OUTSOURCING OF CASH MANAGEMENT SERVICES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research proposal is my original work and has not been submitted for a degree in any other University.

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This research proposal has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my family for your understanding, patience and moral support throughout the period of my study. Your prayers and continued encouragement kept me focused and resilient towards accomplishment of this worthy task.

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ABSTRACT

The study sought to investigate the effect of outsourcing of cash management and handling services on performance of commercial banks in Kenya and to establish the challenges of outsourcing of cash management and handling services by commercial banks in Kenya. The study was guided by three theories; the resource based theory, transaction cost theory and the agency theory. The study adopted a descriptive research methodology and conducted a census on 43 commercial banks that are licensed to operate in Kenya. Data was collected with the aid of questionnaires presented to the respondents who were employees of the commercial banks. Data was analyzed using software, a regression model fitted and the relationship between the independent and dependent variables shown by the co-efficient of correlation. The mean and standard deviation were used to measure the central tendency and dispersion. The study concluded there is a positive strong relationship between performance and the independent variables as shown by the Pearson's co-efficient correlation which is significant as indicated by the P-value at 95% level of confidence. 66.5% of variations of changes in the dependent variable can be explained by variations in the independent variables which were cash management services, ATM handling services and cash centre management. The study concluded that Performance of commercial banks is affected by the decision to outsource cash management and handling services, cash centre management and ATM management operations.

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CHAPTER ONE: INTRODUCTION

1.1. Background

A competitive and demanding environment has forced players in the marketplace 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 marketplace. The business environment has changed and it has been characterized by stiff competition among the players and the banking industry in Kenya is no exception. Competition amongst the commercial banks has pushed the banks towards becoming more innovative (Oloo, 2004).

According to Kakabadse and Kakabadse (2000), the reason for outsourcing has changed from primary cost disciplines to strategic re-positioning, core competence enhancement, greater service integration and higher value creation. Companies no longer assume that all organizational activities and services can, and must, be provided and managed internally. Furthermore, competitive advantage is increasingly critical and has also already been alluded to, may be gained by outsourcing by outside providers. Outsourcing has therefore become a key strategic tool in today's competitive business environment and there is increasing acceptance of the need for leadership and management capability to structure and manage co-operative relationships crucial to the effective working of outsourcing arrangements (Kujawa, 2003).

1.1.1 Concept of Outsourcing

Greaver (1999) defines outsourcing as the act of transferring some of the company's recurring internal activities and decision rights to outside provider, as set forth in a contract. Beandor- Samuel (2000) concurs and insists that the key to the definition of outsourcing is the concept of "transfer of control", thus outsourcing takes place when an organization transfers the ownership of a business process to a provider. Companies outsource a wide range of services all aimed at creating competitive advantages; these mainly include transport, warehousing services among others. This is because these services are non-core and repetitive in nature thus similar in almost all organizations.

Furthermore they can be done by an outside company at cheaper cost or at the same cost but in better ways (Quinn and Hilmer, 1994).

Lankford and Parsa (1999) revealed that outsourcing operations is the trend of the future, and those organizations which are already involved with outsourcing are satisfied with the result. At present, the outsourcing of selected organizational activities is an integral part of corporate strategy. Several outsourcing frameworks and models presented have signified the importance of identifying the organizations' core business (McIvor, 2002; Franceschini et al, 2003) and core competence (McIvor, 2003). The core competence paradigm is based on a company`s understanding of what internal skills and resources they should own and control through internal contracts in order to sustain their business success. Other than core competence, the organization must also understand the business perfectly in every possible aspect, namely the operations, tactical and strategic (Gavin and Matherly, 1997).

Since outsourcing has attracted many parties to explore the possible benefits and profits it may bring, outsourcing benefits, drivers and advantages have been carefully scrutinized and clearly explained by many researchers (Jennings, 2002; Lankford and Parsa, 1999; McIvor 2003; Linder et al, 2002). According to Lankford and Parsa (1999), outsourcing is seen to reduce costs, expand services and expertise, improve employee productivity and morale, create a more positive corporate image by allowing the organization to refocus their resources on their core business, buy technologies from vendors that would be too expensive for them to reproduce internally, re-examine the organizations' plans, make them more efficient, save time and money while improving efficiencies, and improve the plans' service level to their employees by making the information more consistent and more available. Nevertheless, the cost efficiency advantage could be gained only if the right tasks are contracted out (Behara et al, 1995).

Outsourcing helps companies to improve competitive pressures, improve quality and efficiency, increase the access to functional expertise, raise the potential for creating strategic business alliances and reduce internal administrative problems (Fill and Visser, 2000). The increasingly popular use of outsourcing is also caused by the strategic shift in the ways the organizations are managing their businesses (Winkleman et al, 1993) other than market forces and technical considerations (Gupta and Gupta, 1992). Outsourcing allows organizations to take advantage of strengths within the supply market. It is therefore possible for one to conclude that the advantages could benefit not only the end service receivers (customers) who get much better value for their money, but also the numerous suppliers to be able to make profit. In the end, the practice of outsourcing should result in the widening of business opportunities for small firms and higher profit to the larger organizations practicing it.

In Kenya, from the national outlook both public and private organizations are shifting from providing non-core services to outsourcing them. A case in point is that there has been widespread outsourcing of cleaning services amongst firms in Kenya. Kenyan firms have also been in high gear to outsource transport services to transport and fleet management firms and they have also outsourced transport service of its employees to third parties (Kemibaro, 2009).

1.1.2 Concept of Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Crane, 2006). The recommended measures for financial analysis are grouped into three broad categories: liquidity, profitability, and shareholders` wealth. Monitoring these measures as a group is more important than focusing on only one or two measures at the exclusion of others (Pennington, 2007).

Profitability measures the extent to which a business generates profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Profit is the difference between revenue and expenses over a period of time and it’s the ultimate ‘output’ of the firm (Anderson & Epstein, 1995).

1.1.3 Commercial Banks in Kenya

In Kenya, the Banking Sector is composed of the Central Bank of Kenya as the regulatory authority, the regulated Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. As at December 2013 Kenya had 43 licensed commercial banks and 1 mortgage company (www.centralbank.go.ke/). Out of the 44 institutions, 31 are locally owned and 13 are foreign owned.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly attributed to the industry's wide branch network expansion strategy both in Kenya and in the East African Community region, the automation of a large number of services, and a move towards an emphasis on the complex customer needs rather than the traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (CBK, 2012).

