OUTSOURCING AS A STRATEGY FOR COMPETITIVE ADVANTAGE BY BARCLAYS BANK OF KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2013

DECLARATION

This research project is my original work and has not been submitted for the award of a degree in this or any other university.

Signed………………………………… **Date……………………**

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D61/63743/2011

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

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To my late mother Rose Otieno Warieda, thank you for the sacrifice you took single handedly to ensure that I had the best education. Even though you are not here to celebrate with me, I will forever cherish every memorable moment.

ACKNOWLEDGEMENT

My gratitude goes to all those who supported me as I pursued my Master of Business Administration degree at the University of Nairobi. Special thanks go to all my family members in particular my soul mate James and my children Marc and Leo for the sacrifice and support they accorded me.

I also like to appreciate my friends and colleagues for the great support they gave me as I was doing my project. I might not be able to thank each of you personally but I pray that the Almighty God bless you.

Finally, I want to say special thanks to my supervisor Dr. J. M. Munyoki who has been very influential in ensuring that I complete my degree. You were so committed in the supervision of my project and you were always available to offer academic guidance whenever I needed it. I saw a picture of a very humble and approachable lecturer and one who was willing to offer limitless support. Thank you very much and may the almighty God reward you abundantly.

ABSTRACT

Outsourcing is the practice of contracting people from outside the organization to provide specific services. Outsourcing as a strategy is not a new concept in the business world as most organizations outsource most of their services. Research indicates that the sheer size of spending on outsourcing and active involvement of top management executives makes outsourcing decisions more strategic in an organization today than ever. The objective of this study was to investigate the competitive advantage and challenges experienced by Barclays Bank of Kenya as a result of outsourcing of its services. Since the study was a case study, it was conducted through the use of interview guide that provided open ended questions that enabled the researcher to probe the respondents further for clarity of the subject. Data collected was analysed by the use of content analysis. The respondents were top management at the Sourcing Division of the bank. The findings of the study indicated that outsourcing enables Barclays Bank reduce its operational cost, enjoy expert and quality service and to focus on the core and strategic activities. It also noted that the major challenge experienced by the bank was training of new employees provided by the vendor. Another challenge noted was low motivation of the outsourced staff and difficulty in managing the vendors. The study experienced some limitations, such as, some respondents were not willing to provide certain information, and the study was also limited by the scope of information since it was a case study. Recommendation of the study was for Barclays Bank of Kenya to pilot test sourcing options in order to mitigate risk associated with vendors not being able to fulfill their obligations and to include confidentiality clause to guard against leakage of information. Further research need to be done to explore the opinion of other employees especially the junior staff, towards outsourcing and also a study on cost benefit analysis of outsourced services needs to be done to find out whether outsourcing is truly cheap in the long term.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Today's escalating, competitive and demanding environment requires players in the market place to be more efficient, to emphasize on a leaner organization and continuously innovate new procedures to keep ahead of competitors. Adding final consumer value to the product or service in the form of lower prices, quality and better service has become an essential requirement in the global market place. Outsourcing has become an attractive option in order to take advantage of global opportunities, to acquire state of the art logistics capabilities, to significantly improve customer service and to enable focusing on core competencies.

Competitive advantage is the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership (Porter, 1998). It also provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage. Powell (2001) views business strategy as a tool for manipulating the resources to create competitive advantage. He argues that viable business strategy may not be adequate unless it possesses control over unique resources in a manner that creates the desired unique advantage. Barclays Bank of Kenya strives to achieve competitive advantage by using the business strategy of outsourcing to manage its value chain activities efficiently and at lower costs.

1.1.1 Concept of Strategy

According to Grant (1998), strategy is about winning and the most important issue in any organization is to establish the winning formula in any competition. Quinn (1992) also argues that strategy is a pattern that integrates an organization's major goals, policies and action sequences into a cohesive whole. He further explains that a well formulated strategy helps an organization to allocate its resources into a unique and viable posture based on its relative internal competencies and weaknesses, anticipated changes in the environment and contingent moves by intelligent opponents.

Similarly, Mintzberg (1987) defines strategy as a plan, ploy, pattern, position and perspective in an organization. Strategy is seen as a plan since it describes a deliberate intended course of action an organization takes, a ploy since it is used to outsmart and shed off competitor threat, a pattern since it emerges from a stream of actions taken by the organization, a position since it indicates how an organization will develop sustainable competitive advantage and a perspective since it reveals how an organization perceives the outside world.

Davies (2000) defines strategy as a design or plan for achieving a company's policy goals and objectives. Whereas, policy defines the company's goals and objectives and its operational domain, strategy decides how the company's goals and objectives will be achieved, what operational units will be used to achieve the company's goals and objectives, and how those operational units will be structured. Strategy also determines what resources will be needed to achieve the company's goals and objectives and how these resources will be acquired and deployed. This definition of strategy applies to corporate strategy and unit strategy. According to Davies, Unit strategies are plans for achieving the goals and objectives of an operating unit, an industry or geographical operating area, or a managerial or business function. Unit strategies include a company's marketing strategy, acquisition strategy, alliance or affiliation strategy, human resources recruitment and retention strategy, production strategy and financial strategy. They also include a company's division strategies, subsidiary strategies, and country strategies. Corporate strategy, on the other hand, refers to strategy that is used to achieve corporate goals and objectives, that is, to achieve corporate policy.

