OUTSOURCING OF FACILITIES MANAGEMENT SERVICES BY MULTINATIONAL MANUFACTURING FIRMS IN KENYA

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DECLARATION

This research project is my original work and has never been presented in any other University or College for the award of degree or diploma or certificate.

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DEDICATION

To my beloved wife and son, parents, sibling and all my friends.

ACKNOWLEDGEMENT

To God for his enabling blessings.

Acknowledge my supervisor for his guidance even when things got tough.

My sincere gratitude to my family for their enormous support and encouragement which has been inspiring.

I am grateful to my colleagues, classmates and friends for their tireless and continuous support and advice in my pursuit of knowledge, particularly Kimathi, Dorothy, Njenga, Kinywa and Mongare whose technical academic advice on this study was overwhelming.

Finally, I thank all those who in their special ways made this study a success.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Outsourcing practice dates back to eighteenth century England and has been in continuous use in numerous industry sectors since the latter half of the 1980s and 1990s in the emerging service sector (Willcocks, 2002; Quinn and Hilmer, 1994). The theoretical foundation of outsourcing can be traced back to transaction cost economics introduced by Chalos (1994), the motivation for international outsourcing is supported in the economic theory of comparative advantage (Forst, 1999).

The business environment today is dynamic and turbulent, making it imperative for organisations to adequately adjust to meet the environmental challenges or else face huge strategic problems as pointed by Ansoff (1990). Increasingly, the ability to forge, manage and sustain strategic outsourcing relationships is becoming critical for competitive success. Such relationship, however are often handled in an ad hoc, trial and error manner (Bloomberg, 2002).

Strategic outsourcing is gaining wide spread acceptance throughout the World, top executives of leading multinationals turn to outsourcing as a strategic management tool for improving corporate performance, profitability and shareholder's value (PriceWaterHouseCoopers,1999). Companies choose to outsource mainly to enjoy quality products from the best in the market (Callaghan, 1993).

Porter (1985) advanced the concept of the value chain, which disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing potential causes of differentiation. He contends that a firm gains competitive advantage by performing these strategically important activities better or more cheaply than its competitors. To achieve this firms have to undergo some form of organisational restructuring and would employ Business Process Re-engineering (BPR). This entails analysis of oneself, strategy, staff, other people you work with and, technology used, procedures and processes employed to do the job and so on, with a view of eliminating unnecessary procedures and improving the necessary ones.

The target is flexibility, which is the ability to adjust quickly to changing market conditions. The firm should therefore structure itself to be lean enough to beat the competitor's price, innovative enough to keep its products and services, technologically equipped and dedicated enough to deliver maximum quality and customer service. To capitalize on this growth and ensure that the trend towards outsourcing continues requires an innovative approach based on providing a genuine alternative to the incumbent supplier at an acceptable price. Where an outsourcing company ought to be at a competitive advantage is not just through economies of scale, but in adopting a 'best practice' approach based on its experience and expertise working with a diverse customer base (Kennelly, 2007).

1.1.1 Multinational Manufacturing Industries in Kenya

The Kenyan economy remains predominantly agricultural, industrialisation has been an integral part of the country's development strategies both in the colonial and post-colonial periods. Industrialisation has been seen as a mechanism of diversifying the economy and as a dynamic engine for sustained accelerated economic growth especially in the post-independence period.

The manufacturing sector in Kenya consist of the modern and informal sector. While the former comprises mainly of small, medium and large enterprises, the latter consists of numerous open-air small and micro scale productive activities in towns and rural trading centres. With regard to ownership and management of firms in Kenya's manufacturing industry, there have been some significant changes in the years after independence.

Currently, multinationals and parastatals dominate the large industries while Kenya's business people, mainly of Asian origin, dominate the small and medium ones. Kenyans of African origin own mainly micro-enterprises in the informal sector.

The country has observed a rising number of investments from multinationals who have invested in the service and manufacturing sectors. They include Nokia from Finland and General Electric, who have set up centres in Kenya to supply the region. Other multinationals doing good business in Kenya include Microsoft, Erricson, Vodafone and Nivea manufacturers, Biersdoff (Yulu, 2007). Oil dealer Kenol-Kobil, seems to be expanding every other day and has made headways into the regional markets as multinationals sell out their outlets and leave the scene.

Available information from Kenya Investment Authority shows efforts being made to reduce the cost of doing business in Kenya. For instance, to simplify licensing, 17 trading licenses were removed in the fiscal year 2005/06 and a further 118 licenses were eliminated in the fiscal year 2006/07 together with removal of duties on selected imported inputs. Under the Investment Climate Action Plan-guillotine process, 136 licenses have been eliminated, with 700 under review (Yulu, 2007).

While a lot of effort has been made to improve the investment climate in Kenya over the last few years, more needs to be done if the country has to compete with other destinations worldwide. A potential investor now views Kenya as less than ideal, owing to issues of infrastructure, power, licensing and corruption (Paterson, 2007). Apart from the notoriously high cost of power in Kenya, difficulties in obtaining licenses and visas, inefficiencies at the Port of Mombasa and deteriorating infrastructure are among other non-tariff barriers to investment in this market. Majority of the multinationals who have so far relocated, shut down or downsized their operations consider Kenya as one of the least competitive investment destinations worldwide (Okoth, 2008).

1.1.2 Outsourcing Facilities Management Services in Kenya

Global competition, downsizing, the move to flatter organizations, the search for greater flexibility, rapid changes in technology and emphasis on concentrating on core competencies are cited as major drivers for the upsurge in service outsourcing in the banking sector (Allnoch, 1997). Companies choose to outsource mainly to enjoy quality products from "the best in the market" (Callaghan, 1993).

Facilities Management is fundamental to all organizations. Without the buildings, the equipment, the services and the environment being delivered to best practice standards, the organization itself could not produce the core product, as it would like. The provision of the buildings, the environment within which people work and the equipment they use constitutes a large portion if not the majority of the organization's capital assets. The services provided to enable the core staff to operate, probably constitute the second largest revenue cost.

Companies are turning to single source providers to manage aspects of their facilities. As the myriad aspects of the profession have become progressively mature and complex, it has become increasingly clear to businesses that they cannot possibly retain all the necessary expertise and technological resources. Firms in Kenya outsource their facility needs to different suppliers hence forced to manage them directly which becomes very costly and quite involving. These would include Catering, Cleaning, Security, Building maintenance, IT, Transport etc.

The known facilities management companies in Kenya include Johnson Control PTY managing British American Tobacco facilities and that of International Livestock Research Institute, CB RICHARD Ellis dealing with property management, KK Security managing Toyota Kenya facilities and Lloyd Masika handling Standard Chartered bank facilities.

