EMPLOYEE PERCEPTION OF THE OUTSOURCING STRATEGY AT THE KENYA POWER AND LIGHTING COMPANY LTD

BY

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DECLARATION

This project is my own research and has never been presented in any other university for a degree or diploma.

Charity Kamau

Signed…………………………………… Date………………

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

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DEDICATION

To my family and friends.

ACKNOWLEDGEMENT

I am heartily thankful to my supervisor,Mr Eliud Mududa,whose encouragement,guidance and support from initial to final level enabled me to develop an understanding of the subject.

Lastly,i offer my regards and blessings to all those who supported me in any respect during the completion of the project.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Outsourcing involves the transfer of management and /or day to day execution of an entire business function to an eternal service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. The supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. The Kenya Power and Lighting Company has outsourced services such as transport, motor vehicle maintenance, line construction ,cleaning ,security and receiving of payments of electricity bills through banks, supermarkets and mobile service providers. No study has been done to establish how employees feel regarding the services outsourced. The purpose of this study is therefore to establish how employees feel in regards to outsourced services.

1.1.1 Concept of Outsourcing

Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Due to widespread outsourcing practices, it has become a frequent topic in the literature. Numerous reasons why outsourcing is initiated have been identified by researchers. Organizations may expect to achieve many different benefits through successful outsourcing. There is an abundance of outsourcing literature where many benefits, risks, motivators, and decision factors have been presented (Tibor et al, 2006).

Outsourcing is subcontracting a process, like product design or manufacturing, to a third-party company. It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. There are different forms of activity levels of outsourcing. Greaver disassociates the components manufacturing from individual, functional and process outsourcing. The component manufacturing belongs to an own field of outsourcing unlike the three others who are part of a hierarchy. Individual outsourcing affects single positions, functional outsourcing regards to whole divisions of companies and process outsourcing swaps out whole business processes like financials or IT. The extent of outsourcing is also important and can be differentiated between selective and total outsourcing. (Greaver & Maurice, 1998).

The goal of outsourcing is a maximal specialization on activities of high value with low risk and preferably low costs. The companies want to keep the overhead cost low and try to concentrate on their core business. The purposes for companies to outsource have been researched in literature and in surveys. Quelin and Duhamel (2003) highlighted the main motives of outsourcing are as presented in Table 1.

Table 1: Main Motives of Outsourcing in Literature

Main motives identified	Main references
To reduce operational costs	Barthelemy and Geyer (2000); Kakabadse and Kakabadse (2002)
To focus on core competences	Kakabadse and Kakabadse (2002)
To reduce capital invested	Kakabadse and Kakabadse (2002)
To improve measurability of costs	Barthelemy and Geyer (2000)
To gain access to external competences and to improve quality	Kakabadse and Kakabadse (2002)
To transform fixed costs to variable costs	Alexander and Young (1996)
To regain control over internal departments	Alexander and Young (1996)

Source:Quelin and Duhamel(2003)

The reduction of operational costs is still one of the main goals of outsourcing but the importance of this argument will decrease in the next years (Kakabadse & Kakabadse, 2002). Managers expect a cost reduction through the economies of scale the suppliers can offer (Lacity & Hirschheim, 1993).

Quinn and Hilmer (1994) explain the meaning of core competencies with a list of criteria. Core competencies are skill or knowledge sets and not single products or functions because single products can be duplicated or back-engineered and traditional functions like production or engineering were formed in the past. Competencies are sets of skills cutting across the functional borders. The managers should try to focus on areas where the company dominates, instead of spreading their efforts over the whole value chain. The competencies are also limited in number. At least one of these competencies should directly relate to understanding and serving the customer. (Quinn & Hilmer, 1994).

The outsourcing of a department or just of a process improves the cost measurability. The OEM(original equipment manufacturer) does not have several cost positions anymore, but a single position for the variable costs of the supplier payment. The negotiated contracts cut the risks of high cost fluctuation. (Barthelemy & Geyer, 2000).

The suppliers are specialized on their products and are in a permanent competition with other suppliers to keep the OEMs as contract partners. These reasons can lead to higher quality and a higher competence level. The latest development showed that suppliers are already integrated in the early phase of R&D to harmonize the production. (Kakabadse & Kakabadse, 2005)

The fixed costs can be cut and transformed into variable costs through outsourcing. The fixed costs for employees and technical infrastructure disappear. The payments for the suppliers are variable costs in contrast. (Alexander & Young, 1996)Outsourcing whole departments like IT or marketing are not only ways to streamline a company's structure. Alexander and Young argue that it is easier to control the outside suppliers than the internal experts they replaced. The reasons are a clear contract, the desire to build a good client relationship and the reduction of internal political intrigue. (Alexander & Young, 1996)

Outsourcing, or the contracting out of non-core business activities, is one of the most popular trends in organizational strategy of the last decade (Logan, Faught, & Ganster, 2004). The key idea is that organizations can free-up resources involved in support functions in order to improve the performance of core functions (Elmuti, Kathawala, & Monippalil, 1998). The improved performance resulting from this is expected to outweigh the loss of control. There are various forms of outsourcing. For instance, employees are terminated before activities are transferred to an external service provider, an in-house department is transformed into an independent company that subsequently provides services to its “mother”-company, or both activities and employees are transferred to a service provider (Logan et al., 2004). We will focus on the last form, which implies that the employees of an outsourcing organization are transferred to an organization (called outsourcing provider) and remain subsequently involved in delivering services to their former employer, at least for some period of time.

Outsourcing has been applied in sectors such as manufacturing, cleaning, security, catering, transportation, maintenance engineering, finance and accounting, personnel administration, travel services, and information and communication technology (ICT). During the last decade, the emphasis shifted towards the ICT sector, with 40% of all outsourcing contracts in 1998 (Elmuti et al., 1998). As a consequence this sector has received most emphasis in the recent literature, too. Our own study is also related to ICT.
Outsourcing is a business strategy whereby a company hires an independent outside company to do some of its non-core company work (Kotler, 2003). More companies prefer to own brand rather than physical assets; they are decapitalising. A few companies are moving toward hiring outside parties to provide almost all services (Kotler, 2003). Companies outsource a wide rage of services, all aimed at creating competitive advantages, these are Accounting and financial services, human resource services, customer care services, security services, and cleaning services. This is because these services are non-core and repetitive in nature thus similar in almost all organisations. Furthermore they can be done by an outside company at cheaper cost or at the same cost but in better ways (Quinn and Hilmer, 1994).

An organization’s vision is to focus on consistently superior performance, or develop assets of high specificity that create value (Turner an Crawford, 1992). In order for organizations to achieve their goals and objectives, they have to consistently adjust to their environment (Pearson and Robinson, 1997). This environment is turbulent, constantly changing, and so it makes it imperative for organizations to adapt their activities in order to survive. Organizations that do not adequately adjust to meet environmental challenges will experience a big problem example is loss of customers and customers are the heart of every business hence decline in turnover and eventually decline in profits. This is called the strategic problem. This problem arises out of the maladjustment of any organization to its environment (Ansoff, 1990).