In the past, commercial banks operated their own Cash in Transit, ATM and Cash Centre operations. Now most commercial banks have outsourced their Cash in Transit operations whereby the commercial bank or an outsourcing partner controls the transport planning and scheduling requirements (Oloo, 2004). Some banks have also outsourced their Cash Centre operations to Cash in Transit or specialized Cash Centre operators. The banks have also been outsourcing ATM (Automated Teller Machine) management tasks.

1.2 Statement of the Problem

Organizations can hardly ignore the opportunities for cutting down costs. In fact to be more precise, as pressures mount on the heads of procurement and chief executives to contribute more to profitability, they tend to outsource non-core functions as a measure to cut down costs and increase profitability (Kujawa, 2003). According to Kakabadse and Kakabadse (2000) outsourcing has become an attractive option in order to take advantage of global opportunities, to acquire state of the art logistics capabilities, significantly improve customer service and to enable focusing on core competencies. Rothman (2003) also asserts that organizations that outsource are seeking to realize benefits as well as address various issues amongst them; cost saving whereby lowering of overall cost of the service to the organization is a prime objective.

Commercial banks are looking for the most efficient solutions for the distribution of cash. These solutions often result in partly or completely outsourcing cash management services. Commercial banks in Kenya have largely and increasingly been outsourcing ATM deployment and management services to third party vendors. Outsourcing is seen by many economists as a win-win situation but is not always so. It has lots of downsides that most of us can't possibly conceive and only have to leave it to time. Organizations resort to outsourcing mainly because it is the general trend without assessing the cost benefit analysis (Van der Meer-Kooistra and Vosselman, 2006). There is therefore need to investigate whether outsourcing by commercial banks is helping them focus on their core business initiatives and whether they have improved service delivery, cost reduction and achieved competitive advantage as a result of adoption of outsourcing strategy on cash management activities.

Various studies on outsourcing have been conducted both locally and internationally. Internationally, Ang and Straub (1998), in their study on the US banking industry, revealed that poor performance is a determinant for banks to outsource operations to regain a better position in the market. Fritsch and Wüllenweber (2007), in their study on the German banking market, established that the need to cut cost and the need to achieve competitive advantage are the reasons banks outsource. However, Lonsdale and Cox (2000) indentified some challenges of outsourcing which includes loss of control and loss of critical skills by the outsourcing company.

Locally, Sang (2010) conducted a study on outsourcing in Kenyan Universities: an examination of challenges and opportunities; the study found out that major challenges in outsourcing included negative attitude of staff, poor monitoring and evaluation, non-cooperation by students to the outsourced and interference by community. Oduk (2013) did a study on the factors influencing outsourcing at Kenya Union of Savings and Credit Cooperatives. The study found out that strategic plan strongly influenced outsourcing practice at Kenya Union of Savings and Credit Cooperatives. Barako and Gatere (2008) also conducted a study on outsourcing practices of the Kenyan banking sector. The study found out that bank performance was not statistically associated with outsourcing decisions; and that banks' wage bill and total operational expenses were not significant determinants of outsourcing decisions. A review of the above studies shows that there is no study that has been conducted on outsourcing of cash management services and how they influence performance, there is also no empirical evidence on the challenges that the banks experience while outsourcing such services. It is against this background therefore that the study sought to answer these questions; what is the effect of outsourcing of cash management and handling services on performance of commercial banks in Kenya? What are the challenges of outsourcing of cash management and handling services by commercial banks?

1.3 Objectives of the Study

i. To investigate the effect of outsourcing of cash management and handling services on performance of commercial banks in Kenya.

ii. To establish the challenges of outsourcing of cash management and handling services by commercial banks in Kenya.

1.4 Value of the Study

The study findings are be expected to be of significance to the banking industry to make appropriate decisions towards outsourcing of services. They would understand the effects of making such decisions in their financial institutions and how it impacts on their cost reduction, risks reduction and operational efficiency as the study will critically analyze and evaluate the effect of outsourcing on overall performance.

The study would be used by the providers of cash management services such as the G4s to understand how their services impact on performance of commercial banks in Kenya. This may have an impact on their creative thinking on how they can improve their services to ensure commercial banks are satisfied and achieve value for their money.

Future researchers and scholars may use the study findings as a source of reference for further research on the same area. Scholars would have a better understanding on the concept of outsourcing and its effect on business performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical; which discusses the theories that support and are related to the study. The next area of discussion is the empirical review where variables in the research objectives are discussed. Lastly, a summary of the chapter is provided.

2.2 Theoretical Review

The theoretical review seeks to establish some of the theories that are attributed by other researchers, authors and scholars and are relevant to outsourcing. The study was guided by resource based view theory, transaction cost theory and agency theory.

2.2.1 Resource-Based View Theory

This theory was developed by Wenefeldt in 1984. The RBV's underlying premise is that a firms differ in fundamental ways because each firm posses a "unique" bundle of resources-tangible and intangible assets and organizational capabilities to make use of those assets. Each firm develops competencies from these resources, and when developed especially well, these become the source of the firm's competitive advantage (Pearce & Robinson, 2007). In the context of this theory, it is evident that the resources that a firm has will play a big role in the strategic implementation process that intends to improve firms' performance.

The central tenet in resource-based theory is that unique organizational resources of both tangible and intangible nature are the real source of competitive advantage. With resource-based theory, organizations are viewed as a collection of resources that are heterogeneously distributed within and across industries. Outsourcing gives a client organization access to resources in the vendor organization as the vendor handles other functions of the client (Gottshalk & Solli-Saether, 2006). From the resource-based view, the core competences approach suggests that a company must focus on those service operations that constitute its core competencies, because they provide the company with growth and direction (Peteraf, 1993), and outsource the other service operations (Quinn & Hilmer, 1994). Before the company decides to outsource a service operation, it should evaluate the resources that sustain that service operation.

The resource-based approach sees firms with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long-run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance. This approach focuses on the rents accruing to the owners of scarce firm-specific resources rather than the economic profits from product market positioning (Teece, Pisano & Shuen, 1997).

This theory therefore implies that outsourcing decision by commercial banks in Kenya should be driven by the focus on core competences. In addition to costs, resources and competences should be considered in outsourcing decisions. Moreover, the commercial banks should define their core competences and core activities and keep those activities in-house so that they don't lose their competitive edge.

2.2.2 Transaction Cost Theory

Transaction costs occur in the exchange between client and vendor. According to transaction cost theory, transaction costs are positively associated with: the necessity of investments in durable, specific assets; infrequency of transacting; task complexity and uncertainty; difficulty in measuring task performance; and independencies with other transactions (Gottshalk & Solli-Saether, 2006). Williamson (1994) also asserts that transaction costs are comprised of the costs of seeking the suppliers, inspection of goods and establishing and formalizing the terms of agreement, including the means to both guarantee compliance with the terms and protect against the potential expropriation of the investments made, to ensure that contract conditions are fulfilled.