1.2 Statement of the Problem

Outsourcing has been adopted widely in the world as a strategy to gain competitive advantage. Companies are increasingly seeking outside firms to perform activities previously conducted in-house in order to achieve time, process and cost advantages. They concentrate on their core business and cannot afford the time or financial resources to dedicate on every function or process necessary to run their business (Lutta, 2003).

PriceWaterHouseCoopers (1999) established that outsourcing has moved from attending to a single function more efficiently, to reconfiguring the whole process in order to attain greater shareholder value across the enterprise. Companies would opt to outsource non-core services that is Facilities Management Services.

Facilities Management (FM) is an age-old practice which for many years has been undervalued simply because its importance to the organization has not been understood. It is a complex and confusing business understood by too few people who have an influence on it and the way in which it is deployed within organizations. The fundamentals of this discipline are constantly being rethought with new ideas and theoretical approaches in order to build its image and to ensure that it is planned, organized and implemented to match the organizational need (Quin Shea, 2003).

In Kenya, Facilities Management has not been fully recognized; this study is aimed at revealing the opportunities available, perceptions and challenges faced in the industry, this being a relatively new concept without known prior research. This study intends to shed light on Facilities Management Services as practised in Kenya.

1.3 Research Objectives

1. To establish the current practices by Multinational Manufacturing firms in Kenya on outsourcing Facilities Management Services.

2. To establish the challenges faced by Multinational Manufacturing firms in Kenya on implementing outsourced Facilities Management Services.

1.4 Significance of the Study

Strategic outsourcing is gaining wide spread acceptance throughout the western world, as a strategic management tool for improving corporate performance, profitability and shareholder's value (PriceWaterHouseCoopers, 1999).

1.4.1 To facilities management service providers

The research will shed light on the existing opportunities and enabling them re-strategize their marketing activities inline with the expectations of the clients thus increasing the client base and hence growth of FMS and the industry at large.

1.4.2 To the outsourcing companies / FMS clients

The research would identify the benefits and challenges that arise from outsourcing. It would also provide facilities and maintenance managers with a basis for evaluation for future outsourcing contracts and to establish the derived benefits from outsourcing.

1.4.3 To the academic world

It would contribute to the existing literature in marketing of services more so as regards facilities management services and act as a further stimulus for further studies and research to complement and extend present studies carried out in the area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Outsourcing

Chase (2004) defines outsourcing as *"an act of moving some firm's internal activities and decisions responsibilities to outside providers",* Harkins (1996), indicates that outsourcing means *"having an external vendor provide on a recurring basis a service that would normally be performed within the organization*". These and other definitions define the basic outsourcing decision situation as being one of reallocating production (both service and or manufacturing capacity) from one location to another. In outsourcing, the firm leverages on third party service provider's expertise to perform its non-core activities and focusing more on core ones to achieve competitive advantages for the business (Godsby and Whitlow, 2004).

Outsourcing has, its roots in the "competitive advantages" theory by Smith (1776) in his book propagated the wealth of Nations. In that a firm should specialize in producing products that it is good at, to achieve competitive advantage. It should leave other tasks to other firms that also have competitive advantage in them. Many companies cannot afford the time or financial resources required to concentrate on every function or process necessary to run their business.

In most management objectives, reduced costs, increased profits, increase revenue feature prominently. As the management develops the organisation's strategy it evaluates all alternatives available and chooses the best direction that enables them focus on the market, customer's needs and allocate their scarce resources (Thompson and Strickland, 2003).

Porter (1985) argues that the generic strategies that a business can adopt depending on the competitive orientation of its market places are low cost, differentiation or focus strategies. Whichever strategy a firm chooses, it must create ways, develop capabilities and look for opportunities on how to reduce both cost and focus on customer needs in a rapidly changing business environment to survive the long run. Consumer preferences and expectations change daily and thus up the pressure for companies to perform and meet these needs. Outsourcing is one of the strategies that can be chosen among other alternatives to improve its competitive position (Kinyua, 2000).

Outsourcing being a relatively new concept, it has increasingly taken root as a strategic option of service delivery. It has been viewed as a means to reduce cost and overheads, improve customer satisfaction and provide enhanced efficiency and effectiveness (PriceWaterhouseCoopers, 1999). Many businesses are seeking strategic outsourcing partners to help them compete more effectively. The outsourcing market continues to grow with increasing levels of services and facilities outsourcing in the public and private sectors. Outsourcing providers of specialist single services or bundled facilities management (FM) and business process outsourcing (BPO) services, face demand for increased capacity, together with significant risk, bid management and regulatory issues (Duke, 2008).

2.2 Outsourcing in Multinational Manufacturing Firms in Kenya

Today in the global economy, this sector has been dominated by giants who have always believed in producing in bulk to serve the global market. As competition tightens its grip, emphasis is laid on ever increasing need for competitive advantage in order to survive. For this, a high degree of proficiency and professionalism is mandatory. In these circumstances one can figure out the need for outsourcing services (Goolsby, 2004).

In the manufacturing sectors, some of the basic reasons for outsourcing services are; to reduce wastage of time, money and human resource on order processing, Cost of maintaining overhead and inventory, Elongated lead time, to comply with the market trends, improve on Customer satisfaction and reduce overall associated manufacturing cost.

Battery maker Eveready East Africa has outsourced the manufacturing of some battery making inputs to small and medium scale enterprises. The move was expected to help the company cut down costs and create linkages, which enabled it to pass on manufacturing to SMEs and give it a competitive edge. The outsourcing plan kicked off in non-technical areas such as production of battery labels. Mbogo (2008) explains that the aim is to concentrate on their core activities and use the expertise in developing all the battery making components.

2.3 Facilities Management Services (FMS)

The International Facility Management Association (IFMA) defines Facilities management as; *A profession that encompasses multiple disciplines to ensure functionality of the built environment by integrating people, place, process and technology.*

IFMA goes further defining FM as; *The practice or coordinating the physical workplace with the people and work of the organization; integrates the principles of business administration, architecture, and the behavioral and engineering science* (Shari, 2007).

In the UK and other European countries facilities management has a wider definition than simply the management of buildings and services. The definition of FM provided by the European Committee for Standardization (CEN) and ratified by BSI British Standards is: *Facilities management is the integration of processes within an organisation to maintain and develop the agreed services which support and improve the effectiveness of its primary activities.*

The British Institute of Facilities Management has formally adopted the CEN definition but also offers a slightly simpler description: *Facilities management is the integration of multi-disciplinary activities within the built environment and the management of their impact upon people and the workplace* (Huston, 1999).

Responsibilities associated with facility management typically include a wide range of function and support services, including janitorial services; security; property or building management; engineering services; space planning and accounting; mail and messenger services; records management; computing, telecommunications and information systems; safety; and other support duties. It is the job of the facility manager to create an environment that encourages productivity, is safe, is pleasing to clients and customers, meets government mandates, and is efficient.