The major task of managers is therefore to ensure the continued existence of their organizations. Organizations have developed and adopted different techniques over time to help them cope with the threat posed by the strategic problem. One of the most recent and most comprehensive of the management approaches is strategic management (Pearce and Robinson, 1997). Strategies that an organization pursues have a major impact on its performance relative to its peers (Hill and Jones, 2001). The purpose of strategy is maximum goal achievement, i.e. “winning” with minimum resource use and risk. Strategic risk analysis and management starts by defining the specific goal, capabilities and organizational missions that make enterprise pre-eminent in selected markets (Quinn et al, 2000).

1.1.2 The Concept of Perception

In large part, the extent of a discussion of perception is determined by the definition one uses in their discussion. For the purposes of this paper, the study will use a definition proposed by Forgus and Melamed (1976). They defined perception as the process of information extraction. Forgus and Melamed (1976) based their description of perception on cognitive structures. These are the processes that determine how humans interpret their surroundings. Humans interpret their surroundings on a "higher" level than those of animals, which perceive the world in terms of stimulus-response or reflex-tropistic actions. Humans, on the other hand, perceive their world through information processing.

Because all humans extract information from their environment through the same general process, Forgus and Melamed (1976) proposed that scientists must pursue the concept of perception by the avenue of information processing. This approach makes perception the central step in the acquisition of knowledge and higher thought. Perception is the "superset," composed of learning, memory and thinking as "subsets" of perception. This understanding requires a more in-depth understanding of the relationship between learning and perception.

It is important to understand that each process is not independent of the others in this model. All three components (learning, memory, thought) are subsets of perception. Information extraction cannot occur without these building blocks. It is also important to understand that this model is a two-way model. As learning leads to thinking, further thought reinforces learning. Perception is cyclical. There are several factors that can influence one's perception, which are listed by Severin and Tankard (1997). These factors are both external and internal. The external factors on perception are background, extensity, intensity, concreteness, contrast, novelty, repetition, velocity and conditioned stimuli. The internal factors on perception are motivation, interest, need, and assumptions.

1.1.3 Kenya Power and Lighting Company

KPLC is a limited liability company responsible for the transmission, distribution and retailing of electricity throughout Kenya. KPLC owns and operates the national transmission and distribution grid, and retails to more than 1,000,000 customers throughout Kenya. To achieve world-class status as a quality service business enterprise so as to be the first choice supplier of electrical energy in a competitive environment.

To efficiently transmit and distribute high quality electricity throughout Kenya at cost effective tariffs; to achieve the highest standards of customer service; and to ensure the company long term technical and financial viability. The Kenya Power & Lighting Company is committed to providing high quality customer service by efficiently transmitting and distributing high quality electricity that is safe, adequate and reliable at cost effective tariffs.

The Board, Management and staff of KPLC are committed to effective implementation and continual improvement of the Quality Management System that complies with ISO

9001:2000 in order to consistently meet its customers and other stakeholder's requirements and expectations. Some of the outsourced services include transport, motor vehicle maintenance, line construction and receiving payments of electricity bills through banks, supermarkets and the post office.

The Kenya Power and Lighting Company has been outsourcing some of its operations for the past years from other companies. For instance, the company has been outsourcing poles from South Africa. This is a deal that started in 2005 and was questionable at the time with issues of quality being questionable (Financial Standard, 2005). The company also outsources management services from MHI of Canada. This is a deal that the company feels will impact positively on its earnings (KPLC financial Report, 2006). Some of the non-core operations such as cleaning and security have also been outsourced from local companies. As all this has been taking place, the employee morale has been affected as some of those who dealt with the departments that their services were finally outsourced have had to be transferred to other departments or retired.

1.2 Statement of the Problem

Developing a system to identify the perceived quality of services is thus crucial to developing effective strategies and achieving sustainable competitive advantage. Further, it is important for an organization to determine the perception of its users on its service quality which is pertinent to meeting its objectives. As Ngatia (2000) observes that unless the perceptions of the consumer are understood, it would be difficult for the service providers to achieve their objectives in service quality strategies. The quality of a service by nature is difficult to determine or evaluate unless it is first experienced.

In Kenya much has been studied in the area of experiences of service quality and outsourcing. Ndegwa (1996), Masinde (1986), Mwendwar (1987), Mwaura (2002), Murugu (2003) and Njoroge (2003) have studied diverse industries including, Banking/Mortgage, hospitality, transport, port services, power and lighting and the matatu industry. Chebet (2005), Kirui (2001), Mbone (2002), Motari (2002) all these people researched on outsourcing of services but none of them considered what the human resources of these organisations think about the outsourced services.

The above studies were conducted in different industries and their findings may not be applied to the companies such as the energy sector. Further, since the public corporations begun undergoing the changes aimed at improving its service quality, no study has been carried out to determine what the employees think about outsourcing services at KPLC. While a lot of services have been outsourced at KPLC, the management of the company has overlooked the possibility of both positive and negative perceptions of the employees towards outsourcing services and no study has been carried out to find out this. This study therefore seeks to fill this dearth in literature as concerns the experience of outsourcing in public corporations by studying the perception of employees towards outsourcing services at Kenya Power and Lighting Company. The KPLC has been chosen for the study due to the fact that it has been outsourcing most of its services that it considers to be non-core activities and concentrating on the core business. Further, KPLC is among the first public corporations to outsource most of its operations hence the motivation to study it.

1.3 **Objective of the Study**

The objective of this study was to determine the perception of employees on outsourcing strategy as adopted by Kenya Power and Lighting Company (KPLC).

1.4 **Significance of the Study**

This study is significant as the results are invaluable to the management of various companies will know what measures to put in place to reverse the adverse perception towards such moves. The results are also valuable to the academics and researchers who will use the findings of this study as a basis for further research in determining the sustainability of outsourcing as an approach to the management of organisations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

As organisations redirect valuable internal skills and capabilities to high value adding activities, the sourcing debate has moved from whether to outsource, to what and the quality of outsourced services according to Venkatraman, (1997). To become truly competitive, corporations have been downsizing, rightsizing, restructuring and re-engineering.

Many organisations are working towards the concept of organisation dealing with core or strategic activities, surrounded by a network of smaller companies and individuals (associates) providing a range of supporting ancillary services on contracted basis. These services must be performed at the highest standard possible so as to meet quality requirements (Daniels, 1998).

2.2 Benefits of Outsourcing

In their article, Strategic Outsourcing (Quinn and Hilmer, 1994) shows that a company's resources can be leveraged in various ways. One of the ways is through maximization of returns on internal resources by concentrating investments and energies on what the enterprises does best. Another way is through well-developed core competencies providing formidable barriers against present and future competitors that seek to expand into the company's areas of interest, thus facilitating and protecting the strategic advantages of market share; full utilization of external suppliers' investments, innovations and specialized professional capabilities that would be prohibitively expensive or even impossible to duplicate internally. This joint strategy is said to decrease risks, shorten cycle times, lower investment and create better responsiveness to customer needs.

