are critical to competitive advantage and over time are relinquishing important knowledge sets and capabilities.

1.1.1 Outsourcing Strategy

The term outsourcing refers to contracting out of non-core activities. The outsourcing Institute has defined outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources though this is not an indication that the activities to be outsourced are less important. Outsourcing is a contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently producing internally is a strategic issue (Efling & Bave, 1994). This allows the company to concentrate on the activities in which it has obtained unique competencies (Quinn & Hilmer, 1994).

Although the Resource based view and Transaction cost efficiency are focusing on two different issues: the search for competitive advantage and (ii) the most efficient governance structure, organizations have to deal with these two important issues when making outsourcing decisions. Practitioners have to assess their capabilities across a range of business areas as they are increasingly being confronted with constraints on resources. This means that they have to prioritize resource allocation in certain key business areas where they possess strengths and outsource less critical areas. Indeed, the trend towards specialization in many product and service markets has opened up opportunities for further outsourcing as specialist suppliers chase demand through offering a wider range of capabilities in more critical business areas. Possessing an understanding of these factors also allows an organization to adopt a relationship strategy, which reduces the risks of outsourcing whilst at the same time leverage the specialist capabilities of suppliers.

1.1.2 The Hotel Industry in Kenya

The hotel industry in Kenya has a rich history dating back to the period before the 19th century when the first catering unit was built at the coast. The first hotel to be recorded in Kenya was built in Mombasa and was called “The Grand Hotel which was located at the site of the former “Minor Hotel”. In Nairobi, some of the first hotels to be established are the Stanley Hotels in Nairobi have remained of the key players in the Hotel business in the capital city. Today they are amongst the leading 5-star hotels in the capital city. The hotel industry is closely linked to the tourism industry and therefore changes in latter environments have a direct impact on the former.

After attaining independence, Kenya continued to encourage tourism, thereby enhancing a further dimension to the hotel industry.

1.1.3 Five Star Hotels in Nairobi

The hotel and restaurant Act in 1972 chapter 492 gives a legal definition of a hotel as any premises on which accommodation is applied or available for supply with or without food or services to five or more adult persons at any one time in exchange for money or money's worth. This definition includes premises such as service flats, game lodges and beach cottages but does not include any premises run by a society, members club, institution or other organization used exclusively by and for the benefit of members of that society, club, institution or other organization, which does not provide for daily membership.

A hotel is a building where rooms and usually meals are provided for the people in return for payment. It is an establishment that provides lodging and usually means and other services for travelers and other paying customers. According to Kenya Hotels and Regulation of 1988, hotels are classified based on set standards. The regulation categories the hotels into three broad categories namely; vocational hotels known as resort hotels, town hotels and lodges. The regulation classifies the hotel into classes denoted by stars from five stars to three stars. The five star class is the highest rating. The specifications for the rating differ with each category hence the difference in a five star town hotel, a five star vocational hotel and a five star lodge. In other words, the star rating compares only per category but not across all the categories.

The hotel classification is carried out in the manner described by the Hotels and Restaurant Authority published in the legal notice No. 30 of February 16 2001 of the Hotels and Restaurant Act. The purpose of the hotel classification is to provide customer with information where the customer is able to pre-determine the hotels compatible to their budget and also to give the customer assurance that the hotel he/she chooses will meet his expectation in terms of service and amenities charged to the customer. The grading is also useful as a marketing aid as this makes it easier since the prices quoted and information given is related to what the hotel offers.

1.2 Problem Statement

Upstream and downstream integration with suppliers and customers has emerged as an important part of supply chain strategy (Frohlich & Westbrook, 2001). Both outsourcing and supply chain integration have raised critical comments partly due to optimistic presentation both in the academic and practitioner's world. Most of the outsourcing decisions have based on the cost reduction though most firms don't evaluate whether the outsourcing process will be in alignment with the overall organizational goals and objectives.

Strategic outsourcing decisions have been studied in the scholarly and trade literatures for over a decade (Nyamamba, 2007). The early research on outsourcing had focused on transactions costs. Later on the strategic themes were addressed in the overall organization context (Chalos, 1994). Many of the recent perspectives on strategic outsourcing have been derived from the early literature on core competencies (Prahalad & Harmel, 1990). The changing postures of outsourcing has shifted the arguments from make or buy to how to optimize outsourcing decisions, assuming organizations have to stick to their knitting to avoid costs incurred in the developing and maintaining infrastructures.

Numerous studies have been carried out on the outsourcing strategy by various researchers. Machoka (2008), Nyamamba (2007) carried out a study on Outsourcing and Performance of Firms in the Chemical Industry, Maina (2009) carried out a study on relationship between business process outsourcing and cost cutting at Standard Chartered Bank in Kenya, and Kamau (2006) did a survey of Outsourcing accounting Services in firms listed in the Nairobi stock exchange (unpublished MBA project). Some of the above literature was on IT outsourcing, most of them discussed outsourcing in general and treated IT on the contextual domain. Other literature relates to different business process outsourcing activities in different organization their challenges and benefits to the organization. Thus in order to understand why the Corporation is adopting outsourcing as way to improve its service delivery, reduce cost and be competitive there is need to establish the effect of adoption of outsourcing strategy on competitive advantage.

1.3 Objectives of the study

1.3.1 General Objective.

The general objective of this study will be to establish the how to create competitive advantage through the adoption of outsourcing strategy.

1.4 Value of the Study

The results of the study will be of benefit to the following:

All the existing firms in the hotel industry in Kenya. The identification of the importance of outsourcing strategies employed by the leading hotels in Nairobi will give an insight to other aspiring hotels on what elements are important for competitive advantage.

The study will provide information to potential and current scholars on the importance of outsourcing strategies used by five star hotels in Nairobi. This will expand their knowledge on outsourcing in the hotel industry and also identify areas of further study.

Government agencies and policy makers will use the results to formulated positive national policies on a framework that is relevant and sensitive to the forces influencing the hotel industry in Kenya and the East African region.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the information from other researchers who have carried out their research in the same study on the extent to creating competitive advantage through the adoption of the outsourcing strategy.