2.3.1 Different Businesses and their Different Facility Needs

A 'facility' may be a space or an office or suite of offices; a floor or group of floors within a building; a single building or a group of buildings or structures. These structures may be in an urban setting or freestanding in a suburban or rural setting. The structures or buildings may be a part of a complex or office park or campus (Levitt, 2004).

The key is to define the facility as a physical place where business activities are done, and to make facility management plans in accordance with the needs and demands of those business activities. After all, the facility needs of a movie theatre, a museum, a delicatessen, a plastics manufacturer, and a bank are apt to be considerably different, even though there will likely be certain basic needs that all will share (furniture, office space, air conditioning systems, light fixtures, etc.). Good facility management is concerned with addressing those needs in the best and most cost-effective ways possible.

Facility management encompasses a wide range of responsibilities, including Monitoring organization efficiency, ensuring that the business receives the most it can for its facility-related expenditures (this is often done through standardization of company-wide needs so that high-volume purchases of necessary products can be made), real estate procurement, leasing, and disposal (or facility construction, renovation, and relocation), ensuring that the divergent processes, procedures, and standards present in a business complement rather than interfere with one another, monitoring all aspects of facility maintenance and upkeep so that the business can operate at highest capacity, tracking and responding to environmental, health, safety, and security issues, ensuring facility compliance with relevant codes and regulations, anticipating future facility needs in areas as diverse as fluorescent light procurement, new space for expanded assembly lines, automation, and wiring for new computer networks, educating work force about all manner of standards and procedures, from ordering office supplies to acting in the event of a disaster (Gordon, 2006).

2.3.2 The Evolving Character of Facility Management

Facility management has traditionally been associated with janitorial services, mailrooms, and security. Since the middle of the twentieth century, though, facility management has evolved into a demanding discipline. Factors driving the complexity of the facility manager's job are numerous. For example, facilities have become much larger and more complicated, often relying on computerized and electronic support systems that require expertise to operate and repair. Brown (2007) observed 'personal computer networks, telecommunications systems and other technological tools have significantly increased office tenant requirements in the past 15 years." This trend is evident in manufacturing sectors as well.

Many other factors have impacted on the challenges of facility management in recent years. For example, the newfound corporate cost-consciousness that emerged during the 1980s has generated an emphasis on operational efficiency. Price (2006) summarized the facility manager's situation as; "Facilities professionals are being asked to contain costs while achieving maximum beneficial use, that is, to achieve more with less." In addition, philosophical changes such as increased reliance on teamwork, cross-functional teams, and telecommuting have created new spacing and infrastructure demands. The responsibilities of facility managers have continued to broaden into all areas of facility upkeep, including insuring that the business adheres to regulatory requirements in such areas as handicapped access, hazardous material handling and disposal, and other "safe workplace" issues.

The end result of new technology, efficiency pressures, and government regulations has been an expansion of the facility management role. By the 1990s, facility managers were often highly trained and educated and must wear several hats. Depending on the size of the complex, the manager will likely be responsible for directing a facility management and maintenance staffs. In addition to overseeing the important duties related to standard maintenance, mailroom, and security activities, he or she may also be responsible for providing engineering and architectural services, hiring sub-contractors, maintaining computer and telecommunications systems, and even buying, selling, or leasing real estate or office space.

Price (2006) suggested that evolving business realities in the realms of process improvement, cost containment, speed-to-market accelerations, quality control, and workplace arrangements and concepts will all have a big impact on future notions of facility management. Price argued that the challenge for facilities planning will be to integrate knowledge workers into a dynamic business environment of global competition, technological developments, and changing values. He laid out three primary precepts that will likely form the underpinnings of future facilities management services:

Understanding the evolving nature of knowledge-based business; The new workforce and the content of its work is migrating from a bureaucratic control of resources and the movement of materials through a process toward a highly flexible and networked organization whose added value is exploiting specialized knowledge and information to solve complex problems, *Understanding workspace trends*; evidently computing and communications technologies are fundamentally transforming the workplace landscape. As shared jobs, telecommuting, home-based businesses, flexible work hours and other trends make further inroads in the business world, facility management philosophies will have to keep pace.

Understanding how new technologies have removed old restrictions on conducting business; This, basically entails recognizing that the removal of physical limitations caused by transportation and communications technology has changed the scope, strategy, and structure of the business world.

2.4 Reasons for Outsourcing

Quinn & Hilmer (1994) states that, one of the great gains of outsourcing is the decrease in execution time for managing peripheral activities, freeing top management to focus more on the core of its business. Various strategies have shown that when these internal transaction cost are thoroughly analyzed, they can be extremely high.

Tompkins (2007) summarises business functions into three types of functions: Core Functions, Tactical Non-Core Functions and Strategic Non-Core Functions.

Core Functions; are an organization's core competency—the unique business functions that makes the organization successful, the critical activities that allow it to thrive. For example, a research organization may also do some manufacturing and distribution but their core function is research because that is the primary service the company provides.

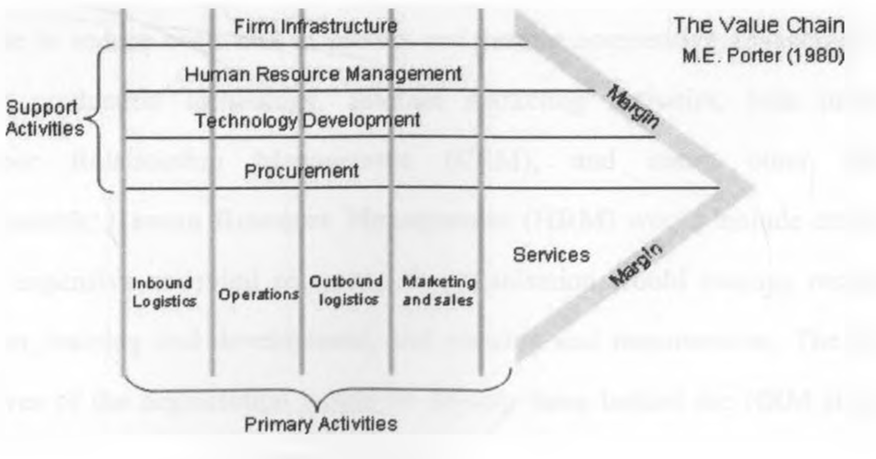
Companies cannot exist by only performing core functions. Other functions are necessary too that is, payroll, audit, janitorial and food service, these are **tactical non-core functions** that are absolutely necessary, but should not, by definition, have an impact on the bottom line. Certainly you can argue that if your food service providers poison your staff, your landscape providers destroy vital electrical cables/connections, your payroll providers embezzle your funds, your auditors allow others to misreport your income or the janitorial staff throws away important papers, these things will certainly impact your bottom line. Yes, these functions are important, but for them to impact your bottom line they really, really need to be done poorly.

