A SURVEY OF IMPLEMENTATION OF OUTSOURCING STRATEGY IN PRIVATE HOSPITALS IN NAIROBI

BY:

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A management research project submitted in partial fulfillment of the requirement for the degree of Master of Business Administration (M.B.A), Faculty of Commerce, University of Nairobi.
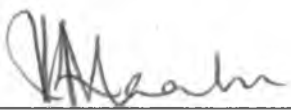
September, 2002

DECLARATION

This is my own original work and has never been submitted for a degree in any other University.

Signed: _____ Date _30/9/2002_

Justus O. Nyarandi

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

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I would also like to thank my brothers Bernard, Robert, Timothy, Tobias, Evans and cousin George Ogari for their encouragement and wishes of goodwill.

Finally, I wish to thank God for giving me the wisdom and strength to complete this project.

DEDICATION

I wish to dedicate this paper to my wife, Caroline Kerubo, for her inspiration, encouragement and the atmosphere of tranquility that she provided during the entire course and to our children Dennis and Elvin, for lack of total fatherly care during the entire period. And to our new born Eddah, welcome!

ABSTRACT

This study sought to establish practices relating to implementation of outsourcing in private hospitals in Nairobi and the factors that influences such practices. Outsourcing has been studied as a strategy that allows firms to focus their efforts on core business, improve their services and reduce service costs.

In conducting the study, data from the medical directory was used to come up with a list of 54 private hospitals. Out of the list 3 hospitals were found to have closed down and 40 hospitals responded bringing the response rate of 80%. Data was collected primarily using a questionnaire with respondents giving information on the characteristics of the hospitals, activities outsourced, service provider identification, contract management, actual implementation and post implementation review. These data was analyzed by way of tabulation and cross tabulation.

The results indicate that all hospitals outsource at least one non core activity and waste disposal is leading with 80% of the hospitals outsourcing the activity, followed by specialized doctors and surgeons (75%), maintenance (57.5%) and security (47%) respectively. The main reasons for outsourcing are given as; concentration on core business, efficiency and service cost reduction.

The results also indicated that the most common methods of selecting service provider are selective tendering, open tendering and recommendation respectively and on award, most respondent hospitals will sign a contract (60%) and for only one year (52.5%).

It was found that hospitals have developed clear objectives of outsourcing but do not have proper implementation practices, which might explain why in some cases the desired results are not realized. It was also found that there are weak structures that support the relationship after the activity has been given to the service provider.

CHAPTER ONE: INTRODUCTION

1.1 Background

As far back as 1776, an Economist, Adam Smith wrote his book on Wealth of Nations that emphasized nations stood to benefit if they concentrated on only those areas where there is competitive advantage. This theme of specialization seems to have changed in the latter years to diversification especially before the 1980s. The period prior the 1980s emphasized growth through mergers and acquisitions to tap economies of scale (Cooper, 1994)

An important and enduring justification on the diversified company is the argument that the managers of these companies possess general management skills that contribute to the general management of the company. Kenneth Andrews (1971) argued that there had been a steady growth of executive talent in America, equal to task of managing diversity. This was reinforced by the assumption that different businesses nevertheless required similar managerial skills. During the 1960s, the growth of conglomerates, with their numerous acquisitions of unrelated businesses across industries, provided almost laboratory conditions in which to test the idea that professional managers could apply their skills to many different businesses.

By late 1960s, conglomerates were encountering performance problems. What become apparent was that sound principles of organization and financial control, coupled with a corporate objective of growth were not, alone, sufficient to ensure satisfactory performance in highly diversified companies. The early 1980s, there was widespread skepticism about the ability of companies to manage and add value to diverse conglomerate portfolios and this prompted rethinking of the role of corporate management in large diversified companies (Ansoff & McDonnell, 1990)

The concept of corporate success based on core businesses, or stick to knitting gained popularity in 1982 with the publication of Peters' and Waterman's *In Search of Excellence*. The fact that, corporate strategy stresses building on the core competences of the corporation is thought to be the cornerstone of outsourcing.

Emphasis 1990's is now on concentration on core business functions, hence outsourcing (Kirui, 2001). Core focus has also been applied to companies reviewing their constituent parts and streamlining the number of businesses in which they participate (Kanter, 1991). Prahalad & Hamel (1990) argue that ignoring core competence will make a firm unwillingly relinquish valuable skills when divesting in under performing business.

According to Prahalad and Hamel (1990), 'in the 1990's top executives were charged on their ability to identify, cultivate and exploit the core competencies that make growth possible. Indeed they will have to rethink the concept of the corporate itself'

A combination of economic and regulatory forces contributed to the growth of the practice in the 1980s to date (Lieb, 1991). According to Gay & Essinger (2000), "changing markets and increasing regulation in many operational areas has forced a fundamental reappraisal of such segregation of activities. This has lead to an increasing shift back to core operations and activities and in some cases further shrinkage of the value chain directly under the organizations control."(Gay & Essinger, 2000).

Skidmore (1998) identifies other factors as cost reduction, emphasis on core business, access to new resources and technical expertise, variable staffing requirements and internal political problems. Cox & Lonsdale (1998) identifies other benefits as improvement of time to market, benefit from supplier's investment and innovation and conversion of fixed costs to Variable costs.

The concept of outsourcing is not new. Companies have always hired contractors for particular types of work or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. However, the difference simply supplementing resources by "subcontracting" and actual outsourcing is that the latter involves substantial restructuring of particular business activities. (Griffith, 2000)

Outsourcing was initially regarded as a tactical solution to a particular problem, often driven by cost dynamics and not really part of a corporate objective that could be regarded as strategic. Increasingly however, outsourcing has pushed its way up the value chain to the point where it has become as option of real strategic importance (Gay & Essinger, 2000)

According to Quinn and Hilmer (1994), outsourcing starts with the identification of core competence, a unique source of leverage in the value chain. "Effective strategies seek out places where there is a market imperfection or knowledge gaps that the company is uniquely qualified to fill and where investment is highly leveraged. The initial focus of strategy should be on the distribution of value in supply chain rather than on the firm's internal competencies" (Quinn & Himler, 1994). The implication of their argument is that focus of organization is one core competence and outsourcing on areas that they lack capability.

There have been dramatic developments in other field like computers and communications and management need to restructure to exploit such external developments. One of such response is collaboration with such firms within their value chain (Johnson & Scholes, 1998). Outsourcing has therefore become critical in the supply chain, as companies have to use external resources to create value to the customer.

According to Lonsdale & Cox (1998), outsourcing is a management tool, which can be used, to great effect, to support the main business strategy of the firm. It should not be used as a short-term cost-cutting device or device used to relieve the firm of problems that does not have the will to tackle. Outsourcing is therefore one of the options that are available to managers in their quest to match competencies of the firm with its competitive environment (Lonsdale & Cox, 1998). Other options include collaboration and mergers (Sholey, 2000)

Tremendous benefits do exist and the practice does not show any sign of abating, either in terms of percentage of firms using the practice, or in terms of range of business activities that the practice is encompassing, however research done in UK show that

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many firms complain of supplier opportunism, rising costs of supply, declining quality and of an inability to influence the terms of the relationship. (PA Consulting Group, 1996)

1.1.1   Background of outsourcing in the Health care institutions

The primary objective of hospitals is healthcare of patients and therefore the hospitals core competencies should be centered on direct medical care, research, and training medical professionals (Corbett, 2001). The core competencies, and those activities that contribute to them, do not include parking management, ground maintenance, and plant maintenance and facilities management.

Many hospitals still perform in-house several activities that others could have a competitive advantage in performing. Such activities include catering, housekeeping, procurement and logistics, laboratory, senior doctors, Information Technology, finance and many others. Research carried in Europe established tremendous opportunities in outsourcing and positively effecting revenues and reducing costs.

A specific research of the Toronto hospital points to failure "in one case the hospital had failed to set specific service standards for one of its providers, which resulted in poor performance with an information technology provider".

Goolsby (2001), the activities that need to be outsourced in the hospital are the following:
- ❖ Environmental services (internal and external cleaning, waste disposal)
- ❖ Food services
- ❖ Biomedical clinical engineering (equipment management)
- ❖ Ambulance services
- ❖ Security services
- ❖ Patient according services

Hospitals stand to benefit if they concentrate on their core business of healthcare provision. However, selection of activities for outsourcing, their implementation and on going management needs to be a strategy in line with the overall objective of the organization.

1.1.2 Developments in healthcare sector in Kenya

According to NHSSP (1999-2004), there are 4207 health facilities in the country, out of this, 420 are hospitals, 3146 health sub sectors and dispensaries. The Government dominates the market with 56% of the infrastructure while 44% are owned by the private sector. There are 54 private hospitals in Nairobi.

Hospitals in Kenya can generally be divided into 3 main categories;

i)   Government hospitals

ii) Church/NGO/Community based and

iii) Private hospitals

The private hospitals' growth is a recent phenomenon, booming in the 1990's (Mwangi, 2001). Despite the fact that hospitals are generally viewed as social entities rather than business entities, the private hospitals depend on the fees collected from their clients and therefore there is need to be efficient and offer better services.

Even within the private hospitals, there is still domination by major hospitals for example Aga-Khan and Nairobi hospital. These compete intensively among themselves and are likely to implement management practices such as outsourcing. Another recent development is specialization such as in children or Women.