2.2 The Concept of Outsourcing

There is much debate in management literature defining outsourcing (Gilley and Rasheed, 2000). Some definitions relate to sourcing activities that were previously conducted in house. Lei and Hitt (1995) defined outsourcing as reliance on external sources for manufacturing components and other value-adding activities. Perry (1992) focused on employment defining outsourcing as another firm's employees carrying out tasks previously performed by one's own employees. Sharpe (1997) defined outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies. Gilley and Rasheed (2000) provided clarification for the definitional confusion, positioning outsourcing as procuring something that was either originally sourced internally or could have been sourced internally notwithstanding the decision to go outside. This broad definition is the one used to treat outsourcing in a more strategic, holistic way than previous definitions.

Strategy is a pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. Strategy, therefore, not only focuses on the goals and objectives of organizations and the means of achieving them, but also gives an indication of the nature of the company and its business, both in the present and in the long-run. Due to the scarcity of resources, the strategy that is chosen should be one that optimizes these resources in the pursuit of the organizational goals and objectives. Quinn (1990) identifies strategy as a plan that puts together an organization's major goals, policies and actions sequences.

Therefore when outsourcing is used as a corporate strategy, this implies an attempt to change in the most efficient way, a company's strength relative that of its competitors. It is the long-term direction and scope of an organization that facilitates the achievement of an advantage, for the organization through the mode of arrangement of resources within a changing environment. This should enable the organization to meet the needs of market and to fulfill stakeholder's expectations. The strategies an organization pursues will have major impact on its performance relative to its peers. Therefore a strategy requires careful development and should not just be a product of the intuition of an organization's managers.

2.3 Approaches to Strategic Outsourcing

One of the major challenges companies face when planning to outsource is identifying which processes or activities from its core competencies and which part in non-core that can be sourced from the suppliers or service providers. Quinn and Hilmer (1994) proposed three key factors regarding an activity considered for outsourcing. The first factor is described as the potential for competitive advantage in this activity. The second factor involves analyzing the degree of strategic vulnerability in outsourcing this activity. These two dimensions form a matrix where each activity is placed according to both dimensions on a low, medium or high scale, identifying the three ideal strategies shown in figure 1. The third decisive factor includes assessing the control measures needed to reduce vulnerability by making arrangements with suppliers, while taking the performance objectives of the company.

2.3.1 Strategic Outsourcing

Strategic outsourcing refers to the company totally or partially outsourcing activities or operations essential to the company that are not core competencies, leading to medium or long-term cooperation with the suppliers. The companies would then be able to concentrate on its core competencies that generate added value to produce competitive advantage (Quinn, 1999). From review of theoretical and empirical literature on the main strategic advantages of outsourcing (Espino-Rodriguez & Gil-Padilla, 2005), ten advantages of hotel outsourcing were identified. Out sourcing allowed hotels to: Acquire capabilities and skills that are difficult to access with hotel own resources, Increase flexibility in performing hotel operations, Focus on the hotel's core activities, Reduce investment, Complement hotel resources and capabilities, Access to more qualified, more experienced personnel, Acquire the service more cheaply than if it were performed by the hotel, Suppliers offer the hotel good services, Facilitate the performance of in-house hotel operations and Reduce hotel costs.

2.3.2 Transaction cost and Outsourcing

Transaction costs are comprised of the costs of seeking the suppliers, inspection of goods and establishing and formalizing the terms of agreement, including the means to both guarantee compliance with the terms and protect against the potential expropriation of the investments made, to ensure that contract conditions are fulfilled (Williamson, 1985).

Espino-Rodriguez and Gil-Padilla (2004) determined the factors affecting outsourcing of information system/information technology activities in hotels from the resource-based view of the firm. Results of their study indicate that the greater the transaction costs, that is the greater the costs that information, negotiation and supervision of compliance entail, the less the tendency to outsource the activity. Based on the above, this study proposes that the greater the hotel's transaction costs, the more likely the hotel will be not outsourced.

2.3.3 Valuable Resources and Outsourcing

Recent studies are adopting a more strategic perspective to explain the outsourcing decision (Poppo and Zenger, 2002). From a strategic perspective, the resource and capabilities approach would seem to be an appropriate framework for explaining the determining factors in hotel outsourcing (Espino-Rodriguez & Gil-Padilla, 2005).

From the resource-based view, the core competences approach suggests that a company must focus on those service operations that constitute the core competencies, because they provide the company with growth and direction (Peteraf, 1993), and outsource the other service operations (Quinn & Hilmer, 1994). Before the company decides to outsource a service operation, it should evaluate the resources that sustain that service operation.

The competitive value of a service operation is determined by the conditions that make those resources sources of competitive advantage. Barney (1991) indicated that sources of sustainable competitive advantage have to be valuable, rare, inimitable and non-substitutable (Barney, 1986). Grant (1991) and Peteraf (1993) believe that, in addition to fulfilling those requirements, resources must also comply with another condition that allows the company to appropriate the rents generated by these strategic resources: the resources must not be directly transferable on the market, thus making it possible for the company to appropriate the rents generated by those resources and capabilities.

Lamminmaki (2005) applied Williamson's six dimensional typology of asset specificity as a theoretical framework for appraising the nature of outsourcing activities in hotels and indicated that the greater the asset specificity, the more likely a transaction will be not outsourced. From the resource and capabilities perspective, the decision to outsource depends on the extent to which these activities enable the company's knowledge, capabilities and organizational routines to be exploited. The more specific those routines and skills are, the less likely that the company will outsource them (Cox, 1996; Poppo and Zenger, 2002).

Espino-Rodriguez and Gil-Padilla (2005) determined factors affecting outsourcing of information system/information technology activities in hotels from the resource-based view of the firm. Results of their study indicate that the more valuable the IS/IT activity of the hotel, the less it will be outsourced. Based on the above, this study proposes that the greater the hotel's resources, the more likely the hotel will be outsourced.