To the contrary, logistics or manufacturing operations, information technology and marketing are excellent examples of **strategic non-core functions** that, if done well, can have a major impact on your bottom line. The reason for these impacts on your bottom line is both the much greater costs of these functions vs. the tactical non-core functions as well as the implications to the success of the business if these functions are not done well as compared to the tactical non-core. Goolsby (2004) says Companies are facing intense competitive pressures and being challenged to innovate, introduce new products, and expand into new markets.

2.4.1 Value Chain Analysis

Porter (1980) proposed the Value Chain as a systematic approach to examining the development of competitive advantage. The chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organisation. The 'margin' depicted in Figure 2.1 is the same as added value. The organisation is split into 'primary activities' and 'support activities.'

Figure 2.1: The Value Chain Analysis



The value chain consists of primary and support activities as shown in figure 2.1 is explained in the ensuing paragraph.

Primary Activities

Inbound Logistic is where the goods are received from a company's suppliers. They are stored until they are needed on the production or assembly line. **Operations** would include where goods are manufactured or assembled. **Outbound Logistics** entails the finished goods, and they need to be sent along the supply chain to wholesalers, retailers or the final consumer, **Marketing and Sales** as expected in true customer orientated fashion, the organisation prepares the offering to meet the needs of targeted customers. This area focuses strongly upon marketing communications and the promotions mix. And the **Service** which includes all areas of service such as installation, after-sales service, complaints handling and training.

Support Activities

Procurement is the function responsible for all purchasing of goods, services and materials. The aim was to secure the lowest possible price for purchases of the highest possible quality. They will be responsible for outsourcing (*components or operations that would normally be done in-house are done by other organisations*), and e-Purchasing (using IT and web-based technologies to achieve procurement aims). **Technology Development** is an important source of competitive advantage. Companies need to innovate to reduce costs and to protect and sustain competitive advantage. This could include production technology, Internet marketing activities, lean manufacturing, Customer Relationship Management (CRM), and many other technological developments, **Human Resource Management (HRM)** would include employees who are an expensive and vital resource. An organisation would manage recruitment and selection, training and development, and rewards and remuneration. The mission and objectives of the organisation would be driving force behind the HRM strategy, **Firm Infrastructure** is usually driven by corporate or strategic planning, that is Management

Information System (MIS) and other mechanisms for planning and control such as accounting.

Accelerating competition and customer buying power driving down margins, manufacturers need to decide whether outsourcing these non-core functions to external service specialists makes business sense. If after careful evaluation, these activities can be performed more cost effectively, efficiently and reliably by a service provider then outsourcing can often be the best option. By specialising in the specific capabilities and technologies underlying each of these functions, service providers become more proficient than manufacturers who spread their efforts across all of their business processes (Foy, 2006).

2.4.2 Benefits of outsourcing

There are various reasons as to why companies outsource as highlighted by Hollands (2006). One of the major benefits was the facilitation of a company to continuously function on an ongoing basis rather than on a specific single project. This enables them to focus on their core business function. Outsourcing takes care of ancillary functions in part or in totality. This optimizes the company's growth based on its core or specific business. It also reduces the operating costs by focusing on major business area. This way, the capital funds always remain available for the core business instead of being diverted to other supporting portions of the business. This improves productivity and service by standardizing all operations and processes across your global portfolio. The outsourcing vendor manages your global portfolio comprehensively, thus increasing the lifespan of your portfolio.

Wandabwa (2006) alleges that outsourcing when taken off shore gives you access to world-class capabilities. You can leverage global resource networks to support your business. It gives you another perspective or dimension to the existing business for more efficiency. With the shrinking world and cross-culture across the world, it helps employees to assimilate efficiently in changing the working environment. Nargundkar (2006) re-firms that outsourcing Improves customer satisfaction with improved processes as a result of risk reduction due to reliance on experts and infusion of new technology. He further asserts that outsourcing fosters and sustains an exceptional safety culture, emphasizing training and employee morale. It may also provide an alternate career option to employees if done on same premises/country.

It creates flexibility with the facilities to even provide support in times of industry uncertainty speeding up work and sharing innovations for best practices and thus maintain a competitive edge with new ideas. This reduces risk and increases productivity by freeing more resources / savings for other purposes such as enhancing or expanding the business in other ventures. Outsourcing brings technical know how that its employer would have great difficulty cultivating in-house. Likewise, a recreation facility owner that employs a facility manager specializing in the operation of sport complexes may benefit from the contractor's mix of knowledge related to grounds keeping, accounting and reporting, and sports marketing, among other functions.

Outsourcing reduces the owner's liability related to personnel, thus the organization can substantially reduce its involvement in staffing, training, worker's compensation expenses and litigation, employee benefits, and worker grievances. It also eliminates general management and payroll responsibilities rather than tracking hours and writing checks for an entire staff, it simply pays the facility management company. In addition, a company that hires a facility management firm can quickly reduce or increase its staff as it chooses without worrying about hiring or severance legalities (Hollands, 2006).

2.5 Challenges of Outsourcing

As business leaders rethink their approach to outsourcing contracts, it is important that organisations do not continue to fall into six familiar traps, which have been identified by Gartner analyst Scardino (2007). These "mistakes" are drawn from experience in focusing on research and consultancy in outsourcing. Executive management see outsourcing primarily as a way to cut costs in the short term, with no regard for the long-term implications, and by so doing they fail to set sufficient levels of service to ensure business units are supported effectively. Conversely, the opposite approach of being too hard on the supplier can be equally damaging. In so doing benchmarking was a critical mechanism for judging weather sufficient services are delivered, lack of benchmark was often the reason why expectations are not met and relationships are destroyed.

Companies should not assume that, just because they have outsourced some or all of their non-core needs, the risk of failure does not exist for the buyer. Both parties to the deal must consider risks and decide how to mitigate them. As organisations begin to split large deals and offer smaller contracts to more service providers they should consider their resources, are they enough to support such moves? He articulates that enterprises must have sufficient budget to manage outsourcing deals and should never assume that once a contract is signed that demands on internal resources go away. Everything comes back to the way the commercial relationship was established at the start. If you do not get that right, if each party does not understand each other's needs and motivations, then there will be issues down the track.

Probyn (2007) observes that any organisation with more than 500 users should be seriously considering outsourcing arrangements to leverage the skills and cost scales of industry suppliers. He further acknowledges that CEOs are justified in thinking twice about an outsourcing strategy. Once a strategy was rolled out, it was very difficult for an organisation to roll it back in again, even if the engagement is seen as a failure. Companies surrender significant amounts of IT skills, intellectual property and internal knowledge when they hand over their systems to a third party. Deciding to bring everything back in-house is not only time-consuming, but also expensive and potentially high-risk.

Hollands (2006) found that CEO's do not like the idea of being too dependent on services companies, or losing management control to third parties. The elements of an IT infrastructure that should be outsourced often depend not only on the size of the company, but also the industry within which they operate. The manufacturing sector was a hot arenas for data centre outsourcing, network management, help desk and repeatable business processes and transactions such as issuing invoices, credit and debtor control, and call centre operations.