If supplier markets were totally reliable and efficient, rational companies would outsource everything except those special activities in which they could achieve a competitive edge i.e. their core competencies (Quinn and Hilmer, 1994). However most supplier markets are imperfect and entail some risks for both buyer and seller with respect to time, quality, price and so on. Bendor (2001) identifies several benefits of outsourcing in his web article ‘The Dirty Dozen’ and further proposes preventive measures. He brings them out as the common mistakes vendors and buyers make while offering or receiving the service.

2.3 Outsourcing Strategy

Outsourcing must be done carefully, systematically and with explicit goals. Companies that rush into outsourcing without carefully understanding what they want to gain may find themselves mired in a contracted battle with a chosen vendor or the recipient of services that worsen rather than improve them as pointed out by Bendor Samuel (1999), the world’s top outsourcing authority identified a five-step model. These steps are investigation stage, tendering stage, negotiation stage, implementation stage, and relation management.

Investigation stage is the planning stage where the objectives and scope of outsourcing are defined and feasibility of outsourcing is determined before a decision to proceed. The effort is planned in terms of time, budget and resources needed. Levels of services required by the vendors are specified and an interface between services to be outsourced and those to be left in the house are identified after which a request for proposals is developed.

Tendering stage involves inviting bids from potential vendors using a Request for Proposal to the general public through a media advertisement or other suitable means. Responses are collected from vendors and analyzed and short listing of suitable vendor is done. The outsourcing market is competitive and suppliers will be competing not only with each other but also with existing in house services according to Large (1999). In selection of vendors you need to consider among other things; the going concern of the vendor. The vendor’s life should be up to the foreseeable future. Particular skills: the vendor should have the particular skills required to perform activities to be outsourced. Sole supplier: If the vendor is the sole supplier of a particular skill the firm has to be careful in assessing risk due to absence of competition. Size of the vendor: A vendor whose numbers of employees are few may have strong skills vested entirely in one individual leaving the firm vulnerable. Competitive bidding is costly and time consuming though transparent and open.

First, selection can also be approached through sole vendor sourcing and procurement where the client firm approaches a vendor and upon negotiation, appoints it to perform a service instead of going for competitive bid. This ensures culture and strategies compatibility and not just the size of the deal, marketing value and other advantages of competitive bidding. Secondly, the firm can negotiate with vendors sequentially until it finds a fit thus eliminating the bidding costs. In a non-competitive biding process a firm can use the “Three R’s” concept (Leilbein, 2003), which is, References, Relationships and Reputations to select a vendor. However in the current world of good corporate governance a firm can be condemned for lack of transparency and accountability.

The negotiation stage is where the negotiations are done with the selected vendor, also called the strategy and process stage. Factors to consider can be ranked as follows; commitment to quality, price, reputation, and flexible contract terms, scope of resources, additional value, added capacity and existing relationships.

During implementation stage a contract is developed, reviewed and signed after which its performance starts. The outsourcing relationship with the vendor is managed and maintained or changes in the outsourcing relationship are re negotiated if necessary and re-implemented. Performance measurement, motivation and continuity are perfected i.e. to terminate it, continue or decision to bring the function back in-house is made. Before embarking on the above process, Bendor (1999) further concludes that outsourcing clients should do a thorough internal analysis (value chain analysis) and make it clear what can be outsourced, what cannot and how it impacts other facets of the operations. This information together with customer expectations of service levels should be communicated.

2.4 Service Quality

According to Thomas (1978), a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Zeithamal, et al (1990) defines service quality as a measure of how well the service level matches customer expectations. An organization must be consistent in delivering quality service in conformity with the turbulence of its internal and external environment. As Spreng and Mackoy (1996) noted, the quality of a service is of significant and strategic concern, an important indicator of customer's satisfaction.

Consequently, the user or consumer of the product or service is an important consideration in the achievement of the organization's objectives. Rust and Zahhoric (1996) observed, "the customer has all the votes". Tom Peters and Austin (1998) upheld that, there is a role for marketing, strategy formulation and the like, but ultimately, it all boils down to perceived, appreciated and consistently delivered service and quality to customers. Increasingly, it is recognized that even the service quality of government or public institutions, credibility and the quality of service delivered, matters a great deal for a country's economic performance, Zeithamal, et al (1990)).

2.5 Making the Decision to Outsource

Before an organization decides to outsource all or part of customer care services, it is essential that the management understands exactly what happens in that function. Though it may take a while to identify all of the activities associated with running a customer care department, not to mention what they cost, this information is central to any outsourcing decision. Once these have been identified, the organization can begin to determine which, if any, should be outsourced (Byham, 2000).

The decision to outsource is said to originate from two main factors, technology and competition (Armstrong, 1999).

2.5.1 Technology

The technology of the business exerts major influences on the internal environment and how it is organized, managed and carried out.

Armstrong (1999). The introduction of new technology may result in considerable changes to systems and processes he notes. The availability or the lack of technology in a firm may be the cause to outsource some HR functions. Consider a case where an organization is introducing a new software system into it so as to facilitate the processing of document. The HR department would have the responsibility of training the required staff on how to use this newly introduced technology.

Or due to the organization’s resource inability, the cost of both introducing the software and training the necessary staff is neither appropriate or in line with the firms policies.

On both occasions the organization would want to look at the existing options. It could either decide to or not to hire out the services of a professional to train it’s staff especially if cost is a major factor being considered and if the firm has put in place policies on the management of costs.

2.5.2 Competition

Competition is on the increase worldwide. Kenya is increasingly penetrating into the international markets and hence experiencing a great deal of pressure from competition. The need to survive has brought about urgency especially among once monopolistic institutions to cut down costs at all levels of the business and in all units of the same.

Armstrong (1999) explains that on the other hand customers are demanding more as new standards are reached through international competition. As a reaction to this competition organizations are becoming ‘customer-focused’ speeding up response times, emphasizing quality and continuous improvement, accelerating the introduction of new technology, operating more effectively and ‘losing cost’. He adds that the pressure for business is to be ‘lean and mean’, downsize and cut off layers of management and supervision.

With respect to what determines the decision to outsource, standard theory and evidence generally suggests three factors influencing for the decision to re-locate production outside the firm’s boundaries (Abraham and Taylor, 1996; Girma and Görg, 2004; Diaz-Mora, 2005). These are saving labour costs, demand volatility and specialized skill.

2.5.3 Saving labor cost

The most important of these is the possibility of saving labor costs, that is, of cutting wages and benefits payable to non-core employees by contracting out peripheral stages of production to low-wage countries. This supposes that high-wage firms would typically be expected to outsource production more intensively than low-wage firms.

