

**OUTSOURCING AND CUSTOMER SATISFACTION IN KENYA POWER
NAIROBI REGION**

BY

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DECLARATION

This research project is my original work and has not been presented to any other examination body. No part of this project should be re-produced without permission of the author and/or the University of Nairobi.

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DEDICATION

I dedicate this project to my family for their great support.

ACKNOWLEDGEMENT

I give special recognition of the enduring support and guidance I received from my supervisor Mr. Earnest Akelo which forms the backbone of this study. A special mention goes to the University of Nairobi management particularly the Department of Business Administration for their support and guidance during the writing of this project proposal and also my report

I would also like to take this opportunity to express my sincere appreciation to each and every one who gave me invaluable advice on how to go about this study and for going through the report tirelessly. Without their help it would have been hard to complete this report in time.

Last but not least to my family members for encouragement and financial support they gave me while working on this project.

ABSTRACT

The purpose of this study was to examine the relationship between outsourcing and customer satisfaction in the organizations. Specifically the study sought to determine the relationship between contracted services, outsourcing procedures and contracting risks and customer satisfaction. The study was carried out in Kenya Power Company surveying on the contracted services by the various divisions in Nairobi County. The divisions were central, Dagoretti, Embakasi, Kasarani, Kibera, Makadara, Pumwani and Westlands. From each the divisions the study targeted the procurement department with the staffs working in these departments being the main respondents.

The study sample was selected from the targeted population totaling to 94 respondents picked using proportionate sampling method. The study required primary data which was collected by the use of questionnaires and interview schedules. After data collection the data was coded into the computer using various softwares such as excel and SPSS which aided in the analysis. The data was then presented in form of tables, figures and prose for interpretation and interpreted based on the study objectives.

The major findings were that outsourcing leads to effectiveness in service delivery, promotes efficiency, improve organizational performance and enables effective allocation of resources in addressing customer needs in the organization. The contracting procedures in place compels contractors to adequately perform their duties with the customer in their minds, they ensure that all contractors are given all the necessary information before they begin their contracts and that the organizational goal of ensuring that the customers are given the best services is achieved through the laid down procedures. The risks associated with outsourcing are cases of inexperienced bidders winning contracts and not being able to deliver in a bid to cut their costs and contractors some times engage low quality staff in delivering the service hence compromising on customer satisfaction achievement. Therefore the study recommends that the management should keenly monitor the sources of their contractors' products/services so as to have an overall picture about the service delivery process. This will ensure that the vendors do not use low quality materials/workmanship which might lead to low quality services to the provided to the customers.

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LIST OF ABBREVIATIONS

BPO	Business Process Outsourcing
CSM	Customer Satisfaction Measurement
IBM	International Business Machines
KP	Kenya Power
KPLC	Kenya Power and Lighting Company
RBV	Resource Based View
SLA	Service Level Agreement
SPSS	Statistical Package for Social Sciences
TCE	Transaction Cost Economics
WTO	World Tourism Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Much has been said regarding outsourcing in the past couple of years. This hitherto unfamiliar business practice has suddenly grabbed center stage attention, and is now the focus of politicians, the press, companies, and workers alike. It is becoming the buzz word of the new millennium with companies increasingly moving to contracting services and jobs to cut down costs, (Bendor, 2000).

1.1.1 Outsourcing

Outsourcing is the contracting out of a business process to a third-party, transferring employees and assets from one firm to another or the practice of handing over control of public services to for-profit corporations, (Hira and Anil, 2008). Outsourcing includes both foreign and domestic contracting and sometimes includes off-shoring or relocating a business function to another country. Financial savings from lower international labor rates is a big motivation for outsourcing/off-shoring, (Alexander and Young, 2009).

Kinyua (2010) contends that organizations may enter into a contractual agreement involving an exchange of services and payments in some form of partnership. Outsourcing therefore is said to help such firms to perform well in their core competencies and mitigate shortage of skills or expertise in the areas where they want to outsource. Outsourcing can offer greater budget flexibility and control and allows organizations to pay for only the services they need, when they need them, (Awino, 2011).

When organizations practice outsourcing, they reduce the need to hire and train specialized staff, brings in fresh engineering expertise, and reduces capital and operating expenses, (Arnold, 2000). Before outsourcing, an organization is responsible for the actions of their entire staff, sometimes a substantial liability. When these same people are transferred to an outsourcer, they may not even change desks but their legal status changes. They are no longer directly employed by (and responsible to) the organization. This creates legal, security and compliance issues that

are often addressed through the contract between the client and the suppliers, (Alexander and Young, 2009).

A company outsources their operations when they delegate certain duties and functions to an external party (Gilley et al, 2004). Outsourcing is currently the only tool available that enables focusing on core activities and the abstraction of important but non-core activities that do not represent the driving force of the company, while simultaneously improving the quality and cutting costs of performing those activities (Bendor, 2000).

1.1.2 Customer Satisfaction

Customer satisfaction is a psychological concept that involves the feeling of well being and a pleasure that results from obtaining what one hopes for and expects from an appealing product and or service (WTO, 2005). According to Vavra (2007), customer satisfaction can also be defined as, “a satisfaction based on an outcome or process”. Vavra (2007) also emphasizes that customer satisfaction is the leading criterion for determining the quality that is actually delivered and is essential for corporate survival. It is seen as a key performance indicator within business and is often part of a Balanced Scorecard.

In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Within organizations, customer satisfaction ratings can have powerful effects. They focus employees on the importance of fulfilling customers’ expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability. These metrics quantify an important dynamic. When a brand has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective, (Farris, Neil, Phillip and David, 2010).

Therefore, it is essential for businesses to effectively manage customer satisfaction. To be able to do this, firms need reliable and representative measures of satisfaction. In researching satisfaction, firms generally ask customers whether their product or service has met or exceeded expectations. Thus, expectations are a key factor behind satisfaction. When customers have high

expectations and the reality falls short, they will be disappointed and will likely rate their experience as less than satisfying, (Gitman and Carl, 2005).

There are several ways to assess the quality of services and customer satisfaction through subjective (or soft) measures of quality, by focusing on perceptions and attitudes of the customer, rather than more concrete objective criteria. According to Pizam and Ellis (1999), a Customer Satisfaction Measurement (CSM) programme must be incorporated into an organization's corporate culture. Knowledge of customer expectations and requirements are essential as it provides understanding of how the customer defines quality of service and products, and furthermore it facilitates the development of customer satisfaction. In addition, customer satisfaction is recognized as of great importance to all commercial organizations due to the fact of its influence on repeat purchases, and word-of-mouth recommendations, (Bendor, 2000).

Experience has shown that only "consumer oriented" corporations can achieve this goal. These organizations focus on the needs and wants of specific target groups and then work hard to maximize satisfaction with the product or service being offered (Vavra, 2007). Instead of waiting for customer complaints to let them know when something is not satisfactory or wrong, a "consumer oriented" corporate culture, seeks continuous feedback from its customers through repeated customer satisfaction measurements, (Reichheld and Sasser, 1990).

1.2 Kenya power

Kenya Power is a limited liability company which transmits, distributes and retails electricity to customers throughout Kenya. It is a national electric utility company, managing electric metering, licensing, billing, emergency electricity service and customer relations. Statistics from Kenya Power shows that electricity demand has grown at an annual average rate of 5.3 per cent over the past five years and is projected to accelerate to over 10 per cent per year due to the implementation of the Vision 2030 projects (Kenya Power, 2009).

As part of its strategic 5 year corporate strategic plan 2009/10 to 2013/14 Kenya power came up with operational objectives to help it realize its strategic plan. One of the corporate objectives relevant to this study is the supply quality improvement. It is a major corporate

objective as it impacts heavily on customer satisfaction, leads to enhanced sales and revenue and improved operational performance which also leads to operational cost savings, (www.kp.co.ke).

In response to the increased demand, as well as meet its business goals, Kenya Power has undertaken structural reforms in its operations and has put in place different strategies to ensure this demand is met. Outsourcing of some of the company's activities is now being used as a major strategy to meet the growing demand and the connectivity targets. The company has resulted to outsourcing of intensive activities, which include design, way leaves acquisition, construction and maintenance of power lines to contractors, (KPLC, 2012).

The company has been keen to meet its business goal of connecting 200,000 customers annually since 2008, and thus resulting to outsourcing of the activities that directly contribute to this goal. This strategy also aims at eliminating delays in connecting customers to the grid, and helps the company meet its new customer connection timelines targets, popularly known as Stima flow, (www.kp.co.ke).

1.2.1 Statement of the Research Problem

Business outsourcing has become an important business strategy because it enables businesses to reduce and control operating costs, to improve company focus, to gain access to world class capability and to free internal resources for other purposes, (Schwyn, 1999). The energy sector is currently being liberalized and this has attracted other players in the industry who have now been mandated to generate power for example the Mumias Sugar Company.