Probyn (2007) says there is an "art and craft" to contract negotiations designed to ensure the longevity of a deal rather than set parameters that either party may not be able to meet. "Changing suppliers was very expensive and can cause a lot of trouble for staff on both sides of the fence, it was best for each party to accept the concept of an independent benchmark before the contracts are signed. Given the strictness of contracts these days, vendors now realise they have to be benchmarked. But it is important to agree on how the different services should be measured."

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This was a survey aimed at determining the current practices and challenges faced by Multinational Manufacturing firms in Kenya on implementing outsourcing Facilities Management.

3.2 Population of the Study

The study being a survey had a population of all the 12 Multinational Manufacturing companies in Kenya according to Kenya Association of Manufactures (2007). These companies do actual manufacturing in Kenya.

3.3 Data Collection

Primary data collection was done through questionnaires with both open and close ended questions, targeting plant facility manager or maintenance managers. The questionnaire was divided into four sections; Section A dealt with general information of the company, section B levels and extent of outsourcing, section C covering the reasons for outsourcing and section D dealt with the challenges faced when outsourcing facilities management services.

3.4 Data Analysis

Data analysis was done using descriptive statistics, which include; raw data tables, percentages and proportions. These were used to determine the level of awareness, extent of outsourcing, establishing the main reasons for outsourcing and the challenges faced by companies.

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The survey done covered all the twelve Multinational Manufacturing firms in Kenya, that is British American Tobacco, Cadbury Kenya Limited, Coca Cola East Africa limited, East African Packaging Industries, General Motors East Africa Ltd, Glaxo Smithkline Kenya Ltd, Nestle Foods Kenya Ltd, Syngenta East Africa Ltd, Toyota Kenya Ltd, Unilever Kenya Ltd, Wrigley Company (EA) Ltd and PZ Cussons & CO Ltd. Data was collected using questionnaires that were later edited for completeness and consistency, of the 12 questionnaires used in the survey, 11 were complete and consistent. Only one from East African Packaging Industries was inconsistent and inaccurate, thus disqualified. The eleven returned questionnaires' represented a response rate of 92% which the study considered adequate representation for analysis.

The data was analysed, presented in percentages and frequency distributions, mean and standard deviations and discussed into four sections as divided in the questionnaire used; Section A dealt with general information of the company, section B levels and extent of outsourcing, section C covering the reasons for outsourcing and section D dealt with the challenges faced when outsourcing facilities management services.

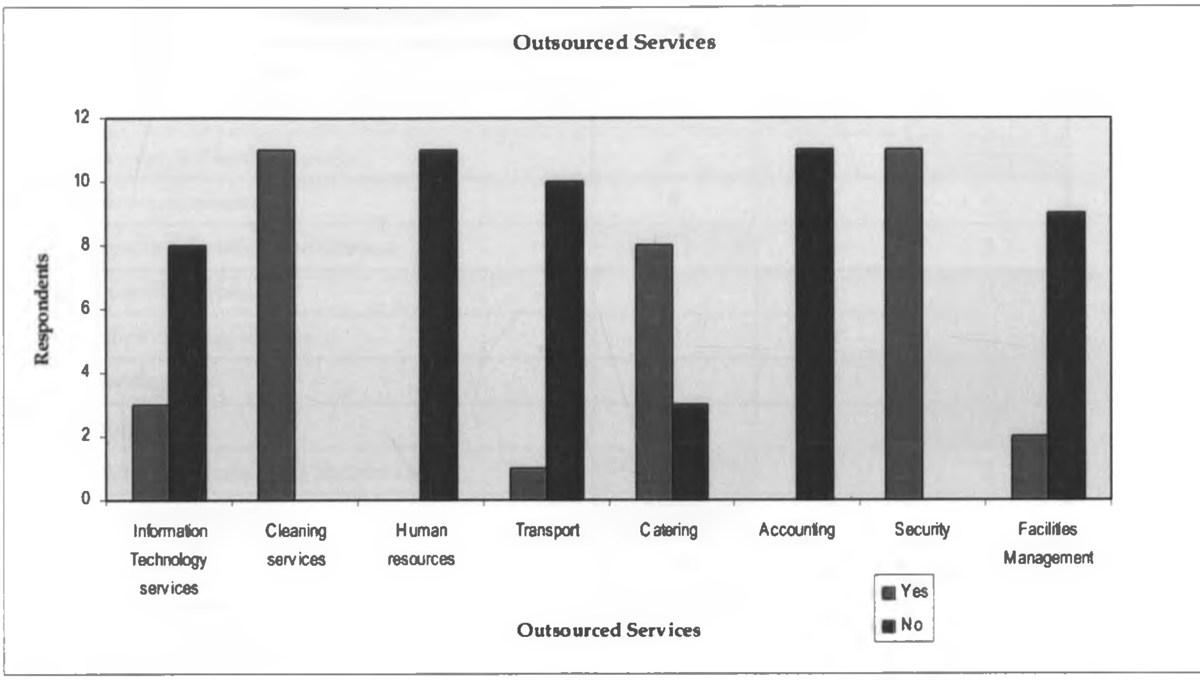
4.2 General information on Multinational Manufacturing firms in Kenya

The respondents were asked several general questions to highlight their background in relation to their practices. All the eleven respondents had been in existence for over 20 years, operating in Kenya for over 10 years and they all outsource at least one if not all of their non-core activities. Interestingly enough, 73% of the companies had been outsourcing for less than 5 years while 27% for 5 to 10 years. Of the 11, only 18.6% of the companies had a Facilities Management department, that is British American Tobacco and Toyota Kenya, 9.3% had Asset department and the remaining 72.1% had Maintenance department which managed their facilities.

4.3 Levels and Extent of Outsourcing Facility Management Services

The respondents were asked to select the various services that they outsource to establish the level of outsourcing, these services included cleaning, IT, HR, Transport, Catering, accounting, Security, and Facilities Management.

Figure 4.1 Services Outsourced by the multinationals



The findings in figure 4.1 show that 41% of the companies outsource their non core business unlike 59% which does not outsource. All the companies outsource cleaning and security services and 82% outsource catering services. Surprisingly, only 27% outsource Information technology Services. None of the companies outsourced Accounting services and Human Resources Services. BAT and Toyota Kenya outsource their Facility Management Services unlike the rest of the companies, and their facilities are managed by Johnson Controls Pty and K.K Securities respectively.

Cleaning and security services have been outsourced by all the multinationals unlike Human Resource Management and Accounting, while Information technology, transport services and facilities management have not been outsourced by 70% of the multinationals.