Figure 2.1: Strategic Outsourcing Options

High	Strategic control needed (produce internally)		
		Moderate control needed (special venture or contract arrangement	
Low			Low control needed (Buy off the shelf)
	High	Degree of Strategic Vulnerability	Low

Source: Quinn, J.B., Hilmer, F.G. (1994), Strategic outsourcing, *Sloan Management review*. 34 (3) 48

Venkatesan (1992) proposed similar principles to assess the outsourcing decision. He suggested that the company should focus on components that it is distinctively good at making, while others are outsourced where the suppliers have a distinct comparative advantage. Furthermore, he proposed a simplified model for the strategic sourcing process. Based on these frameworks, the company can decide which activities will be sourced and which will be performed internally. All these frameworks see the, outsourcing decision as a decision, taking place within one company, which can be comprehended as the focal company within the supply chain integration debate.

Outsourcing is hierarchical sequence of decisions. The fundamental decision is whether or not to outsource a business process of function. This is the most important of a sequence of actions and decisions listed in maintaining the relationship. Outsourcing decisions can be complex because of modern organization's application tend to be integrated with each other and sensitive since poor task performance may affect the organization's reputation. The criteria used to evaluate outsourcing decisions may be multidimensional and intangible, besides difficult to estimate cost savings, the firm must consider intangible effects such as freeing up managerial time and possible dependence on the vendor (Quinn and Hilmer, 1994).

When the process or activity to be outsourced is not unique and the outsourcing give access to specialist skills and economies of scale, the firm should consider outsourcing the service since this will this will be to the advantage of the firm. When the activity or process to be outsourced is unique to the firm, but does not give strategic advantage to the firm then two alternatives should be considered after evaluating all the processes. But if the organization has accumulated specific assets and skills peculiar to the process, then in-house processing should be considered especially when the in-house operations, through experience or economies of scale is cheaper and/or provide higher quality than potential service providers (Quinn and Hilmer, 1994).

2.4 Competitive Advantage in the Hotel Industry

Resource-Based View argues that a firm has the ability to achieve and sustain competitive advantage if it possesses resources that are valuable, rare, imperfectly imitable and non-substitutable (Barney 1991). Not all resources are strategically relevant within an organization. The goal of an organization is to ensure it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. If a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. On the contrary, if the strategic value of target activities is low and no internal resources are available to perform such activities, it is beneficial for the company to outsource them (Roy and Aubert 2002). For the sustainable competitive advantages firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities.

In a situation where the profit impacts are high and the outsourcing risks are low, firms would be advised to develop expansion strategy to penetrate and expand their market shares. If profit impacts and outsourcing risks are high, firms need to make strategic partnership with outsourcing partners very carefully, or vertically control these items for long term market share. In the case of low profit impacts and low outsourcing risks, firms may pursue business approaches that focus on efficiencies and seek economies of scale in production and sales. Where the outsourcing risks are high and profit impacts are low, In this case, firms may try to source alternate partners for assuring supply.

Activities based on highly strategic resources must be valuable, unique, non-substitutable and inimitable, as well as permit the appropriation of the rents. The uniqueness of the resources used to perform the activities thereby improves efficiency when they are performed in-house. This is because it augments creation of specific cultures and routines that improve the performance of an activity (Demsets, 1988; Conner, 1991; Kogut & Zander, 1992, 1996; Monteverde, 1995).

Highly strategic activities are also the most corporate specific, since they permit the use of the Ricardian rents generated by the hotel's rare and valuable resources (Barney, 1991). Those activities that are specific and less transferable have a better yield and constitute the hotel's most strategic activities and, therefore, should tend to be outsourced less. The non-critical, or non-core activities, on the other hand, are main candidates for outsourcing.

In other words, hotels outsource those activities that do not generate their core competences. Conversely, increased outsourcing is the outcome of a process of hotel identifying its core competences (Kirsten & Rogerson, 2002). However, hotels do outsource activities that, while not core competences, are still important to their business (Quinn & Hilmer, 1994).

Based on the review of the literature (Kasavana & Brooks, 1995; Cerra, Dorado, Estepa, & Garcı´a, 1997), interviews and the pre-test, 20 hotel activities pertaining to various hotel departments (reception, rooms, food and beverage, maintenance, administration and accounts, leisure, hotel safety and security) .

2.5 Impact of Outsourcing on Competitive Advantage

2.5.1 Costs and Cost Efficiency

Cost efficiency remains the primary explanation for outsourcing. Firms evaluate outsourcing to determine whether current-operating costs can be reduced and if saved resources can be reinvested in more competitive processes. Some researchers contend that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver (Anderson and Weitz, 1986). Since these outsourcing contract receivers typically serve many clients, they often achieve lower unit costs than can any single company. Specialist outsourcing vendors can also afford to invest more in new technologies and innovative practices than can many outsourcing contract-granting firms (Alexander and Young, 1996).

Despite the concerted efforts of lawyers, bureaucrats, economists and managers, very few outsourcing projects turn out the way they are expected. This is simply a reflection of the fact that all projects are inherently risky: contracts are necessarily incomplete, project costs are unknown and outputs are often intangible. When a company decides to outsource provision of a service, it must determine how risk should be allocated between parties to the contract meaning the principal and the agent. An important determinant of project success, therefore, involves the design of the contract. The principal attempts to design a contract that allocates risk to the agent in an efficient manner, whilst providing appropriate incentives for performance which is typically either cost-reduction or quality improvement.

The foundations of the Transaction cost efficiency theory have been enhanced mainly in Williamson's seminal works Markets and Hierarchies (Williamson, 1975) and The Economic Institutions of Capitalism (Williamson, 1985).

The analysis suggested by this theory makes it possible to define whether some specific activities of a firm are to be carried out in-house or outside by resorting to the market.