Although KP still remains a monopoly in distribution of electricity, the environment under which it operated is rapidly changing forcing the company to tear the line and adopts the latest sourcing strategies that is driving the business sector, (Lafferty and Roan, 2012). Its previous outsourcing strategies led to difficulties in maintaining service consistency, and as a result culminated in increased complaints from the customers. KP statistics indicate an increase in customer complaints over the years impacted upon by the fact that in this company, there are no

structured approaches to adopting outsourcing as the strategy of the day, or measures to determine the extent of the degradation of service levels to the customers, (Kinyua, 2010).

An assessment of the empirical studies in this areas shows that previous studies have not addressed the practice of outsourcing in the context of customer satisfaction but have rather concentrated on its link with the organizations. For instance in their report Andrae, David, Diwaker, Kiran and Stuart (2001) discussed the rise of outsourcing in the IT industry, and what makes it so different from outsourcing in other industries. They analyzed the various forces shaping this business practice and the impact of outsourcing on the IT industry's customers.

They concluded that, outsourcing is now a global phenomenon, and it is here to stay with the customer satisfaction remaining the end results. Therefore governments should recognize this reality and, instead of legislating directly against it, take measures to prevent needless outsourcing of jobs and develop an effective knowledge infrastructure. This would help retain an edge in innovation and help foster the incubation of new industries as well as maintain customer loyalty, (Andrae et al, 2001).

Appreciating customer satisfaction as one of the most important strategic mechanisms of best practice hotel organizations where managers and employees are continuously faced with the challenges of establishing and maintaining customer satisfaction on a daily basis, Mbungwana, (2009) sought to identify measures that can be used in the hospitality industry for purposes of assessing and evaluating customer satisfaction and effectiveness in outsourcing. The study objectives were to assess customer expectations and outsourcing in Cape Town based hotels, and to identify the gaps between client expectations and perceptions. The findings show that talking to guests and receiving their reactions and responses are seen as key guest satisfaction indicators which should be made part of contracting process, whereas guest comment card responses are regarded as helpful in gaining an awareness of general problems and repeated complaints, (Mbungwana, 2009).

Kinyua (2010) had a purpose of establishing the challenges facing KPLC in implementing the Business Purpose Outsourcing strategies and to identify the business operations that KPLC

outsource. The case study used an interview guide as primary data collection instrument from the Managing Director, Chief Managers, Managers, Regional Managers and chief officers of KPLC. His conclusions were that BPO is done in all departments at KPLC. Poor quality assurance and control and outsourced services being prone to delays in delivery are some of the challenges faced during business BPO, (Kinyua, 2010).

Awino (2011) carried out an empirical investigation of selected strategy variables on firm performance. The study targeted the supply chain management in large private manufacturing firms in Kenya to determine the independent effects of core competencies, strategy, strategy implementation, core capabilities and the joint effect of core capabilities on the firms' performance. The study found out that the independent effects of core competencies, core capabilities, strategy, strategy implementation is relatively weaker compared to their joint effect. Therefore these variables can create competitive advantage in the value chain and improve on customer satisfaction with the organizational products, (Awino, 2011). Against this gap, the research problem researched within the ambit of this study read as follows: "outsourcing and customer satisfaction in Kenya power Nairobi region".

The study intended to answer the following questions

1. What is the relationship between contracted services and customer satisfaction?
2. What is the relationship between contracting procedures and customer satisfaction?
3. What is the relationship between contracting risks and customer satisfaction?

1.3 Objectives of the study

The general objective of this research was to establish the relationship between outsourcing and customer satisfaction in organizations by specifically focusing on the Kenya Power Company.

1.3.1 Specific objectives

- i. To determine the relationship between contracted services and customer satisfaction.
- ii. To determine the relationship between outsourcing procedures and customer satisfaction.
- iii. To establish the relationship between contracting risks and customer satisfaction.

1.4 Value of the study

The study would be of the following importance,

The study on outsourcing at Kenya Power contributes to the extension of knowledge under the subject. This being a relatively new concept in many organizations, the findings would provide crucial information to anyone interested in applying outsourcing as a strategy in their operations.

This study would be of great importance not only to Kenya Power but to other industry players including the private sector who are also contracting/outsourcing most of their operations/services. This would be used as a basis to investigate the challenges that organization experience pertaining to internal and external customer strategy development and satisfaction. These identified challenges would be used as learning opportunities for improvement in aspects of quality of services and to establish a usable model for the organization from which strategies can be developed for the effective management of customer relations, and to ensure that customer expectations of service quality are met

The formulation and effects of contracting/outsourcing strategy to deal with increasing electricity demand in Kenya is very important, and the lessons learnt from this study would assist decision makers in Kenya power to evaluate the contracting/outsourcing strategy to ensure that the country's demand for electricity is met effectively and efficiently. The management of Kenya Power would be able to evaluate the outsourcing/contracting services strategy and decide whether it is working in line with company's goals and objectives. They should also be able to evaluate if it is helping them to meet the set targets in connectivity.

This study would be an addition to the existing literature on outsourcing, customer satisfaction and in particular to Kenya Power on its efforts to retain its competitive edge in the market. Therefore future researchers are called upon to make use of this paper as reference material.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed related literature on outsourcing and its link with customer satisfaction in organizations from a general perspective. It focuses on theoretical and empirical studies on outsourcing and customer satisfaction and its benefits and limitations to the organizations that have adopted it.

2.2 Outsourcing

According to Okonkwo (2007) outsourcing is contracting with another company or person to do a particular function. Almost every organization outsources in some way. Typically, the function being outsourced is considered non-core to the business. The outside firms that are providing the outsourcing services are third-party providers, or as they are more commonly called, service providers. Even though outsourcing has been in existence for many years, in recent history, companies began employing the outsourcing model to carry out narrow functions. Those processes could be done more efficiently and therefore more cost-effectively, by other companies with specialized tools and facilities and specially trained personnel. According to Kremic and Tukul, (2003), the literature review on outsourcing can be organized based on the motivators, benefits, risks, and factors that are typically encountered in outsourcing decisions.

One of the biggest changes in the early 21st century came from the growth of groups of people using online technologies to use outsourcing as a way to build a viable service delivery business that can be run from virtually anywhere in the world. The preferential contract rates that can be obtained by temporarily employing experts in specific areas to deliver elements of a project purely online means that there is a growing number of small businesses that operate entirely online using offshore contractors to deliver the work before repackaging it to deliver to the end user. One common area where this business model thrives is in providing website creation, analysis and marketing services. All elements can be done remotely and delivered digitally, and service providers can leverage the scale and economy of outsourcing to deliver high-value services at reduced end-customer prices.

Companies outsource to avoid certain types of costs. They outsource the non core activities. Among the reasons companies elect to outsource include the avoidance of regulations, high taxes, high energy costs, and costs associated with defined benefits in labor-union contracts and taxes for government-mandated benefits. Perceived or actual gross margin in the short run incentivizes a company to outsource. With reduced short-run costs, executive management sees the opportunity for short-run profits, while the income growth of the consumer base is strained. This motivates companies to outsource for lower labor costs. However, the company may or may not incur unexpected costs to train these overseas workers and in most cases the regulatory costs are an addition to companies saving money when outsourcing.

2.2.1 Benefits of Outsourcing to the Organizations

The rapid adoption of the outsourcing strategy suggests that organizations expect benefits from outsourcing. For instance an organization has to follow rigid costly, strict bureaucratic procurement procedures to purchase goods or services. A contractor can avoid these, and is in a position to purchase more quickly, maintain lower inventories, and negotiate better prices than the organization can. Moreover, contractors' need to remain competitive and generate a profit, is an incentive to limit waste and maximize productivity pressures that do not exist in the organization. Thus an organization can save costs by using contractors.

The outsourcing organization does not have to incur some capital expenses, e.g. machinery, equipment and tools. Transfer of fixed costs to variable operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable. An organization can achieve a steep change in quality through contracting out the services with a new service level agreement. There is increased speed of service delivery to customers due to the competitive nature of contracts awarded to contractors and the contractual service level agreements ensures that work is usually done as quickly as possible. Outsourcing also eliminates services delays caused by bureaucratic procedures in the organization.

An organization can access latest technology and infrastructure that is owned by the suppliers, without having to invest directly in the technology and infrastructure. Outsourcing enables access to a larger talent pool and a sustainable source of skills by organizations in particular in science and engineering (Manning et al. 2008). It is very useful when an organization has limited capacity in terms of staff to carry out a particular function. Tasks that are tedious and regarded as de-motivating to employees can also be outsourced. Critical resources such as capital, human resources and infrastructure are focused on developing the core business of an organization provision of the easiest way of ridding an organization of operations that are problematic when performed in house.

In order to reduce political pressures and scrutiny, many public organizations would choose to outsource their functions. This way the perception would be that the organizations are more efficient and are able to provide better services. Outsourcing enables organizations to transfer liabilities inherent to specific business processes or services that are outside of their core competencies. They thus employ the risk management approach for some types of risks by partnering with an outsourcer who is better able to provide the mitigation (Roehrig, 2006). Private contractors have greater management flexibility than state departments. They can respond faster to changing circumstances, and tend to be more innovative.