According to Mwangi (2001), Hospitals have now got out of the open and started advertising ignoring ethical and societal constraints as in the past. These, coupled with the entry of Health Management Organizations (HMOs) are going to change the scene in the Health industry like it has never been seen before.

1.2 Statement of the problem

Outsourcing has become an acceptable and fashionable way of providing services in both public and private sector organizations. Many companies that have employed their own cleaning, catering and security staff now subcontract or outsource these to specialist suppliers (Skidmore, 1998).

While many firms have taken the outsourcing route after being forced by the environment to cut costs, few firms have taken into account the main risks of the practice or identified the required safeguards. Many firms have therefore been disappointed with the results from outsourcing (PA Consulting group 1996, Cox & Lonsdale, 2000).

Part of the reason is the implementation techniques employed by managers or lack of clear policy on management of the resulting relationship after the in-house activity has passed to the external provider. There are also not many competent service providers to outsource to and the practice might not have been fully understood or utilized and benefits reaped.

The literature that is available is mostly based on studies carried out in developed countries and management being sensitive to context in which it is practiced (Ansoff 1987), there is need to replicate the same in Kenya. There is scarcity of literature in outsourcing especially in the Kenyan context. A number of studies undertaken, Kirui (2001), Kaur (2001) and Kinywa (2000) have focused in the commercial industry and therefore a need to replicate the same in the hospitality industry.

1.3 Objectives of the study

1. To determine the implementation of outsourcing strategy in private hospitals
2. To establish factors that influences the implementation of outsourcing strategy.

1.4 Importance of the study

The findings of this study will be useful to the hospitals management for understanding the boundary of their activities and core competence and to management consultants in healthcare management and service providers

Secondly other scholars and researchers who might have an interest in developing the findings further or taking other related field of the healthcare management will also benefit from the study and also the study will act as source of reference in future

1.4 Structure of the project

The paper has five chapters. Chapter one looked at the background of outsourcing and developments in the health sector and other chapters are as follows;

Chapter 2: Literature review

Chapter 3: Research methodology

Chapter 4: Data analysis

Chapter 5: Discussions and conclusion.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

A significant feature of business management in the 1990s has been the practice of outsourcing (Lonsdale, 1998). Firms and public sector bodies have had to consider the boundary of their organization and passed to third parties responsibility of many business activities. Outsourcing has been defined variously as:-

> **"The process of transferring an existing business activity (good or services) previously performed in-house" (Lonsdale 1998)**

> **"The strategic use of outside resources to perform activities traditionally handled by internal staff and resources" (Griffiths, 2001)**

> **"Outsourcing involves Organizations procuring goods or services which they used to produce themselves, from external organizations (Saunders, 1999)**

Emphasis in the definitions of outsourcing is the identification of activities to be outsourced and those to remain in-house. A part from a 'virtual corporation' where every aspect of the business is outsourced, most literature in this field agrees that candidates for outsourcing should be on *non-core business/activities*.

Kirui, (2001) argues that firms seek third party providers not because they are incapable but because they can focus on their own competencies. This agrees with earlier studies by Beauchamp (1994) that organizations will add value to their business if they can concentrate their resources on their core business. A company needs to access its strategic capability, and it is only those activities that it has core competencies (those they do better that competition) that are likely to bring better value for money (Johnson & Scholes, 1997)

The concept of *Value chain analysis* describes activities within and around the organization and an understanding of strategic capability must start with identification of

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these activities. In Porter (1980), the theme that runs through the value chain is that organizations should specialize (outsource) to attain competitive advantage.

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these groups of primary activities is linked to support activities: Procurement, Technology, Human resource and Infrastructure. A single organization cannot undertake all the value activities, rather there is usually specialization role and any one organization is part of the wider *value system* (Johnson and Scholes, 1997).

2.2 Different views of Outsourcing

Outsourcing is gaining significance in as far as sub-contracting of non-core logistics activities to third party logistics service companies are concerned. The basic services provided by third parties include transportation, warehousing, clearing & forwarding as well as light manufacturing. Third party logistics service companies have probably existed as long there has been trade but perhaps less prolifically and under less glamorous labels (Kirui 2001). With high interest rates and depressed economies and efforts to reduce inventories in the 1990's has had a significant shift to third party logistics service providers.

Quinn and Himler (1994) argue that one of the most important advantages of outsourcing is the opportunity it gives management to focus resources in their core activities. Their understanding of core competence is the amalgamation of skills and knowledge rather than being products of functions, a unique source of leverage in the value chain and must exist in the area where a firm can dominate. (Quinn et al, 1994)

The above authors argue that in the 1990s, trying to specialize in large number of activities can be dangerous as others might have focused on a particular activity and developed skills that enable them to become more competitive. 'Each company is in competition with all potential suppliers of each activity in its value chain. Hence, it must benchmark its selected core competencies against all other potential suppliers of that activity and continue to build these core capabilities until it is demonstrably the best. Thus the basic nature of strategic analysis changes from industry analysis perspective

to horizontal analysis of capabilities across all potential providers of an activity regardless of which industry the provider might be in' (Quinn & Himler, 1994)

Quinn & Hilmer (1994) give four advantages of outsourcing: first, like others, they agree that the most important factor is the opportunity it gives management to focus their resources on their core activities. Secondly, the competitive protection that such competencies afford, thirdly, the strategy benefits the firm by giving it access to the investments and innovations of its chosen suppliers. Finally outsourcing reduces the firm's time to market, making it more responsive to the needs of the customer.

However, Bettis, *et al* (1992) do not agree with the above view and other writers on the subject. They argue that the above is based on wrong assumptions, one being the belief that strategy should be focused solely upon the firm's current position. Their argument is that management should be thinking on how a firm can respond quickly to changes in technologies or processes. The firm should not focus on short term benefits rather, the future position, therefore strategic outsourcing. (Bettis et al, 1992)

The decision to outsource is usually based on the premise that the contractor has some inherent advantage over the host company in providing or delivering a service. This competency can be due to superior technology or organizational and management skills that the contractor has developed in that area. It could also result from the economies of scale that the contractor has achieved. Whatever the source, in the long run, the competence is expected to lead to lower costs, better quality or service---- preferably all three (Sandy , 2000).

Lower bid costs alone do not translate into savings. Williamson (1981) points out that actual cost go beyond the nominal cost of the goods or service. In fact research has shown that outsourcing initiatives pegged on costs alone has been responsible for performance failures. It is a tactic rather than a strategy (Montgomery et al, 2002).

Successful outsourcing begins with clearly defined and articulated expectation that fit the company's mission and goals. Many failures have been attributed to the ill-conceived or un-realistic expectations. Outsourcing is too often looked upon as a

method of getting rid of a problem area. If the root cause of the problem is internal and systematic, outsourcing will not take care of it (Gay & Essinger, 2000).

The need to identify clear outsourcing objectives cannot be overemphasized especially if the business conditions that affect the contract are dynamic. Burnes (1988) found out that, in many cases, change projects failed because their original objectives or desired outcomes were poorly thought out and inconsistent.

2.3 Focus on core activities

According to the Outsourcing Institute (2002:1), "a company keeps control over any process that is necessary and core, has the potential to outsource a process that is necessary but not core, and should not be doing a process that is not necessary and not core. To perform necessary but not core processes, a company looks to external vendors that provide the same service at a lower cost or better service at the same cost".

Scholars and practitioners alike have observed that, outsourcing enables the company to concentrate and focus scarce human, financial and physical resources on further strengthening its core or distinctive competencies. "As companies begin to outsource non strategic activities... management concentrates more on their businesses' core strategic activities... leading to a much sharper focus on recruiting, developing and motivating people who create most value in those areas where the company has special competence" (Mintzberg & Quinn 1991: 327)

An increased focus on core activities can be achieved in two respects, according to Lonsdale & Cox (1998), first, outsourcing can remove from management the distraction of dealing with the firm's peripheral activities. Certain support activities within the firm may make no significant contribution to its competitiveness, but nevertheless take up a large amount of valuable management time. Outsourcing such activities removes management responsibility, except for the need to manage the resultant contracts.

Secondly, outsourcing non-core activities frees up financial resources, which can instead be used for investment of the core. There is only a limited amount of capital

investment a firm can finance each year, and it is crucial, therefore, that the firm concentrates this investment on those activities which most directly contribute to its future competitiveness. (Lonsdale & Cox, 1998)

The same argument is advanced by Bettis *et. al.* (1992) that "one important key to sustaining competitive advantage in today's world is focusing corporate resources on the development and enhancement of core competencies more effectively than competitors (i.e. winning the race to learn). Any financial savings from outsourcing program should be re-deployed to enhance core competences."