1.1.2 Concept of Outsourcing

Stear (1997) defines outsourcing as the practice of contracting people from outside the organization to provide specific services. This practice is common in the modern economy. The definition of outsourcing includes both foreign and domestic contracting, and sometimes includes off shoring, which means relocating a business function to another country. Financial savings from lower international labour rates is a big motivation for outsourcing/off shoring.

The idea of outsourcing can be traced back to Adams Smith theory of competitive advantage in his book, “The wealth of Nations”. Smith (1976) argues that a firm can specialize to produce goods that it has competitive advantage i.e. goods it can produce cheaper than other companies. Many companies do not have time and resources to focus on every activity in their value chain (Kamau, 2006).According to DiRomualdo and Gurbaxani (1998), there are two types of outsourcing: Information Technology Outsourcing (ITO) and Business Process Outsourcg (BPO). Business process outsourcing encompasses call centre outsourcing, human resources outsourcing (HRO), finance and accounting outsourcing, and claims processing outsourcing.

According to Kirui (2001), outsourcing of non-core logistics activities needs to have clarity of process and the logistics function needs to be realigned. This will reduce logistics opportunity cost and therefore improve capital management. For outsourcing to offer greater budget flexibility and control, it should be done with clear understanding of the process and the objective it intends to achieve. Outsourcing lets organizations pay for only the services they need, when they need them. It also reduces the need to hire and train specialized employee, and reduces capital and operating expenses. Another reason why companies outsource is to avoid certain types of costs (Hira, Ron, and Anil, 2008; Olive, 2004). Olive further argues that companies elect to avoid burdensome regulations, high taxes, high energy costs, and unreasonable costs that may be associated with defined benefits in labour-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 labour costs. However, the company may or may not incur unexpected costs to train these workers. Lower regulatory costs are an addition to companies saving money when outsourcing.

1.1.3 Competitive Advantage

The study of competitive advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. "A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player" (Barney, 2007). Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Porter, 1998). In order to gain competitive advantage, a business strategy of a firm manipulates the various resources over which it has direct control to generate competitive advantage (Reed and Fillippi 1990). Superior performance outcomes and superiority in production resources reflects competitive advantage.

Competitive advantage seeks to address some of the criticisms of comparative advantage. Porter (1998) proposed the theory of competitive advantage that suggests that states and businesses should pursue policies that create high-quality goods to sell at high prices in the market. Competitive advantage rests on the notion that cheap labour is ubiquitous and natural resources are not necessary for a good economy. On the other hand, comparative advantage emphasizes productivity growth as the primary focus of national strategies. As a result comparative advantage can lead countries to specialize in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct for this issue by stressing maximizing of scale economies in goods and services that garner premium prices (Porter, 1985).

Porter (1998) defines competitive advantage as the ability gained through attributes and resources used by a firm to perform at a higher level than others in the same industry or market. He argues that a firm can achieve competitive advantage through cost leadership and differentiation. There are three main generic strategies for realizing sustainable competitive advantage, namely Cost leadership strategy, Differentiation strategy and Focus strategy (Porter, 1998). In addition to these strategies, organizations also employ Innovation strategy and Technology strategy to gain competitive advantage.

Competitive advantage provides architecture for describing and assessing strategy linking it to company behaviour and understanding the sources of competitive advantage. One has to look at the value chain; a general framework for thinking strategically about activities involved and assessing their relative cost and role differentiation (Porter, 1998).Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceed the firms cost of creating it. Porter defines value as what buyers are willing to pay for. Consequently, superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price.

Competitive advantage can't be achieved by looking at a firm as a whole. One has to look at discrete activities, for instance production and marketing that a firm performs. Each can contribute to a firm's relative cost position and create a basis of competitive advantage (Porter, 1998).

1.1.4 The Banking Industry in Kenya

According to the Central Bank of Kenya (CBK) 2012 Annual Report, the Banking Sector in Kenya comprises of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 2 credit reference bureaus, 5 representative offices and 115 foreign exchange bureaus. The banking sector aggregate balance sheet grew by 15.8 percent from Ksh 1.9 trillion in June 2011 to Ksh 2.2 trillion in June 2012. The performance of the banking sector improved due to growth in the key categories of number of bank customer deposit accounts and bank loan accounts.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995. Currently, all banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. It provides a forum to address issues affecting its members which consist of banks operating in Kenya. The Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publication (Mwarey, 2008).

The Banking industry has however faced several issues such as changes in regulatory framework, declining interest margins due to customer pressure for non-traditional services and introduction of non-traditional players who now offer financial services products (Mwarey, 2008). Recent decades have seen radical transformation within the banking sectors of most industrialized countries. These transformations have also spread to non-industrialized countries or the developing countries including Kenya. Most of these transformations have been necessitated by change in the operating environment (Porter, 1998). Over the past years the banking sector has witnessed phenomenal growth in its asset base attributed to the increase in deposits and injection of capital as well as retention of profit by industry players (Mwarey, 2008).