2.3 Customer Satisfaction

Customer satisfaction is a term frequently used in marketing to imply a measure of how products and services supplied by a company meet or surpass customer expectation, (Farris, Neil, Phillip and Reibstein, 2010). Gitman and Carl (2005), defines customer satisfaction as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals. In a survey of nearly 200 senior marketing managers, 71 percent responded that they found a customer satisfaction metric very useful in managing and monitoring their businesses, (Wirtz and John, 2005).

In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy, (Farris et al, 2010). Within organizations customer satisfaction ratings can have powerful effects

where they focus employees on the importance of fulfilling customers' expectations. Furthermore, when these ratings go up, they warn of problems that can affect sales and profitability. These metrics quantify an important dynamic. When a brand has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective, (Muzammil, 2010).

Customer satisfaction is very important in today's business world as according to Deng, Lu, Wei and Zhang (2009) the ability of a service provider to create high degree of satisfaction is crucial for product differentiation and developing strong relationship with customers. Customer satisfaction makes the customers loyal to one service provider. Previous researchers have found that satisfaction of the customers can help the brands to build long and profitable relationships with their customers (Eshghi, Haughton and Topi, 2007). Though it is costly to generate satisfied and loyal customers but that would prove profitable in a long run for a firm (Anderson, Fornell and Mazvancheryl, 2004). Therefore a firm should concentrate on the improvement of service quality and charge appropriate fair price in order to satisfy their customers which would ultimately help the firm to retain its customers (Gustafsson, Johnson and Roos, 2005).

It is a common phenomenon that the services a brand offers and the price it charges actually determine the level of satisfaction among its customers, than any other measure (Turel et al. 2006). Customer's involvement is also important as when buyer consider the product important and invests time to seek information then it ultimately enhances the satisfaction level (Russell-Bennett, McColl- Kennedy and Coote, 2007). This satisfaction may influence the concerned company by repurchase, purchase of more products, positive word of mouth and willingness of customer to pay more for the particular brand. Any business is likely to lose market share, customers and investors if it fails to satisfy customers as effectively and efficiently as its competitors is doing (Anderson, Fornell, and Mazvancheryl, 2004).

2.4 Outsourcing and Customer Satisfaction

Customer satisfaction, like any other aspect of a business, is a practiced art that takes time and effort to develop. Taking the time to build trust and developing a good rapport with the buyer is the foundation towards building a lasting and successful relationship. When a vendor approaches

an outsourcing company, the vendor expects certain specifics regarding finance, quality, productivity, technology infrastructure etc which the vendor is required to comply with.

It is important to prove to the company that they are able to deliver what they expect and therefore gain their trust which is vital to customer satisfaction. The second level of customer satisfaction is concerned with exceeding your business users' expectations because clients who receive a service that exceeds their expectations are often willing to pay for it, enabling the outsourcing company to raise prices and thus improve profit margins. On the other hand failure to impress the business user can lead to them seeking better products and services elsewhere.

The third level of customer satisfaction is to ensure that the entire team works towards the common goal of achieving the clients' aim and objective. The plus point is that once you reach this level, it will be very difficult for a competitor to pry your client away. For any outsourcing company desiring to be on top, it is important to pay attention to the latest technology trends and be up-to-date with most recent in technology infrastructure. Business users prefer to outsource their core and non-core activities to those who possess the latest in technology infrastructure. Finding out the various personal wins for a few key individuals in the client's organization and helping them achieve these wins can go a long way in establishing your position as a favored outsourcing vendor. It could range from a simple wish for someone who wants to travel to your country to someone who is looking for a promotion through the success of a present project.

2.4.1 Contracted Services and Customer Satisfaction

With the increasing globalization, contracting has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang, et. al. 2007; McIvor, 2008). The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competences and capabilities (McIvor, 2008). Traditionally, contracting is an abbreviation for "outside resource using". Outside means to create value from without, not within, the company (Yang, et. al. 2007).

Outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service (Lee and Kim, 2010) and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Raiborn, et. al. 2009; Elmuti, 2004; Bustinza, et. al. 2010). Contracting can also involve the transfer of both people and physical assets to the supplier (McIvor, 2005).

The traditional contracting emphasis on tactical benefits like cost reduction (for example, cheaper labor cost in low-cost countries), have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Elmuti, 2004; Gilley, et. al. 2004). Two influential theories in the study of contracting have been Transaction Cost Economics (TCE) and the Resource Based View (RBV) of the firm. According to transaction cost economics, a company will make the outsourcing decision on the basis of reducing production and transaction costs. The Resource-based view approach views the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage (McIvor, 2008).

Because of resource limitations, few firms have the ability to apply world-class resources to all areas of competition. Thus, in order to gain competitive advantage they must select areas in which they will concentrate their resources (Hamel and Prahalad, 1994). By contracting specialist organizations services not generated by core competences, companies can see an improvement in their organizational performance (Kotabe, 1989). Gilley and Rasheed (2000) state that there are three reasons for this, firstly, the acquisition of non-strategic services allows the organization to centre on what it really can do well, that is, on the services whose resources have a high strategic value (Gilley, et. al. 2004). Such focusing on services not included in the core competences can increase performance and allow the company to be more flexible. Secondly, increasing the contracting of nonstrategic services can improve both the quality and the service (Dess et al., 1995).

Lastly, the outsourcing of services of low strategic value enables the company to reduce costs and improve its competitive position (Gilley and Rasheed, 2000; Espino-Rodriguez and Robaina 2004). Some research shows that companies that make alliances by trusting external sources

have better results, reduce risks and improve the quality ratio while also increasing their capacity of innovation and flexibility (Espino-Rodriguez and Robaina 2004). Kotabe et al. (2008) proposes a dynamic perspective, which suggests an inverted U relationship between contracting and performance (Kotabe et al. 2008; Lee and Kim 2010).

2.4.1.1 The Contribution of Contracted Services to Efficiency

Bourassa 1988, says that organizations should focus on core activities and leave the non-core activities to outside providers who have the skills to do them better. The service providers who have all the required competence and skills should be of the desired level to be able to meet the company requirements. Farrington (2006) also shows how important competence is and describes it as the core activities of the company that tell or manifest the performance of the organization. These activities need much more time so as to come out at their best and give the company competitive advantage over others. This can be achieved through contracting non-core activities and concentrating on its core competence.

Peter (2008) suggests that when it comes to contracting, it should be supported by all departments of the organization so as to get the best of the benefits of outsourcing in the organization. To achieve success, we always have to stand together to share ideas for better organizational performance. Peter (2008) says that any activity in the company done without management consent and support is a manifestation of failure in that activity. These shows how important management support and involvement is in all company activities, contracting / outsourcing inclusive.

Lysons and Gillingham (2006) state that, it is temporarily insufficient to comply with demand; the quality motive can be subdivided into three aspects, that is to say; Increased quality demand, shortage of qualified personnel and contracting as a transitional period. Therefore companies have various reasons for contracting / outsourcing their non-core activities. Frankwood and Sangster, (2008) state that a company has a limited investment budget. The funds must be used for investments in the core activities which are long term decisions and leave non-core activities to outside providers to do them on behalf of the organization. Erick Bartz, (1987) shows that, core business is a primary activity that enables an organization to generate revenues to

concentrate on core business activities. All subsequent activities are supportive and should be contracted to give enough time to the core activities.

2.4.1.2 The Influence of Contracted Services to Quality

The desire to cut costs is identified by most literature as an explanation for why outsourcing occurs (Arnold, 2000; Aubert et al., 1996; Bergsman, 1994). Theoretically, outsourcing for cost reasons can occur when supplier's costs are low enough that even with added overhead, profit, and transaction costs suppliers can still deliver a service for a lower price (Bers, 1992).

A desire to save indirect costs of carrying out operations in an organization drives it towards outsourcing. Apart from the regular wages and salaries that must be paid notwithstanding the amount and value of work done, other benefits including medical insurance, overtime, leave allowances, pension schemes usually increase significantly the labour costs. An organization with fewer employees requires less infrastructure and support systems (Hubbard, 1993) which may result in a more effective and efficient organization. Another reason why organizations outsource is to achieve better cost control (Alexander and Young, 1996). This is achievable as usually a fixed price is paid for the service as per a contract. Other organizations use outsourcing in an effort to shift fixed costs into variable costs (Anderson, 1997).

However there are no guarantees that expected savings will be realized. There is increasing evidence that cost savings have been overestimated and costs are sometimes higher after outsourcing (Bryce and Useem, 1998). While an organization may not realize the costs that originally drove the outsourcing initiative, there are also some additional indirect and social costs that may be incurred. These indirect costs include contract monitoring and oversight, contract generation and procurement, intangibles, and transition costs. There may also be capital expenses incurred by the relationship which should also be calculated (Hubbard, 1993; Kakabadse and Kakabadse, 2000).