2.4 Outsourcing and the environment.
Staggering problems from today's business climate are pressuring the U.S healthcare industry's prayer to consider new business solutions (Antares Mgt solutions, 2002). The same authors that CEOs throughout U.S. share the same primary concern- how to survive and stay competitive while medical costs escalate. Many are desperately in need of strategies that enable them to compete with, or outperform, competitors (Antares mgt solutions, 2002)

There has been a lot of pressure from the microenvironment and "the market place is not what it used to be" (Kotler, 1999). The purpose of strategy is to get a fit with the environment. Companies are doing a lot of soul searching, to align themselves to the environment. Outsourcing is one such response of striking a fit with the environment. Other methods include Business Reengineering, E- Commerce, Benchmarking, Strategic alliances, Partner-suppliers etc (Kotler, 1999)

In recent years, there has been good deal of pressure of firms, to reduce headcount- it has become a symbol of lean and efficient organization. Outsourcing has been one way of reducing the numbers in the payroll. Yet outsourcing is a practice, which should always be undertaken around an understanding of the firm's core activities. (Lonsdale & Cox, 1998)

In management accounting literature on *Make or Buy,* Dirtina (1994), argues that although there is more emphasis on short term financial criteria, the analyst is

encouraged to consider qualitative factors such as the quality of parts, efficient use of facilities......Efficient use of facilities is not only important factor in building market advantage, but also part of an integrated firm-wide plan on the development of its core competencies. Dobler (1990) agrees with this line of argument.

2.5 Managing outsourcing relationships

Outsourcing introduces a new relationship and a new culture into the organization. No matter how hopeful and positive the parties feel at contract signing, unless strategic steps are taken at the outset of the arrangement to properly manage the agreement, the challenges encountered during the first year become pitfalls that can destroy a relationship (SourceNet solutions, 2002).

Peter Bendor-Samuel, (2002) argues that creating an enduring relationship is an important goal, because breaking it is very expensive-for both parties. For these reasons, buyers and service providers need to work together at the outset to create enduring outsourcing relationships. The best way is to build the relationship around a long-term value preposition (Peter, 2002). This is done by selecting the service provider for its strengths as well as a business culture that is compliant with your own.

2.5.1 Transition pitfalls and solutions

2.5.1.1 Inadequate Knowledge transfer

One of the reasons buyers outsource their important business processes is to leverage the expertise of the service provider to streamline the processes and provide higher quality services more cost effectively (SourceNet Solutions, 2002). To do so, the provider must posses' thorough knowledge of all the mechanics of a business process or function. But the incoming provider does not know all of the company specific intricacies that reside in the minds of the people who have been doing the work. Outsourcing will introduce a new set of people, essentially undermining some of the informal relationships that have been built up in the buyer organization over time.

The remedy to this lies in adequate knowledge transfer from the buyer to the service provider. This facilitates both the training of the provider's employees to take over the

buyers outsourced functions, as well as identifying process steps that need to be changed to create new efficiencies. The first step is to document how the buyer organization does business, identifying each protocol and procedure (SourceNet solutions, 2002)

Secondly, the parties need to determine an appropriate amount of time for the provider's employees to sit side-by-side with the buyer's employees to do the knowledge transfer. So that this process is as collaborative as possible to ensure success, it is important to build a transition/incentive plan that makes it beneficial for employees to share the intricacies of their knowledge with the service provider (Peter, 2002)

2.5.1.2 Inadequate measurement of service level performance

When firmly entrenched relationships are undone and mechanisms are new and uncomfortable, the inevitable feedback form buyer users is "things aren't working as well as they used to" (SourceNet solutions, 2002)

A best practice approach to the transition is first to establish a baseline of the buyer's current performance level. This is the basis for the provider's reports that it is not only meeting contractual service level specifications but the overall performance metrics within the process are better or as good as they were when the buyer had control of the process.

2.5.1.3 Lack of response Scenario planning

Napoleon Bonaparte wrote"the greatest general is he who makes the fewest mistakes.' Applicable to ensuring success in outsourcing relationships, this strategy involves upfront planning for every known potential disruptive event during the crucial transition phase of the arrangement. Yet, going into the transition under the assumption that you have planned for everything is itself a pitfall, for there is no way to anticipate all the possible problems (SourceNet solutions, 2002)

The best practice approach is to assume that early on there will be some challenges and do some scenario planning for how to handle those events. A scenario response

plan should include extra resources required for additional effort and who is responsible for feeding back to the buyer organization the providers recognition of pressure building and what the provider is doing about it?

2.5.1.4 Lack of executive sponsorship

Without that steadfast, committed executive, there are those who fear change and will probably talk the organization into reversing course when a pitfall is encountered. Success is sustained by calling up anew vision of the goal. This can be accomplished only by a committed executive who is not in fray of the day-to-day relationship with the service provider. The executive must stress that the buyer organization is committed to the outsourcing initiative and that it the responsibility of all people in the organization to make it work (SourceNet solutions, 2002)

2.6 Risks of outsourcing

Outsourcing is not risk free. Hamel et al. (1994) cautions firms on outsourcing and the concept of core activities. While suppliers can offer better deals and temptation to outsource because of better-cost savings, it can be part of a strategy to lead a firm into a situation of dependency or to position themselves as competitors in a later date. The second reason why firms may end up outsourcing their core activities is that what is core can change over time. An activity, which appears non-core today, may actually turn out to be far more important at a later date.

Lonsdale & Cox (1998) put forward various risks to Outsourcing summarized as;

- ❖ Loss of core activities
- ❖ Being leveraged by suppliers
- ❖ Loss of strategic flexibility
- ❖ Suffering interruptions of supply
- ❖ Receiving poor quality supply
- ❖ A fall of employee morale
- ❖ Loss of internal coherence
- ❖ Confidentiality leaks

Kirui (2001) argues that because outsourcing is a fairly new concept, internal procedures have not been formalized to accommodate decisions on Logistics

outsourcing. He contends about outsourcing logistics thus 'implementation means that the corporation gives up some management control of the complex process that may include inventory management, materials handling and transportation. Because of their complexity, contract logistics relationships need to be long-term in nature, and many managers will be apprehensive about becoming overly dependent on one supplier.'

For outsourcing to be effective, the host company has continuing responsibilities after selecting the contractor. One is to manage its interface between the two firms by "re–training and managing" its employees. An enlightened company anticipates some of the challenges associated with service outsourcing and takes an active approach to minimize the discomfort. It teaches its managers that outsourcing represents a paradigm shift in management techniques and attitudes. They have less responsibility for service production, but more responsibility for how the service is delivered and used (Gay & Essinger, 2000).

2.7 Requirements for successful outsourcing

Gay & Essinger (2000) put forward requirements for successful outsourcing. First, the initiative is likely to work if it has been a subject of through investigation. All options should be carefully considered, ranked against agreed criteria, and then weighted according to risk. This should provide a well evaluated and carefully considered conclusion that is likely to provide a reliable idea on whether the initiative will work.

Secondly, after the initial investigation, but before any positive decision can be made to go down the outsourcing road, a business case has to be set out for it. This will cover both financial and non-financial issues. The business case covers strategic context, current/ existing conditions, options, benefits, costs, sensitivity analysis and risks (Gay & Essinger, 2000).

Thirdly, the right supplier has to be identified. Kirui (2001) maintains that the credibility of the supplier to be outsourced to is very crucial to the success of the project. Gay & Essinger (2000) concurs with the view and adds that clear selection of a supplier requires a definition of what the supplier is to do, the result measurement criteria and how the on going relationship is to be managed. An ideal model is suggested;

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Kirui (2001) argues that because outsourcing is a fairly new concept, internal procedures have not been formalized to accommodate decisions on Logistics

outsourcing. He contends about outsourcing logistics thus 'implementation means that the corporation gives up some management control of the complex process that may include inventory management, materials handling and transportation. Because of their complexity, contract logistics relationships need to be long-term in nature, and many managers will be apprehensive about becoming overly dependent on one supplier.'

For outsourcing to be effective, the host company has continuing responsibilities after selecting the contractor. One is to manage its interface between the two firms by "re–training and managing" its employees. An enlightened company anticipates some of the challenges associated with service outsourcing and takes an active approach to minimize the discomfort. It teaches its managers that outsourcing represents a paradigm shift in management techniques and attitudes. They have less responsibility for service production, but more responsibility for how the service is delivered and used (Gay & Essinger, 2000).

2.7 Requirements for successful outsourcing

Gay & Essinger (2000) put forward requirements for successful outsourcing. First, the initiative is likely to work if it has been a subject of through investigation. All options should be carefully considered, ranked against agreed criteria, and then weighted according to risk. This should provide a well evaluated and carefully considered conclusion that is likely to provide a reliable idea on whether the initiative will work.

Secondly, after the initial investigation, but before any positive decision can be made to go down the outsourcing road, a business case has to be set out for it. This will cover both financial and non-financial issues. The business case covers strategic context, current/ existing conditions, options, benefits, costs, sensitivity analysis and risks (Gay & Essinger, 2000).

Thirdly, the right supplier has to be identified. Kirui (2001) maintains that the credibility of the supplier to be outsourced to is very crucial to the success of the project. Gay & Essinger (2000) concurs with the view and adds that clear selection of a supplier requires a definition of what the supplier is to do, the result measurement criteria and how the on going relationship is to be managed. An ideal model is suggested;

Objectives _____ → Define requirements

Define relationship → Contract / Management

Finding and evaluating the best supplier

Figure 01 **Realistic outsourcing activity sourcing**

Lastly, management commitment must be sufficient to overcome the roadblocks that will undoubtedly emerge. For the outsourcing project to work, their needs to be a senior manager who is committed to act as sponsor of the project and guide it from idea to reality (Kirui 2001).

According to Bardoul, L and Burt B., The outsourcing cycle should take the following sequence.

Decision Making Phase: To make the decision on what to outsource and why. The result is reasonably clear on what the Organization wants to achieve by outsourcing.

The organization need to be certain about the fundamental motivation that ties with the organization's commercial objectives. For example it is to reduce costs? Improve performance? The objectives should be clearly agreed by all parties.