1.1.5 Barclays Bank of Kenya

Barclays Bank of Kenya (BBK) is a subsidiary of Barclays Bank PLC which was started in 1658 by two goldsmith bankers John Freame and Thomas Gould. When James Barclay, John Freame's son-in-law became a partner later on, the bank joined with nineteen other private banks to form Barclays and Company Limited with 182 branches and deposits of over twenty six million pounds. Since then, it has spread all over the world with subsidiaries even in Kenya.

Currently Barclays Bank of Kenya (BBK) has 119 branches and 232 automated teller machines and is the second largest bank in Kenya in terms of asset base and branch network after Kenya Commercial Bank (KCB). The bank has experienced stiff competition from both local and international banks. This has forced the bank to continuously search for strategies that will enable it to remain competitive. Outsourcing is one of the strategies employed by the bank. This strategy is intended to help the organization reduce its operational cost and for it to focus on its core competencies. The bank practices information technology outsourcing and business process outsourcing.

1.2 Research Problem

Outsourcing is one of the strategies used by organizations in order to remain competitive in the industry (Thompson, Strickland and Gamble, 2007). It enables the organization to focus on few critical areas in the value chain and lets the non-core activities be handled by contractors. Competitive advantage is seen as the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership (Porter, 1998). In as much as outsourcing has numerous benefits, it comes along with some challenges. As a strategy, it may increase the risk of leakage and reduce confidentiality, as well as introduce additional privacy and security concerns especially in the banking sector. Outsourcing of labour makes it difficult to quantify the productivity of labour and diminishes the organization's control over outsourced staff.

There are a number of reasons why firms seek to outsource some of the non-core services. For instance, a survey on why firms listed in the NSE do outsource accounting services revealed that companies do not have time to focus on every activity in their value chain and therefore they decide to outsource (Kamau, 2006). Similarly, a study of the outsourcing strategy of flower firms in Kenya found out that outsourcing was minimally practiced by the firms but recommended that outsourcing could be put to practice to help reduce time spent on the non-core services (Agure, 2006). Mohamed (2006) also identified major factors that make banks to outsource training to include cost and availability of appropriate vendors. On the other hand, Maina (2009) did a study of outsourcing of services in the mobile phone industry in Kenya particularly looking at Nokia Corporation in Kenya. He was able to study the factors that influenced outsourcing in the corporation as well as the industry challenges faced and the benefits accrued. Jain and Natarajan (2011) did a research on the factors that influence the Indian Banks to outsource their activities. They found that functions were outsourced in order to reduce operational cost, to exploit economies of scale enjoyed by the vendor and to improve the business performance.

Many scholars have built an impressive picture about the benefits of outsourcing to an extent one can imagine it is a panacea to all competitive advantage needs of an organization. However some studies have found out that outsourcing does not really lead to a firm having a competitive advantage as it has its own setbacks. This study therefore seeks to investigate whether outsourcing of value chain activities within the banking sector in particular, Barclays Bank of Kenya, makes a firm to be more competitive. As it can be seen from above studies, it appears that little research has been carried out particularly on outsourcing within the Kenyan banking sector. Is there any competitive advantage the bank experiences as a result of outsourcing some of its value chain activities?

1.3 Research Objectives

The objectives of this study were:

i. To determine the competitive advantage experienced by Barclays Bank of Kenya when it outsources some of its functions.

ii. To determine the challenges Barclays Bank of Kenya experiences as a result of outsourcing its functions.

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1.4 Value of the Study

The study seeks to enrich the existing knowledge on outsourcing strategy more particularly outsourcing in the banking sector. As it can be observed, outsourcing is a strategy that is gaining ground in most organizations and banks are not left behind either. Therefore, this study will help enrich the theory on outsourcing in the banking sector.

This study will also benefit policy makers and regulators in the banking industry to better understand the impact of outsourcing in the banking industry. The findings of this study will enlighten policy makers on outsourcing and provide more insight on outsourcing to banks and organizations planning to use outsourcing as a strategy for acquiring competitive advantage. This study will help to unearth issues for regulators to pay attention to when developing and enforcing relevant measures and regulations aimed at protecting businesses and other stakeholders from the vagaries of outsourcing.

Lastly, this study will also add into the body of knowledge for BBK employees to better understand the factors that have led the bank to outsource some of its functions. By so doing, BBK employees will be made aware of the strategies the bank has adopted to enable it remain competitive in the industry.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents different views on the competitive advantage experienced by organizations when they outsource their value chain activities. Research indicates that the sheer size of spending on outsourcing and active involvement of top management executives makes outsourcing decisions more strategic in an organization today than ever (Willcocks, 2010). Since the 1980s there has been a trend of outsourcing among organizations across various industries starting with basic information systems (IS) outsourcing to advanced strategic and transformational outsourcing, which involves outsourcing of core and strategic business function.

2.2 Theoretical Foundation of the Study

This research will be based on Porter (1998) theory of competitiveness. According to Porter (1998), there are two basic types of competitive advantage: cost leadership and differentiation. These two types of competitive advantage combined with the scope of activities (broad target or narrow target) a firm targets, results in the three generic strategies: cost leadership strategy, differentiation strategy and focus strategy.