It is difficult to quantify social costs associated with outsourcing, but they can be quite significant. Outsourcing may result in low morale, high absenteeism, and lower productivity in employees. (Kakabadse and Kakabadse, 2000). Furthermore, the social costs are not necessarily

limited to the outsourcing organization. A study by Lafferty and Roan (2000) suggests that the education and skill level of a whole class of workers may be declining due to outsourcing of public services. Organizations continually try to improve their employee skills and capabilities, while contractors are less willing to pay for employee further education and development.

Strategic issues such as core competence and flexibility also appear to drive outsourcing (Elmuti and Kathawala, 2000). The literature supports outsourcing as a strategy, which may offer improved business performance on numerous dimensions. Perhaps one of the most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies (Quinn and Hilmer, 1994). Core competence is what the business does best and adds most value to its business.

With the need for growth and focus to meeting corporate targets, organizations are forced to reassess and redirect scarce resources to where they make the greatest positive impact, and that is the organization's core functions. Other strategy issues which would encourage an organization to consider outsourcing its non-core operations include organizational restructuring, rapid organizational growth, changing technology and the need for greater flexibility to manage demand swings. Through outsourcing, the organization's risk are also reduced as they are shared by or transferred to the suppliers. Some risks such as lawsuits can be transferred to the suppliers by indemnifying the organizations against any potential lawsuits.

However, outsourcing for strategic reasons has potential pitfalls. Organizations may "give away the crown jewels" if they are not careful, (Gillet, 1994). IBM is used as a frequent example of a company that outsourced the "wrong" things (the operating system), and thus gave away one of the most lucrative businesses. If organizations outsource the wrong functions they may develop gaps in their learning or knowledge base which may preclude them from future opportunities. Literature also indicates that in industries with complex technologies and systems, internal synergies may be lost when some functions are outsourced resulting in less productivity or efficiency among the remaining functions (Quinn and Hilmer, 1994).

2.4.2 Contracting Procedures and Customer Satisfaction

Russell (2003) defines a state agency's contract monitoring system as the structure, policies, and procedures used to ensure that the objectives of a contract are accomplished and vendors meet their responsibilities. According to Anderson (1997), an effective contract monitoring system mitigates risk, with risk defined as the probability of an event or action having an adverse effect on a state agency. Contracting procedure is a process of ensuring that a vendor adequately performs a contracted service. The level and type of monitoring conducted by state agencies is primarily at their discretion. Once contract services begin, state agencies become primarily responsible for ensuring that the vendor is meeting contract obligations, paying the vendor, and performing any other necessary activities. Good management and supervision requires follow-up, feedback, and enough awareness of what is occurring to eliminate surprises.

State agencies can mitigate the risks associated with contracting out services by developing an effective contract monitoring system which should assess the complexity of the contracted service, the contract amount, and the risk if the work is not performed adequately when deciding what components are necessary. Training in contract monitoring increases the likelihood that individuals will monitor contracts reliably by giving them the appropriate background knowledge related to contracts. Agencies without contingency plans risk interruption of services when vendors default on their obligations and may pay additional costs for taking back services, (Russell, 2003).

Creating a detailed statement of work, having performance measures in the contract, and holding post-award meeting with the vendor contribute to the vendor's understanding of what is required under the contract. By clearly stating contract requirements and performance goals, the agency reduces the potential for poor performance. A post-award meeting allows staff that may not have been involved with the procurement process to answer questions that the vendor might have and clarify technical aspects of the contract. A contract administration plan is a cursory view of planned and completed activities and can be utilized throughout the contract period as a status report. It should detail the methods that the agency will use to monitor the vendor and the individuals or offices that will be responsible for the monitoring, (Anderson, 1997).

Schellhase, Hardock, and Ohlwein, (1999) observes that files should be organized so that someone could reconstruct and understand the history of the contract in the absence of the contract administrator. Contract files should hold all the information necessary to know what was expected and received under the contract. For contracts that involve monthly or quarterly payments, agencies should require a vendor to submit programmatic reports in advance of or concurrent with its invoices, (Peter, Steven and Wafula, 2004). The programmatic reports should be directly related to the terms of the contract. The contract should require the vendor to provide specific programmatic information on a scheduled basis to determine if performance measures are being met. Programmatic reports should require information related to the performance measures (outputs and outcomes) in the contract, as well as any other deliverables, (Peter, Steven and Wafula, 2004).

Performance reinforcements, such as incentives and consequences for poor performance, are helpful in obtaining optimal performance from the vendor. Financial incentives can be one of the most effective methods of inducing a vendor to perform a desired service, while consequences for poor performance written into a contract provide agencies with the ability to take disciplinary action against a vendor that fails to comply with contract terms. Officials noted that agencies should establish reasonable damages based on reasonable standards. If either is unreasonable, it is likely to limit competition and lead to vendors charging higher amounts to cover the greater risk (Hira, Ron and Anil, 2008).

Agencies have a responsibility to verify the information that the vendor reports to them and to ensure that funds are expended properly. The contract must include an agreement that the agency has access to and can audit those records. Utilizing methods to measure customer satisfaction helps to improve vendor performance because the feedback can be used to notify the vendor when specified aspects of the contract are not being met. In addition, agency officials can use the information as a source of past performance information for subsequent contract awards, (Russell, 2003).

2.4.3 Outsourcing Risks and Customer Satisfaction

Like any restructuring exercise and management decision making in business, there are risks associated with contracting that procurement managers or top management need to consider carefully (Procurement News December, 17th 23rd 2003) and these may be, the possibility of over depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive. Over a long time, a supplier of contracted service may become complacent or change ownership. There is also the risk of a fall in employee morale for fear of being made redundant and confidentiality leaks of company matters and in some instances loss of intellectual property rights.

Eyaa (2006) says that due to high prices being imposed on suppliers due to increasing trends in outsourcing, the demand for suppliers has gone high and has pushed the rates being charged by the suppliers to be high. This trend increases the costs charged by contracting / outsourcing firms yet contracting / outsourcing is all about helping firms cut costs. There is also too much expectancy from suppliers as company employees tend to expect too much from supplier firms as far as service provision is concerned because they are specialists yet things can go wrong once in a while. Such issues should not be ignored. Manzi, 2005, states that there is a possibility that vital company information may be at a risk of being leaked to the company's competitors which is dangerous since some suppliers may be spies to the company.

Since outsourcing is a rather recent strategic tool of managers, the complete costs are not yet known, which poses a risk in itself. The literature warns that initially, there is the tendency to overstate benefits while overlooking potential risks, while suppliers are likely to perform better in the beginning of a contract to make good first impressions (Schwyn, 1999). Some outsourcing failures are believed to be caused by lack of methodology. This thinking is supported by Lonsdale who suggests that outsourcing failures are not due to an inherent problem with outsourcing but rather the lack of guiding methodology for managers (Lonsdale, 1999).

Another difficulty encountered with outsourcing is the lack of skills and capacity within the organization to manage and monitor outsourced functions. An organization may be forced to hire extra staff with necessary skills to supervise the functions. While it is recognized that all the

potential risks of outsourcing are not currently known, an attempt is made to identify some of the known risks listed below. When outsourcing, there is expectation of receiving better services from the service provider than from internal staff. This expectation is often based on the knowledge that there will be an explicit Service Level Agreement (SLA) in place, which can be enforced by the organization and which might bear remedies against the service provider for non-performance. However, the measures in a SLA may not adequately depict the perceived service. The availability component of quality of service is often the most contentious aspect since there is generally room for a range of interpretations and misinterpretations as to whether a service level is being met. Most service providers would lean towards profit maximization which can in turn hurt quality of service.

It has become very important to ensure that third parties who have access to personal and confidential information are protecting that information from inappropriate disclosure and from misuse. There is also concern in regard to unauthorized and unintended disclosure of corporate and government confidential or proprietary information, as well as intellectual property. It can often be difficult to find service providers with a proven team of experts who are experienced and knowledgeable in a particular industry being serviced. Service providers can deliberately give misleading information regarding their experience and qualifications of their staff, during the selection process. An organization may end up recruiting unqualified service providers.

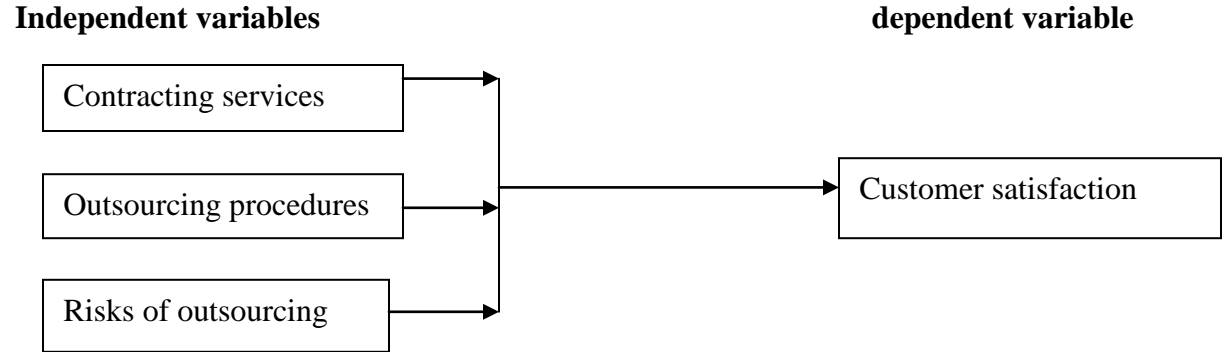
An organization's business might change due to external market forces or new laws and regulations, and the demands on their service providers change accordingly. To the extent that the demands of an organization and the provisions in the outsourcing agreement diverge, there are implicit as well as explicit costs to the organization related to satisfying the discrepancies, even to the extent of having to transfer to a different service provider or to an in-house operation. The more functions and roles that are outsourced, the less likely is it that the internal staff can support those functions should they be moved back in-house. An organization has to continually keep its internal staff up to date by training programs and/or via the transfer of knowledge from the service provider to the staff in order to maintain its best bargaining position and to retain critical internal staff.