The transaction is the basic unit of analysis in Transaction cost efficiency. Williamson writes that a transaction may thus be said to occur when a good or service is transferred across a technological separable interface (Williamson, 1975). This transaction may create costs that result of the frictions in the economic system. Williamson (1985) calls this costs transaction costs and divides them into three main categories:-information costs, which correspond to seeking information on a potential partner; bargaining costs, related to negotiating and establishing the contracts where all possible situations in future transactions are considered, enforcement costs, i.e. costs to enforce and control performance, resolve conflicts and renegotiate contracts.

The amount of the transaction costs may be used as an indicator for the decision of outsourcing. When the transaction costs are low it is recommended to outsource the activity whereas when they are high, it is preferable to perform the activity in-house. However, in Williamson's perspective the transaction costs must be thought through together with the production costs.

Transaction cost economics is grounded of two key behavioral assumptions bounded rationality and opportunism. Williamson regards bounded rationality as 'a flexible form of rationality' which accounts for the individuals' incapacity to make entirely rational decisions. Opportunism is concerned with the economic actors' self-interest-seeking tendency, which makes allowances for guile (Kotler, 2003).

2.5.2 Effects of Outsourcing on Productivity

Outsourcing may provide a shortcut to a more competitive product, but it typically contributes little to build the people-embodied skills that are needed to sustain future product leadership. Also, there is evidence to suggest that companies are misusing the term core. For example, Cox (1997) found that some companies were defining core activities as those things that we do best". Such an application has clear risks in that it may lead companies to outsourcing activities with which they are having problems. Again, these activities may be of significant value to the company currently and in the future – contributing to the company's competitive advantage. Several studies seek to explain the relationship between productivity growth and outsourcing. Firms contract out services with the objectives of smoothing production cycles and benefiting from specialization. Ten Raa & Wolff (2001) found a positive association between the rate of outsourcing and productivity growth.

Efficient firms allocate their resources to activities for which they enjoy comparative advantage. Other activities are increasingly outsourced. Contracting out production of goods and services to a firm with competitive advantages in terms of reliability, quality and cost is emphasized by Perry (1992). The outsourcing contract-granting firms assess the productivity of their in-house service functions and only undertake outsource actions if outside producers can provide comparable services better. The cost reductions due to differences in labor costs lead to outsourcing and positive changes in labor input, and output produced is altered by profits and productivity growth. Outsourcing not only results in a shift of labor but also exacerbates the productivity differential between outsourcing contract granting firms and outsourcing contract receiving firms. Contracting out allows the firm to rely on management teams in other organizations to oversee tasks at which it is at a relative disadvantage, and to increase managerial attention and resource allocation to those tasks that it does best.

2.5.3 Focus on Core Competencies

Outsourcing has been prescribed as an important tool for attaining and maintaining a competitive advantage. Global sourcing is nothing less than the whole sale restructuring of the corporation around core competencies and outside relationship. This explains that global outsourcing provides tentative avenues for increasing the probability of success of global outsourcing projects and raises many issues for further study of the outsourcing phenomenon.

Outsourcing is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers. The traditional global outsourcing emphasis on tactical benefits like cost reduction – cheaper labor cost in low-cost countries – have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills.

A core competency lies in an ability to differentiate outputs so that they match a market segment very precisely. To identify the core competencies requires assessment of the contribution of every activity undertaken in an organization, to decide whether: has a direct effect on satisfying customers' needs; would achieve comparable quality more cheaply; of resources to other activities would earn a superior return; benefits might arise from outsourcing such as lower inventory cost, reduced management time and improved production flow. An increased focus on a firm's core competencies is an important benefit associated with outsourcing (Dess *et al.*, 1995; Gilley & Rasheed, 2000).

Core competencies activities should be performed either in house or by suppliers. Activities, which are not core competencies, should be considered for outsourcing with best-in-the-world suppliers. Some non-core activities may have to be retained in house if they are part of a defensive posture to protect competitive advantage. Although some authors indicate characteristics of core competencies, most of the literature on this subject seems tautological – core equals key or critical or fundamental. Employees in non-core functions (even if not facing outsourcing) may feel excluded by the organization because they are a non-dominant discipline. For example, information technology employees working on web based legal services in a law firm may feel excluded by lawyers in the firm.

In the public sector, there may be particular uncertainty about what is core; and it has been suggested that government may aim to discover its core competencies via a residualisation process – outsourcing until and unless the shoe pinches, or a political backlash is triggered.

2.5.4 Profitability

Traditionally, when business is booming, the temptation is to hire more staff, expand facilities, and bring more of the business “in-house,” where firms hope to better control costs. However, today's knowledge- and service-based economies offer innumerable opportunities for well-run companies to increase profits through outsourcing (Quinn, 1999). When used properly, outsourcing can boost profitability in many ways, including:

Staffing - The use of independent contractors provides employers with the flexibility to hire help only when they need it, for only as long as they need it. Outsourcing of staffing also allows firms to avoid having to provide costly benefits.

Capabilities - Outsourcing enables even the smallest firms to have a marketing expert, researcher, or other specialist on staff. While it may not pay for them to “own” that expertise, firms can “rent” it without adding to their payroll.

Facilities -While firms may need additional facilities to serve short-term needs, pouring cash into buildings may not match their long-term plans. When possible, firm should focus on reducing inventory, another cash drain, to minimize the need for additional facilities. When more space is needed, firms may lease and still avoid long-term investment obligations.

Payroll - Salaries are a large part of a business's costs, particularly in service industries. Independent contractors are a direct way to outsource – hire for the task. Thus, when sales are up, revenue is available to cover the higher salary expenses. When sales are down, firms are not tied to unrealistic salary costs. Profitability is arguably the most important criterion for evaluating the performance of a firm. Profitability metrics measure the return that the firm's owners receive from their investments (Kremic et al., 2006).