The goal of cost leadership strategy is to offer products or services at the lowest cost in the industry. The challenge of this strategy is to earn a suitable profit for the company, rather than operating at a loss and draining profitability from all market players. The goal of differentiation strategy is to provide a variety of products, services, or features to consumers that other competitors are not yet offering or are unable to offer. This unique offer confers a direct advantage to the company because it is able to provide a unique product or service that none of its competitors are able to offer. The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Competitive advantage grows out of a value a firm is able to create for its buyers. This value should exceed the firm's cost of creating it. Superior value can be achieved by either offering lower prices than competitors for equivalent benefits or providing unique benefits that offset a higher price.

Competitive advantage is at the heart of every strategy the firm may choose to follow. For a firm to gain competitive advantage it must choose the type and scope of competitive advantage it seeks to attain. "Being "all things to all people is a recipe for strategic mediocrity and below average performance, because it often means that a firm has no competitive advantage at all" (Porter, 1998. p12).

2.3 Outsourcing as a Competitive Advantage

According to Porter (1998), competitive advantage provides the architecture for describing and assessing strategy linking it to company's behaviour. One has to look at the value chain, a general framework for thinking strategically about activities involved and assessing their relative cost and role in differentiation.

There are three major reasons why organizations outsource some of their functions. According to Loh and Venkatraman (1992), organizations outsource because of economic, strategic and technological reasons. The most important economic driver is anticipated cost reduction. Companies are eager to reduce their overall cost base (mainly personnel and IT costs) and to convert fixed into variable costs (Slaugther and Ang, 1996). According to Casale (2001), organizations outsource in order to reduce and control cost by exploiting the assumed economies of scale and scope offered by the outsourcing vendors. Some of the studies observed that, in practice, outsourcing decisions are often driven by management's desire to transform fixed costs to variable costs (Huber, 1993; Baldwin, Irani and Love, 2001). The case in point was Information System outsourcing by the Continental Bank, one of the largest banks in the USA. By reducing the overall cost base, an organization develops competitive advantage. As Thompson, Strickland and Gamble (2007) argue that outsourcing can be cheaper than performing the activities in-house since the organization would be able to perform at lower cost hence leading to competitive advantage.

Organizations outsource for strategic reasons in order to access a more flexible business support in times of rapid change as well as to focus on core competencies through divestment of non-core areas (Shepherd, 1999).Technologically, companies expect to gain access to new technology and skilled people by sourcing to a specialized service provider (Lacity and Willcocks, 2009).The other reason for outsourcing is to improve management's focus on core competencies and get access to new technical skills and knowledge base for augmenting the organizations' skill and knowledge gap (Lacity and Willcocks, 1994; Casale, 2001). Research done by Lee and Kim (1999) suggests that outsourcing helps organizations to concentrate on those processes which differentiate the company from its competitors. These differentiation leads to competitive advantage as an organization is able to concentrate more on the core competencies. It is argued that outsourcing frees up resources that can be used more productively in the core business of the company (Huber, 1993).

Outsourcing of certain business functions can also be done in order to improve certain institutional aspects such as structure of the organization, style of management and to complement organizational design (Loh and Venkatraman, 1992) and also to gain competitive advantage by achieving unique winning combination of in-house capabilities with that of the outsourcing vendors.

Organizations outsource in order to mitigate technological risk and uncertainty (McLellan, Marcolin, and Beamish, 1995) , to improve overall business performance, achieve process improvisation and enhance customer service (Quinn, 2000).Other major benefits the management expects from their outsourcing engagements are convenience and flexibility in development, implementation and scaling up of projects, change management, protection against technical risk, and improvement in productivity and service quality (Clark, Zmud, and McCray,1995). Quinn (2000), conclude that outsourcing enables the organization to better manage the business and organizational knowledge and generate superior business intelligence, enable rapid innovation and introduction of new products/services.

DiRomualdo and Gurbaxani (1998) identified that after initial years of the land mark deal of Kodak, outsourcing has moved into the realm of strategic management as organizations started looking beyond the tactical and operational benefits that the outsourcing engagements promises to offer. In their widely cited study, the authors concluded that organizations engage in outsourcing often with a strategic intent to achieve substantial improvisation of IT and business processes, innovation, customer service, and gain overall business efficiency. The mentioned reasons of outsourcing lead to competitive advantage being enjoyed by the organization from cost reduction to differentiation. It is because of such benefits that most organizations consider outsourcing as a strategy to ensure competitiveness of their firms. Senior management in organizations now consider outsourcing not as a solution for operational or tactical issues but as a strategic tool for competitiveness.

According to Lacity, Willcocks and Rottman (2008), outsourcing is an important part of running a back office business; sound sourcing strategies begin with the assumption that any back office should be treated as a portfolio of activities and capabilities. Some of these activities must be insourced to ensure current and future business advantage and flexibility, while others may be safely outsourced. The bank should critically analyse the kind of back office activities to outsource and which one not to.In considering which activities to outsource, the company should consider activity's contribution to competitive positioning and business operations. While very few back office activities serve to differentiate an organization's competitive positioning in the eyes of external customers, many activities may be crucial to effective and efficient business operations. The company can only outsource these activities with very close attention and care.