2.5.4 Demand volatility

The next factor is demand volatility. The more a firm’s output is subject to seasonal fluctuations, the more it will try to outsource peak period tasks in order to maintain as steady a flow of employment as possible over time.

However, one would expect there to be a negative relationship between demand volatility and the propensity to contract out if the firm were able to internally re-organize tasks at relatively lower costs than outsourcing.

2.5.5 Specialized skills

The fifth factor is the search for specialized skills or equipment that the firm lacks in-house. When firms outsource within the domestic economy, the rate of unionization becomes relevant, even though its impact may be ambiguous: on the one side, unionized firms have relatively less bargaining power with respect to workers and pay higher wages than they might choose to pay. Therefore, a stronger union presence in an industry may induce a firm in that industry to re-locate production in order to save on labour costs. On the other side, however, if the objective of the union is to protect domestic employment, a stronger unionization may be an obstacle to a firm’s desire to outsource.

However, as small firms have less flexibility than large firms to react to variability in consumer demand, and they face higher search costs, a positive relationship may emerge between a firm’s size and outsourcing. In addition to labour cost-savings, output volume and scale economies, there are other factors that can contribute to the decision to outsource some of its production activities. Swenson (2000), for instance, focuses on changes in international costs. Strong dollar depreciation can lead to higher costs of imports, thus reducing the international outsourcing intensity of firms.

In addition, Gorg and Hanley (2004) point out that export propensity may have a positive effect on outsourcing. The more a firm exports, the greater the possibilities to find low wage foreign suppliers. Finally, technology can play a role as pointed out by Tomiura, 2004; Bartel, Lach, and Sicherman, 2005), in particular, there is a positive relation between outsourcing and intensive use of computers in the workplace, high R&D intensity, and the presence of a highly skilled workforce within domestic firms. Firms closer to the technological frontier are supposedly more willing to decentralize their activities in order to take advantage of information and techniques that are not directly widely available. For this reason, younger firms, having a limited history to learn about their own specific needs, are also more willing to choose a decentralized organizational form than older firms (Acemoglu, Aghion, Lelarge, VanReenen, and Zilibotti, 2006).

If the firm is seen as an ’administrative instrument’ that seeks for efficiency gains (Leiblein, 2003), and the decision to outsource production as a choice made within a particular, vertically disintegrated, governance structure, TCE provides the standard framework for identifying other factors behind firm’s vertical boundaries (Williamson, 1975; Joskow, 1988; Mazzanti, Montresor, and Pini, 2006).

The decision to outsource or vertically integrate the firm’s production activities is one of the most complex choices facing management. Both strategies entail costs and benefits. However, while a great deal of attention has been paid to the factors influencing the ’make or buy’ decision, relatively little empirical work has been done to assess the performance implications of these governance choices. In this context, TCE postulates that aligning transactions with governance structures leads to more efficient outcomes.

This literature has tended to stress the potential advantages associated with outsourcing, in particular, that the former leads to a shift in the cost burdens from the home firm to its suppliers, and enables the firm to specialize in its core activities. On the other hand, vertical integration may enhance performance because of the coordination benefits associated with internalization and because the re-location of manufacturing activities outside the firm's boundaries may reduce its capabilities by weakening cross-functional coordination, that is, the capability to transfer information and coordination across activities within the same production system (Mahoney, 1992; Teece, 1996; Leiblein, Reuer and Dalsace, 2002).

CHAPTER THREE:RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that the researcher used in this study. The guiding principles here were the objectives of the study highlighted in Chapter One. The methodology used was described in terms of research design, sampling procedure and techniques, data collection procedure and techniques, and data analysis and tools.

3.2 Research Design

The Research was carried out through a case study. The case study method gave information on the responses of KPLC to the challenges of environmental change, especially competition, and a deeper understanding of how the organization had adopted outsourcing. In general, this case study utilized both qualitative and quantitative techniques narrowed down to KPLC comprehensively enough to give representative information for similar units operating in the same environment. A case study was chosen because it would enable the researcher to get much more detailed information about the employee view about outsourced services at the KPLC.

3.3 Target Population

The target population for this study was the employees at Kenya Power and Lighting Company. The employees included both managers and non-managers in the organisation. The population of study was 215 employees in the organisation.

3.4 Sampling Technique and sample size

Stratified sampling was used in this study. This method made it possible for various groups to be represented in the sample. A target population of 215 respondents was divided into two categories based on designation. The staff categories were therefore the management and the general staff. Forty percent of the managers were selected to take part in the study. Thus, a sample size of 6 managers was selected for the study. Given that the study focused on the employee perception, more weight was given to the general staff. Thus, a sample of 40% was also selected from the general staff. This gave a sample size of 80 general staff members. The total sample size was therefore 86.

Table 2: Sample

Staff Category	Total Number	Sample Number
Management at KPLC	15	6
General staffs at KPLC	200	80
Total	**215**	**86**

3.5 Data collection methods

Primary data was collected through structured questionnaires. The questionnaires had both closed and open ended questions. The closed (structured) questions were meant to elicit data that could be analysed using quantitative measures. The open (unstructured) questions were meant to provide data that was qualitative in nature. Two questionnaires were designed. The first questionnaire was meant for the management of KPLC. The second questionnaire was meant for the general staff of the KPLC.

The questionnaires were administered to the employees using the drop-and-pick later method. The questionnaires were distributed to the selected employees and a good duration given for them to fill in. All the questionnaires were accompanied with an introductory letter specifically underscoring the fact that the information that would be provided would be solely used for academic purposes. The letter specified that the information given would be treated with the confidentiality.

3.6 Data Analysis

The Statistical Packages for Social Sciences (SPSS) was used to generate relevant data for analysis. Data was analysed using descriptive statistics. Descriptive statistics comprised of mean scores and standard deviations. Data was presented using tables and pie charts. Percentages were used to facilitate understanding.