According to Espino-Rodriguez and Gil-Padilla (2006) the greater the transaction costs, that is the greater the costs that information, negotiation and supervision of compliance entail, the less the tendency to outsource the activity. Transaction cost analysis combines economic theory with management theory to determine the best type of relationship a firm should develop in the market place. The concept of transaction cost analysis is that the properties of a transaction determine what constitute the efficient governance structure- market, hierarchy or alliance. The primary factors producing transactional difficulties include: bounded rationality; opportunism; small numbers bargaining; information impactedness (McIvor, 2003). This theory implies that the commercial banks should consider cost implications before outsourcing the cash management services and evaluate whether the decision is appropriate.

2.2.3 Agency Theory

This theory describes the relation between the principle (the client) and an agent (the outsourcer). A basic assumption of this theory is that opportunism is an inherent characteristic of such a relationship. Opportunism leads the principal or the agent to seek their interest "with guide" to deviate from the behavior prescribed by the contract whenever they benefit by doing so (Benoit et al, 2008). This is not to say that principals and agents will always adopt an opportunistic behavior, moral codes, social norms, the risk of prosecution and the possible detrimental effects on reputation tend to limit the extent of opportunism.

This theory is particularly relevant to the risk/challenges identified in the previous section. This is due to this aspect of opportunism which is an important risk factor in outsourcing contract. According to Benoit et al (2008), there are three main manifestations of opportunism: Moral hazard, adverse selection and imperfect commitment. Moral hazard results from the fact that it is impossible for a principal to observe the behavior of the agent without incurring probative costs. Since the client cannot directly observe the level of effort deployed by its supplier, it cannot easily tell whether a problem is due to negligence on the part of its supplier or to an unforeseeable event. Adverse selection will develop when the principal cannot observe the characteristics of the Agent. The client must validate the suppliers' claims, which often is a difficult task. Finally, imperfect commitment is the imperfect capacity of both the client and the supplier to commit themselves, for instance, clients and outsourcers may be tempted to renege on their promises and commitments.

Other characteristics of the agent constitute sources of risk. The lack of experience and expertise of the agent with the outsourced activity is one of them (Earl, 2006). It may happen that a supplier eager to obtain a contract exaggerates the expertise it possesses with certain activities. Benoit et al. (2008) suggest another risk factor which is the lack of experience or expertise of the agent with the management of outsourcing relationships, which could lead to disputes and to escalating costs. The extent of competition among agents, which is often related to the number of available vendors, is also a risk factor. A small number of vendors may bring about the lock-in problem, since it will be difficult for the client to find alternative sources of services (Nam et al., 2006).

Within this context, the service recipient acts as the principal and the agent is represented by the service provider. Given the existence of asymmetric information and different risk perceptions, it is important to allocate clear decision rights, formulate clear agreements on responsibilities and align goals (Logan, 2000). This implies that commercial banks should evaluate any sources of risk in regard to the provider of the cash management services. It’s prudent to evaluate the experience and expertise of the provider, costs and risks in the outsourcing contract; this minimizes conflicts.

2.3 Outsourcing

In today’s dynamic environment, characterized by growing business and technological uncertainties, corporations are faced with various new challenges. The organization of market places has shifted from pure hierarchy and market-based modes to hybrid arrangements involving significant vendor participation. Triggered by these emerging new market structures Business Process Outsourcing (BPO) is gaining importance among new forms of business to business exchanges. Hence academic research has started to focus on BPO and postulates that BPO bears unique potential (Gottfredson, Puryear and Phillips, 2005) that, however, is accompanied by severe risks (Gewald, Wüllenweber and Weitzel, 2006). Willcocks, Hindle et al. (2004) stress the knowledge potential of BPO as the processes are often close to the outsourcer’s core business. Thus by leveraging the core capabilities of both the outsourcer and the vendor, BPO can be a source of competitive advantage (DiRomualdo & Gurbaxani (1998). On the other hand, BPO has also been proven to reduce costs and achieve efficiency.

Outsourcing is the most commonly used type of privatization. From a report of Council of State Government private practices in the U.K., a review of Privatization in State Corporations (1998) found that approximately 80% of respondents to a council of State Governments survey stated that they use outsourcing as their primary privatization method. There are many reasons as to why most companies are outsourcing as a business model for delivering services; including tighter budgets, increased competition for profit, advances in technology, globalization of production and manufacturing processes and greater public emphasis on accountability (Christopher, 1998). Services commonly outsourced are transport services, warehousing/storage, packaging inventory and information systems management.

Outsourcing is essential to companies. Successful companies share the same success factors; they have a clear understanding of their core-activities (Barthelemy, 2003); have done adequate research and planning; and most importantly have developed clear objectives, goals and expectations of outsourcing activities (Elmuti, 2003). Another important ingredient for success is a good partner. Essentially in outsourcing agreements, the relationship between the companies and their partners are based on trust and contracts. So it is essential that the right partners are selected based on criteria like credibility, expertise, and reliability (Elmuti, 2003). This will eventually lead to closer ties and relationships (Barthelemy, 2003). It is also important to get the right people involved in managing outsourcing efforts. Therefore adequate training, infrastructure and facilities are essential (Elmuti, 2003).

According to Nicholas and Amrik (2004) paper report on the data pertaining to outsourcing collected from a survey administered in 2002 in Australia, the underlying assumption is that outsourcing is becoming popular for sound business reasons such as economics of scale and enabling the management and executives to concentrate on the core business activities of the organization. Outsourcing emerged as a popular operational strategy in the 1990's and most of the current literature was developed during the same time.

However, outsourcing is readily perceived as a breach of the psychological contract with the original employer and can therefore lead to a drop in morale. Second, it evokes job insecurity and concern about a deterioration of working conditions like relating to place of work and duration of commuting. Although these aspects may be covered in the outsourcing contract, it also happens that not all employees are hired by the new employer or remain on the pay roll for a longer time, which leaves tangible risks for some employees. Third, employees may consider outsourcing plans as an underestimation of their talents and credibility, which may lead valuable staff to quit the firm. Fourth, employees may experience a loss of identity as they loose their original position and the link with their first employer; this may impede their integration with the new employer. Fifth, as a result of all this, employees may show a decline in trust and commitment. These kinds of effects and the resources needed to address them add to the real costs of outsourcing.