2.5.5 Strategic Flexibility

Several potential benefits may be achieved by outsourcing in-house activities (Kremic *et al.*, 2006). One of these benefits is increasing the firm's flexibility capabilities. Because flexibility is viewed as a reaction to environmental uncertainty, it is important to extend the notion of flexibility beyond the factory floor linking it to market requirements. Firms may outsource in order to obtain workplace flexibility to face environmental uncertainty and improve performance. However, the review of the literature indicates that the impact of outsourcing on firm performance is highly inconclusive. Besides, we have not found any study that has analyzed the concurrent impact of outsourcing and other workplace flexibility dimensions on firm performance. Workplace flexibility practices like multi-functional teams or temporary contracts are also aimed at reducing costs or increasing the flexibility capabilities of the firm. Flexibility is classified in the workplace into internal and external. Internal flexibility involves efforts to increase the firm's ability to adjust to changing circumstances through modifications of the internal labour market or work organization (functional flexibility and internal numerical flexibility) whereas external flexibility uses changes in the external labour market (external numerical flexibility) and outsourcing. Functional flexibility makes the deployment of individual workers to particular tasks more adaptable by implementing workplace practices such as multi-skilling teams or job rotation. Internal numerical flexibility involves a search for adjustment through changes in the amount or distribution of working time by using practices like overtime, flexi time or part-time contracts. Finally, external numerical flexibility makes the volume of labour more flexible by externally changing the level of employment through layoffs or the use of temporary employees.

Outsourcing presents organizations with the opportunity to avoid the constraints of their own productive capacity in meeting changes in the volume of sales. In situations where the pattern of sales displays seasonal or cyclical characteristics the penalties of under used in-house capacity may be avoided. However care has to be taken in ensuring that a viable supply base is maintained that is capable of meeting peak levels of demand. The adoption of lean supply by

Boeing has at times resulted in the company being unable to meet cyclical increases in the demand for aircraft. Lacking sufficient in-house production capacity the company has found that attempts to increase capacity have resulted in their drawing resources away from the company's suppliers.

The potential for improved flexibility may apply not only to the volume of output but also the ability of the organization to change the product range in response to market conditions. Within fashion apparel retailing, rapid information exchange, rather than ownership of the various stages of production, enables companies to respond to the industry's short life cycles and abrupt changes in fashion.

2.6 Summary

While many drivers are unique to specific organizations and industries, there are some common key factors that motivate organizations of all industries to make outsourcing decisions. These factors can broadly be categorized as economic, strategic, and environmental ones. Most of the companies consider economic factors pivotal in the outsourcing decision process."Cost reduction" or "cost saving" is the primary reason for outsourcing. Companies reduce capital investment in transportation, warehousing, manufacturing, IT, and employees in order to release capital for core business and to improve return on assets. One of the strategic factors that influence the decisions of Companies to outsource is to accelerate re-engineering benefits. Outsourcing firms invest their released resources or cost savings from outsourcing to enhance their core competitive competency. As a result, outsourcing firms' productivity and profitability are not significantly improved in such a short-term. Facing the competitive pressure on prices, outsourcing firms must keep reducing their profit margins. So there is no significant increase in profitability.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that will be used in gathering the data. Here the researcher will aim at explaining the methods and tools and to present data of analyzing to get proper and maximum information related to the subject under study.

3.2 Research Design

This is a descriptive survey study aimed at establishing the effect of outsourcing strategy on competitive advantage of different five star hotels uses to enhance their performance. A descriptive study is concerned with finding out the what, where and how of a phenomenon. This research describes data and characteristics about the population or phenomenon being studied. The data description is factual, accurate and systematic. The description is used for frequencies, averages and other statistical calculations. Qualitative research often has the aim of description and researchers may follow-up with examinations of why the observations exist and what the implications of the findings are.

Descriptive research is also called Statistical Research. Although highly accurate, it does not gather the causes behind a situation. Descriptive research is mainly done when a researcher wants to gain a better understanding of a topic. It is quantitative and uses surveys and panels and also the use of probability sampling.

3.3 Population

The population of interest consists of five star Hotels in Kenya that have been inspected, assessed and classified as five star Hotels in Nairobi published as five star hotels in the Kenya Gazette.

3.4 Data Collection Methods

The main instrument in Data collection will be through semi structured questionnaires targeting at least three senior managers in each Hotel among Chief Executives, General Managers, Finance Managers, Marketing Managers, Front Office Managers or the Executive Chefs. Questionnaires will either be dropped and picked later or emailed to the respondents. Personal interviews will also be carried out especially to the Hotel Guests whose opinion about their preferred choice will come out clearly, this being a service industry. For the secondary data document, sources will be employed whereby use of previous document or materials to support the data received from question and information from interview that includes book and magazines available in the libraries will be visited as well as information from the websites.

3.5 Data Analysis

Data collected quantitative in nature will be analyzed by the use of descriptive statistics and will be represented by means of SPSS package and presented through percentages, means, standard deviations and frequencies. The information will be displayed by use of bar charts, graphs and pie charts.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented to establish how to create competitive advantage through the adoption of outsourcing strategy: A survey of classified five star business hotels in Nairobi.

4.2 Response Rate

In-depth information was gathered from at least three senior managers in each Hotel among Chief Executives, General Managers, Finance Managers, Marketing Managers, Front Office Managers or the Executive Chefs.

4.3 Demographic information

Table 4.1: Department

	Frequency	**Percent**
Finance	3	12.0
Sales and marketing	9	36.0
Administration	4	16.0
Information and technology	2	8.0
Human resources	4	16.0
Food and beverages	3	12.0
Total	**25**	**100.0**

According to the findings, 36% of the respondents indicated that they were in the sales and marketing department, 16% of the respondents indicated that they were in the administration and human resources department respectively, 12% of the respondents indicated that they were in the food and beverages and finance department respectively while 8% of the respondents indicated that they were in the information and technology department.

Table 4.2: Number of working years

	Frequency	**Percent**
0-5 years	13	52.0
6-10 years	5	20.0
11-15 years	4	16.0
16-20 years	2	8.0
above 20 years	1	4.0
Total	**25**	**100.0**

From the findings, 52% of the respondents had worked in the hotel industry for between 0-5 years, 20% of the respondents had worked in the hotel industry for between 6-10 years, 16% of the respondents had worked in the hotel industry for between 11-15 years, 8% of the respondents had worked in the hotel industry for between 16-20 years while 4% of the respondents had worked in the hotel industry for over 20 years.