CHAPTER FOUR: ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

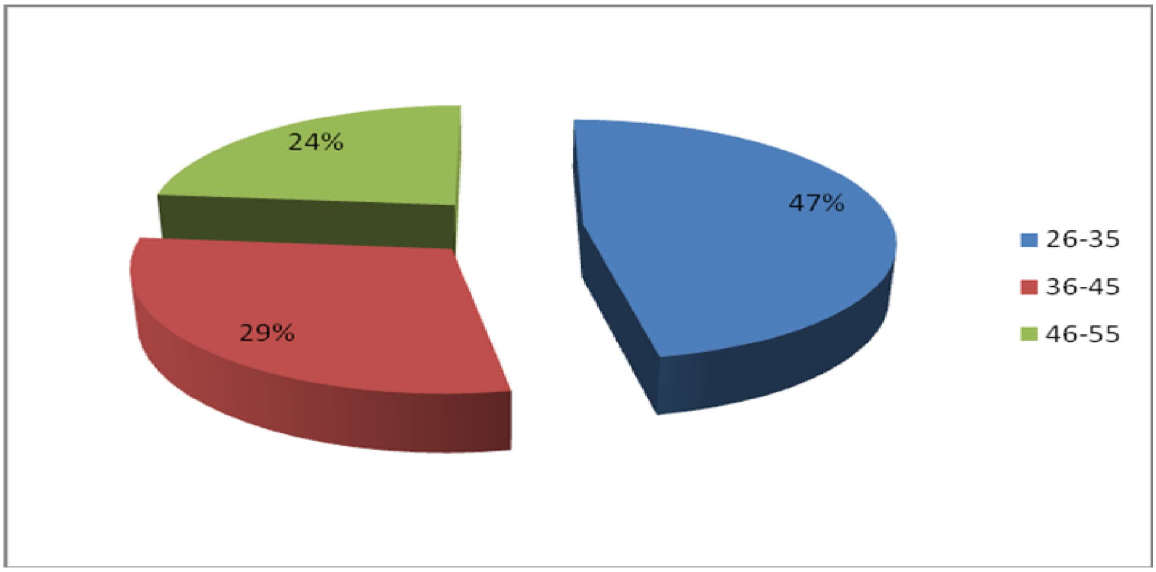
This chapter presents the results of the analysis from the questionnaires administered to the managers and the general staff of the Kenya Power and Lighting Company.

4.2 Characteristics of the sample

In terms of their age distribution, the study found that 47% were aged between 26 years and 35 years, 29% were aged between 36 years and 45 years while the remaining 24% were aged between 46 years and 55 years old. These results are summarized and presented in Figure 1.

Majority of the respondents were between the ages of 26-35.

Figure 1:Distribution of respondents according to age



As regards the respondents' level of income, the study found that 6% earned below Shs. 45,000. Further, 18% earned between Ksh. 46,000 and Kshs. 65,000 while 35% earned between Ksh. 66,000 and Ksh. 85,000. The remaining 41% earned more than KSh. 106,000. These results are summarized and presented in Table 3.

Most of the respondents earn over Kshs 106,000.00

Table 3: Distribution of respondents according to level of income

	Frequency	**Percentage**
Below 45,000	5	6
46,0000-65,000	15	18
66,000-85,000	30	35
Over 106,000	36	41
Total	**86**	**100**

Regarding the gender of respondents, the study found that 71% were male while the remaining 29% were female. These results imply that there were more male respondents than female. These percentages coincide with the ratio of male to female employees in the company. These results are summarized and presented in Figure 2.
There were more male respondents as compared to female respondents.

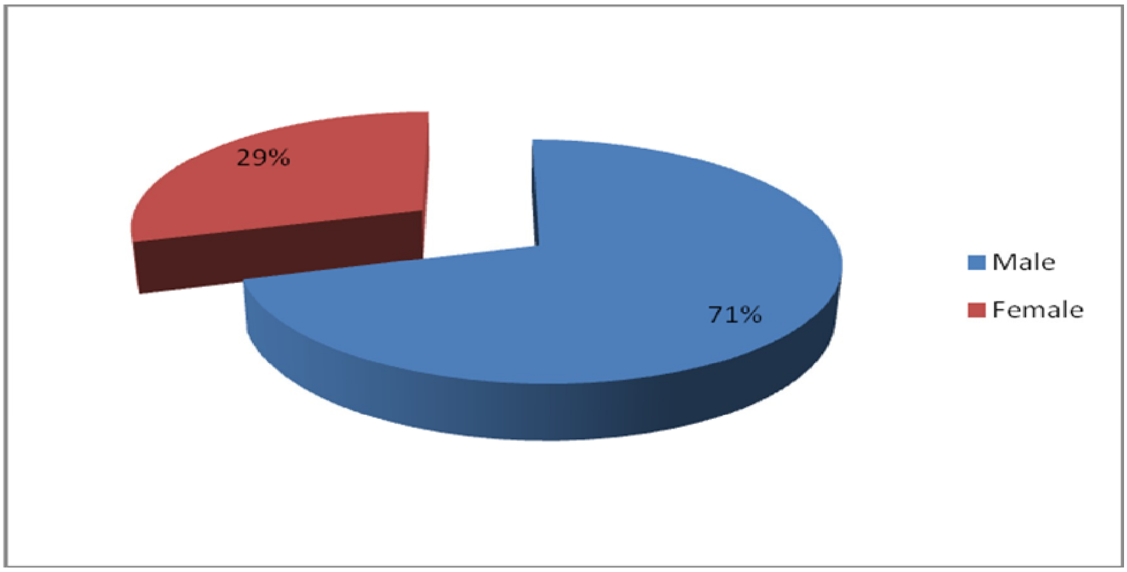


Figure 1: Distribution of respondents according to sex

In terms of the respondents' levels of academic qualifications, the study found that 24% had diplomas, 53% had undergraduate degrees while the remaining 24% had postgraduate degrees. Majority of the employees have undergraduate degrees therefore the organization has qualified manpower .The management should put in measures that reverse the adverse perception towards outsourcing. These results are summarized and presented in Figure 3.

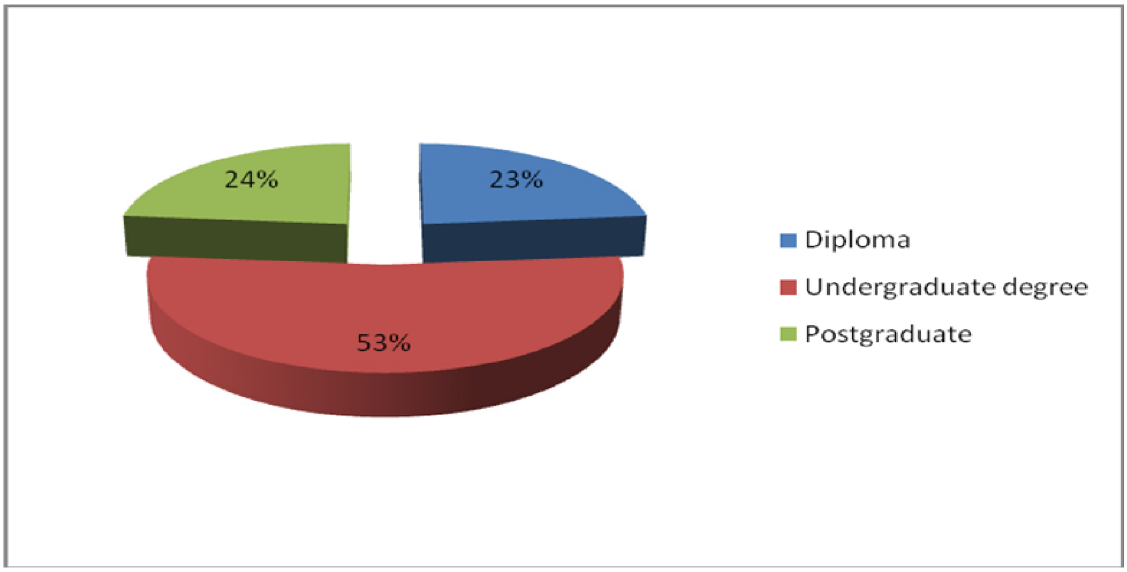


Figure 2: Distribution of respondents according to education

4.3 Employee perception of outsourcing

4.3.1 Trust of services outsourced

The respondents were asked to state whether they trusted the work done by the outsourcees. From the results shown in Figure 4, 40 employees who translate to 47% agreed while the remaining 46 who comprise 53% of the interviewees disagreed. This indicates that majority of the employees in the organization did not trust the work done by the outsourcee companies. The organization should therefore put measures that reduce negative perception towards the work done by the outsourcee.