The respondents were asked to indicate either, fully outsourced, partially outsourced or not outsourced to establish the extent to which they outsource Facility management services. The various Facilities Management Services and the extent to which they have been outsourced have been shown on Table 4.1.

Table 4.1 Extent of Outsourcing Facilities Management Services

Facilities Management Services	Not outsourced	Partially Outsourced	Fully outsourced
Carpentry maintenance	4	5	2
Electrical maintenance	5	5	1
Masonry & Plumbing works	0	2	9
Paint maintenance	0	7	4
Expatriate housing management	7	2	2
Waste Management	0	0	11
Office cleaning services	0	0	11
Catering	2	0	9
Security	0	0	11
Grounds & compound Maintenance	9	0	2
Handy man services	10	0	1
Pest control	0	3	8
Courier management	8	0	3
Lifts maintenance	3	1	7
Air conditioning maintenance	1	1	9
Utilities bills	10	0	1
Copiers	1	4	6
Print and stationary management	7	2	2
Laundry management	4	3	4
Switch board & Reception	10	0	1
Totals	**81**	**35**	**104**
Percentage	**36.8%**	**15.9%**	**47.3%**

The findings in Table 4.1 shows 47.3% of the services were fully outsourced that is waste management, security and office cleaning. The rest of the services were either not outsourced - 36.8% or partially outsourced - 15.9% giving a total of 53.7%.

Interestingly enough, services such as switch board, managing utilities, handy man services, grounds and compound maintenance were not outsourced by over 80%.

The research went further to establish what Facilities Management Services the multinationals would rather outsource, and the respondents were asked to indicate these services as shown on table 4.2.

Table 4.2 The extent to which multinational manufacturing companies would rather outsource Facilities Management Services

Facilities Management Services	Not outsourced	Partially Outsourced	Fully outsourced
Carpentry maintenance	0	2	9
Electrical maintenance	0	9	2
Masonry & Plumbing works	0	0	11
Paint maintenance	0	0	11
Expatriate housing management	0	2	9
Waste Management	0	0	11
Office cleaning services	0	0	11
Catering	0	0	11
Security	0	0	11
Grounds & compound Maintenance	0	0	11
Handy man services	3	0	8
Pest control	0	0	11
Courier management	0	0	11
Lifts maintenance	0	0	11
Air conditioning maintenance	0	0	11
Utilities bills	2	5	4
Copiers	0	0	11
Print and stationary	0	1	10
Laundry	0	0	11
Switch board & Reception	4	2	5
Total	**9**	**21**	**190**
Percentage	**4.1%**	**9.5%**	**86.4%**

The findings in Table 4.2 reveals; 86.4% of the companies would rather outsource all the services than have them done in-house. 82.8% would rather have electrical maintenance and 45.4% utility bill management partially outsourced. 27% and 36% would rather not outsource Handyman services and Switchboard / reception services respectively.

The findings showed that a significant number of the MNCs would rather outsource a huge percentage of Facilities Management Services – 86.4%.

4.4 Factors Considered when outsourcing

The respondents were asked to give their independent opinion on the extent to which they believed the factors were considered when outsourcing, that is to what extent they agreed or disagreed with the factors considered. The range was 'strongly disagree (1)' to 'strongly agree' (5) was used to rank the respondents opinion.

Table 4.3 Factors Considered when outsourcing Facilities Management Services

Factors Considered	Agree / Disagree mean	% mean	Remarks
Quality	4.91	94.3%	Strongly / Fairly Agree
Financial (cost reduction)	4.64		
Management directives	4.64		
Improve efficiency	4.64		
Confidentiality	4.36		
Global competitiveness	4.18		
Need to focus on core business	4.09		
Uniqueness of service	4.00		
Better customer service	4.00		
Greater flexibility	3.91		
Reduced operational risk	3.73		
Lack of internal competency	3.73		
Accelerate re-engineering benefits	3.55		
Move towards a flatter organisation	3.27	5.7%	Not sure
Total	57.65	100%	
Mean	4.12		

Table 4.3 shows the scores of strongly disagree / fairly disagree have been taken to present a variable which had mean score of 0 to 2.4 on the continuous Likert scale; (0≤S.E<2.4). The scores of 'Not sure' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E.<3.4) and the score of Fairly agree/strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤ L.E.<5.0).

Table 4.3 shows an overall mean score of 4.12 implying that the factors considered are reflective of the industry considerations when outsourcing FMS. A standard deviation of 0.47 at 95% confidence level implies a no significant difference amongst the respondents on the factors.

The respondents indicated the extent to which the various factors were significant when considered outsourcing, as depicted in figure 4.2.