A benefit of outsourcing is its cost effectiveness. This often means that the same amount or more work is performed than before the outsourcing exercise with less labour. The organization outsourcing its work invariably sheds jobs. If this were not the case, there would be no, or little, cost savings to the outsourcing organization. As a result unions and employees view outsourcing with suspicion and tend to resist it. It also creates low morale among employees. In some cases, outsourcing can breed corruption practices in an organization. This can take the form of bribes in order to get favors, or inside staff having direct interests in the outsourcing organizations.

2.5 Conceptual Framework

In this study, customer satisfaction was treated as the dependent variable while contracting service, outsourcing procedures and contracting risks were the dependent variables. This is shown in figure 1.1.

Figure 1.1: Conceptual framework



The researcher argues that the satisfaction of customers at Kenya Power has been greatly affected by manner in which services are contracted to suppliers, the procedures that are followed during contracting and the risks that are associated with outsourcing.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the design and methodologies which were used in the research to determine the influence of outsourcing strategy on customer perception on outsourcing strategy by Kenya Power. These were discussed under the following subsections; research design, target population, sampling technique, data collection instruments, and data presentation and analysis

3.2 Research Design

This research was undertaken by the use of descriptive survey. According to Orotho (2003), a research design is a program to guide the researcher in collecting, analyzing and interpreting observed facts. He further defined descriptive survey as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. Mugenda and Mugenda (2003) supports this view by asserting that this type of research attempts to describe such things as possible behavior, attitudes and characteristics. Descriptive survey was to enable the researcher to have a systematic collection and presentation of data in order to determine the influence of outsourcing strategy on customer satisfaction in Kenya Power.

3.3 Target Population

This research targeted the branches of Kenya Power in Nairobi region. The branches operating under the Nairobi Region are Central, Dagoretti, Embakasi, Kasarani, Kibera, Makadara, Pumwani and Westlands. In each of the branches the study targeted the procurement departments and particularly the staff working in these departments. According to records from Kenya Power, activities which have been undergoing contracting or outsourcing are designing of power lines, way leaves acquisition and construction of power lines and therefore the staff charged with these activities were the main respondents. Currently there are 237 staffs charged with designing of power lines, way leaves acquisition and construction of power lines in the targeted Divisions.

3.4 Sampling Design

A sample size of 94 was selected from the study using proportionate stratified sampling method representing 40% of the target population. The study sample was derived from Mugenda and Mugenda's (2003) recommendation of a sample size of between 30% – 50% of the target population. Within this method, the respondents were divided into eight strata based on their branches i.e. Central, Dagoretti, Embakasi, Kasarani, Kibera, Makadara, Pumwani and Westlands. The sample was justified by the homogeneity of the (staffs) respondents hence the researcher believed that the sample size was representative of the population given the homogeneity of the target population. The sample size was distributed as shown in table 3.1 based on population ratio of the each of the divisions.

Table 3.1: Sample Selection

Branch	Total Population	Population Ratio	Sample
Central	35	0.148	11
Dagoretti	42	0.177	16
Embakasi	53	0.224	17
Kasarani	54	0.228	18
Kibera	33	0.139	10
Pumwani	46	0.194	14
Westlands	27	0.114	8
Total	237	1.00	94

3.5 Data Collection

This study used primary data and secondary data to answer the research questions. This was collected through interview schedules from the managers or their assistants from the branches and a structured questionnaires from the other staffs in the departments. The questionnaire was divided into the following parts. Part A of the questionnaire covered demographic data on respondents' i.e sex, age, and length of service in the company. Section B concerned evaluative tools or indicators for measuring the influence of outsourcing on customer satisfaction in Kenya Power.

These were divided into three categories covering contracted services, outsourcing procedures and the risks exposed through outsourcing and their relationship with customer satisfaction. Secondary data was also obtained by studying documents that seemed to help with an understanding of outsourcing in Kenya Power for example the strategic plan. These documents were obtained from different departments within Kenya Power. The data collected was qualitative and quantitative in nature. The researcher, with a help of two research assistants, who were well briefed on the survey subject, self-administered questionnaires to the respondents in the eight strata. They were selected in a simple random method.

3.6 Data Analysis

The data was cleaned edited and coded by creating categories using numeric values. Quantitative data was entered into a computer system using Statistical Package for Social Sciences (SPSS) for analysis and Excel computer softwares while qualitative data was clustered according to the type of responses and then coded to interpret findings where there were similarities in the responses. Descriptive analytical statistics such as frequency distributions, cross tabulations and percentages were used to analyze key assessment variables and measures of central tendencies such as means and standard deviations. The analyzed data was then presented in form of tables, charts, graphs and prose for interpretation, summary, conclusions and recommendations.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents findings on the relationship between outsourcing and customer satisfaction in Kenya Power. The study was carried in eight branches of Kenya Power in Nairobi County. From these branches a sample size of 94 respondents was selected. All these respondents participated in the study giving a respondent rate of 100%. This impressive response on data collection was realized as a result of the researcher's own personal involvement in the data collection and encouragement to the respondents on the need to give their responses. The chapter contains information on demographic distribution of the respondent, the relationship between contracted services, contracting procedures and contracting risks and customer satisfaction.

4.2: Demographic Information on the Respondents

The first item on demographics sought information on gender distribution of respondents in KP branches within Nairobi County. The response was presented in table 4.1.

Table 4.1: Distribution of respondents by gender

Gender	Frequency	Percent
Male	82	87.2
Female	12	12.8
Total	94	100.0

The study found out that most of the staff under the procurement departments of the KP offices in Nairobi region were men at 87.2% while women were rated at 12.8%.

The study sought to establish the respondents' age. Their responses were presented in table 4.2.

Table 4.2: Age distribution of the respondents

Age in years	Frequency	Percent
31-40	33	35.0
40-50	47	50.0
Above 50	14	15.0
Total	94	100.0

The study found out most of the respondents are aged between 40-50 years, 33% were aged between 31-40 years while 15% were above 50 years of age.

The respondents were asked to indicate their level of academic qualifications. The response was presented in table 4.3.

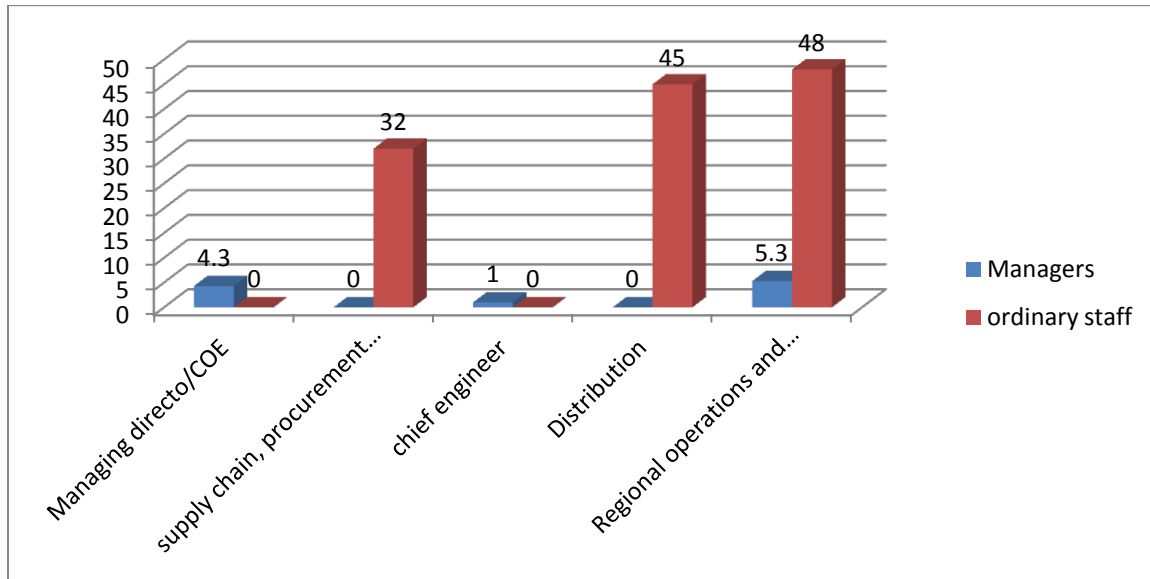
Table 4.3: Respondents' distribution by level of education

Level of education	Frequency	Percent
Primary	6	6.3
Secondary	12	12.7
College/ University	29	31.0
Post graduate	47	50.0
Total	94	100.0

The procurement staff working for KP within Nairobi region possess very high qualifications where 50% of them have post graduate degrees/diplomas followed by 31% with college/university education. Those who had attained "O" levels came third at a response rate of 12.7% with lowest being those with elementary level of education at 6.3%.