It is important also from the onset for the organization to define the function that needs to be outsourced. This involves defining the boundaries or scope of the service with clarity. This is essential even when short listing and selecting the service provider as the organization has to understand what they are exactly looking for.

Data has to be gathered on all the options, the benefits, the associated risks, the timing etc. When everything is clear, it is necessary to obtain sanction of all the senior level decision makers.

Design Phase: To plan (a) an outsourcing Programme e.g. planning the selection and implementation process, the type and structure of contracts and (b) how that Programme will be carried out e.g. through project management, using teams etc

Selection stage: To select the appropriate provider according to predetermined selection criteria and using an appropriate selection process. To select a supplier, the organization needs to define what it wants the supplier to do; be aware on how its going to assess the performance and be clear our the relationship is going to be managed.

Three things must be pursued in parallel;

1. Developing the specification of service by specifying the outcomes or outputs that the organization requires
2. Outlining the contract management structures and beginning to identify candidates to fill contract management roles. This include defining the sort of relationship with the service provider and listing potential candidates
3. Evaluating the suppliers using such tools as technical ability and the depth of experience in the particular field of delivery.

Implementation Phase: To implement the outsourcing Programme e.g. handover responsibilities.

The following are important for successful implementation;

1. Change of organizational structure to accommodate service provider
2. Resources and control of the same has to be specified
3. Change in organizational culture and change in general

Agreement in the implementation timetable & performance measures

On going management Phase: The management of outsourced activity i.e. management following implementation and prior to contract renewal.

1. The should be a manager responsible for managing the relationship between the organization and service provider

2. Agreed ways of resolving grievances e.g. by turning conflict into value creation

3. Measurement of benefits to see that objectives are being me.

Renewal/Review Phase: The review may be triggered by contract renewal, terminations, takeovers; change in management etc. compared with first cycle, the cycle following a review is likely to require few resources in terms of design, selection and implantation.

Figure 2. Source: Bardoul & Burt b., Purchasing and Supply management,

April 1995   Page 27.

This is more or less what is suggested by Gay & Essinger as requirements for successful outsourcing. Implementation and monitoring is emphasized to make sure that the agreed measures are in place.

2.8   Summary

The principle of outsourcing is that specialists are brought in to provide the supporting functions, allowing the management of the organization to concentrate on its core business, enable it reduce costs and improve the service offered to customers. Health institutions can therefore also benefit in implementations of the strategy. Pressure from the environment that forces organizations to react also affect health institutions and it is important for them to define clearly their boundary of core business and let others do what they can do best. Whatever the ownership structure is, if outsourcing will lead to better customer service, then it should be implemented.

However, implementing outsourcing is an art and, like anything else, it needs guidelines. With tightened budgets and higher accountability focusing on return on investments in outsourcing arrangements, it is essential to know upfront what can be done to mitigate challenges and make the relationship more successful.   Also, outsourcing should be seen as a management tool to support the main strategy of the

health institution and not a tool to relieve it from problems that it does not have the will to tackle.

This study therefore looks at the whole process of implementation of outsourcing strategy in hospitals and likely future trends. The literature review has brought out arguments for outsourcing and risks associated with its implementation. Various models have been presented which will form tools of analysis in the next chapters.

CHAPTER THREE: RESEARCH METHOD

This chapter presents the research design that was used to meet the objectives of the study as set out in chapter one. Included here are the type of survey, population of interest, data collection and analysis techniques.

3.1 Research Design

Since the number of private hospitals in Nairobi is 54, this study was a census survey of the descriptive type. Cooper and Emory (1985) contend that surveys are more efficient and economical than observation.

3.2 Population of Study

The population of interest in this study consisted of all the private hospitals in Nairobi. A list of all the 54 registered private hospitals as per the Kenya medical directory (2001/2002) issue was used and tabulated as per the number of beds with data from NHIF(Appendix IV)

3.3 Data Collection

The questionnaire containing both close-ended and open-ended questions was used (Appendix II). The close-ended questions were put on a Likert scale, which provide rating scales to judge the objects being investigated. Additionally, open-ended questions were used to explain responses to the respective close-ended questions. The questionnaire consisted of five sections namely;

Section 1:   Hospitals characteristics
Section 2:   Outsourcing practices and factors influencing it.
Section 3:   Process used to identify the activity for outsourcing and the process of identifying service provider
Section 4:   Implementation and challenges, results and risks
Section 5:   Post implementation review

Personal interviews with Chief Executive or General Manager who holds responsibility for strategic planning, or corporate planning managers in each hospital surveyed was used to collect the data as they are the ones mainly involved in strategic planning.

Parasuraman (1986) holds that personal interviews have the potential of yielding the highest quality of data compared to other modes since supplementary information may be collected in the course of the interview. This concurs with Cooper and Emory (1985), who state that the greatest value of personal interviews lies in the depth and detail of information that can be secured.

3.4 Data Analysis

Before processing the data gathered, the completed questionnaires were edited to ensure consistency across respondents and to locate omissions.

The data collected was analyzed by use of descriptive methods of data analysis and presented as tables, proportions, frequency and graphs. Frequency tables for arraying data and percentages were used for relative comparisons.

These tools enable the researcher to summarize and organize data in effective way. They provide tools for describing collections of statistical observations and reducing information to an understandable form.

Tabulation was used for comparison such as age of respondent hospital, ownership structure and core focus. These methods were used by Mwangi (2001) in the study of the state of advertising practices in Private hospitals in Nairobi and were found to be effective.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

This chapter deals with the analysis and findings of data collected from respondents. Data was collected from the registered hospitals in Nairobi as per the 2001/2002 medical directory. Out of the total population of 54 private hospitals, the successful response rate was 40 hospitals, 11 hospitals did not respond, while 3 had closed down before they completed the questionnaire. The implication of the age, size, ownership, core business, and environment on the outsourcing practices were analyzed using Statistical Package for Social Sciences (SPSS)

4.1 Profile of Respondents

This section sought to establish the basic hospital's characteristics. The research sought to establish when the hospital was established, the size, ownership structure, main focus and the level of competition facing the hospital. These characteristics were deemed to have a major influence on outsourcing practices.

4.1.1 Period in operation

The study sought to classify the hospitals in terms of years in operation and their effect on outsourcing if any. The results are shown below;

Table 1: Years in operation

Age (years)	Frequency	Percentage	Cumulative
0-10	24	60%	60%
11-20	5	13%	73%
Above 20	11	27%	100%
Total	40	100%	
Non response	11		

N=51

Source: Research data

As the table shows, majority of the respondents were new entrants in the market comprising 60% who are less than 10 years in operation. The industry has 11 (27%)

mature hospitals that are above 20 years since establishment. Minority percentage 13% is between 10-20 years meaning, very few hospitals were opened between the years 1980-1990

According to Mwangi (2001) the entry of many hospitals within the last decade is likely to lead to greater rivalry and increased strategic activity. One of these activities is outsourcing of non-core business to concentrate on the core.

4.1.2 Size of hospitals

The National Health Sector Strategic Plan (NHSSP) 1999-2004, classifies hospitals into three categories using number of beds. Based on this, the hospitals were classified into three classes namely, large (over 50beds), medium (26-50 beds) and small (1-25 beds). Using the classification, the respondent hospitals were classified thus;

Table 2: Size of respondent hospitals

Bed capacity	Frequency	
0-25 (small)	17	43%
26-50 (medium)	15	37%
Above 50 (large)	8	20%
Total	40	100%

Source: Research

As the result show, most hospitals are small (43%) and medium (37%) with large hospitals taking only a small portion of 20% of the respondent hospitals. These results confirm those of Mwangi (2001) who found out that 59% are less than 10 years of existence with mature hospitals taking a small portion of 30% and medium hospitals, 10%. The implications from his findings were that rivalry was expected.

Organization size affects structure and therefore strategy (Chandler, 1960). One expects therefore to see similarities in the implementation of outsourcing in similar sized hospitals.

Table 2.1: Years in operation versus Size

Years in operation	Bed Capacity of the Hospital			Total
	0-25	26-50	Above 50	
0-10yrs	15	7	2	24
11-20 yrs	-	4	1	5
Above 20 yrs	2	4	5	11
Total	17	15	8	40

Source: research data

It can be seen from the above table that, while 60% (24) of respondent hospitals are less than 10 years of existence, 63% (15) of these are small hospitals of less than 25 beds. On the other hand, of the 27.5% (11) respondent hospitals that are more than 20 years, 45.5% (5) of these have capacity of over 50 beds compared to 18% (2) which are small hospitals. It is therefore save to say an older hospital is likely to be large.

4.1.3 Ownership of the hospitals

It was found necessary to determine the form of ownership of the various hospitals. This was thought useful because different owners will implement outsourcing differently or view the practice differently. The findings are presented below;

Table 3: Ownership profile

Type of ownership	No. of hospitals	
Private organizations	12	30%
Sole proprietorships	14	35%
Public owned	5	12%
NGO/Religious organizations	9	23%
Totals	40	100%

Source: Research data

From the table above, it can be seen that majority of hospitals (65%) are owned by both private and individuals. The likely implication of these is that both private companies

and individuals are likely to go for management practices that tend to foster efficiency and reduce costs hence outsourcing.