2.4 Effect of Outsourcing on Performance

A large number of studies have analyzed the drivers of outsourcing from both a theoretical perspective and a practical point of view using case studies and surveys in both developed and developing countries. For instance a study by Smith, Mitra and Narasimhan (1998) conclude that the main motives for outsourcing are cost reduction and cash generation. Hall and Liedtka (2005) present a similar result, showing that IT outsourcing is determined by poor performance, poor cost control, and short term cash needs. Focusing on the US banking industry Ang and Straub (1998) find that IT outsourcing is best explained by high production costs and the large size of the banks when looking at firm characteristics. All findings point in the direction that firms in weak positions struggling with high costs and poor performance tend to outsource operations to regain a better position in the market. Fritsch and Wüllenweber (2007), analyzing determinants of business process outsourcing in the German banking market, draw a different conclusion based on their findings. They are able to show that while outsourcing is still an element of cost cutting strategies it is also pursued by well-performing banks with a high revenue diversification. Thus they conclude that outsourcing is used as a strategic element in market differentiation strategies to gain further competitive advantage.

Gilley and Rasheed (2000) analyze the influence of the outsourcing of core and peripherical functions on firm performance considering the moderating effects of firm strategy and environmental dynamism. They collected subjective data on firm performance relative to peers and outsourcing intensity from 94 manufacturing firms. The results of this study show no direct impact of outsourcing on firm performance. However, outsourcing is positively related to the performance of firms which pursue cost leadership and innovation differentiation strategies. In stable environments outsourcing increases, while in dynamic environments outsourcing decreases, firm performance.

Jiang, Frazier and Prater (2006) conducted a study on the effects of outsourcing on the firm level performance measures of 51 large US firms based on audited accounting data in a period from 1990-2002. They measured the cost efficiency, productivity, and profitability of the firms involved within one year after the outsourcing, based on quarterly accounting data. They found out that there was improved cost efficiency but no change in the productivity and profitability of the outsourcing firms. The authors conclude that the firms invest freed resources to further improve core competencies. Firms additionally utilize the cost savings to lower prices at the cost of higher profits to gain competitiveness in the market.

Görzig and Stephan (2002) analyze the impact of outsourcing on the firm level performance of German manufacturing firms in the period between 1992 and 2000 using a large dataset of 43,000 firm-year observations. They use three proxies to capture the degree of outsourcing of the firms: material inputs over labor cost, representing the “make or buy”-type of outsourcing, external contract work over labor costs as proxy for the outsourcing of production functions, and external services over labor costs. They can show that all three types of outsourcing lead to better performance in terms of return per employee. On the other hand, only increased material input has a positive influence on overall firm performance measured as return over sales while services outsourcing has a negative effect.

According to Anderson and Weitz (1986), an increase in cost efficiency or cost reduction is still one of the major objectives of outsourcing. Firms evaluate outsourcing to determine whether current-operating costs can be reduced and if saved resources can be reinvested in more competitive processes. The authors assert that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver. In a nutshell, the decision to outsource can be regarded a special form of the “make-or-buy” decision (Görg and Hanley (2004), where firms would prefer to “buy” as opposed to “making” certain services as long as the cost of outsourcing is lower than in-house production. As outsourcing vendors typically provide services to many clients they can achieve cost advantages over single firms’ productions costs as they benefit from economies of scale and centralization of expertise (Roodhooft and Warlop (1999); Heshmati (2003); Jiang, Frazier et al. (2006).

Firms can maximize returns on internal resources by concentrating investments and energies on core competencies (Quinn and Hilmer (1994). Outsourcing will enable firms to transfer resources from non-value added staff functions to value-added core functions (Hayes, Hunton and Reck, 2000). The outsourcing firms can also utilize the superior knowhow of the service provider to enhance their own production capabilities, which enables them to offer higher value and thus higher margin bearing products to their customers (Quinn and Hilmer (1994).

However, research by Murray, Kotabe and Wildt (1995) stresses the downside risks of a negative impact on firm performance if firms choose to outsource major components. Murray and Kotabe (1999) define those components as elements that differentiate a firm’s product from those of its competitors but within the domain of a firm’s core competency. As outsourcing takes place closer to the outsourcer’s core compared to the outsourcing of supplementary services, one could argue that outsourcing will have a negative impact on profitability.

2.5 Challenges of Outsourcing

Embleton and Wright (1998), outlined the major disadvantages of outsourcing procurement as follows; outsourcing cedes control to the provider, once a process has handed over to an outsider, it will be extremely difficult and costly to bring it back in-house; The initial contract can be very competitive, however, the inevitable changes may cost significantly more; The time required to manage the contract may make it more expensive; The quality of the good or service must be monitored because of the contractor's incentive to save money; Providers have multiple clients and consequently, may not be able to give priority to each one and certain processes are not easily outsourced. Other disadvantages are most outsourcing vendors require long-term contracts that provide them with stable revenues while these contracts must be negotiated to allow variability in demand and cost, this flexibility comes at a high cost; vendor-owned outsourcing services are less likely to tap opportunities presented by competitive vendors; selling a strategic resource may end up costing a firm in the long run and providers have to make a profit on work the organization did at cost.

"Businesses with a high morale factor have a competitive edge over other businesses. It is not a superior product or service offering.… It is an intangible feeling transmitted from each employee to every other employee and to the customer. "It makes the customer respond with repeat orders" (Noer, 1996 p.13). Outsourcing obviously has an effect on company morale; severe cuts in staff can damage the morale of existing workers. Practice shows that the human aspect of outsourcing often is overlooked. While reduction in employee morale may encourage the most talented and marketable staff to seek opportunities elsewhere, large employee lay-offs are also not beneficial to a corporate image (Embleton and Wright, 1998).

According to Lonsdale and Cox (2000), the major disadvantages of outsourcing are; the loss of core activities, being leveraged by suppliers, the loss of strategic flexibility, suffering interruptions to supply, receiving poor quality of supply, a fall in employee morale, a loss of internal coherence, confidentiality leaks and the loss of intellectual property rights.

In summary, analyses provide strong support for the impacts of outsourcing on organizational performance. Cooperation with a vendor leads to significant improvement in organizational effectiveness, productivity, profitability, quality, continuous improvement, quality of work life, and social responsibility levels. Managers think that organizational performance increases after outsourcing (Bolat and Yılmaz, 2009).

2.6 Key Success Factors to Outsourcing

Quinn and Hilmer (1994) proposed three key success factors for an activity to be considered for outsourcing. The first factor is described as the potential for competitive advantage in this activity. The second factor involves analyzing the degree of strategic vulnerability in outsourcing this activity. The third decisive factor includes assessing the control measures needed to reduce vulnerability by making arrangements with suppliers, while taking the performance objectives of the company.