The study sought information on the respondents' division of work. The response was presented in figure 4.1.

Figure 4.1: Distribution of respondents by division of work and positions in the company



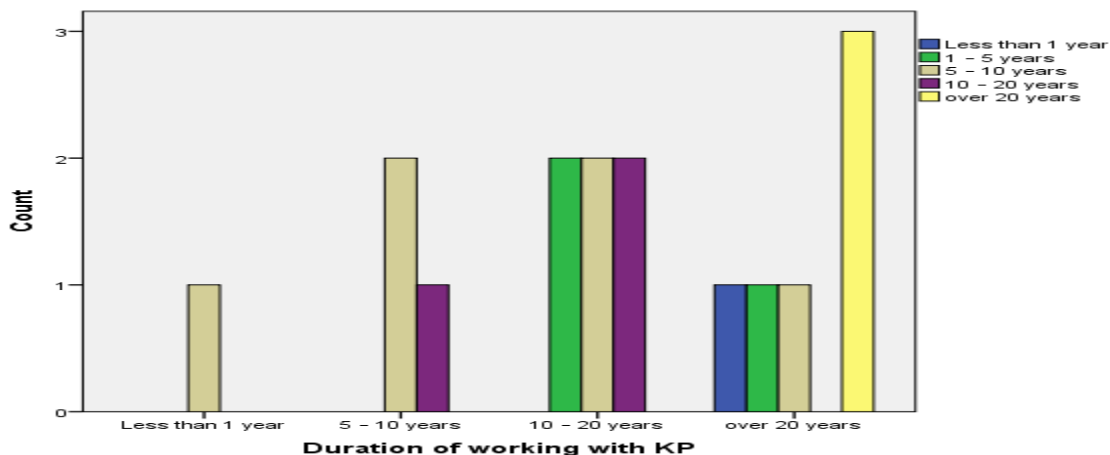
Key: Supply chain, procurement and logistics

Regional operations and management

The study found out that most of the ordinary staffs are involved on the regional operations and management of the procurement activities for the organization at 48%, 45 % of the staff are charged with distribution of the companies products and the management of supply chain, procurement and logistics at 32%. The manager/COEs were ranked at 4.3 with one chief engineer.

The respondents were asked to indicate the numbers of years they have worked with KP and the procurement departments they results were presented in figure 4.2

Figure 4.2: Numbers of years worked at KP and the procurement department



4.3: The relationship between contracted services and customer satisfaction

Study sought to find out the services that have been contracted by the company. They said that the services that have been contracted are, power line construction, cleaning services, security services, way leaves construction, acquisition of way leaves / right of way, survey and design of schemes services, installation of prepaid meter services, debt collection services, bush clearing, repairs and maintenance and breakdown resolution.

The researcher sought to find out the reasons why they have contracted the above services. They said that they have done so, so as to cut down on in-house implementation which has become too expensive in terms of staff overheads (cost reduction), to enhance operations and as a result of lack of adequate personnel/capacity. The respondents further added that they have contracted the services to create synergy for accelerated customer connections, to ensure speedy service delivery and save on costs as contractors are given jobs as and when available as opposed to permanent staff who have to be paid on full time basis. Others were driven by the pursuit for efficiency and effectiveness in service delivery and to enable the company focus on its core business

The researcher indentified a number of statements indicating the relationship between contracted services and customer satisfaction where the respondents were asked to show their level of agreement with the statements. The response was given in table 4.4.

Table 4.4: Relationship between contracted services and customer satisfaction

	N	Mean	Std. Deviation
Leads to effectiveness in service delivery	94	4.1250	1.08781
Promotes efficiency of customer services	94	4.0000	.96609
Aids the company in focusing on core competency	94	3.3125	1.01448
Allows relocation of resources to aid in addressing arising consumer needs	94	3.6875	.94648
The organization has strategically contracted those activities that are directly serving the needs of the customers.	94	3.3750	1.25831
Enables the company to invest its resources in the innovation of customer friendly products	94	3.0625	1.12361
Since outsourcing cuts down the operating cost the company replicates this in charging low prices to its products which attracts more customers	94	2.8125	1.16726
Improves on the organizational performance	94	3.7500	1.12546
Enables provisions of quality services to the customers	94	3.3125	.87321
Promotes personnel development in terms of professionalism and competence level	94	3.1250	.80623
Valid N (listwise)	94		

The study found out that contracted services leads to effectiveness in service delivery at a mean response of 4.12 with a standard deviation of 1.08781 and promotes efficiency in customer

services at rating of 4.00 with a standard deviation of 0.96609. Contracted services were further found to improve on organizational performance at a mean response of 3.75 with a standard deviation of 1.125, allows allocation of resources to aid in addressing arising consumer needs at a mean response of 3.6875 with a standard deviation of 0.94648, it enables the organization to strategically procure services that are strategically serving the needs of customers directly at a mean response of 3.375 with a standard deviation of 1.25831 and aids the company to focus on core competencies at a mean rating of 3.3125 with a standard deviation of 1.01448.

4.4: The relationship between contracting procedures and customer satisfaction

The first item here sought to establish the contracting procedures in place for acquiring contracted services in the organization.

The respondents said that tenders are floated where adverts on prequalification are placed in the local dailies and interested firms asked to participate, contractors bid and the best bids are selected based on an agreed criteria. Contracts are then drawn and during the contracting period, works are assigned and checked for compliance, through competitive bidding, vendors providing all the requirements. Thereafter an evaluation team is then set up to evaluate the applicants. Firms that meet the set criteria are prequalified for the service. The prequalified firms are issued with jobs as and when available and given timelines in which to execute. The award of schemes is strictly based on performance. Others said that rigorous procurement procedures that involve all stakeholders, effective supervision, monitoring and evaluation framework, prompt payments for services delivered, adequate mechanisms are in place to ensure fair and equitable allocation of work where vendors are sensitized on work performance and policy documents.

Then the researcher sought to establish how the above procedures affect customer satisfaction with the services provided.

The said that, this ensures that only competent contractors are awarded jobs, the checks and balances help in ensuring the contractors offer the desired services to customer to maintain good customer satisfaction. They added that competitive environment and limited time contracts

makes the contractors strive to give their best, it ensures that customers are cushioned against losses incurred as a result of vendors' negligence and service delivery standards are met. Further the results shows that if award is done on merit and performance, the customer will receive timely and quality service hence an increase in customer satisfaction, contracting procedures have ensured that services are not interrupted and that quality has been assured while efficiency and effectiveness has been improved since customers are served faster.

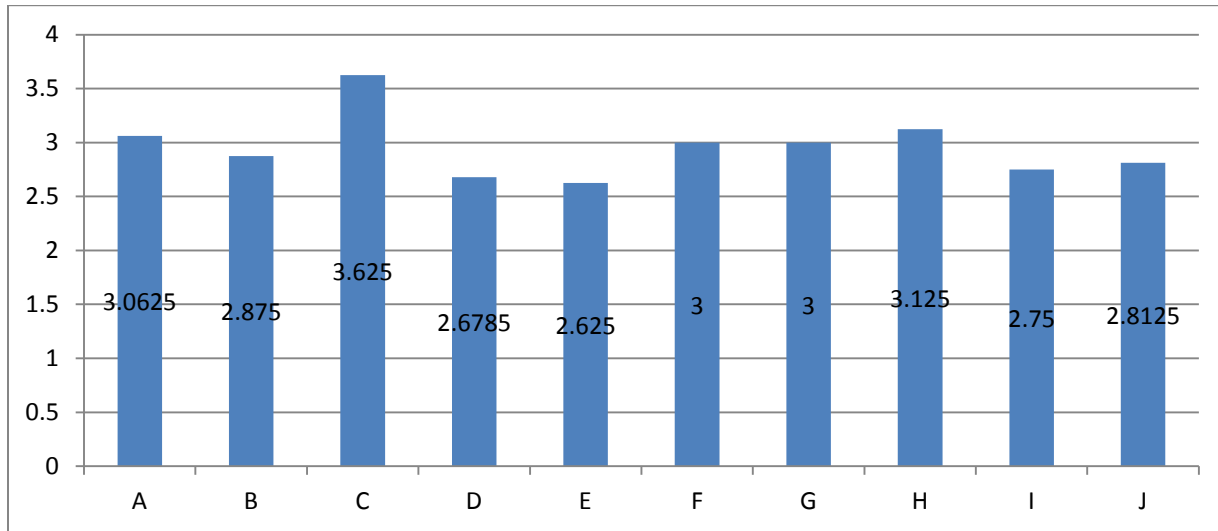
In order to test the relationship between contracting procedures and customer satisfaction, the researcher identified a number of statements denoting contracting procedures. The respondents were then required to show their level of agreement with the statements. The response was presented in figure 4.3 where alphabetical letters were used to code the statements in the analysis software (excel). The coded statements were given in the table below.