4.1.4 Main Focus of the hospitals

It was found necessary to classify the hospitals into their main focus. This will influence directly what they outsource in that outsourcing is supposed theoretically to be those activities that are peripheral to the main business. The table below shows the classification;

Table 4: Classification into main business

Core business	Frequency	Percent
General healthcare/Treatment	25	62.5%
Reproductive health	12	30%
Surgery and specialized rehabilitation	2	5%
Mental and other complications	1	2.5%
Total	40	100%

Source: Research data

From the above table, 62.5% of the respondent hospitals are in the business of General healthcare /treatment and 30% in reproductive health. It is therefore expected that such hospitals outsource services like surgery/specialized medicine.

4.1.5 Level of competition

The study sought to classify the type of competition facing the hospital as this might have an impact on the strategies being undertaken by the hospitals and how they are implemented. The results are shown below;

Table 5: Level of competition facing the hospitals

Level of competition	No of hospitals	Percent
Very high	23	57.5%
Moderate	15	37.5%
Low	2	5%
Total	40	100%

Source: Research data

The above table shows that most hospitals face high to moderate competition and this will impact on management practices. The hospitals now that ever before will strive to provide better services than competition. According to Mwangi (2001), that hospitals that were established in the 1990's were aggressively advertising than established hospitals and more concerned with new management practices.

4.2 Outsourcing Practices

4.2.1 Activities outsourced by hospitals

In order to determine the activities that are outsourced, respondents were given several choices to indicate which activity they outsource. The result is tabulated below;

Table 6: Activities outsourced by hospitals

Activity	No of hospitals	%
Security	17	42.5%
Catering	4	10%
Laundry	3	7.5%
Maintenance	23	57.5%
Procurement	13	32.5%
Information Technology	6	15%
Surgeons/consultants	30	75%
Internal & External Cleaning	1	2.5%
Waste disposal	32	80%
Debt collection & others	1	2.5%

Source: Research data

From the above, the most popular activities for outsourcing among respondent hospitals are waste disposal (80%), specialized doctors/surgeons (75%), maintenance (57%), security (43%) in that order. On the hand the least activities for outsourcing are catering (10%), laundry (7.5%), IT (15%), cleaning (1%) and debt collection (1%). This results contrasts with studies by Goolsby (2001) in U.S hospitals who found out that waste disposal, catering, maintenance and Information technology were popular in that order.

4.2.2 Years in operation & Activity outsourced

Comparison was made between the number of years the hospital has been in operation and the activities that are sourced by the hospitals to find out a relationship if any. The results are tabulated as below;

Table 6.1: Years versus sourced activity (waste disposal)

Years in operation	Outsourcing waste disposal		
	No	Yes	Total
1-10 years	5	19	24
% within category	21%	79%	100%
11-20 years	1	4	5
% within category	20%	80%	100%
20 yrs & Above	2	9	11
% within category	18%	82%	100%
Total	8	32	40

Source: Research data

Of the 24 respondent hospitals that are below 10 years, 19 (79%) of these outsource waste disposal while in the category of middle aged hospitals 4 (80%) out of 5 outsource the same and in the last category of mature hospitals, 9 (81%) out of the 11 hospitals outsource the same. What this results show is that waste disposal is sourced by all the hospitals without regard to years in operation.

However for better conclusion to de drawn, chi-square test of significance has to be carried out.

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Table 6.2: Years versus outsourcing of maintenance services

Age of the Hospital * Outsurcing maintenance Crosstabulation

			Outsurcing maintenance		Total
			No	Yes	
Age of the Hospital	1 - 10 years	Count	11	13	24
		% within Age of the Hospital	45.8%	54.2%	100.0%
		% within Outsurcing maintenance	64.7%	56.5%	60.0%
		% of Total	27.5%	32.5%	60.0%
	11 - 20 years	Count	2	3	5
		% within Age of the Hospital	40.0%	60.0%	100.0%
		% within Outsurcing maintenance	11.8%	13.0%	12.5%
		% of Total	5.0%	7.5%	12.5%
	Above 20 years	Count	4	7	11
		% within Age of the Hospital	36.4%	63.6%	100.0%
		% within Outsurcing maintenance	23.5%	30.4%	27.5%
		% of Total	10.0%	17.5%	27.5%
Total		Count	17	23	40
		% within Age of the Hospital	42.5%	57.5%	100.0%
		% within Outsurcing maintenance	100.0%	100.0%	100.0%
		% of Total	42.5%	57.5%	100.0%

Source: Research data

However, the relationship in table 6.1 is not maintained in outsourcing of Maintenance as seen in the above. Seven (7) (64%) out of eleven (11) respondent hospitals on the large hospitals category outsource maintenance compared to only 13 (54%) out of 24 in the small category and 60% of the medium hospitals. It can be assumed therefore as the hospitals grow it will find it prudent to outsource maintenance i.e. (54%, 60% to 64%).

However, for full conclusion to be drawn, it is important further statistical analysis be carried such as chi-square test.

Table 7: Size versus outsourced activity

	% of hospitals outsourcing activity			
	Waste	Surgeons	Security	Maintenance
Small	14	11	5	9
% within category	82%	68%	29%	53%
Medium	12	12	12	12
% within category	80%	80%	40%	80%
Large	6	7	6	2
% within category	75%	88%	75%	25%
Total	32	30	23	23

The result from the above table shows that, the size of the hospital has different effects on the activities outsourced. As a hospital grows, it starts decreasing dependency on outsiders for waste disposal. Fourteen (14) out of seventeen (17) respondent hospitals in that category i.e. 82% outsource waste disposal and the figure decreases to 80% and 75% respectively for medium and large hospitals. This is contrasted to for example surgeons whereby larger hospitals tend to outsource more as seen in the table; there is a rise from 68% to 88%.

On maintenance, medium hospitals are likely to outsource than either smaller or large hospitals (80% of medium hospitals outsource maintenance compared to 53% of small and 25% of large hospitals). This could be explained by the fact that medium hospitals striving to be larger and facing more competition, are likely to come up with better ways of improving quality and cutting costs. This is collaborated by the fact that medium hospitals mention high competition (73.3%) and cost (60%) as motivating factor to outsource.

4.2.3 Factors motivating the hospitals to outsource

In order to understand benefits and how they are perceived, respondent hospitals were asked about the factors that motivated their outsourcing in terms of magnitude. The table below shows the frequently mentioned factors by all respondent hospitals.

Table 8: Motivating factors

Motivating Factor	No. of hospitals	Percent
Concentration on core business	30	75%
Efficiency	29	72.5%
Service cost reduction	18	45%
Competitive strategy	17	42.5%
Mgt time	14	35%

The same information is represented below in a graph.

Table 8b. frequently mentioned motivating factors

Motivating factors: Focus on core (75%), Efficiency (73%), Service cost (45%), Competitive strategy (43%), Free mgt time (35%)

Percent axis: 0%, 20%, 40%, 60%, 80%
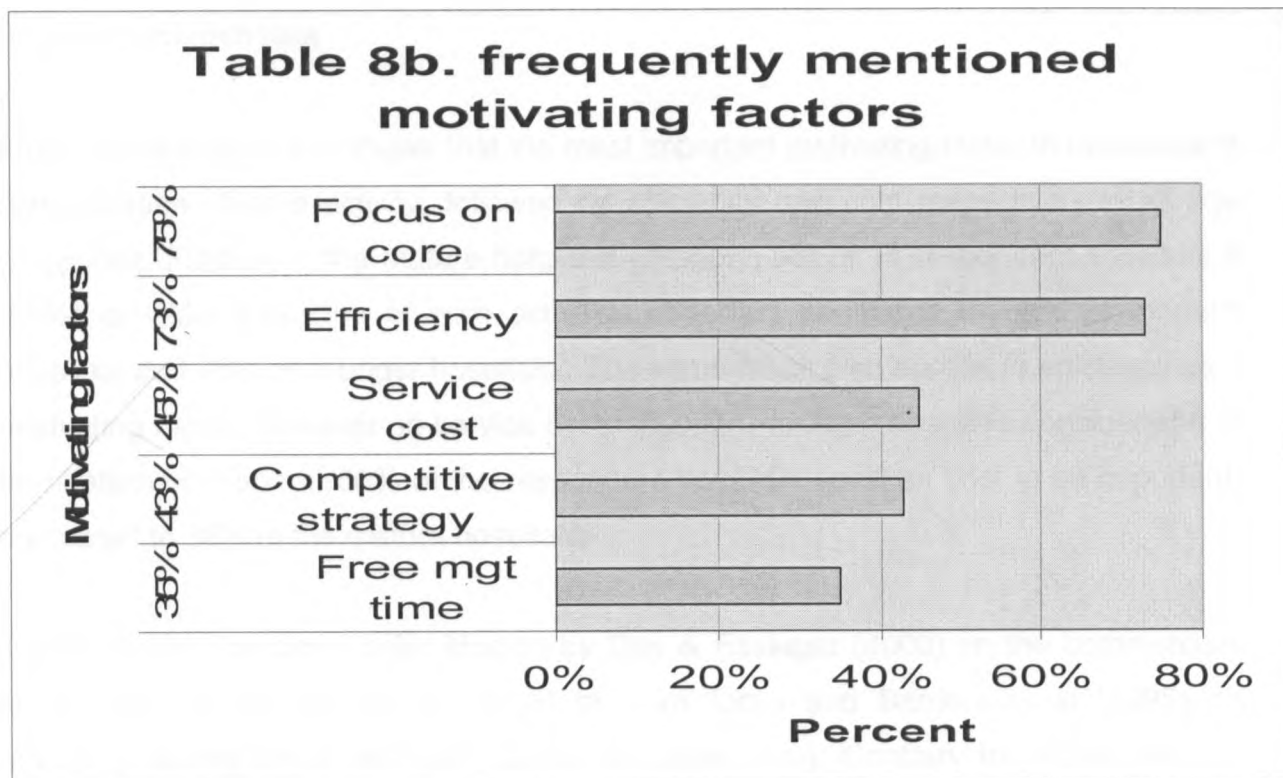
Source: research data

Further analysis of the above factors showed ranking of motivating factors did not significantly vary with different categories of services, so the focus of core business motivated outsourcing of security as much as it did outsourcing of waste disposal. Focus on core business rated highly on all categories.