Strategy applies to corporate strategy and unit strategy (Davies, 2000). Unit strategies are plans for achieving the goals and objectives of an operating unit, an industry or geographical operating area, or a managerial or business function. Unit strategies include a company's marketing strategy, acquisition strategy, alliance or affiliation strategy, human resources recruitment and retention strategy, production strategy, and financial strategy. They also include a company's division strategies, subsidiary strategies, and country strategies. Corporate strategy, on the other hand, refers to strategy that is used to achieve corporate goals and objectives, that is, to achieve corporate policy. Outsourcing can be used as a corporate strategy to achieve particular corporate policy.

Strategic management is the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives and then allocating resources to implement the policies, and plans, projects and programs. Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives.

A study by Corboy and O'Corrbui in 1999 shows that 70% of all strategic plans and strategies are never successfully implemented. This failure of strategic implementation can be due to unanticipated market changes and lack of senior management commitment to its implementation. It is therefore, said that effective implementation of an average strategy beats mediocre implementation of a great strategy every time.

2.4 Challenges of Outsourcing

In as much as outsourcing gives several benefits to an organization, there are other challenges an organization experiences when it outsources. According to Taylor (2007), the term "risk" refers to potential problems or issues that may arise and adversely impact the progress or outcome of a project. Risk is a part of every project and is usually associated with adverse or negative outcomes and is therefore perceived as a danger or hazard (March and Shapira, 1987). For example, shortfalls in product performance, disruption of service to the customer, hidden costs, and loss of innovative capacity are all potential risks for outsourcing projects (Aubert et al., 1998). These consequences could manifest themselves as financial loss, time delay, or underachievement of performance.

Earl (1996) argues that when an organization outsources, more often than not outsourcing engagements lead to situations where client organization end up relying too much on the outsourcing vendors for their Information Technology(IT), Information System(IS) and business needs and the irony of it all is that they fail to realise benefits expected from outsourcing. By outsourcing an organization exposes itself to greater risks such as: loss of internal competencies, innovation capabilities, cross-functional skills, and loss of control over the process and/or the vendor, (Earl, 1996).Management of vendor relationship is also another challenge, since if not managed properly can potentially lead to poor realization of expected benefits and also damage the organization seriously (Baldwin, Irani, and Love, 2001).

According to Federal Bank of New York, 1999, outsourcing of banking and financial services lead to risks related to regulatory violations, subsequent legal obligations and reputational risk. Other major challenges related to outsourcing are compromise on data integrity and confidentially (Federal Bank of New York, 1999). The more prominent risk in outsourcing is the data related risk.

Lacity, Willcock and Rottman (2008), argue that outsourcing has considerable transition costs associated with supplier search, negotiation, coordination, management, and communication. In order to achieve total cost savings, for example, the volume of work has to be large enough to compensate for the additional transaction costs. Large commitments to suppliers must be made cautiously.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains how data was collected from employees at BBK and also expound on the tools of data collection which was used. It also intends to indicate the number of people who were interviewed and how the data collected was analysed and presented.

3.2 Research Design

The research design was a case study due to the in-depth investigation required for this study. A case study is most appropriate when detailed analysis of a single unit of study is required as it provides focused and detailed insights to phenomenon that may otherwise be unclear.

Kothari (1990) emphasises the importance of a case study as a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of the unit under study. This research will therefore, assist in the in-depth understanding of BBK on how it uses outsourcing as a strategy to gain competitive advantage. Mugenda and Mugenda (1999) propose the use of a case study when an in-depth understanding of an individual institution is required.

3.3 Data Collection Method

Primary data was collected through the use of interview guide. The interview guide incorporated open ended questions which allowed for further probing of the question to ensure clarity. This helped to capture particular details of information that assisted to answer the set objectives. The research methodology which was a case study, therefore, allowed for in-depth understanding of the competitive advantages enjoyed and challenges experienced by BBK as a result of outsourcing its value chain activities. Kothari (1990) noted that a case study involves careful and complete observation of social units.

The researcher also used a research assistant to make appointments with the respondents at the Sourcing Division of BBK. By the use of judgemental sampling few respondents whom the researcher thought that could provide the necessary information were interviewed. Therefore, data was collected from Sourcing and Vendor Management Manager and Regional Head of Sourcing Hub at the Sourcing Division of BBK.

3.4 Reliability and Validity

To ensure reliability of the data collected, the respondents interviewed were top management in the Sourcing Division of Barclays Bank of Kenya. These are managers who have vast experience in outsourcing and they have worked with Barclays Bank for many years and they deal directly with the vendors.

To ensure that the data collected was valid, data was collected from managers who dealt directly with the vendors and the questions administered to the respondents were open ended which enabled the researcher to seek clarity on issues. All the data collected has been included in this study and feedback concerning the research manuscript was sought from professional colleagues and the project supervisor. The researcher also used a research assistant to ensure objectivity of the issues under discussion with the respondents.

3.5 Data Analysis

Data collected from the respondents was qualitative in nature and therefore it was analysed by the use of content analysis. Mugenda and Mugenda (1999) argue that the main purpose of content analysis is to study existing information in order to determine factors that explain a specific phenomenon.