Figure 4.2 Factors Considered when Outsourcing FMS

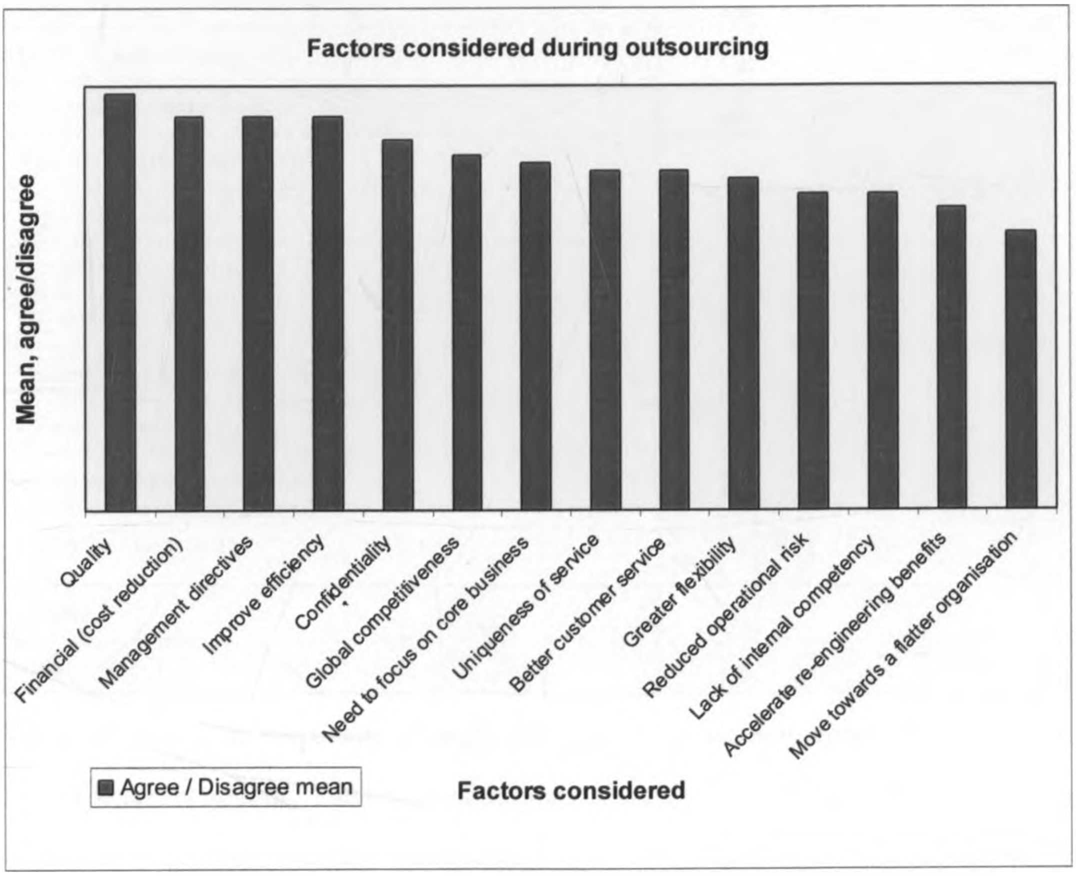


Figure 4.2 show that 94.3% of the companies strongly / fairly agreed on the factors while only 5.7% were not sure that the factors mentioned were considered. In order of priority, the respondents pointed out that quality followed by cost saving was key while accelerated re-engineering benefits and Move towards a flatter organisation followed last as less popular respectively.

4.5 Challenges Faced when outsourcing Facilities Management Services

The respondents were to give their independent opinion on the extent to which they believed the challenges faced when outsourcing facilities management services.

Table 4.4 Challenges faced when outsourcing

Challenges faced	Agree / Disagree mean	% mean	Remarks
Mismatched priorities	4.27	55.1%	Fairly / Strongly Agree
Loss of critical skills	4.18		
Loss of control in critical functions	4.09		
Required structural adjustment	3.91		
High overall operational cost	3.91		
Redefining organisation boundaries	3.82		
Loss of cross functional skills	3.45	41.6%	Not sure
Loss of learning opportunities	3.27		
Dependence on outside supplier	3.09		
Unaware of the Potential outsourcing benefits	3.00		
Difficulty in vendor selection	2.91		
Stifling innovation and creativity	2.55		
Market lacks suitable vendor	1.45	3.3%	Strongly / Fairly Disagree
Totals	43.90	100%	
Mean	3.38		

Table 4.4 shows the range was 'strongly disagree, (1) to strongly agree, (5) used to rank the respondents opinion. The scores of strongly disagree/ fairly disagree have been taken to present a variable which had mean score of 0 to 2.4 on the continuous Likert scale; (0≤ S.E<2.4). The scores of 'Not sure' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E.<3.4) and the score of Fairly agree/strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤ L.E.<5.0).

A standard deviation of **0.79** at 95% confidence level implies a no significant difference amongst respondents on the challenges faced.

Table 4.4 highlights that slightly more than half 55.1% agreed that the key challenges faced were mismatched priorities, loss of critical skills, loss of control in critical functions, required structural adjustment, cost and redefining organisational boundaries were key challenges faced are there, 41.6% were not sure on loss of cross functional skills, learning skills, dependence on outside supplier, unaware of the benefits of outsourcing, difficulty selecting vendors and stifling innovation and creativity, while 3.3% disagreed on the market lacking a suitable vendor to offer the services.

Interestingly, all the companies would rather outsource all the Facilities Management Services, five to nine companies would rather partially outsource utilities bill management and electrical maintenance. On selection of a service provider, the following factors were strongly considered in order of importance; quality, cost reduction, improving efficiency, confidentiality and global competitiveness while re-engineering benefits and move towards a flatter organisation scored the least on importance as a factor amongst all the companies.

Challenges faced when outsourcing revealed that most companies had or otherwise anticipated problems when trying to redefine their organisation boundaries, and adjusting their structures. In fact, .75% of the respondents felt that the introduction of facilities management service provider would make them loose control of the some of their functions leading to loss of jobs. Of less importance is the dependency on outside supplier and the choice of vendor that seemed not to be their worry / key challenges amongst all respondents.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

SUMMARY

The study sought to establish the current practices and challenges faced by Multinational Manufacturing firms in Kenya when implementing outsourcing services, in this case Facilities Management Services. It has covered extensively background information of the various aspects regarding outsourcing that is existing theories, current trends in the industry and overly the industry and its future trends in Kenya and the world at large.

The research covered 12 Multinational Manufacturing Companies, seeking answers to the various questions paused aimed at revealing the true picture of the current practices and challenges faced by MNC while outsourcing FMS. This information (the findings) was thereafter analysed, discussed and presented using figures, tables and graphs for easy interpretation.

Interestingly, the research revealed that outsourcing of several non core services took place in all the companies. Commonly outsourced services were cleaning and security. The study also brought out the fact that the concept of facilities management was not been fully embraced. In fact only two out of the eleven companies had outsourced facilities management services, also to note is that the other nine firms, engaged several suppliers to offer various services which would otherwise have been done by only one Facility Management Company.

CONCLUSION

The results revealed that Facilities Management Services is unexplored industry in Kenya with multinational manufacturing companies increasingly adopting the trend of outsourcing as a strategic management for competitive advantage in the business environment. Evidently the current practices are still conservative by only outsourcing the traditionally outsourced services such as cleaning and security while managing the rest of the services in house.

Most of the companies do not outsource FMS, this is because most companies had or otherwise anticipate problems when trying to redefine their organisation boundaries, and adjusting their structures. In fact, 75% of the respondents felt that the introduction of facilities management service provider would make them loose control of some of their functions leading to loss of jobs.

RECOMMENDATIONS

The concept of facilities management was depicted as not well understood and more light needs to be shed. Thus, the key players in Facilities Management Service provision should take it upon themselves to market and raise awareness on their services and instil confidence amongst potential client in a move to broaden their market base.

In this dynamic environment, companies should exploit the option of outsourcing not only FMS but also other none core services to have a competitive advantage.

Areas for Future Research

Further research need to be done on the Facilities Management Services Industry as a whole to find out the current players and their performance. Other areas such as their current marketing practices, cost saving benefits to clients vs. quality services need also to be looked into. It would also be interesting to find out if truly outsourcing facilities management services is a beneficial strategic management decision as usually done by most companies.

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APPENDICES

Nick Wandera
Tel: 0722391382

Letter of Introduction

Dear Respondent,

<u>Re: MBA RESEARCH PROJECT</u>

I am a post graduate student at the University of Nairobi doing a research project as part of the requirements for the degree of MBA.

My research aims at finding out the extent of Outsourcing Facilities Management Services by leading Multinational Companies in Kenya's Manufacturing Sector.

The information collected with your assistance by filling in the questionnaire would be strictly used for academic purposes and will be treated in confidence. Your name or that of the organization will not be mentioned in the report.

A copy of research project would be made available to you on request.
Your assistance will be highly appreciated.