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Year's verses motivating factors

Table 9: Motivating factors as % of influence of duration in operation

| Age | Motivating factors as % of influence to hospitals | | | | |
	Core activity	Efficiency	Cost	Competition	Mgt time
0-10 yrs	18 (45%)	18(45%)	12(30%)	13(33%)	10(25%)
11-20 yrs	3(8%)	2(5%)	2(5%)	1(3%)	2(5%)
Above 20 yrs	9(23%)	9(23%)	4(10%)	3(8%)	2(5%)
Total	30	29	18	17	14

Source: Research data

From the table above, it shows that the most important motivating factor to outsource is concentration of core activity, followed by efficiency and cost respectively in all age categories. Further, in the mature hospitals category, out of 11 respondent hospitals 9 (81%) consider focus on of core activities important compared to 60% of medium hospitals and 75% of younger hospitals. The same result also applies to efficiency as a motivating factor. However on service cost reduction, younger hospitals considered it to be relatively important (50% of the respondent hospitals consider cost to be important) compared to 36% of the mature hospitals.

These findings confirm earlier studies by Gay & Essinger (2000) on the commercials sector that companies are motivated by core focus and Bardoul et al (1995) on efficiency as important motivating factor for outsourcing. Contrary to popular beliefs, cost is not the most important motivating factor.

4.2.4 How does size impact on motivating factors?
The study attempted to establish whether the size of the hospital has any bearing on the motivating factors. The results are tabulated below;

Table 10; Size versus motivating factors

Bed capacity	Motivating factors as % of influence to hospitals				
	Core activity	Efficiency	Cost	Competition	Mgt time
0-25 beds	13 (77%)	12 (71%)	6 (35%)	8 (47%)	4 (24%)
26-50 beds	11(73%)	10 (67%)	9 (60%)	7 (47%)	6 (40%)
Above 50	6 (75%)	7 (87%)	3 (38%)	2 (25%)	4 (50%)
Total	30	19	18	17	14

Source: Research data

From the above analysis, all hospitals are motivated to focus on core business without regard to size (77%, 73% and 75% of small medium and large hospitals respectively). The same applies to efficiency. However, a different scenario is revealed by reduction in service cost. Medium hospitals are motivated more (60%) to outsource for cost purposes than small (35%) and large hospitals (38%). Also small to medium hospitals outsource for competitive reasons (47%) compared to lager hospitals (25%). Lastly, the larger hospitals more likely outsourced to free time for management (50%) than medium (40%) and small (24%) hospitals.

Quinn (1994), Kirui (2001) and Kaur (2001) all agree in their research that concentration on core business is the most important motivating factor in addition to improvement of services. All the above writers agree that while cost cutting is one of the motivating factors, it is not the most important. Our findings show that younger hospitals consider cost (50%) to be more important compared to older hospitals (36%).

4.2.5 Process of identifying the activities
It was deemed important to find out from the respondent hospitals if there existed a formal process to identify the activities and whether it was a strategy. This are deemed important because it determines the success of implementation. Of more important are feasibility study, development of objectives, and use of outside consultants, resource allocation, responsibility and time frame. The results are tabulated below

Table 11: Process of identification

Strategies	Yes	No
Use of consultant	10(25%)	17(75%)
Feasibility study	19(47%)	21(52.5)
Business case	15(37.5%)	25(62.5%)
Objectives	33(82.5%)	6(15%)
Documented plan	35(87.5%)	4(10%)
Allocation of responsibility	23(87.5%)	5(12.5%)
Resource allocation	33(82.5%)	6(15%)
Time frame	34(85%)	5(12.5%)

From the above table, only 25% use a consultant leaving out 75%, 47% do feasibility study on the applicability of the outsourcing project and 37.5% do a business case. On the other hand most hospitals develop objectives (82.5%), document the plan (87.5%), allocate responsibility ant time frame (85%). All these are good ingredients for successful implementation.

4.3.0 Partner Selection & Contract Management

4.3.1 Service provider selection

The respondents were also asked to state the method they used to select the service provider. This will probably have an impact on the type of service that will be provided. The result is tabulated below;

Table 12; Method used to select provider

Method	No. of hospitals	Percent
Open tendering	6	15%
Selective tendering	24	60%
Recommendation	5	12.5%
Others	6	15%

Source: Research data

While this shows that selected tendering is generally common, it was noted that the respondent hospitals also use different methods for different activities. This is also tabulated below;

Table 13; Methods used for different activities

Activity	Open tendering	Selective tendering	Recommendation	Others
Security	10%	75%	10%	5%
Catering	80%	15%	5%	-
Laundry	10%	80%	10%	-
Maintenance	10%	40%	50%	-
Surgeons	-	-	90%	10%
Waste disposal	75%	25%	-	-
Debt collection	15%	80%	5%	-

Source: Research data

From the table above, while selective tendering features almost in all activities, particular activities are used using other criteria. For example surgeons are mainly by reputation/ recommendation and interviews (under others). Waste disposal and catering are mainly through open tendering.

It was found out that selective tendering is most common is selection of service provider (60%). In doing selective tendering Kaur (2001) contends that reputation, commitment and price are very important determinants in vendor selection. However, it was noted from the research that different methods are used for selecting vendor for different activities. Example, selective tendering was used in security (60%), waste disposal (80%), open tendering in IT (60%) and references in Surgeons & specialized doctors (88%).

4.40 Implementation

Implementation is very important as it determines the success or failure of a strategy. According to Johnson & Scholes, strategic analysis and choice are of little value to an

organization unless the strategies are capable of being implemented (Johnson & Scholes, 1997). For a strategy to be implemented, it has to be institutionalized (Pearce & Robinson, 1994).

According to Gay et al (2000), for implementation to be successful, the following items should be in place;

   i)   Clear objectives
   ii)   Agreed objectives
   iii) Performance measures to support those objectives
   iv)   Agreed sanctions for non- performance
   v)   Agreed frequency of reviews
   vi)   Escalation agreement
   vii) Feedback and lessons learned sessions

In this regard, the respondents were required to give indications on different aspects of implementation. The results are tabulated below;

Table 14: Implementation techniques by hospitals

Implementation activity	No. of hospitals	Percent
Phased approach	22	55%
Change in process and procedures	13	32.5%
Person charged with responsibility	31	77.5%

Source: Research data

As the results show, 55% of respondent hospitals used a phased approach, 32.5% changed the processes and procedures to effectively carry the implementation and 77.5% had a person charged with leadership for the outsourcing initiative.

According to Burnes (1995), organizations tend to use a combination of planned and emergent approaches to change management. There is no evidence on the remaining 45% respondents what approach they actually used.

Regarding processes and procedure, Pearce & Robinson (1994) argue that for implementation to be successful strategy must be translated into guidelines for the daily activities of the firm's members and strategy must be reflected in the way the firm organizes its activities. Our study shows few hospitals changing procedure or structure to accommodate outsourcing (32.5%) but majority provided leadership for the initiative (77.5%). The leadership provided by a key manager is important for implementation (Pearce & Robinson, 1994)

4.4.1 Employee involvement in project implementation

Table 15: Employee involvement

Employees involvement		
1. At start	5	12%
2. Middle	4	10%
3. Final	23	57.5%

Source: Research data

The results above show low involvement of employees in the whole process from development of objectives to the selection of service providers. It is only in implementation that a number of respondent hospitals (57.5%) involve them. According to Burnes (1995), employee involvement in the change process is a key to project success. Commitment and support of all concerned are required, especially those who are most closely affected. It is important therefore to involve all stakeholders in its planning and execution (Burnes, 1995)

4.4.2 Outsourcing contract

According to Gay & Essinger 2000), a contract is an important risk management tool, it helps the organization and service provider formally crystallize their understanding of their expectations, it is a communication tool and can be used by the service provider as a working document. Concerning contract duration, SourceNet solutions (2002) argues that the contract should be more that one year to avoid first year transition pitfalls.

Table 16: Outsourcing contracts

Contract	No. of hospitals	Percent
Contract signed	26	65%
% of hospitals on contract		
1. 1 year	21	81%
2. 5 years	4	15%
3. over 5 years	1	4%

Source: Research data

The result shows that only 65% of respondent hospitals had signed a contract with service providers and 81% of these had a one year contract, 15% five year and 4% over 5 years. This therefore means 35% of outsourcing contracts are not on contract and enforcing them during implementation becomes difficulty. Also, majority of contracts being for a short duration, maximum benefits can hardly be reaped in the first year (SourceNet solutions, 2002). Peter Bendor- Samuel (1999) advices the buyers to develop long term relationships but sign short term contracts but Kaur (2001) argues that long-term contracts are beneficial because the commitment allows the supplier invest their own capitals in the process.