Table 4.5: Statements denoting contracting procedures

Alphabets	Statements
A	Contracting policies and procedures have ensured that objectives of the giving the best services to the customers is achieved
B	Contracting systems are very comprehensive and involves both the vendor and stakeholders in the organization through out to ensure quality is not compromised
C	The guidelines require that the vendor adequately performs their duties with the customer in mind.
D	There is effective monitoring and evaluation frame work to ensure that contractors meet the deadlines so as to ensure that they do not contract with the customers calendar
E	The organization is effectively meeting its obligations to the vendors by paying them on time to prevent any lapse in service delivery
F	The organization is always aware of all the processes and any emerging issues during the execution of the contract
G	If any work is not performed well, there are mechanisms in place to ensure that the effect is not spread up to the customer level.
H	The organization has put in place structures to ensure that all contractors are given all the necessary information before the commencement of the contracts
I	Effective guidelines on contracting have ensured non-interruption of services by the vendors
J	There are post-award meetings in place to keep track of progress of the contract

These were presented as follows based on mean rating of likert scale response rate.

Figure 4.3: Relationship between contracting procedures and customer satisfaction



The study found out that the vendors are given guidelines that compel them to adequately perform their duties with the end customers in their minds at a mean response of 3.625. The organization was found to have put in place structures to ensure that all contractors are given all the necessary information before the commencement of the contracts (H) at a mean response of 3.125. The management has also ensured that contracting procedures and policies achieves the objective of giving the customers the best always (A) at a mean rating 3.0625. The organization is always aware of all the processes and any emerging issues during the execution of the contract and if any work is not performed well, there are mechanisms in place to ensure that the effect is not spread up to the customer level at a mean rating of 3.000. The organization has put in place measures to ensure that all systems are comprehensive involving both the vendor and stakeholders in the organization at a mean response of 2.875 and provision of post award meetings to keep track on progress of the contracts at a mean rating of 2.8125.

4.5: The relationship between contracting risks and customer satisfaction

The researcher sought to establish the difficulties/risks that the organization has encountered when contracting services.

The respondents said that, there are cases of inexperienced bidders winning contracts and not

being able to deliver in a bid to cut their costs and contractors some times engage low quality staff in delivering the service hence compromising on customer achievement. There is inability of the company to really supervise or ascertain all the contracted works, poor execution by the vendors, lack of adequate skills and poor workmanship. They also experience material losses, conflict of interest – where senior people influence award of schemes to ‘friendly’ contractors.

The other difficulties facing outsourcing in the organization is lack of control on number of contractors required leading to too many contractors on board with minimal work for them, substandard work arising from poor contractor selection, the risk of corporate information leaking out to competitors, dishonest contractors and accidents.

The researcher identified some statements denoting the measures the organization has taken to caution the customers from the effects of contracting risks. The researcher asked the respondents to rate their level of agreement with the measures indentified on an ordinal scale of 1 – strongly agree, 2- agree, 3- strongly disagree and 4- disagree. The response was presented in table 4.6.

Table 4.6: measures taken to caution customers from contracting risks

Measures	Modal choice	Frequency	Percent
The management has mitigated on adverse effects of contracting on the organizational capacity	Strongly agree	93	99.1
The organization periodically reviews performance of its vendors to mitigate on overdependence and complacency on the part of the suppliers	Agree	92	98.1
There is comparison of prices across suppliers to ensure cost effectiveness in delivery of services.	Agree	94	99.6
The contracts are signed under oaths to mitigate the risk of company information leaking to competitors	Strongly agree	89	95.0
The organization undertakes extensive research to reduce on outsourcing costs.	Strongly agree	91	97.8
Since outsourcing is a contemporary method, there are structures in place spelling out the delivery methodology to all the vendors in time and in available whenever one is in need.	Strongly agree	92	98.9
There is clear framework to ensure quality of services is not compromised due to contracting	Strongly agree	92	98.2
The company carries out a comprehensive vendor analysis to ensure skills and capacity in the delivery of services	Agree	92	98.5
There are measures in place to ensure the risk of misinterpretation of the services provided by the	Strongly agree	94	100

vendors is taken care of.			
The organization evaluates the contracts thoroughly before engaging vendors to ensure that all the components are provided when making agreement.	Strongly agree	93	99.3

According to the respondents there are measures in place to ensure the risk of misinterpretation of the services provided by the vendors is taken care of at a response rate of 100% for those who strongly agreed. The organization compares prices across various suppliers to ensure cost effectiveness in delivery of services at 99.6% for those who agreed, there is thorough evaluation of contracts before engaging vendors to ensure that all the components are provided when making agreement at 99.3 % response rate for those who strongly agreed and the mitigation on adverse effects of contracting on the organizational capacity at a mean response of 99.1% for those who strongly agreed.

The study further found out that since outsourcing is a contemporary method, there are structures in place spelling out the delivery methodology to all the vendors in time and are available whenever one is in need at 98.9%, the organization was found to carry out comprehensive vendor analysis to ensure skills and capacity in the delivery of services at 98.5%, the organization ensures that quality is not compromised at 98.2% and reviewing of vendor performances to mitigate on complacency and overdependence of suppliers at 98.1%. Finally the study established that the organization undertakes extensive research to reduce on outsourcing costs at a response rate of 97.8% and the signing of contracts under oaths to ensure that company information does not leak to competitors at 95.0%.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1: Introduction

This chapter gives the summary of the findings on the relationship between outsourcing and customer satisfaction at the Kenyan Power Company. The section is sub-divided into summary of the findings, conclusions, recommendations and suggestions for further studies.

5.2: Summary of the Findings

The study found out that the management of Kenya Power Company have embraced outsourcing in their strategic planning in which the company has outsources services such as, power line construction, cleaning services, security services, way leave construction, acquisition of way leaves/right of ways, surveying and designing of schemes of services, installation of prepaid meter services, debt collection services, bush clearing, general maintenance and repairs and breakdown resolution.

The reasons for outsourcing the services in Kenya Power are to reduce of costs of operations and in-house implementation of some of the programmes required to run the services and enhance operations among the staffs in service delivery. The study further found out that contracted services in Kenya power helps in creating synergy to accelerate customer connections and due to lack of adequate personnel and capacity to do the work done by the contractors. The process of contracting services has also been embraced because it helps in improving in the organizational efficiency and ensures that it only contracts the jobs that are available instead of employing permanent staffs who are very expensive to maintain. The other major driver for outsourcing in Kenya Powers is the need for the company staff to focus on the company's core competencies in order to ensure that the customers' expectations are met.

Since the organization adopted outsourcing in its strategic operations the respondents indicated that this has led to effectiveness and efficiency in service delivery, improved on the performance

of the organization and has aided in effective allocation of resources for improving the customer needs. The process of outsourcing products at Kenya Power have also been found to aid the management in procuring services that are strategically serving the needs of the customers leaving the organization to focus on its core competencies. This has since improved customer satisfaction as the organization now receives fewer complaints from its customers than it used before engaging in contracting.

Further the study found out that the organization has laid down several procedures that have to be followed during the process of contracting. First the organization floats tenders on the local dailies or internally where interested contractors are asked to participate. The interested contractors then responds by bidding in which case the best bidders are selected through laid down procedure (this has to be in accordance with the public procurement act). After winning bidders are indentified, they are assigned the various contracts for which they have bided for.

The process also entails very vigorous evaluation, supervision, monitoring and evaluation of the vendors and sensitization of the vendors on the necessary information during the outsourcing process and period. These procedures according to the respondents ensure that competent contractors are awarded jobs, that there are checks and balances on the work done and delivery of services to the customers. They said that these procedures have further created a competitive environment where the winning bidders strive as much as possible to give their best so as to win back the tenders again and that customers are cushioned from loses incurred as a result of the vendors' negligence. The study further found out that laying down such procedures has ensured that the services provided to the customers meet the expected standards and that services are provided on time and in the right quality to maintain customer satisfaction. The procedures have also ensured that service delivery to the customers are not interrupted.

Just like any other undertaking the process of outsourcing has been found to be associated with a number of challenges. Some of these difficulties are cases of inexperienced bidders winning contracts and failing to delivery services as expected forcing to the organization to change the contracts. Sometimes this comes with extra expenses of having to pay for the services again. Contractors have also been found to use low quality materials/workmanship in order to cut on

costs which sometimes compromises on customer satisfaction. The company faces the challenge of effectively supervising the contractors or ascertaining all the contracted works and losses on materials especially for printing tenders and yet only a few bidders respond or the tenders are cancelled. Sometime the vendors are so many leading to confusions and conflicts interest especially from the stakeholders. There is the risk of the organization's information leaking to the outsiders, dishonesty among the contractors and accidents incurred during delivery of services.