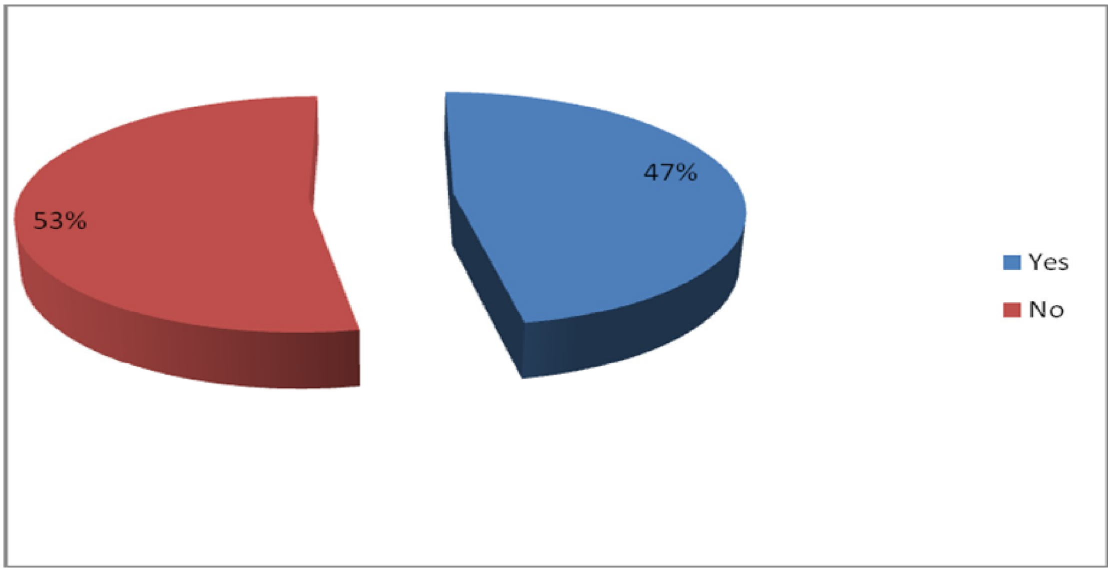


Figure 3: Whether the employees trust the work done by outsourcees

4.3.2 Services outsourced

Table 4: Functions outsourced

	Frequency	**Percentage**
Accounting	11	12.5
Logistics	16	18.8
Information and technology	11	12.5
Transport	11	12.5
Security	38	43.8
Total	**16**	**100.0**

The study also sought to establish the services that the company has outsourced. From the results shown in Table 4, several services have been outsourced. As shown, 13% said that accounting function had been outsourced, 19% alluded that logistics had been outsourced, 13% said transport was outsourced while another 13% said that Information technology function was outsourced. Further, 44% of the respondents cited that security function had been outsourced. Security function is the one that ranked highest amongst the outsourced services. Management should therefore select the security service provider that offers quality services so as to reverse adverse perception of the same.

4.3.3 Benefits of outsourcing

Table 5: Benefits of outsourcing

Benefit	Frequency	Percentage
Gives me time to concentrate on core activities of my job specification	35	41
There's time for social interaction	5	6
It provides a benchmark	40	47
Services have become better	30	35
Our welfare is now better	15	18

The study sought to establish what benefits were derived from outsourcing if any, both to the employee and to the company. As shown in Table 5, 41% cited that it gave them time to concentrate on core activities of their job specifications. Another 6% of the respondents cited that due to outsourcing, they have time for social interaction. A large number of respondents (47%) cited that outsourcing was beneficial as it provided a benchmark to the organization while another 35% cited that service provision had become\better due to outsourcing. The results also reveal that 18% of the respondents were of the opinion that their welfare had improved due to outsourcing.

The other benefits the company enjoyed from outsourcing some of the services were reduced operational costs (53%), better utilization of internal resources (53%), access to better services (59%), increased customer satisfaction (47%), company focus on core business (53%), and reduced operational risks (59%).

Access to better services and reduced operational risks ranked highest amongst the benefits enjoyed from outsourcing. The organization should therefore select a service provider that is credible so as to reduce the negative perception towards outsourced services.

Table 6: Other benefits of outsourcing

	Very great extent	Great extent	Moderate extent	Low extent	Very low extent	Mean scores	Standard deviation
Access to better services	24	35	29	6	6	2.3529	1.11474
Company focus on core business	41	12	24	18	6	2.3529	1.36662
Reduced administration cost	29	24	18	18	12	2.5882	1.41681
Better utilization of internal resources	12	41	24	18	6	2.6471	1.05719
Increased customer satisfaction	12	35	35	12	6	2.6471	1.05719
Reduced operational risks	6	53	18	12	12	2.7059	1.15999
Eases the work load	0	41	29	24	6	2.9412	.96635

3.4 Reasons for outsourcing

The respondents were asked to state the extent to which they agreed or disagreed with statements relating to reasons for outsourcing in the organization. As shown in Table 7, 53% of the respondents agreed that the company had to outsource some of the services because of lack of in-house expertise. The remaining 47% disagreed. Further, 70% attributed outsourcing to the high administration costs involving those outsourced services as the reason for outsourcing while 69% said that the company outsourced because it needed to improve its focus. Some of the respondents also cited that high operational costs attributed to the decision to outsource some of the services. This was agreed by 71% of the respondents. Another reason as cited by 77% of the respondents was that the company needed to improve the efficiency of some of the services hence outsourcing was seen as a way of doing so. Lastly, 53% of the respondent cited that the business environment at the time necessitated the need for outsourcing of some of the services provided by the company.

Table 7: Reasons for outsourcing

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**	**Mean score**	**Standard deviation**
High administration costs	35	35	12	6	12	2.2353	1.34766
To improve efficiency	18	59	6	12	6	2.2941	1.10480
Improved company focus	25	44	6	19	6	2.3750	1.25831
High operational costs	18	53	6	18	6	2.4118	1.25831
Business environment	6	47	29	12	6	2.6471	.99632
Lack of in-house expertise	0	53	0	35	12	3.0588	1.19742
Management style		24	41	29	6	3.1765	.88284
Lack of time	24		29	35	12	3.3529	.99632

High administration costs were the major reason for outsourcing as shown in the table above.