Each collected interview guide was checked for completeness and consistency. Data was grouped into different categories each answering a particular objective of the study. Finally, data was summarized according to the study theme, which was the competitive advantage and challenges experienced by the bank as a result of outsourcing. Final findings were presented as a narrative of the qualitative data, conclusion and recommendation was drawn out of it.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretation of the data obtained from the different respondents. The objective of the study was to establish the competitive advantages and challenges experienced by Barclays Bank of Kenya as a result of outsourcing some of its activities.

The researcher was to interview three top management officials at the Sourcing Division of Barclays Bank of Kenya. During the period of the study, only two managers could be interviewed as one of the intended respondents had resigned. The managers selected had vast knowledge and experience concerning the bank and its outsourcing activities.

An interview guide was used to gather data. The interview guide administered contained open ended questions which allowed the researcher and the research assistant to probe the respondents further to seek clarity on issues. After primary data was collected from various respondents, the data was checked for completeness and then analysed through content analysis. Content analysis was to establish the thematic issues in the qualitative data collected.

The study established that Barclays Bank of Kenya outsources various services which are mostly non-core activities to the bank. Among the services outsourced are: courier and mail services, security, office equipment services particularly on printers/copiers, mobile phone services, cleaning and catering, transport (taxi services); which are entirely outsourced. Some aspects of Information Technology are outsourced especially on the system upgrading and maintenance and there is also outsourcing of human resource.

Within the operations division, the bank outsources some of the back office simple routine jobs to a third party who provide staff to handle such jobs. The staff outsourced within the back office work together with other bank employees. At times the outsourced staff perform the same activities as the bank employees, especially clerical duties. The outsourced staff also get assigned to do certain short term projects for the bank instead of the bank having to keep transferring its employees to such projects which might end up disrupting the banks operations. There is also a Barclays Shared Services which is a department that processes work for various countries where Barclays Bank operates: it is a consolidation of Barclays processes majorly, back office processes. Currently the team process work from Kenya, Uganda and Tanzania. The bank is also in the process of outsourcing records management.

4.2 Competitive Advantage

The study found that the bank considers several factors in order to determine what to outsource and what not to outsource. The key factors considered are the nature of activity to be outsourced; Is it a core activity or a non-core? How critical to the bank is the function to be outsourced? Mostly, the bank outsources non-core activities so that the bank management can focus on the core activities. This helps the bank to focus on the more strategic activities.

The competitiveness of the activity to be outsourced is also considered; the cost per unit of outsourcing such services is compared to the cost of carrying out the activity in-house. If the cost of outsourcing the service is lower than the cost of performing the function internally, the bank can consider outsourcing the service. This can be seen with the bank outsourcing some of its back office activities. Most of the activities outsourced are simple and routine jobs that are not so critical in the bank's operations. The bank therefore, outsources this so as to benefit from cheaper labour as compared to the bank hiring its own clerks. If the bank was to hirer its own clerks, the clerks would be more expensive to the bank since the bank will have to give higher salary and other defined benefits that include, medical, pension and even remuneration stipulated in Collective Bargaining Agreement and other union requirements.

The bank also outsources some of its activities in order to take advantage of the expertise of the vendor. Some services are better performed by the vendor instead of being done by the bank. Considering Information Technology and most of the non-core activities, the bank benefit from expertise services. The bank is also able to keep pace with the new innovations in different fields as a result of outsourcing. This makes the bank more advanced in terms of technology and other fields. Since technology is the backbone of most banks operations, the bank is able to have an edge over its competitors.

Outsourcing of services has enabled the bank to streamline its organization structure and to have fewer head count. This has enabled the bank to reduce its wage bill and to have a desired organization structure. In outsourcing of services such as transport, printers/photocopiers/scanners, the bank is able to control its expenditure and it pays only for the services used. This has further reduced operational cost and other costs associated with maintenance of such machines. Costs associated with having machines stay idle and therefore not in use is also eliminated.

The bank is able to benefit from quality services offered by the vendors. The activities are outsourced through competitive tendering process and the vendor that meets the requirements is selected. The history and reputation of the vendor is also considered.

4.3 Challenges of outsourcing

The study found that despite the competitive advantages enjoyed by Barclays Bank of Kenya, there were also some challenges experienced by the bank as a result of outsourcing its activities.

The employee outsourced by the vendor to carry out banking work experience a gap in the learning curve. This is because the activities are to be carried out as per the bank's laid down procedure and policies and the employee being hired by the vendor might not be conversant with them. The employees therefore, have to be trained in order to fill in the gap in the learning curve. This usually comes at a cost because trainings have to be regularly conducted to make staff more effective and conversant with the outsourced services. This has to be done by the bank in order to manage expectations and to maintain good relationship with the service providers.

Lack of control by the bank over the employee outsourced is another major challenge for the bank. This is because the employee does not report directly to the bank's management. The bank's management experience a major challenge and a difficulty in controlling such staff. Giving of developmental feedback by bank management to such an employee is also hampered as the employee hired by the vendor does not feel obliged to take orders from the bank management. At times the outsourced employee under-performs and the bank can do nothing under such conditions. For the banks staff, there are some measures employed to ensure that the staff perform well, for example, there are quarterly appraisals and even the terms of employment signed by the employee. All these, do not apply to outsourced employees who at times work in the same office with the bank employees and are paid less. They do not sit for appraisals and even do not sign the same terms of employment. Motivating such outsourced employees is a challenge. There is high turnover rate for employees outsourced and therefore, the bank at times grapples with a lot of work not finished in time which could lead to poor customer service.