4.4.3 Human resources in outsourcing

The human resources issue is one the greatest challenges to the success of an outsourcing initiative (Gay & Essinger, 2000). Of most important is how the employees will be affected by the implementation of outsourcing. The result from the respondent hospitals is shown in the table below;

Table 17: Treatment of employees after outsourcing

How employees are treated	No. of Hospitals	Percent
Job losses involved	7	17.5%
Employees taken up by service provider	1	2.5%
Employees retrenched	15	37.5%
Employees retrenched others absorbed	10	25%
Status quo maintained	7	17.5%

Majority of respondent hospitals either retrench employees (37.5%) or partly absorb and retrench (25%). Whatever the treatment, employees are an important resource and it will affect the performance even for those who remain with the service provider must be ready to make this transfer (Gay & Essinger, 2000)

It is important for the supplier/partner and the outsourcing organization to have shared resources and communication aims in order to make any transition as smooth as possible. A fundamental requirement of a well-managed outsourcing arrangement is a detailed transition plan addressing all aspects of human resources. (Gay & Essinger, 2000)

4.4.4 Monitoring process

Once performance measured has been agreed, progress must be reviewed continuously to ensure corrective procedures are instigated when needed (Gay & Essinger, 2000). Key monitoring variables are benchmarking, reports, and progress meetings. Below is response from respondent hospitals.

Table 18: Monitoring outsourcing

Activity	No of hospitals	Percent
Monitoring of progress		
1. Regular communication	7	17.5%
2. Regular meetings	7	17.5%
3. Benchmarking	10	25%
Total	24	60%

Source: Research data

The above results than only 60% have some form of monitoring in place. This confirms studies by Shreeveport Management Consultants (1997), that 42% of organizations in UK have no agreed measures in place to monitor implementation of outsourcing. There was also a close parallel between closely monitored benefits and organizations that had reported success.

4.5.0 Post Implementation Review

4.5.1 Are benefits measured?

The study sought to establish if respondent hospitals measured the benefits and if so, the methods they used. This is important in any in any implementation of strategy. The table below shows the response;

It was found out that an overwhelming majority of respondents (72.5%) claim to experience advantages from outsourcing and the table below shows the methods that are used by some of the respondents in measuring outsourcing.

Table 19: Measurement of parameters

Measurement parameters	No of hospitals	Percent
Informal surveys	10	25%
Cost targets	16	40%
Inspection	17	42.5%
Benchmarking	19	47.5%
Service objectives	23	57.5%

Table 19b. Methods of measuring benefits
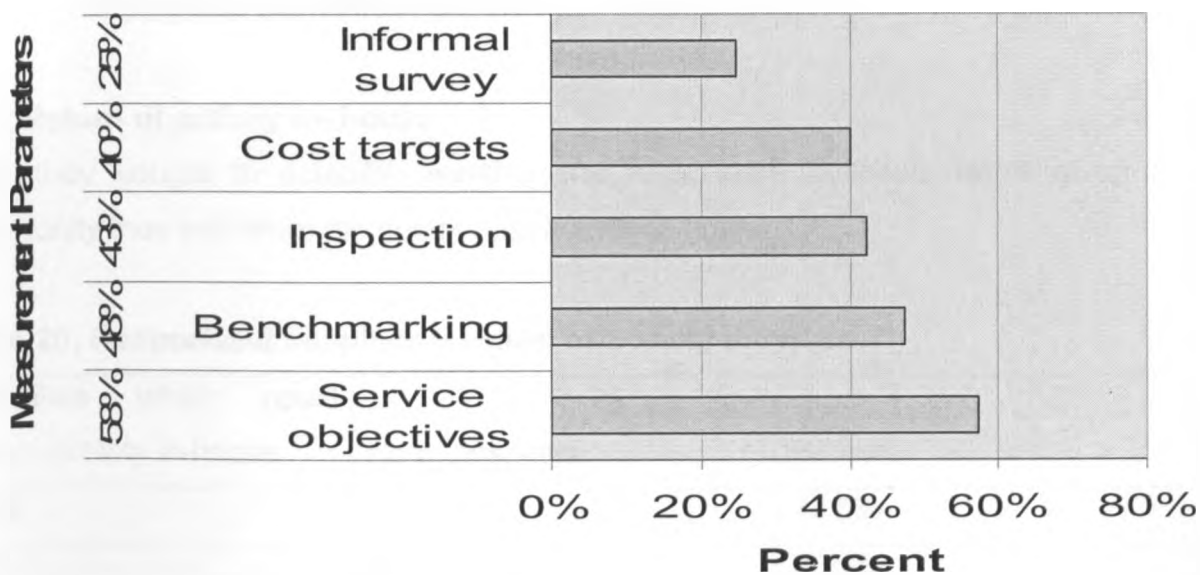
Source: research data

The above table shows that of the hospitals that do measure the accrued benefits (60%), 58% of use service objectives and 48% use benchmarking. However the number of hospitals doing the actual measurement is small compared to the fact that all respondent hospitals outsource at least one non core activity.

The results show that a good foundation of outsourcing is laid down by objectives (82.5%), agreed performance measures (87.5%) and resources allocated (52.5%) for the outsourcing project. However, there is no structure supporting the outsourcing strategy. Most respondents (32.5%) did not change their internal processes and procedure to accommodate change, employee involvement is minimal (12%) and no formal agreement on the monitoring process (17.5%). There is no agreed process of escalation in case of problems during the transition period.

Our conclusion is that measurement of benefits should be undertaken by clients and based on an assessment of whether the service;

i)   Address the requirements of the service level agreement
ii)   Meets the service users expectation
iii)   Reflects the contemporary operational or functional models and incorporates appropriate elements of comparative best practice.

4.5.2 Return of activity in- house
The study sought to establish weather the respondent hospitals felt if given an opportunity they will return the outsourced activity in house.

Table 20; Respondent hospitals & return of activity in-house

Hospitals which could return activity in-house	No of hospitals	Percent
YES	31	77.5%
N0	9	22.5%

Source: Research data

Most (77.5%) felt that they could return the activity in-house given a chance. This is an indication that outsourcing has not produced the desired results. This contrasts with studies by Shreeveport (1997) that most organizations in UK felt they will outsource more (80%) instead of returning the activities in-house.

4.5.3 Future of outsourcing

The researcher felt it necessary to establish from respondent hospitals on their current and likely future intentions. The results are shown below;

Table 21; Future of outsourcing

Assertion on outsourcing	No. of hospitals	Percent
Bright, here to stay	22	55%
Will be discarded	0	0%
Many organizations will embrace it	16	40%
Don't know	4	10%

Source: research data

As the results indicate above, most respondent hospital felt that the strategy is here to stay and will probably become familiar corporate practices (55%, 40%). Studies by Gay & Essinger showed that the future of outsourcing is secure and that over the next five years, companies are likely to outsource more, especially central, core services and fuel existing growth in the outsourcing of IT services.

CHAPTER 5: CONCLUSION & RECOMMENDATION FOR FURTHER RESEARCH

In this section, conclusions were drawn emanating from the research findings covered in the previous chapter.

5.1 Conclusion

The study revealed that the practice of outsourcing is not new in private hospitals. The main reason for outsourcing was established as focus on core business, service improvement and reduction of service costs in that order.

The main activities that are outsourced by hospitals are;

1. Waste disposal
2. Surgeons & specialized doctors
3. Maintenance
4. Security

The hospitals still perform activities that are considered non-core to their main business. Such activities include; laundry, catering, procurement, debt collection and ambulance services. The size of the hospitals has an impact on the activities outsourced.

It was also found that while most outsourcing initiatives are formed with clear objectives, implementation is not carried out well and this might account for the dissatisfaction in outsourcing. Not many hospitals measure the benefits accruing from outsourcing. Another reason for dissatisfaction is that there is no proper management for the resultant relationship to create a "win- win" relationship for both the hospital and the service provider.

5.2 Limitation of the study

Due to time and cost considerations, this study was restricted to hospitals within Nairobi. A similar study but encompassing all private hospitals in the country could be useful to complement results from this study.

5.3 Suggestions for further research

1. During the study, it was noted that different activities were implemented differently and it is therefore recommended to study a single activity across hospitals.

2. It also come out that relationship management is an important aspect that influences the outcome of an outsourcing initiative. A study therefore on its own will complement results from this study.

APPENDIX 1: Letter of Introduction

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
P.O BOX 30197
NAIROBI

Mr < >
<Company >
P.O Box < >
Nairobi

Dear <Respondent>
RE: MBA RESEARCH PROJECT

As part of the requirement of the Master of Business Administration degree, the undersigned who is a student in the faculty of Commerce, department of Business Administration is required to undertake a management research project in partial fulfillment of the degree of Master of Business Administration (MBA). He intends to undertake a study of implementation of outsourcing strategy on private hospitals in Nairobi.

The questionnaire is designed to gather information on implementation of outsourcing strategy in private hospitals. All the information you disclose will be used for this academic exercise and will be treated in strict confidence. Your name or the name of the hospital will not be mentioned anywhere in the report.

Your cooperation will be highly appreciated.