Fan, (2000) conducted a survey on the drivers of outsourcing among different companies; it was found out that all the companies considered economic factors as pivotal in the outsourcing decision process. "Cost reduction" or "cost saving" was the primary reason for outsourcing of all the six companies studied. This finding concurs with a wealth of literature which suggests that most outsourcing deals are driven by a desire to reduce cost (Corbett, 1996; Kakabadse and Kakabadse, 2000; Zhu *et al.*, 2001; Lynch, 2004). "Capital investment reduction" is also the most prominent reason for outsourcing of Companies which expect to reduce capital investment in transportation, warehousing, manufacturing, IT, and employees in order to release capital for core business and to improve return on assets. This supports Razzaque and Sheng's (1998) view that outsourcing reduces the need to invest capital in facilities, equipment, IT and manpower.

Embleton and Wright (1998) indicate the keys to successful outsourcing as one, strategic analysis which entails determining of the areas in an organization which are not core. There are five criteria that help determine whether or not a function can be outsourced: they are routine, they are well delineated, they can be measured and managed at arm's length, they can be readily provided by established vendors and they are offered in a competitive environment.

Second is the cost of providing the service; it is imperative to have a clear understanding of the type and the amount of all costs associated with the function to be outsourced. Labor, resultant level of service, impact of corporate culture and real estate costs such as space, utilities taxes and insurance, all need to be considered. Another key success factor to consider is the quality level of service. There is need to develop a clear understanding and quantification of the type and the level of service being given with the current provider, then come a clear understanding of the type and the level of service that will be acceptable in the future (Embleton & Wright, 1998).

The impact on corporate culture should also be considered in a bid to establish whether outsourcing a service would produce a negative cultural impact. If the outsourced component is an integral part of the organization, then the negative impact may progress from insidious to overwhelming. There is also need to quantify outsourcing goals, that is, it is important to define goals explicitly. Without measurable goals, it will be impossible to quantify current results, or to define the level of service required in the future.

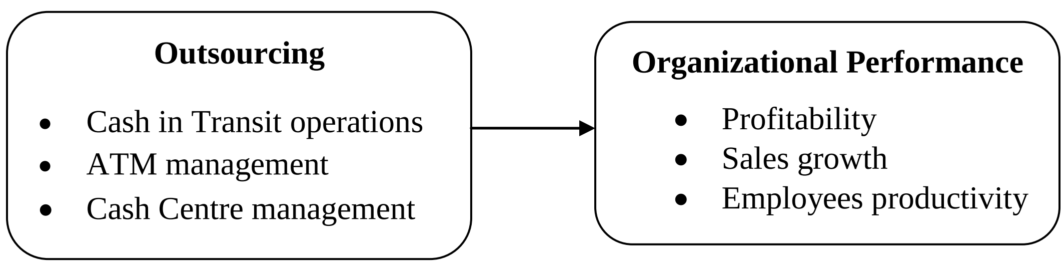
According to Espino-Rodriguez and Gil-Padilla (2005) the outsourcing company also needs to evaluate the long and short term costs. Costs and other factors vary in importance, depending on the time period involved. Start-up costs, flexibility, reversibility and termination fees will vary greatly, according to the terms of the contract. Lastly, after the decision to outsource has been reached, it is essential that the right vendor is chosen. Typically, outsourcing is a long-term relationship, which requires the supplier and the purchaser to work closely together. Often, additional services are required and should the agreement be terminated, the organization will require the supplier's co-operation until the outsourced service is settled elsewhere. Also there are many costs associated with changing an outsourcing vendor. It is worthwhile, therefore, to spend the time and the money to choose the correct supplier the first time.

Outsourcing is a business tool and like all tools, must used properly to achieve the desired results. Managers that define the process as a one-dimensional strategy will be doomed to failure. Effective implementation requires a tailored solution, 'one size does not fit' all firms. Outsourcing must be part of an overall corporate strategy and management must ensure that all employees are aware of the overall situation. It is for these reasons that most organizations may find that some combination of in-sourcing, outsourcing and contracting out, may be the optimal solution for any particular scenario. Successful implementation will entail analysis, investigation, planning and sophisticated human resource and management (Embleton & Wright, 1998).

2.7 Conceptual Model

This section presents the conceptual model developed. The conceptualization in this study is based on the following variables: performance as the dependent variable and outsourcing as the independent variable. The conceptual framework seeks to show the relationship between outsourcing and performance of commercial banks. This implies that the performance of commercial banks is dependent on various aspects of cash management outsourcing; these are cash in transit operations, ATM management and cash centre management. On the other hand, performance of commercial banks will be measured by profitability, sales growth and employees' productivity.

Figure 2.1 Conceptual Framework



Independent variable **Dependent variable**

2.8 Summary

From the studies described above no clear conclusions on the effect of outsourcing on firm performance can be drawn. One reason for the contradictory results might be the various differing measurements of vertical integration as well as the different industries and time frames of the studies. On the other hand, some authors even find different results within their studies depending on the measurement of performance, the type of outsourcing, and industry sector. These findings tend to suggest that there is no strict relationship between outsourcing and performance, but that the effect of outsourcing on firm performance is influenced by various other factors. Moreover, the reviewed literature shows that it is essential that businesses enter outsourcing arrangements with a comprehensive plan outlining detailed expectations, requirements, and expected benefits.

Outsourcing partners should be selected based on their expertise in the operation being outsourced and their cultural fit with the firm. Firms exploring outsourcing as a means of enhanced business performance must complete a strategic analysis of all aspects of their business to determine the benefits that could be achieved through outsourcing selected non-core functions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology to be adopted by the researcher in carrying out the study. The chapter presents the population to be studied, the methods to be used to sample it, the instruments used in data collection and procedures that were used in data analysis.

3.2 Research Design

The study adopted a cross-sectional descriptive design. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Furthermore, Chandran (2004) states descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Descriptive research design is one of the best methods for conducting research in human contexts because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study (Robinson 2002, Chandran 2004).

The descriptive design was appropriate for this study since it helped in collecting data in order to answer the questions of the current status and describe the nature of existing conditions of the subject under study. Descriptive research design also facilitated the use of a questionnaire to collect both quantitative and qualitative data for the study. Thus the research design was appropriate to describe the relationship between outsourcing of cash management and handling services on performance of commercial banks in Kenya.

3.3 Study Population

The population of study consisted of all the 43 licensed commercial banks (see appendix II) that were dully registered with Central Bank of Kenya by December 2013.