Table 4.3: Gender

	Frequency	**Percent**
Male	15	60.0
Female	10	40.0
Total	**25**	**100.0**

From the findings, 60% of the respondents indicated that they were male while 40% of the respondents indicated that they were female

Table 4.4: Age

	Frequency	Percent
18-25 years	1	4.0
26-30 years	4	16.0
31-35 years	8	32.0
above 36 years	12	48.0
Total	**25**	**100.0**

According to the findings, 48% of the respondents were above 36 years of age, 32% of the respondents were aged between 31-35 years, and 16% of the respondents were aged between 26-30 years while 4% of the respondents were aged between 18-25 years.

Table 4.5: Level of education

	Frequency	Percent
Postgraduate	13	52.0
Degree	10	40.0
Diploma	2	8.0
Total	**25**	**100.0**

According to the findings, 52% of the respondents indicated that they had a postgraduate degree, 40% of the respondents indicated that they had a bachelor's degree while 8% of the respondents indicated that they had a diploma.

T-able 4.6: Extent to which the following factors contribute to adoption of outsourcing strategy in hotels

	Very high	High	Average	Low	Very low	Mean	Std. Dev
Increased operation costs e.g. salaries	36.0	40.0	20.0	4.0	0.0	1.92	.860
Limitations in skilled and experienced expertise.	16.0	32.0	20.0	20.0	12.0	2.80	1.29
Focusing of non-core activities	56.0	28.0	8.0	4.0	4.0	1.72	1.06
Reduced profit margins	20.0	28.0	32.0	16.0	4.0	2.56	1.12
Lack of internal resources and relevant technology	28.0	44.0	12.0	16.0	0.0	2.16	1.03
Poor service delivery	0.0	16.0	44.0	36.0	4.0	3.28	0.79
Reduced productivity	0.0	36.0	32.0	24.0	8.0	3.28	0.98
Dissatisfied clients due to inefficiency	4.0	32.0	44.0	16.0	4.0	2.84	1.00
Failure to manage risks	0.0	8.0	44.0	32.0	16.0	3.56	0.87
Competitive pressure	4.0	32.0	36.0	24.0	4.0	2.92	0.95
Tighter budgets	20.0	40.0	24.0	12.0	4.0	2.40	1.08

From the findings ,the respondents indicated that failure to manage risks averagely contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 3.56, the respondents indicated that poor service delivery and reduced productivity averagely contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 3.28 respectively, the respondents also indicated that competitive pressure averagely contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 2.92, the respondents indicated that dissatisfied clients due to inefficiency averagely contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 2.84, the respondents indicated that limitations in skilled and experienced expertise highly contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 2.80, the respondents indicated that reduced profit margins averagely contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 2. 56, the respondents indicated that tighter budgets highly contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 2.40, the respondents indicated that increased operation costs e.g. salaries highly contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 1.92, finally, the respondents indicated that focusing of non-core activities very highly contributed to adoption of outsourcing strategy in hotels as indicated by a mean of 1.72.

These findings relate with the literature review where Espino-Rodriguez and Gil-Padilla (2005) state that the greater the transaction costs, that is the greater the costs that information, negotiation and supervision of compliance entail, the less the tendency to outsource the activity.

4.4 Percentage of the activities outsourced in the department

Table 4.7: Percentage of the activities outsourced in the department

	Frequency	**Percent**
0-10%	9	36.0
10-20%	9	36.0
above 20%	7	28.0
Total	**25**	**100.0**

According to the findings, 36% of the respondents indicated that 0-10% and 10-20% of the activities in their department were outsourced respectively while 28% of the respondents indicated that over 20% of the activities in their department were outsourced.

4.5 Findings of the study

The following paragraphs discuss the findings of the study:

4.5.1 Business Processes/Activities/Services That Were Being Outsourced in the Department

The respondents indicated that laundry ,housekeeping, casual labor (expatriates), market research and analysis, centralized office printing (large network printers), customer satisfaction surveys, promotion materials, debt recovery, transport (taxi services), security in A&G, Bulk production of pastries in kitchen production, creative development, web hosting and maintenance, compensation and benefits function, pension, medical and HR system, audio visual services, floral and décor services, casino services, global procurement, construction processes, payroll processing, credit management, accounts payable and general ledger, uniforms, high window cleaning, cabling and networking were some of the business processes/activities/services that were being outsourced in the department.

4.5.2 Persons Involved in the Outsourcing Decision Making Process

The respondents indicated that human resource management, shareholders, directors at the head office level, head of departments, unit general managers and in some cases function heads as in the case of contractors in engineering where the ones involved in the outsourcing decision making process.

4.5.3 Whether Activities/Processes/Services that are outsourced are considered To Be Core to the Business Operation

Table 4.8: Whether Activities/Processes/Services that are outsourced are considered To Be Core to the Business Operation

	Frequency	**Percent**
Yes	12	48.0
No	13	52.0
Total	**25**	**100.0**

From the findings, 52% of the respondents indicated that the activities/processes/services that were being outsourced weren't considered to be core to the business operation this was because they were support services while 48% of the respondents indicated that the activities/processes/services that were being outsourced were considered to be core to the business operation this was because they easily came in to help in case there were high volumes of work to be done within a short period of time and incase the hotel was called to organize a last minute conference.

These findings relate with the literature review where Peteraf (1993) suggests that a company must focus on those service operations that constitute the core competencies, because they provide the company with growth and direction.

4.5.4 Factors that have highly influenced the Choice of Activities, Services, Processes that are outsourced in the Company

The respondents indicated that lack of in-house laundry in the hotel, need to cater for last minute cases, cost management, limitation in skilled and experienced staff ,the impact of a business activity on business output as far as the gains are concerned, need to get specialized skills as in the case of security, efficiency increase, economies of scale (bulk buying), preferential trade agreements, lack of internal resource, poor time management, level of risk exposure where some of the factors that highly influenced the choice of activities, services, processes that were outsourced in the company.