4.3.5 Challenges of outsourcing

One of the challenges of outsourcing was identified as getting buy-in to outsourcing as the right strategic choice from within the organization. The other challenge was the emotional disruption caused when a decision has been made to close down an existing operation and transfer it to an outsourcer. Third, getting the right contract in place to benefit the company and the outsourcer was identified as one of the challenges. Further, the respondents cited that many organizations try to drive price down so far that there is neither room for development or improvement nor any incentive to do so. The contract should be a win-win situation hence this is a challenge to organizations. The study also revealed that there is a lengthy transition period from moving your centre operation to the outsourcer. Typically performance can be severely disrupted if not well managed and it may take around 3 months to bed in the new service. Many organizations do not plan for this hence poses a challenge to them. Lastly, the respondents cited uncertain volumetrics as a challenge. They further explained that when it is the organization's internal centre, getting the planned volumes wrong may not matter as staff can be redeployed but when it is outsourced it is much more visible, because if the plans are not well defined, then service levels may not be met or service credits may not be applied.

4.3.6 Measures to be adopted to ensure success of outsourcing

The respondents were asked to state what measures the company should take to ensure that outsourcing was a success the respondent stated that the company needs to ensure that it builds a partnership arrangement that provides a win-win for both parties is critical. Ensuring that the outsourced centre is not out of sight and out of mind is also important. Putting a senior executive in charge with defined accountability for the centre will ensure this does not happen. By having the right service level management and governance approach are all key components to reduce the risks.

4.3.7 Risks of outsourcing

The respondents also cited some of the risks of outsourcing. As shown in Table 8, 71% cited one of the risks as loss of control, 77% cited loss of command of outsourced service as one of the risks while 59% cited that limited flexibility was one of the risks. Other risks cited were low quality of work (71%), loss of confidentiality (88%), and overreliance on external parties (94%).

Table 8: Risks of outsourcing

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**	**Mean scores**	**Standard deviation**
Over reliance of external parties	41	53	6	0	0	1.6471	.60634
Loss of confidentiality	41	47	12	0	0	1.7059	.68599
Loss of control in decision making	24	47	6	18	6	2.3529	1.22174
Loss of command of outsourced service	6	71	6	18	0	2.3529	1.22174
Low quality work	12	59	12	12	6	2.4118	1.00733
Limited flexibility	12	47	29	6	6	2.4706	1.00733

Over reliance on external parties and loss of confidentiality were highlighted as the major risks associated with outsourcing.

The respondents were then asked to list the priority criteria when selecting an outsourcee. From the results, 77% of the respondents cited qualifications, 88% cited professionalism, and 82% cited competence and experience while 53% cited costs. A further 65% cited past performance and reputation of the company while another 50% cited compatibility. These results are summarized and presented in Table 9.

Table 9: Criteria for selection of outsourcee

	Large extent	**Moderate extent**	**Least extent**	**Mean score**	**Standard deviation**
Professionalism	88	12	0	1.1176	.33211
Competence	82	18	0	1.1765	.39295
Experience	82	18	0	1.1765	.39295
Qualification	77	23	0	1.2353	.43724

Past performance	65	35	0	1.3529	.49259
Reputation	65	35	0	1.3529	.49259
Cost	53	47	0	1.4706	.51450
Compatibility	50	50	0	1.5000	.51640
Flexibility	24	77	0	1.7647	.43724
Contract terms	29	29	35	2.2353	1.09141

Professionalism, competence, experience and qualifications were highlighted as the major qualities in the selection of an outsourcee as shown in the table above.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

The study found that 47% of the employees trusted the work done by the outsourcing companies while the remaining 53% did not. It was revealed that several services have been outsourced. From the findings, 13% said that accounting function had been outsourced, 19% alluded that logistics had been outsourced, 13% aid transport was outsourced while another 13% said that Information technology function was outsourced. Further, 44% of the respondents cited that security function had been outsourced.

It was also noted that there were some benefits from outsourcing which the employees cited. As the study revealed, 41% cited that it gave them time to concentrate on core activities of their job specifications. Another 6% of the respondents cited that due to outsourcing, they have time for social interaction. A large number of respondents (47%) cited that outsourcing was beneficial as it provided a benchmark to the organization while another 35% cited that service provision had become better due to outsourcing. The results also reveal that 18% of the respondents were of the opinion that their welfare had improved due to outsourcing. The other benefits the company enjoyed from outsourcing some of the services were reduced operational costs (53%), better utilization of internal resources (53%), access to better services (59%), increased customer satisfaction (47%), company focus on core business (53%), and reduced operational risks (59%).

On the reasons why some of the services were outsourced, 53% of the respondents agreed that the company had to outsource some of the services because of lack of in-house expertise. The remaining 47% disagreed. Further, 70% attributed outsourcing to the high administration costs involving those outsourced services as the reason for outsourcing while 69% said that the company outsourced because it needed to improve its focus. Some of the respondents also cited that high operational costs attributed to the decision to outsource some of the services. This was agreed by 71% of the respondents. Another reason as cited by 77% of the respondents was that the company needed to improve the efficiency of some of the services hence outsourcing was seen as a way of doing so.

Lastly, 53% of the respondents cited that the business environment at the time necessitated the need for outsourcing of some of the services provided by the company

One of the challenges of outsourcing was identified as getting buy-in to outsourcing as the right strategic choice from within the organization. The other challenge was the emotional disruption caused when a decision has been made to close down an existing operation and transfer it to an outsourcer. Third, getting the right contract in place to benefit the company and the outsourcer was identified as one of the challenges. Further, the respondents cited that many organizations try to drive price down so far that there is neither room for development or improvement nor any incentive to do so. The contract should be a win-win situation hence this is a challenge to organizations. The study also revealed that there is a lengthy transition period from moving your centre operation to the outsourcer. Typically performance can be severely disrupted if not well managed and it may take around three months to bed in the new service. Many organizations do not plan for this hence poses a challenge to them. Lastly, the respondents cited uncertain volumetrics as a challenge. They further explained that when it is the organization’s internal centre, getting the planned volumes wrong may not matter as staff can be redeployed but when it is outsourced it is much more visible, because if the plans are not well defined, then service levels may not be met or service credits may not be applied.

On the risks of outsourcing, it was found that 71% cited one of the risks as loss of control, 77% cited loss of command of outsourced service as one of the risks while 59% cited that limited flexibility was one of the risks. Other risks cited were low quality of work (71%), loss of confidentiality (88%), and overreliance on external parties (94%).

The employees also cited what they considered should be the priority for selecting outsourcing companies. As noted, 77% of the respondents cited qualifications, 88% cited professionalism, and 82% cited competence and experience while 53% cited costs. A further 65% cited past performance and reputation of the company while another 50% cited compatibility.