The study adopted a census study approach. According to Cooper & Schindler (2007) a census is feasible when the population is small and necessary when the elements are quite different from each other. When the population is small and variable, any sample we draw may not be representative of the population from which it is drawn. Therefore since the target population for this study is small and variable, it was appropriate for researcher to choose census method to be used because the population is small and the institutions are easily assessable to be reached, hence the sample size will be all the 43 commercial banks.

3.4 Data Collection

The study collected primary data. The data was collected using a questionnaire. Questionnaires provide a high degree of data standardization and adoption of generalized information amongst any population. They are useful in a descriptive study where there is need to quickly and easily get information from people in a non-threatening way. Flick (1998) holds that questionnaires are useful in establishing the number of people who hold certain beliefs and hence possible to gauge public opinion on an issue. The responses were gathered in a standardized way, so questionnaires were more objective, certainly more so than interviews. Moreover, it is relatively quick to collect information using questionnaires. The questionnaire were administered by the researcher through drop and pick later method.

3.5 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda and Mugenda, 2008). The data collected by the questionnaire was edited, coded and entered into a software which also aided in the data analysis. This study generated qualitative and quantitative data. The quantitative data was analyzed using descriptive and inferential statistics. The qualitative data was generated from the open ended questions and was categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation.

Both descriptive and inferential statistics was adopted for the study. The quantitative data was analyzed by using descriptive statistics which included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a regression model which established the relationship between variables. Data was presented using tables, charts and graphs.

To measure the effect of outsourcing the study adopted the linear regression model and Pearson correlation. The Pearson correlation tested the strength of the relationship while the regression analysis established the form of relationship between the independent and dependent variable. The regression took the following form:

$$Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \epsilon$$

Where: Y = Performance

χ_1 = Cash in Transit operations

χ_1 = ATM management

χ_3 = Cash Centre management

$\beta_0 =$ the constant

$\beta_{1\text{-}n} =$ the regression coefficient or change included in Y by each χ

ϵ = error term

Outsourcing is the independent variable and it was regressed against performance. Outsourcing cash management services in commercial banks was measured by Cash in transit operations, ATM management services, Cash Centre management services while performance of commercial banks was measured by profitability, sales growth and employees' productivity.

The significance of the variables in the regression model was measured or determined by the p value; whereby, if the p value of the variable is 0.05 (5%) and below, then the variable was deemed significant while where the p value co-efficient of the variable is above 0.05, then the relationship of the variables was deemed to be insignificant. The beta explained whether the relationship between the dependent and the independent variable is high or low, positive or negative; this revealed by the value of the beta co-efficient.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

Analysis of data is a process of inspecting, cleaning, transforming and modelling data with the goal of highlighting useful information, suggestions, conclusions and supporting decision making. Data analysis has multiple facets and approaches which encompass diverse techniques under a variety of names, in different business, science and social science domains (Mugenda, 1999). Data was collected by use of questionnaires. Data generated was analyzed by use of descriptive techniques. The data was analyzed using software and interpreted according to the research questions which were summarized into frequency tables. The response rate was 100%. The chapter begins with defining the demographic characteristics of the respondents in the study and then present's data analysis as per research objectives

4.2 Outsourcing and Cash Management and Handling Services

The study was guided by two objectives. To investigate the effect of outsourcing of cash management and handling services on performance of commercial banks in Kenya.

The respondents were asked to rate the various reasons for outsourcing on a scale of 1 -5, where 5 is Very High, 4 is High, 3 is Average, 2 is Low and 1 is Very Low to represent the views of the respondents.

The findings are presented in table 4.1.

Table 4.1 Reasons for Outsourcing Cash Management and Handling Services

FACTORS	Mean	Std. Deviation
Increased operations cost	2.02	.408
Limitations in skilled and experienced expertise	4.72	.549
Focusing of non core activities	4.88	.448
Reduced profit margins	1.26	.581
Lack of internal resources and relevant technology	4.40	.877
Poor service delivery	4.72	.701
Reduced productivity	3.88	.793
Dissatisfied clients due to inefficiency	4.93	.338
Failure to manage risks	3.77	.718
Competitive pressure	3.98	.266
Tighter budgets	3.23	.649

Table 4.1 presents the mean and standard deviations of different factors that contribute to the reasons for outsourcing of cash management and handling services on performance of commercial banks in Kenya. Increased operations cost had a mean of 2.02. The respondents were of the opinion that the increased cost of operations had a very low effect on the reason to outsource.

The limitation in skilled expertise had a mean of 4.72 where the respondents agreed that banks outsource because they do not have the required skills and expertise. The focusing on no- core activities has a mean 0f 4.88 so banks outsource to a very high extent so as to focus on their core activities. Banks do not outsource because of their reduced profit margins as evidenced by the mean of 1.26. The mean of 4.40 show that a lack of internal resources and relevant technology, poor service delivery with a mean of 4.72, a mean of 4.93 of dissatisfied clients due to inefficiency cause banks to outsource cash handling and management services.

The average reasons why banks outsource are reduced productivity with a mean of 3.88, failure to manage risks with a mean of 3.77, competitive pressure with a mean of 3.98 and tighter budgets with a mean of 3.23.There are many reasons as to why most companies are outsourcing as a business model for delivering services; including tighter budgets, increased competition for profit, advances in technology, globalization of production and manufacturing processes and greater public emphasis on accountability (Christopher, 1998). The study shows that most commercial banks outsource due to lack of skilled and experienced expertise, to enable them focus on core activities, to improve service delivery and focus on increasing efficiency in customer service.

4.3 Outsourcing and Performance of Commercial Banks

The research sought to find out to what extent the respondents agreed with the following statements on the organization performance as a result of outsourcing of cash management and handling services. A likert scale was used from 5 to 1 where 5 –strongly agree, 4 – agree, 3 – neutral, 2 – disagree and 1 – strongly disagree. The findings are presented in table 4.2

4.2 Effects of Outsourcing on Performance of Commercial Banks

Factors	Mean	Std. Deviation
Outsourcing and centralization of expertise	4.05	0.375
Bank has benefitted from reduction in investment in assets	2.02	0.408
Outsourcing has led to increased sales	2.02	.408
Outsourcing has increased the banks operational efficiency	4.19	.450
Outsourcing has reduced banks cost of operations	4.02	.266
Outsourcing has enabled the bank to be more compliant and meet agreed security standards	4.77	.527
Outsourcing has led to increased efficiency and competitiveness	4.70	.513
Outsourcing and reduced labour costs	3.70	.803
Outsourcing has enabled the bank to stay focused on the core business	4.26	.902
Outsourcing has led to quicker implementation of new technology	4.35	1.044
Outsourcing has led to reduced expenditure on technology support	4.72	.591
Outsourcing has led to lower transactions cost	4.95	.213
Outsourcing has led to reduced research and development cost	4.28	.766
Outsourcing has enabled the bank to adopt best practices	3.07	.258
Outsourcing has led to centralization of expertise	3.51	.910
Outsourcing has led to better services for customers	4.74	.848

Table 4.2 presents the effects of outsourcing on the performance of commercial banks. The respondents agreed that outsourcing of cash management services has lead to centralization of expertise with a mean of 4.05,outsourcing has improved the banks operational efficiency with a mean of 4.19, outsourcing has reduced banks cost of operations with a mean of 4.02. The respondents agreed that outsourcing has enabled the bank to be compliant and meet agreed security standards and outsourcing has led to increases efficiency and competitiveness with a mean of 4.77.