Some service providers fail to deliver as expected and this could be due to poorly negotiated contracts. Some contracts are ambiguous, vague and non–existent. To ensure there are no hiccups, negotiations should be done by top management and procurement department, with the help of legal experts.

Another challenge occurs during the time the bank is planning to outsource one or more of its functions and there are bank employees that have been doing those functions. The bank usually faces a dilemma of whether to redeploy such employees to other functions or to transfer such employees to the vendor. The employees affected by the outsourcing usually feel anxious and demoralised as they usually don't know their fate during such a time.

Other challenges experienced as a result of outsourcing is the disruption of business due to supplier failure to deliver services on time or totally or inefficiency on the part of the vendor. Barclays bank has come up with some measures to curb on this such as; formulation of Service Level Agreement(SLA) that dictates what the vendor is supposed to do and how it is to be done and any penalties charged in case there is a failure on either part of the two parties. There is also Service Review Meetings with the supplier and constant communication of the involved parties. This helps to minimise any negative impact on the part of the bank as any grey areas can be clarified and any emerging issues addressed in time.

The banking sector is a sector that requires a lot of confidentiality in terms of information and data. The customer information should be handled with a lot of confidentiality. Therefore, by outsourcing, it may increase the risk of leakage of information and reduce confidentiality, as well as introduce additional privacy and security concerns.

4.4 Discussion

From the research findings, it can be argued that Barclays Bank of Kenya outsources its activities for economic, strategic and technical reasons. According to Loh and Venkatraman (1992), the most important economic driver is anticipated cost reduction. Barclays Bank outsources in order to reduce overall operational cost. By outsourcing printers/copiers and transport services, it is able to pay for only what it has used and therefore some fixed cost is converted to variable cost. By reducing the overall cost base, an organisation is able to develop competitive advantage (Thompson, Strickland and Gamble, 2007; Jain and Natarajan, 2011).

Shepherd (1999), argues that organizations outsource for strategic reasons in order to access a more flexible business support during rapid change. This was observed in Barclays Bank of Kenya, outsourcing of Information Technology maintenance and upgrading. The bank outsourced information systems replatforming from “Brains” system to “Flexcube” system.

According to Quinn (2000), organizations outsource in order to improve overall business performance and to enhance customer service. Barclays bank of Kenya has continually upgraded its Information Technology so as to provide its customers world class experience through mobile and internet banking.

Despite enjoying competitive advantages that comes along with outsourcing, Barclays Bank of Kenya also experiences challenges with it. Some service providers fail to deliver as expected due to poorly negotiated contracts. There is disruption of business due to supplier failure to deliver services on time or totally. This was also observed in the study carried out by Maina (2009) at the Nokia Corporations of Kenya that noted that vendors at times do not deliver services on time. This causes a lot of inconvenience on the part of the organization.

Agure (2006) did a study on outsourcing of human resource management services among the flower firms in Kenya and was able to identify that the major challenge faced by firms on outsourcing of human resource was loss of control in decision making, loss of command on outsourced services and loss of employee loyalty. The study established that these were challenges that Barclays Bank of Kenya was grappling with as a result of outsourcing some of its back office functions. The high staff turnover among the outsourced employees at Barclays is an indication that there was lack of loyalty among the staff.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the study, the conclusion and recommendations in regard to outsourcing at Barclays Bank of Kenya as obtained by the researcher. It also points out the research limitations and provides suggestions for further study.

5.2 Summary of the Findings

Outsourcing of business process and information technology is a practice that is gaining ground across different organizations and banks are not left behind. This is because it comes along with several advantages though some challenges are also experienced. Different organizations outsource for different reasons and therefore organizations should weigh different options available for them before just rushing to outsource different activities.

From the findings of the study, competitive advantages experienced by Barclays bank as a result of outsourcing some of its activities are: focus on the core activities, experience from external expertise, and reduced overall operational cost .Barclays Bank also faces challenges from outsourcing its activities and these are: challenge in training of the outsourced staff to enable them understand the outsourced activity, banking procedure and policies, challenge that concerns motivating of the outsourced as well as the bank employees whose jobs are to be outsourced ,challenge of managing the vendors as well as risks associated with information confidentiality and leakage.

5.3 Conclusion

In conclusion it can be stated that the study has been able to fulfil the stated objectives. The research indicates that Barclays Bank of Kenya has been able to use outsourcing as a strategy of competitive advantage since outsourcing enables the bank to cost cut, enjoy expertise services and also use much of the management time to focus on more strategic activities. Consequently, the study has been able to expose some challenges experienced by the bank as it outsources its services. The major challenge experienced being that of training new employees hired by the vendor, disruption of services when the vendor fails to deliver as expected and the challenge of managing the banks employees whose jobs have been outsourced.