4.5.5 Critical Stages of the Company's Outsourcing Decision

The respondents indicated that identifying the right company for a certain job, creating good working relationships with suppliers, vendor vetting, vendor sourcing, cost evaluation-cost benefit analysis, briefing of prospective companies, presentation of prospective company pitch and short-listing amounted to some the critical stages involved in outsourcing decision making.

4.5.6 The activity that is the most Critical Element in the Outsourcing Management with Respect to the Company's Performance

The respondents indicated that damages caused by outsourced companies, the quality and efficiency of the outsourced work for example the speed in delivery made which at times affects the customers, interviewing and training of the outsourced casuals to confirm that they meet the set standards of the hiring company, the cost of letting go of existing plans, cost benefit analysis, conducting due diligence, the impact of outsourcing on the companies identity/brand value/key market/image/DNA and ultimately revenue were the most critical elements in the outsourcing management with respect to the company's performance.

4.5.7 The Costs that are Highly Impacted on the Performance of the Company's Outsourcing Activities

The respondents indicated that cleaning costs of guests laundry and rooms, labour cost and payroll budget, exit costs, maintenance costs, operational costs which in general attempt to address any wastage areas so as to ensure that a company operates in a lean manner such as labor costs, process costs, training costs and time costs highly impacted on the performance of the company's outsourcing activities they further indicated that it was in fewer cases where capital costs were countered as managements weigh the question of own versus lease.

4.4.7 The Factors have enhanced the Firm's Competitive Performance

The respondents indicated that a company's structure, high standard and mass volume production, a company's goodwill and loyalty, financial controls, location, aggressive sales approach and cost containment, effective service delivery by the outsourced firms and contractors, unrivalled presence of hotels having historic attachment and being run by a global hotel firm, improved workflow processes and more accurate report generation, focusing on core areas of strength such as strong quality and aesthetics focus as competitive edge, brand positioning and differentiation, adequate car parking places, good operation costs management measures, high revenue performance, visionary leadership, meeting and exceeding guest's expectations were some of the factors that enhanced the firms competitive performance.

4.5.8 Benefits of Outsourcing on the Firms' Performance

The respondents indicated that some of the benefits of outsourcing include: outsourcing laundry reduces the running costs of laundry in terms of power, water and wages, leads to full concentration on core business thus increasing employee productivity as well as improved capacity ,better results on outsourced services since the hotel procures from the best, ensures structured workflow processes, allows the management to play a supervisory role therefore they can positively critic the service provider as opposed to running the process internally, hence further improved quality of services, leads to strong brand image created by high quality designs and products, effective budget control, promotes efficiency in service delivery, promotes accountability, performance can be measured and monitored and lastly it leads to efficiency and handoff risk cushioning.

4.6 Discussions

The study collates with the literature review where Barney (1991) argues that a firm has the ability to achieve and sustain competitive advantage if it possesses resources that are valuable, rare, imperfectly imitable and non- substitutable. Not all resources are strategically relevant within an organization. The goal of an organization is to ensure it has access to and control of valuable resources by developing and securing all the relevant resources either internally or externally. If a firm possesses critical resources that have strategic value, it is better to retain the activity in-house. On the contrary, if the strategic value of target activities is low and no internal resources are available to perform such activities, it is beneficial for the company to outsource them.

Despite the concerted efforts of lawyers, bureaucrats, economists and managers, very few outsourcing projects turn out the way they are expected. This is simply a reflection of the fact that all projects are inherently risky: contracts are necessarily incomplete, project costs are unknown and outputs are often intangible. When a company decides to outsource provision of a service, it must determine how risk should be allocated between parties to the contract meaning the principal and the agent. An important determinant of project success, therefore, involves the design of the contract. The principal attempts to design a contract that allocates risk to the agent in an efficient manner, whilst providing appropriate incentives for performance which is typically either cost-reduction or quality improvement (Alexander and Young, 1996).

The results presented in this study provide support for the claims of outsourcing proponents that outsourcing allows companies to enhance expertise, improve service quality, reduce staff, streamline the process, lower costs and reduce the administrative burden and saving time. Outsourcing in this sense, is beneficial to organizational performance (Quinn 1999). In addition, this study identified outsourcing strategy trends and practices. One of the important contributions of this study is the revelation that organizations generally considered themselves successful at outsourcing. However, while they achieved significant improvement in organizational performance, they have not reached the magnitude of improvements ascribed to outsourcing strategies.

A number of organizational strategies were also identified as key contributors to outsourcing success. These included strategies with clear objectives, right outsourcing partners, adequate skills, adequate planning, effective communication, and cooperation and collaboration throughout the organization. These strategies are thought to improve quality, deliver, and performance.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to establish how to create competitive advantage through the adoption of outsourcing strategy.

5.2 Summary of the Findings

The study aimed at establishing how to create competitive advantage through the adoption of outsourcing strategy.

5.3 How to Create Competitive Advantage through the Adoption of Outsourcing Strategy

The research suggests that processes that are critical to competitive advantage and in which the organizations possesses a distinctive capability should remain internal and receive a considerable level of strategic attention to maintain such a position. Processes that are critical to competitive advantage have a major impact upon the ability of an organization to achieve competitive advantage either through the ability to achieve a lower cost position and/or create higher levels of differentiation than competitors. Therefore, superior performance in such a process allows an organization to offer sustained price reductions and/or differentiate the product or service in the eyes of the customer. Processes that are not critical to competitive advantage have a limited impact upon the ability of an organization to achieve competitive advantage. Although these processes have to be performed well, any performance improvements achieved in such processes are unlikely to be a source of competitive advantage as they are not key differentiators in the eyes of customers when purchasing the product or service.