Many thanks
Yours faithfully,

J.O Nyarandi   Jackson Maalu
MBA Student.   Supervisor.

Appendix 2

QUESTIONAIRE

For the purpose of this study Outsourcing is the use of outside suppliers or service providers to perform activities traditionally handled by internal personnel and resources.

SECTION 1

1.   Age of the institution………………………………………………………………

2.   Bed capacity of the hospital……………………………………………………..

        Answer the following questions by placing a tick against the correct choice

3.   Who owns the hospital?

                Religious Organization   ( )

                Not for profit   ( )

                Private company   ( )

                Association of members   ( )

                Individuals   ( )

                Public   ( )

                Company trust   ( )

                Missionaries   ( )

4.   What is the Main focus of your Hospital?

                Pedestrian   ( )

                Women   ( )

                General   ( )

                Other …………………………………………………..

5.   What describes the level of competition facing your hospital

                Very high   (   )

                Fairly high   (   )

                Low   (   )

6.   What do you consider to be your Hospitals core
           business……………………………………………………………………

SECTION 2

7. The table below shows the activities outsourced and initial considerations. Please answer all the questions

Activity	Tick all activities outsourced	Tick if feasibility carried out	Tick if Consultant used	Tick if Business case developed
Security				
Catering				
Laundry				
Maintenance				
Procurement				
Information technology				
Surgeons & specialized doctors				
Cleaning				
Waste disposal				
Debt collection				

8. Tick in terms of importance the factors that motivated your organization to outsource the above activities

Factors	Very important	Fairly Important	Important	Less important	Not important
Efficiency					
Cost reduction					
To free management time					
Concentration on core objectives					
Response to competition					

9. Was outsourcing being considered because other hospitals were doing the same

       (YES)   (NO)

10. Once outsourcing had be agreed on, was there *a plan* specifying the following?

    Answer YES or NO

    i)   Objectives for the project?   ....

    ii)   What needs to be done?   ....

    iii)   By what period?   ....

    iv)   Who is responsible?   ....

    v)   Are resources allocated?   ....

    vi)   How is to be done?   ....

11. *Tick to what extent you agree with the following*

What do you perceive to be the long term benefits of outsourcing?

Benefits	Strongly Agree	Fairly Agree	Agree	Disagree	Strongly disagree
Improved Quality					
Extra management time					
Improved service					
Access to expertise					
Flexibility					
Focus on Core activities					

SECTION 3

Partner selection and contract management

12. Table 4 and 5 contains questions on partners' selection and contract management.

    Table 4

Activity outsourced	State criteria used to arrive at the prospective service provider			
	Open tendering	Selective tendering	Recommendation	Others
Security				
Catering				
Maintenance				
Procurement				
Information technology				
Internal & External cleaning				
Waste disposal				
Others				

The table below lists criterion used to select service provider. Tick the one used for each activity.

Table 5

Activity outsourced	State criteria to evaluate the service provider			
	Price	Quality	Time	Recommendation
Security				
Catering				
Maintenance				
Procurement				
Information Technology				
Internal & External cleaning				
Waste disposal				
Others				

13. Was there specification of outcomes or output required by the Hospital? (Yes) (No)

14. Was there a nominated person given responsibility of managing the contract? (YES) (NO)

15. Was a contract put in place before the supplier started providing the service? (YES) (NO)

16. Who was involved at this stage ( ) Top Managers ( ) Departmental Managers

17. At what stage were employees involved? ( ) At start ( ) Middle ( ) Final

18. Was a contract signed? (YES) (NO) if yes, for how long? ( )

19. Did this outsourcing decision involve any job losses? (YES) (NO)

   If YES, Tick what best explains how it was handled

Employees were taken up by service provider	
Employees were retrenched	
Employees were absorbed to other departments	
Some employees were absorbed while others were retrenched	

SECTION 4. Actual implementation

20. Was the implementation carried out in a phased approach?
                (YES) (NO)

21. Did the processes and procedures change with the new service provider entry?
                (YES) (NO)

23. Did the new supplier bring own employees? (YES) (NO)

24. Was there any structural change in the organization? (YES) (NO)

25. How was the progress monitored?

( ) Regular communication   ( ) regular meetings   ( ) Benchmarking

( ) others ……………………………………………………………………………..

26. How were the challenges overcome? *Tick the suggestion that best describes your answer*

By regular communication and reviews	
By change in implementation techniques e.g Procedure change	
By change of Service provider	
By provider changing employees	
By wait and see	

SECTION 5.

Post Implementation Review

27. Was there an agreed parameter for measuring the benefits?

(YES)   (NO)

28. If measurement parameter agreed, what method is it?

Benchmarking…(YES)   (NO)

Inspection…(YES) (NO)

Informal surveys…….. (YES)   (NO)

Cost targets…(YES)   (NO)

Service objectives……. (YES)   (NO)

OTHERS……………………………………………………………………………………

……………………………………………………………

29. How does Outsourcing measure against expectations?

(   ) FAIR(   )GOOD   (   )VERY GOOD

30.   Do you have any fears from outsourcing?

                 (YES)   (NO)

31.   Are you dissatisfied with outsourcing?

                 (YES)   (NO)

If yes, which areas are you dissatisfied with?

( )   Implementation   ( ) Service provided ( ) Communication

Any other?

      a. ....

      b. ....

32.   Will you still outsource other activities?   (YES)   (NO)

32.   Given a chance, could you return the activity back in house?

                 (YES)   (NO)

33.   *Tick below What you envisage is the future of outsourcing in Kenya*

Bright , Here to Stay	
Will be discarded, passing cloud	
Many Organizations will embrace it	
Don't know	

END

Thank you for sparing your time to respond to this questionnaire.

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Appendix IV

LIST OF PRIVATE HOSPITALS & NURSING HOMES

Name	Location	Telephone	Beds
1. The Aga Khan Hospital	Parklands	740000	165
2. Alpha Maternity & Nursing Home	Eastleigh Sec.1	760035	45
3. Avenue Hospital	Parklands	742907	60
4. Central Park Hospital	Kibera		
5. Chiromo Lane Medical Centre	Westlands	749979	15
6. City Nursing Home	Mfangano street	248490	20
7. City Park Hospital	Park Road	763334	15
8. Comprehensive Medical Services	Thetha Road, Off Lenana road	715550	Nil
9. Coptic Church Nursing Home	Ngong Road	720831	37
10. Dorkcare Nursing Home	Munyu Road	760498	
11. Eastleigh Community clinic	5th Street, Eastleigh	766656	19
12. Emmaus Innercore Nursing Home	Umoja Innercore	784093	16
13. Genisis Nursing & Maternity Hospital		765642	26
14. Gertrude Garden Childrens Hospital	Muthaiga	760130/7	72
15. Guru Nanak Ramgarhia Sikh Hospital	Murang'a road	764811	85
16. Huruma Nursing Home	Huruma Estate	783900	26
17. Ideal Nursing Home	Juja Road	767610	Nil
18. Inder Nursing Home	Pangani	760926	39
19. Jamaa Home & Maternity Hospital	Rabai Road, Uhuru estate	350941	46

20. Kabiro Health Care Trust	Kawangware 46	565162	Nil
21. Kasarani Maternity & Nursing Home	Kasarani	803694	20
22. Kayole Hospital ltd	Kayole	782473	40
23. Kilimanjaro Nursing Home	Eastleigh Sec. 1	760773	26
24. Komarock Nursing Home	Komarock	783648	20
25. Lions Sightfirst Eye Hospital	Loresho	583239	Nil
26. M.P Shah Hospital	Parklands	742763	95
27. Madina Nursing Home	9th Street Eastleigh	766360	18
28. Maria Maternity & Nursing Home	Kayole Eastate	791699	20
29. Mariakani Cottage Hospital	South B	541215	
30. Masaba Hospital	Adams Arcade	560922	156
31. The Mater Hospital	South B	531197/9	135
32. Melchizedek Hospital	Naivasha Road	561610	
33. Metropolitan Hospital	Rabai Road	790282/6	35
34. Mother & Child Hospital	Eastleigh Sec. V11	764082	23
35. Nairobi Equator Hospital	Nairobi West	604720	40
36. The Nairobi Hospice	Next to KNH	722212	75
37. The Nairobi Hospital	Argwings Kodhek Road	722160	220
38. Nairobi West Hospital	Nairobi West.	603492	66
39. Nairobi Women's Hospital	Hurlingham	724802	50
40. Ngara Nursing Home	Ngara	745829	16
41. Nyina wa Mumbi Matenity Home		567827	14
42. The Olive Tree Hospital	South C	604438	36
43. Park Road Nursing Home		764365	57
44. Parklands Ambulatory	Parklands	749393	

Surgical center			
45. Prime Care Hospital	Tena Estate	784228	15
46. Redient Health Nursing Home	Pangani	760096	27
47. Right medical center	Lavington	48591	
48. St James Hospital	Mombasa road	606060	63
49. St. James medical center Ltd	Komarock road	784614	40
50. St. Marys Mission Hospital	Otiende	072526766	
51. Samar Clinic & Maternity Home	Kahawa Sukari	812432	
52. South B Nursing Home	South B	532762	12
53. Umoja Nursing Home	Umoja Phase 1	786748	
54. Westlands Cottage Hospital	East church Road	445552	113

Source: Kenya Medical Directory, 2001/2002 Edition and NHIF records.