Yours faithfully

Nick Wandera

QUESTIONNAIRE

SECTION A: General Information

1. Please state Name of your Organisation and your office title;

____

2. How long has your company been in existence? (Tick as appropriate)

Less than 10 years ( )

10 – 20 years ( )

Over 20 years ( )

3. How long has your organisation been operating in Kenya. (Tick as appropriate)

Less than 3 years ( )

3 - 5 years ( )

5 – 10 Years ( )

Over 10 years ( )

4. How many employees do you have? (Tick as appropriate)

Less than 100 ( )

101 – 250 ( )

251 – 400 ( )

401 – 650 ( )

Over 650 ( )

5. Does your company outsource some of its operations? (Tick as appropriate)

Yes ( )

No ( )

6. If yes in question 5, how long has your company been involved in outsourcing? (Tick as appropriate)

Less than 5 years ( )

5 to 10 years ( )

Over 10 years ( )

7. If No in question 5, please do not continue.

SECTION B: Level of Awareness and Extent of Outsourcing

8. Which business activities does your company outsource? (Tick as appropriate)

Information Technology services	( )
Cleaning services	( )
Human resources	( )
Transport	( )
Catering	( )
Accounting	( )
Security	( )
Facilities Management	( )

If other (Please specify) ________________________________

9. Do you have a Facilities Services Department? (Tick as appropriate)

Yes ( )

No ( )

If no, Please specify under which department none core businesses are managed

____

10. To what **extent** are the following Facilities Management activities outsourced? Please rank in a scale of 1-3; 1 for not outsourced, 2 for partially outsourced and 3 for fully outsourced. (Tick as appropriate)

Facility Management Activity	**Ranking**		
	1	**2**	**3**
Carpentry maintenance	( )	( )	( )
Electrical maintenance	( )	( )	( )
Masonry & Plumbing works	( )	( )	( )
Paint maintenance	( )	( )	( )
Expatriate housing management	( )	( )	( )
Waste Management	( )	( )	( )
Office cleaning services	( )	( )	( )
Catering	( )	( )	( )

Security	( )	( )	( )
Grounds & compound Maintenance	( )	( )	( )
Handy man services	( )	( )	( )
Pest control	( )	( )	( )
Courier management	( )	( )	( )
Lifts maintenance	( )	( )	( )
Air conditioning maintenance	( )	( )	( )
Utilities bills	( )	( )	( )
Copiers	( )	( )	( )
Print and stationary	( )	( )	( )
Laundry	( )	( )	( )
Switch board & Reception	( )	( )	( )
Other (Please specify) ___________	( )	( )	( )
Other (Please specify) ___________	( )	( )	( )

11. Which of the following Facilities Management activities would you rather outsource and to what extent? Please rank in a scale of 1-3; 1 for not outsourced, 2 for partially outsourced and 3 for fully outsourced. (Tick as appropriate)

Facility Management Activity	**Ranking**		
	1	**2**	**3**
Carpentry maintenance	( )	( )	( )
Electrical maintenance	( )	( )	( )
Masonry & Plumbing works	( )	( )	( )
Paint maintenance	( )	( )	( )
Expatriate housing management	( )	( )	( )
Waste Management	( )	( )	( )
Office cleaning services	( )	( )	( )
Catering	( )	( )	( )
Security	( )	( )	( )

Grounds & compound Maintenance	( )	( )	( )
Handy man services	( )	( )	( )
Pest control	( )	( )	( )
Courier management	( )	( )	( )
Lifts maintenance	( )	( )	( )
Air conditioning maintenance	( )	( )	( )
Utilities bills	( )	( )	( )
Copiers	( )	( )	( )
Print and stationary	( )	( )	( )
Laundry	( )	( )	( )
Switch board & Reception	( )	( )	( )
Other (Please specify) ___________	( )	( )	( )
Other (Please specify) ___________	( )	( )	( )

SECTION C: Reasons for Outsourcing

12. There are a number of factors that organisations take into consideration when they are making decisions of whether or not to outsource. Please rank by ticking as appropriate the number that best describes the level of agreement of the importance of the following factors. 1. Strongly disagree, 2. Fairly disagree, 3. Not sure, 4. Agree, and 5. Strongly agree.

Considered Factors			**Ranking**		
	1	**2**	**3**	**4**	**5**
Financial (cost reduction)	( )	( )	( )	( )	( )
Quality	( )	( )	( )	( )	( )
Confidentiality	( )	( )	( )	( )	( )
Need to focus on core business	( )	( )	( )	( )	( )
Lack of internal competency	( )	( )	( )	( )	( )
Management directives	( )	( )	( )	( )	( )
Global competitiveness	( )	( )	( )	( )	( )

Improve efficiency	( )	( )	( )	( )	( )
Reduced operational risk	( )	( )	( )	( )	( )
Accelerate re-engineering benefits	( )	( )	( )	( )	( )
Uniqueness of service	( )	( )	( )	( )	( )
Better customer service	( )	( )	( )	( )	( )
Greater flexibility	( )	( )	( )	( )	( )
Move towards a flatter organisation	( )	( )	( )	( )	( )

Other (Please specify)

____

____

____

____

____

SECTION D: Challenges Faced when Outsourcing

13. There are a number of challenges that organisations face when outsourcing. Please rank by ticking as appropriate the number that best describes your agreement to the statements as regards outsourcing facilities management services; 1. Strongly disagree, 2. Fairly disagree, 3. Not sure, 4. Agree and 5. Strongly agree.

Challenges	Ranking				
	1	2	3	4	5
Difficulty in vendor selection	( )	( )	( )	( )	( )
Loss of control in critical functions	( )	( )	( )	( )	( )
Dependence on outside supplier	( )	( )	( )	( )	( )
High overall operational cost	( )	( )	( )	( )	( )
Loss of critical skills	( )	( )	( )	( )	( )
Loss of cross functional skills	( )	( )	( )	( )	( )
Loss of learning opportunities	( )	( )	( )	( )	( )
Mismatched priorities	( )	( )	( )	( )	( )
Stifling innovation and creativity	( )	( )	( )	( )	( )
Required structural adjustment	( )	( )	( )	( )	( )
Redefining organisation boundaries	( )	( )	( )	( )	( )
Unaware of the potential – outsourcing benefits	( )	( )	( )	( )	( )
Market lacks suitable vendor	( )	( )	( )	( )	( )

Other (Please specify)

____

____

____

____

The End

Thank you for your co-operation in filling this questionnaire

Multinational Manufacturing Companies (Kenya Association of Manufacturers)

1. British American Tobacco
2. Cadbury Kenya Limited
3. Coca Cola East Africa limited
4. East African Packaging Industries
5. General Motors East Africa limited
6. Glaxo Smithkline Kenya LTD
7. Nestle Foods Kenya LTD
8. Syngenta East Africa LTD
9. Toyota Kenya LTD
10. Uniliver Kenya LTD
11. Wrigley Company (EA) LTD
12. PZ Cussons & CO LTD