On potential for opportunism the presence of investments in physical or human assets dedicated to a particular relationship will create switching costs for the sourcing organization. This problem is further exacerbated if there are a small number of capable suppliers in the supply market. Such conditions make the sourcing organization prone to opportunism during the contract and at the time of contract renewal. Uncertainty both in the business environment and in the requirements of the sourcing organization may mean that it is not possible to write complete contracts and renegotiation and frequent amendments are required as circumstances change. Complex interdependencies between business processes can also increase the potential for opportunism. High levels of interdependencies between processes – either internally or with other outsourced processes – increase the need for co-ordination, joint problem solving and mutual adjustments. Difficulties with measuring the contribution and performance of the supplier can also create problems in the relationship, as the sourcing organization must expend additional resource on monitoring performance. Furthermore, differences in relation to the interpretation of performance can also create difficulties in the relationship. For example, where effective performance measures have not been developed for the outsourced process, it will be difficult to determine whether the supplier has executed the process better than when it was in-house.

5.4 Conclusion

The study concludes that there are a number of potential sourcing strategies for improving performance which include investing to perform internally which involves investing the necessary resources in order to address the performance disparity in this process. The selection of this option will be influenced by the significance of the disparity in performance. Where the disparity is not significant, there is the potential to invest resources in order to perform the process internally. Furthermore, the sourcing organization may have to consider this option due to the high potential for opportunism as indicated by the lack of capable suppliers. However, the sourcing organization should ensure that it is in a position to replicate and advance upon a superior performance position held by one or more of its competitors. There are a number of situations when this option may be desirable: In a case where the technologies associated with the processes are in the early stages of development and offer potential for future growth, investing in this area may be the most appropriate option, also, analysis of the process may reveal that the disparity in performance is in an area such as quality or productivity, which can be addressed through an improvement initiative. An effective benchmarking exercise may assist in determining what actions need to be taken in order to improve performance. The potential for opportunism associated with outsourcing such a process to a supplier may also force the sourcing organization to improve the process and keep it internal.

The study also concludes that the company can choose to perform internally and develop. This sourcing strategy involves performing the process internally and further developing future capability. The significance of the disparity in performance in the process should be considered. For example, if the sourcing organization has built up a significant performance advantage through experience over time, then it may be difficult for other companies to replicate such a capability. Such a capability may be difficult to copy because other companies cannot understand the relationship between the resources and capabilities controlled by the company that possesses the, it is referred to as path dependent.

5.5 Recommendations

The study recommends that managers developing and implementing outsourcing strategies for their business processes should look beyond the headline indicators of poor process performance. Rather than perceiving outsourcing as the only vehicle to improve poor internal performance, it is important to understand the causes.

The study also recommends that managers should understand the processes and associated interdependencies. Organizations often outsource processes without fully understanding the nature of the process and linkages with other parts of the business, which for example, can lead to poorly specified requirements in the contract.

The study further recommends that managers should understand the potential for opportunism prior to outsourcing the process. Many organizations often rush into outsourcing without fully understanding the consequences.

Finally the study recommends that managers should employ the contract and relationship strategy as complements. Drafting a sufficiently tight contract in outsourcing arrangements has been emphasized as an important mechanism for dealing with opportunism. However, the management of the relationship with the supplier becomes an essential complement for dealing with gaps in the contract, particularly in the case of complex outsourced processes.

5.6 Recommendation for Policy and Practice

The study will facilitate the policy makers in the hotel industry to come up with policies and regulations governing the outsourcing framework. The findings of the study will be beneficial to the hotel industry in implementing superior policies that will enhance the understanding of how to create competitive advantage through the adoption of outsourcing strategy and hence more penetration of the market. The study will also assist stakeholders and interested parties in understanding the competitive advantage realized through the adoption of outsourcing strategy.

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APPENDICES

Appendix I: Survey Questionnaire

FEEDBACK ON CREATION OF COMPETITIVE ADVANTAGE THROUGH OUTSOURCING STRATEGY: A SURVEY OF CLASSIFIED FIVE STAR BUSINESS HOTELS IN NAIROBI.

Purpose

The researcher will appreciate your feedback on how adopting the outsourcing strategy will create competitive advantage. The survey will be carried out in classified five star business hotels in Nairobi. The information is useful for classified five star business hotels in Nairobi. Please give your honest opinion as freely as possible.

1. PRELIMINARY DETAILS.

i. Name/Employee No.(Optional)---
ii. Profession--
iii. Department---
iv. Year Employed---
v. No. of working years in the hotel ---
vi. Gender(Male/Female)---
vii. Age---
viii. Level of Education (choose the highest level attained).Please tick.

Postgraduate ____

Degree ____

Diploma ____

Others ____

(b) Various factors do contribute to adoption of outsourcing strategy in firms, amongst them are factors listed here-below. On a scale of 1 to 5 **where 1 is Very High**, **2 is High**, **3 is Average, 4 is Low** and **5 is Very Low** To what extent do you think each of the listed factor has contributed to adoption of outsourcing strategy in this hotel.

Factors	**Very High** **1**	**High** **2**	**Average** **3**	**Low** **4**	**Very Low** **5**
Increased operation costs e.g. salaries					
Limitations in skilled and experienced expertise.					
Focusing of non-core activities					
Reduced profit margins					
Lack of internal resources and relevant technology					
Poor service delivery					
Poor quality products					
Reduced productivity					
Dissatisfied clients due to inefficiency					
Failure to manage risks					
Competitive pressure					
Tighter budgets					

4. What are some of the business processes/activities/services that are being outsourced currently in your department? ____

____

5. What is the percentage of the activities outsourced in the department? ____________________

____

6. Who are involved in the outsourcing decision making process? __________________________

____

7. Does the activities/processes/services that are being outsourced considered to be core to the business operation?____

____

8. What are some of the factors that have highly influenced the choice of activities, services, processes that are outsourced in your company?____

____

9. What are the critical stages of your company's outsourcing decision? _____________________

____

10. Which activity is the most critical element in the outsourcing management with respect to your company's performance? ____

____

11. Which costs are highly impacted on the performance of your company's outsourcing activities? ____

____

12. Which factors have enhanced your firm's competitive performance? ____________________

____

13. What are some of the benefits of outsourcing on your firms' performance? _______________

____