The respondents agreed that outsourcing has enabled the bank to incur reduced labor costs with a mean of 4.70; outsourcing has led to quicker implementation of new technology with a mean of 4.26. Outsourcing has led to reduced expenditure on technology support with a mean of 4.35. The respondents agreed that outsourcing has led to lower transactions with a mean of 4.72, outsourcing has led to reduced research and development costs with a mean of 4.95.outsourcing has enabled the banks to adopt best practices with a mean of 4.28 and outsourcing has led to better service for customers with a mean of 4.74.The study shows that the respondents were neutral to the enhancing of internal capabilities as shown by the mean of 3.14 and outsourcing has enabled the bank to stay focused on its core business, outsourcing has led to centralization of expertise with a mean of 3.51. The study shows that respondents disagreed the bank has benefitted from reduction in investment in assets as shown by the mean of 2.02; outsourcing has led to increased level of sales with amen of 2.02.

Fritsch and Wüllenweber (2007), analyzing determinants of business process outsourcing in the German banking market, draw a different conclusion based on their findings. They are able to show that while outsourcing is still an element of cost cutting strategies it is also pursued by well-performing banks with a high revenue diversification. Thus they conclude that outsourcing is used as a strategic element in market differentiation strategies to gain further competitive advantage.

4.4 Challenges in Outsourcing Cash Management and Handling Services

The researcher sought to find out to what extent the challenges stated affected the organization as a result of the decision to outsource cash management and handling services. A set of statements were presented as in Table 4.3 and a likert scale used on a scale of 1-5 where: 5 - Very Great extent, 4 – Great extent, 3 - Moderate extent, 2 - Small extent and 1 - Not at all .The findings are presented in 4.3

4.3 Challenges in Outsourcing

FACTORS	Mean	Std. Deviation
Outsourcing and loss of core activities	2.95	.486
Outsourcing and reduced employee morale	1.98	.408
Outsourcing and receiving poor quality of supply of services	4.02	.462
Outsourcing and confidentiality leaks and the loss of intellectual property rights	4.07	.593
Outsourcing and loss of internal coherence and strategic flexibility	4.14	.467
Outsourcing and managing retention of the outsourcing firm	4.12	.324
Outsourcing and loss of control	3.95	.213
Outsourcing and reduced competitiveness	2.93	.258
Outsourcing and challenge in maintaining customer retention and satisfaction levels	4.42	.763
Outsourcing and challenge in harmonizing infrastructure and logistics management	4.14	.516
Outsourcing and increased costs of operation	4.07	.457
Outsourcing and lack of resources or reduced resources	3.98	.152
Outsourcing and technical risks of it standardization of outsourcer	1.81	.450
Outsourcing and reduced employee loyalty	1.91	.526
Outsourcing and the difficulties to bring back the outsourced service in- house	2.16	.949

Table 4.3 presents that to a great extent that receiving poor quality supply of services with a mean of 4.02, confidentiality leaks and the loss of intellectual property rights with a mean of 4.07, loss of internal coherence and strategic flexibility with a mean of 4.14, managing retention of the outsourcing firm with a mean of 4.12 were the major challenges in outsourcing. The challenge in maintaining customer retention and satisfaction levels with a mean of 4.42 and the challenge of harmonizing infrastructure and logistics management with a mean of 4.14 and the increased costs of operations with a mean of 4.07.

To a moderate extent the loss of control with a mean of 3.95 and lack of resources or reduced resources with a mean of 3.98 are the challenges in outsourcing. The loss of core activities is a challenge in outsourcing with a mean of 2.95 and reduced competitiveness with a mean of 2.93 and the difficulties and costly to bring back the outsourced service in house with a mean of 2.16. The table presents that to no extent at all, the reduced employee morale due to reduction of number of employees as part of the outsourcing plan with a mean of 1.98,difficulties and costly to bring back the outsourced service in house with a mean of 1.91 and reduced employee loyalty with a mean of 1.81.

Embleton and Wright (1998), outlined the major disadvantages of outsourcing procurement as follows; outsourcing cedes control to the provider, once a process has handed over to an outsider, it will be extremely difficult and costly to bring it back in-house; The initial contract can be very competitive, however, the inevitable changes may cost significantly more; The time required to manage the contract may make it more expensive; The quality of the good or service must be monitored because of the contractor's incentive to save money; Providers have multiple clients and consequently, may not be able to give priority to each one and certain processes are not easily outsourced.

The study shows that the major challenges involved in outsourcing are; receiving poor quality of supply of services especially on ATM uptime, confidentiality leaks and loss of intellectual property rights, lack of internal coherence on system software management processes, managing retention of the outsourcing firms due to competition amongst the service providers which leads to the increased costs of operations.

4.5 Co-efficient of Correlation

		Reasons for Outsourcing	Outsourcing	Challenges of Outsourcing
PERFORMANCE	Pearson Correlation	.508**	.601**	.443**
	Sig. (2-tailed)	.001	.000	.003
	N	43	43	43

There is a positive strong relationship between performance and the independent variables as shown by the Pearson's co-efficient correlation which is significant as indicated by the P-value at 95% level of confidence.

4.6 Co-efficient of Determination

R	R Square	Adjusted R Square	Std. Error of the Estimate
.815[a]	.665	.630	.12468

The co-efficient of determination r- squared, 66.5% which implies that 66.5% of variations of changes in the dependent variable can be explained by variations in the independent variables.