5.2 Conclusion of the study

The objective of this study was to determine the perception of employees on outsourcing strategy as adopted by KPLC. The results have shown that majority of the employees in the organisation do not trust the services offered by the outsourcing companies. There are several services that have been outsourced but the major ones are security and logistics. These are non-core services hence their impact on the overall efficiency of the organisation is limited.

The employees cited the major benefit of outsourcing as provision of benchmark and the fact that the company can now concentrate on its core business. But there were a couple of other benefits that the employees identified including access to better services and reduction of administrative costs. It is therefore concluded that there are benefits that employees can attribute to outsourcing but such are not major from employees' perspective.

According to the employees, the main reasons for outsourcing were to reduce on high operational costs, to improve efficiency and to improve the company focus. Challenges abound when outsourcing and one of the major risks identified by the employees was overreliance on external parties and loss of confidentiality as well as loss of control. As the employees reiterated, the study concludes that such risks are real and the organisation needs to tread carefully when making decisions on what services are outsourced.

5.3 Recommendations

Based on the challenges that were identified in the study as regards the challenges experienced during outsourcing, the study makes the following recommendations: the company needs to get a strong executive sponsor to handle the internal politics and stakeholders. Secondly, the management needs to define up front what they want the outsourcer to do and what they don't want them to do. Third, they should also engage the operational team who will manage the outsourcer on a day to day basis. They should have them involved in the project at an early stage as possible. Fourth, the company needs to review several outsourcers to identify which is the best business fit for the company. Lastly, the company needs to use experienced call centre consultants to help drive the programme forward if they do not have the skills or knowledge in house.

5.4 Areas for further research

More research needs to be done in this area of outsourcing strategy in Kenya. This study did a case of KPLC. In order to further inform the practice and the discipline, more research needs to be done to establish what influence outsourcing strategy has had on the performance of firms that have taken up outsourcing as a business strategy. This will help establish whether outsourcing has any significant influence on company’s bottom-line.

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Appendix 1: Questionnaire cover letter

30.7.2009

Dear respondent,

My name is Charity Kamau and am a Masters student at the University of Nairobi specializing in strategic management.

I am writing to invite you to participate in research in the form of a questionnaire. My research topic is entitled ‘Employee perception of the outsourcing strategy at the Kenya Power and lighting Company Ltd.’

An integral part is to identify the views of employees with regard to the strategy adopted with regard to outsourced services.

The information supplied by respondents will be treated with confidentiality. Access to questionnaires will be restricted to my supervisor and myself. Completion of the questionnaire is voluntary.

Please feel free to contact me in regards to any queries you may have.

Yours sincerely,

Charity W Kamau

Appendix 2: **Questionnaire (Management of KPLC)**

Section A: General Information

1. Demographics:

    i. What is your age?
    ii. What is your income?
    iii. What is your gender?
    iv. What is your level of education?

Section B: Outsourcing

2. What are the functions you have outsourced?
    1) Accounting
    2) Logistics
    3) Strategy and planning
    4) Information & Technology
    5) Human Resource Management
    6) Transport
    7) Security
    8) Any other (indicate below)
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3. What is the influence on outsourcing decisions?
    1) Capacity

2) Cost
3) Technology
4) Lack of manpower
5) Efficiency
6) Speed
7) Other (specify)

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4. What are the benefits of outsourcing to you?
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5. Would you say that outsourcing some of your services has led to improved organizational performance?

6. Justify on the above?

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7. How long has your organization been in outsourcing business?

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8. Do you intend to outsource more activities in the near future?

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9. Would you recommend outsourcing alliances to other businesses or organizations?

Justify!

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10. What challenges is KPLC facing as far outsourcing services is concerned?

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11. To what extent do you agree or disagree with each of the following statements, being the reasons for outsourcing?

i. To what extent do you agree with lack of in house expertise as a reason for outsourcing?
ii. To what extent do you agree with high administration costs as a reason for outsourcing?
iii. To what extent is improved company focus a reason for outsourcing?
iv. To what extent is high operation costs a reason for outsourcing?
v. To what extent is lack of time a reason for outsourcing?
vi. To what extent is improvement of efficiency a reason for outsourcing?
vii. To what extent is improvement of management style a reason for outsourcing?

viii. To what extent does the business environment warrant outsourcing of services?

12. To what extent does the firm enjoy the following benefits as a result of outsourcing?

i. Reduced administration costs
ii. Better utilization of internal resources
iii. Access to better services
iv. Increased customer satisfaction
v. Company focus on core business
vi. Reduced operational costs
vii. Easing workload

13. To what extent do you agree with each of the following as risk of outsourcing?

i. Loss of control in decision making
ii. Loss of command of outsourced services
iii. Limited flexibility
iv. Low quality work
v. Loss of confidentiality
vi. Over reliance of external parties

Appendix 3: **Questionnaire (General Staffs of KPLC)**

Section A: General Information

1. Demographics:

i. What is your age?
ii. What is your income
iii. What is your gender
iv. What is your level of education

Section B: Perception of Outsourcing

1. Do you trust the work of the outsourcee company that your organization has chosen?

2. What are the functions you have outsourced?
   a) Accounting
   b) Logistics
   c) Strategy and planning
   d) Information & Technology
   e) Human Resource Management
   f) Transport
   g) Security
   h) Any other (indicate below) ……………………………………………………………………………… ………………………………………………………………………………

1. What are the benefits to you?

Benefit	Mark
Gives me time to concentrate on core activities of my job specification	
There’s time for social interaction	
It provides a benchmark	
Services have become better	
Our welfare is now better	
Other (specify)	

2. What are the benefits of outsourcing to the organisation? ....

3. What are the challenges of outsourcing to you? ……

4. What are the challenges of outsourcing to the organisation? ……

5. How can the challenges of outsourcing be overcome? ....

6. What measures can be adopted to ensure success of outsourcing? ……………………………………………………………………………………

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10. To what extent do you agree or disagree with each of the following statements, being the reasons for outsourcing?

i. Lack of in-house expertise
ii. High administration costs
iii. Improved company focus
iv. Lack of time
v. To improve efficiency
vi. Management style
vii. Business environment

11. To what extent does the firm enjoy the following benefits as a result of outsourcing?

i. Reduced administration costs
ii. Better utilization of resources
iii. Access to better services
iv. Increased customer satisfaction
v. Company focus on core business
vi. Reduced operational risks
vii. Easing work load

12. To what extent do you agree with each of the following as risk of outsourcing?

i. Loss of control in decision making
ii. Loss of command of outsourced services
iii. Limited flexibility
iv. Low quality of work
v. Loss of confidentiality
vi. Over reliance on external parties

13. From the list below, what would be your priority criteria when selecting an outsourcee?

i. Qualification
ii. Professionalism
iii. Competence
iv. Experience
v. Cost
vi. Past performance
vii. Flexibility
viii. Compatibility
ix. Reputation(credibility)
x. Contract terms(credit terms)