In order to cushion the customers from the above risks, the study found out that the organization has ensured that the risk of misinterpretation of the specifications on the requirements is taken care of, the organization carries out an extensive price comparison across various suppliers to ensure cost effectiveness in delivery of services and that thorough evaluation of contracts is done before engaging vendors to ensure that all the components of the tenders are provided when advertising the tenders. The organization has further mitigated on the adverse effects of contracting by building a strong internal capacity, spelled out the delivery methodology to all vendors, carried out comprehensive vendor analysis to mitigation on poor service delivery and that contracts are signed under oaths to ensure that the contractors do not leak company information to competitors.

5.3: Conclusions

In conclusion, the study found out outsourcing leads to effectiveness in service delivery, promotes efficiency, improve organizational performance, allows allocation effective of resources in addressing customer needs, enables the organization to strategically procure services that serve the needs of the customers directly and aiding the company to focus on its cores competencies. Outsourcing was further promotes personnel development, enables provisions of quality services to the customers and aids the organization in providing services that are cost effective to the customers.

The contracting procedures in place compels that contractors to adequately perform their duties with the customer in their minds, they ensure that all contractors are given all the necessary information before they begin their contracts and that the organizational goal of ensuring that the customers are given the best services is achieved through the laid down procedures. These

procedures have also aided the management in being in touch with the contractors and dealing with all the emerging issues during the contracts and that if any work is not done well there are mechanisms in place to ensure that the effect is not passed to the customers. They have ensured that all the systems are comprehensive by involving the vendors and stakeholders throughout the process. The guidelines also ensure that only competent contractors are awarded jobs and that there are checks and balances to help in ensuring that the contractors offer the desired services to customer to maintain good customer satisfaction. The procedures that also created a competitive environment for the contractor hence they all try to give the best service to ensure that customers are cushioned against losses incurred as a result of vendors' negligence and that service delivery standards are met as expected.

There are cases of inexperienced bidders winning contracts and not being able to deliver in a bid to cut their costs and contractors some times engage low quality staff in delivering the service hence compromising on customer achievement. There is inability of the company to really supervise or ascertain all the contracted works, poor execution by the vendors, lack of adequate skills and poor workmanship. They also experience material losses, conflict of interest – where senior people influence award of schemes to 'friendly' contractors leading to poor delivery of services to the customers.

The other difficulties facing outsourcing in the organization is lack of control on number of contractors required leading to too many contractors on board with minimal work for them, substandard work arising from poor contractor selection, the risk of corporate information leaking out to competitors, dishonest contractors and accidents hence compromising on the quality of services given to the customers.

5.4: Recommendations

Based on the research findings, the researcher recommends that,

The management should keenly monitor the sources of their contractors' products/services so as to have an overall picture about the service delivery process. This will ensure that the vendors do not use low quality materials/workmanship which might lead to low quality services to the customers leading to losses.

The procedures in place for contracting should be applied fully during the tendering process to ensure that only qualified and competent vendors are given the tenders to provide the services. This will cut o extra expenses and ensure continuity in delivery of services in the organization.

During the tendering process any signs of conflict of interest in the tendering process should be investigated fully and if found to be true, it should automatically lead to the cancellation of the tenders and re-advertisement of the same so as to ensure that the process is free and fair and that only qualified vendors are given the contracts.

5.5: Suggestions for Further Studies

Based on the findings the researcher recommends further studies on the following areas;

1. The effect of contracting risks service delivery in organizations
2. The influence of outsourcing on organizational performance
3. The challenges facing outsourcing in organizations

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Greetings! My name is George Otieno Makowenga. I am a Master of Business Administration Student at the University of Nairobi. The purpose of this questionnaire is to collect information on the outsourcing and customer satisfaction in Kenya Power. You have been chosen as a respondent in this study. I therefore request you to give me a bit of your time and fill in this questionnaire accurately. Please note that your honesty in answering the questions during the process is vital in understanding the link between the two aspects. The information collected from you will be treated with confidentiality. Your identity will be kept anonymous because you are not required to reveal your name.

Thank you in advance

George Otieno Makowenga

APPENDIX 11: QUESTIONNAIRE

Part 1: Demographic Information

1. State your gender:

a) Male b) Female

2. Please indicate your age (in years)?

a) 20-30 b) 31-40 c) 40-50 d) Above 50

3. Please indicate your level of education

a) Primary. b) Secondary. c) College/ University. d) Post graduate

4. State your division of work,.....

5. Length of working with Kenya Power,

Less than 1 year 1 – 5 years 5 – 10 years 10 – 20 years over 20 years

6. Designation,

7. How long have been working in this department?

Less than 1 year 1 – 5 years 5 – 10 years 10 – 20 years over 20 years

Part 2: Contracted Services and Customer Satisfaction

8. Please mark the appropriate box to show your level of agreement with following statements indicating the effect of contracted services on the achievement of customer satisfaction.

Key: Strongly Disagree (1) Disagree (2) Neither Agree nor Disagree (3) Agree (4) Strongly Agree (5).

Effect of contracted services on achievement of customer needs	1	2	3	4	5
Contracting of services are leads to effectiveness in service delivery					
Contracting of services promotes efficiency of customer services					
Trough contracting, the company focuses on their core competency in order to achieve customer satisfaction.					
Contracting of services allows relocation of resources to aid in addressing arising consumer needs					
The organization has strategically contracted those activities that are directly					

serving the needs of the customers.					
Contracting enables the company to invest its resources in the innovation of customer friendly products					
Since outsourcing cuts down the operating cost the company replicates this in charging low prices to its products which attracts more customers					
Contracting services to specialists improves on the organizational performance					
Contracting of services enables provisions of quality services to the customers					
Contracting promotes personnel development in terms of professionalism and competence level leading to improved customer services.					

9. State the extent to which contracting services influences the achievement of customer needs in this organization?

- To a very strong extent
- To a strong extent
- To a low extent
- To a very low extent

Part 3: Contracting Procedures and customer satisfaction

Tick appropriately based on your level of agreement with the following statements.

Key: Strongly Disagree (1) Disagree (2) Neither Agree nor Disagree (3) Agree (4) Strongly Agree (5).

Effect of contracted procedures on achievement of customer needs	1	2	3	4	5
Contracting policies and procedures have ensured that objectives of the giving the best services to the customers is achieved					
Contracting systems are very comprehensive and involves both the vendor and stakeholders in the organization through out to ensure quality is not compromised					
The guidelines require that the vendor adequately performs their duties with the customer in mind.					

There is effective monitoring and evaluation frame work to ensure that contractors meet the deadlines so as to ensure that they do not contract with the customers calendar					
The organization is effectively meeting its obligations to the vendors by paying them on time to prevent any lapse in service delivery					
The organization is always aware of all the processes and any emerging issues during the execution of the contract					
If any work is not performed well, there are mechanism in place to ensure that the effect is not spread up to the customer level.					
The organization has put in place structures to ensure that all contractors are given all the necessary information before the commencement of the contracts					
Effective guidelines on contracting have ensured non-interruption of services by the vendors					
There are post-award meetings in place to keep track of progress of the contract					

Part 4: Contracting Risks and Customer Satisfaction

The following statements show the link of contracting risks and customer satisfaction. Tick appropriately.

Key: Strongly Disagree (1) Disagree (2) Neither Agree nor Disagree (3) Agree (4) Strongly Agree (5).

Effect of contracting risks on achievement of customer satisfaction	1	2	3	4	5
The management has mitigated on adverse effects of contracting on the organizational capacity					
The organization periodically reviews performance of its vendors to mitigate on overdependence and complacency on the part of the suppliers					
There is comparison of prices across suppliers to ensure cost effectiveness in delivery of services.					
the contracts are signed under oaths to mitigate the risk of company information leaking to competitors					

The organization undertakes extensive research to reduce on outsourcing costs.					
Since outsourcing is a contemporary method, there are structures in place spelling out the delivery methodology to all the vendors in time and in available whenever one is in need.					
There is clear framework to ensure quality of services is not compromised due to contracting					
The company carries out a comprehensive vendor analysis to ensure skills and capacity in the delivery of services					
There are measures in place to ensure the risk of misinterpretation of the services provided by the vendors is taken care of.					
The organization evaluates the contracts thoroughly before engaging vendors to ensure that all the components are provided when making agreement.					

APPENDIX III: INTERVIEW SCHEDULE FOR THE MANAGERS

1. Position,

2. Division,

3. Name the services that have been contracted by the organization

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4. Reasons for contracting

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5. What measures are there to ensure customer satisfaction?

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6. What are the contracting procedures for the above services?

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7. How does this affect customer satisfaction?

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8. What are some of the difficulties/risk have been encountered in contracting the above services?

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9. What measures have you taken to ensure the achievement of the customer needs?

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