In comparison to empirical study, Barclays Bank of Kenya engages in both Information Technology and Business Process Outsourcing. It is in the process of implementing shared services through a business unit called Barclays Shared Services (BSS). This is a team that comprise of outsourced staff, they work from Kenya and the staff are mainly managed by the bank management. BSS team mainly process work from Barclays Banks in the East African Countries i.e. Kenya, Uganda and Tanzania and the cost are apportioned accordingly to the various countries. This is a business model that Barclays is testing and it is still in the early stages. Similarly, a study done by Lacity, Willcocks and Rottman in 2008, showed that companies such as BAE Systems, General Electric, Lloyds of London, Procter & Gamble, and Reuters have successfully transformed their back offices by creating shared services, charging internal users for services, establishing service levels, and implementing self-service portal. In this regard, the creation of shared services might be of great benefit to Barclays bank as this might help in exploring of cheap labour rates and efficient utilization of human resources.

According to Agure(2006), risk associated with outsourcing of human resource management are loss of control in decision making, loss of command on outsourced services and loss of employee loyalty. The study established that these are still risks Barclays Bank of Kenya faces as a result of outsourcing of human resources. Due to lack of loyalty by the outsourced staff, it could be seen that there was high employee turnover. There was also a dilemma on how to manage such employees as they felt they were not directly answerable to the bank management.

5.4 Limitations of the Study

The study targeted top managers in the Sourcing Division and one of the managers scheduled to be interviewed was not there as the position fell vacant. This impacted on the quality and scope of information collected as the respondents were less.

Since only the top management of the Sourcing Division were interviewed, their views might not be the view of other members of staff within the division or the entire organization. Future studies conducted should interview different departments and even junior staff should be interviewed in order to establish whether the same result would be replicated.

Some of the respondents were not willing to offer more information concerning some issues when probed further during the interview. They feared the impact this could have on the organization. Therefore, limited information was collected on some issues discussed.

The findings of this study were from a case study at Barclays Bank of Kenya. The information collected might be limited in scope and therefore, the research findings might not apply to the whole of the banking sector.

The implication of the results is that the study was limited to a case study of Barclays Bank of Kenya and hence the findings are unique to this organization and cannot therefore be generalised to be a representation of similar organizations in the industry.

5.5 Recommendations

The research findings indicated that the bank was facing challenges of information confidentiality. In order to mitigate on the risk of leakage of information and loss of confidential information by the company, Barclays Bank of Kenya should include the confidentially clause in all its contracts with the vendors. Any breach of contract should contain serious penalties.

From the research findings, Barclays Bank of Kenya faces the challenges of vendors sometimes offering poor quality services or products. In order to mitigate risks associated with sourcing, pilot testing of new sourcing options is very necessary. Barclays Bank needs to explore new sourcing options in terms of new suppliers, new services, or new engagement models with existing suppliers. The bank should also enhance inbuilt quality control mechanisms and closely monitor the outsourced operations to improve on quality and service delivery. There should be stiff penalties for non-performers and those firms that deliver substandard services. Contracting procedures should be enhanced to ensure that the company gets the most competitive service and products from the outsourced firms.

Outsourcing is a competitive strategy used by different organizations and the research findings shows that Barclays Bank of Kenya faces communication challenges with some of its vendors and therefore emerging issues are not solved on time. There is need to increase monitoring of outsourced activities to ensure that the vendor offers quality services. Barclays Bank should consider constant communication with the vendor. This should not only be through service review meetings. Increased communication will assist in solving of any emerging issues.

There should be engagement at higher levels where senior officials i.e. Barclays Bank of Kenya and the vendor can communicate frequently. This will ensure that the officials are aware of everything happening and quick solutions can be found for any teething problems in the offering of services. Many a times things go wrong in the offering of services by the vendor and this never get to be heard by the top management. When communication of top management can be increased, many problems can be fixed and services can be offered better.

5.6 Suggestions for Further Research

Future studies should be carried out on cost benefit analysis experienced by the bank when activities are outsourced. Research should also be done to explore the opinion of other employees especially the junior staff, towards outsourcing.

As research finding noted that there is lack of motivation and high staff turnover of the outsourced staff especially where the staff outsourced work together in the same office with the bank’s employees. Further study should be done to find out how the bank can improve the performance and motivation of the outsourced staff. A cost benefit analysis should also be done to confirm whether outsourcing in such circumstances is truly cheap in the long term.

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APPENDIX

Appendix 1: Interview Guide

Interview guide on Outsourcing as a Strategy of Competitive Advantage by Barclays Bank of Kenya (BBK).

PART A: PERSONAL ATTRIBUTES

1. Name (Optional)……………………………………………………………………
2. Job position………………………………………………………………………
3. Duration in current position……………………………………………………..

PART B: RESPONDENT'S VIEWS

1. Which logistics/areas does Barclays Bank of Kenya outsource?

2. Is there any criteria Barclays Bank of Kenya considers in order to decide which activities to outsource and which ones not to?

3. What competitive advantages do you think Barclays Bank of Kenya experiences as a result of outsourcing its functions?

4. In your opinion, what challenges does Barclays Bank of Kenya face in its outsourcing?

5. In regard to above discussed challenges about outsourcing, what do you think Barclays Bank of Kenya can do differently?

Thank you for your time and assistance.