4.7 The Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.262	.597		.439	.663
Cash in transit operations	1.724	.279	1.388	6.183	.000
ATM management	.133	.178	.232	.749	.459
Cash centre management	.541	.178	.378	3.046	.004

$$Y = 0.262 + 1.721X_1 + 0.133X_2 + 0.541X_3$$

Standard Error = 0.597 0.279 0.178 0.178

Y= Performance

X_1= Cash in transit operations

X_2=ATM management

X_3= Cash centre management

The model presents a unit increase in the outsourcing of cash in transit operations caused a 1.721 increase in the performance of commercial banks. A unit increase in the outsourcing of ATM management caused a 0.133 increase in the performance of commercial banks. ATM management is not significant as indicated by the significance value of 0.459. A unit increase in the outsourcing of cash centre management caused a 0.541 increase in the performance of commercial banks. Holding all other factors constant with the absence of cash in transit operations, ATM management, and cash centre management there is an increase of 26.2% increase in performance. The independent variables identified have effects on the performance of commercial banks though the effect varies with different variables.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings of the main study, conclusions and recommendations arrived at. It also gives suggestions for further studies.

5.2 Summary

The study was to investigate the effect of outsourcing of cash management services and performance of commercial banks in Kenya. It was guided by two objectives; the effect of outsourcing and challenges of outsourcing, and carried out a census on the 43 commercial banks operating in Kenya. Outsourcing of cash management services led to increased operations cost. The respondents were of the opinion that the increased cost of operations had a very low effect on the reason to outsource. On limitation in skilled expertise, the respondents agreed that banks outsource because they do not have the required skills and expertise. The focusing on no- core activities had a high mean so banks outsource to a very high extent so as to focus on their core activities.

Banks do not outsource because of their reduced profit margins as evidenced by the mean. The mean show that a lack of internal resources and relevant technology, poor service delivery , dissatisfied clients due to inefficiency cause banks to outsource cash handling and management services.

The average reasons why banks outsource are reduced productivity, failure to manage risks with, competitive pressure and tighter budgets. The respondents agreed that outsourcing of cash management services has lead to centralization of expertise, outsourcing has improved the banks operational efficiency, outsourcing has reduced banks cost of operations. The respondents agreed that outsourcing has enabled the bank to be compliant and meet agreed security standards and outsourcing has led to increases efficiency and competitiveness.

The respondents agreed that outsourcing has enabled the bank to incur reduced labor costs; outsourcing has led to quicker implementation of new technology. Outsourcing has led to reduced expenditure on technology support. The respondents agreed that outsourcing has led to lower transactions; outsourcing has led to reduced research and development costs. Outsourcing has enabled the banks to adopt best practices and outsourcing has led to better service for customers. The study shows that the respondents were neutral to the enhancing of internal capabilities and outsourcing has enabled the bank to stay focused on its core business, outsourcing has led to centralization of expertise. The study shows that respondents disagreed the bank has benefitted from reduction in investment in assets; outsourcing has led to increased level of sales.

The bank faced various challenges in outsourcing cash management and handling services. The major challenges included; receiving poor quality supply of services, confidentiality leaks, loss of intellectual property rights, loss of internal coherence and strategic flexibility and managing retention of the outsourcing firm. Other challenges experienced included maintaining customer retention and satisfaction levels, harmonizing infrastructure and logistics management and increased costs of operations.

To a moderate extent the loss of control and lack of resources or reduced resources, loss of core activities, reduced competitiveness were other challenges experienced in outsourcing. The research presents that to no extent at all was reduced employee morale due to reduction of number of employees was considered as part of the outsourcing plan, neither was the difficulties in bringing back the outsourced service in house and reduced employee loyalty.

5.3 Conclusion

Based on the findings the study concludes that; there is a positive strong relationship between performance and the independent variables as shown by the Pearson's co-efficient correlation which is significant as indicated by the P-value at 95% level of confidence. The co-efficient of determination r- squared, 66.5% which implies that

66.5% of variations of changes in the dependent variable can be explained by variations in the independent variables. Performance of commercial banks is affected by the decision to outsource cash management and handling services, cash centre management and ATM management operations. The decision to outsource, the challenges faced when outsourcing and outsourcing affect the performance of banks.

5.4 Recommendations of the Study.

Banks should involve their employees more in their decision to outsource cash management and handling services. The management should monitor the services offered by outsourcing firms especially on the ATM services so ensure customers are handled well by the outsourcing firms and their complaints are handled promptly. The Management should also offer customer service training courses to outsourcing firms like G4S to enhance service delivery and ensure their customers enjoy happy banking.

To manage and retain of the outsourcing firm, banks should offer competitive rates and strive towards good customer relationship with the vendors.

5.5 Limitations of the Study

The study was on the effects of outsourcing of cash management services and performance of commercial banks in Kenya. However, like many other studies, it suffered from halfhearted commitment from some respondents to participate in answering the questions satisfactorily; and insufficient knowledge on the part of some participants on outsourcing of cash management services and performance of commercial banks in Kenya. The researcher also had time and financial constraints.

5.6 Suggestions for Further Research

The researcher suggests further research on a ‘Comparative analysis of Performance of commercial banks before and after outsourcing of cash management and handling services at different years’; and ‘An investigation of the factors influencing performance of commercial banks other than cash management and handling services’.

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APPENDICES

Appendix I: Questionnaire

Please give answers in the spaces provided and tick (√) the box that matches your response to the questions where applicable.

Section A: Demographic Information

1. Gender

   Male [ ] Female [ ]

2. Age Category

   20-29 [ ] 30-39 [ ] 40-49 [ ] 50-59 [ ]

3. Years of work experience……………………………………

4. What is your highest academic qualification

   O - Level [ ] A- Level [ ] College [ ] University [ ]

5. What is your position in this organization? ___________________________________

Section B: Outsourcing

6. For how long has your organization outsourced cash management and handling services?

   0 – 5years [ ] 5 – 10years [ ] 11 – 20 years [ ] Over 20years [ ]

7. What aspects of cash management and handling services have you outsourced?

	Yes	No
ATM operations	[ ]	[ ]
Cash in Transit	[ ]	[ ]
Cash Centres management	[ ]	[ ]

b). Other services (specify)………………………………………………………………

Section C: Reasons for Outsourcing

8. To what extent do these listed factors contribute to adoption of outsourcing of cash management and handling services in your organization? Use a scale of 1 to 5 where 5 is Very High, 4 is High, 3 is Average, 2 is Low and 1 is Very Low.

Factors	**5**	**4**	**3**	**3**	**1**
Increased operation costs e.g. salaries					
Limitations in skilled and experienced expertise.					
Focusing of non-core activities					
Reduced profit margins					
Lack of internal resources and relevant technology					
Poor service delivery					
Reduced productivity					
Dissatisfied clients due to inefficiency					
Failure to manage risks					
Competitive pressure					
Tighter budgets					

b). Other factors (specify)……………………………………………………………….

Section D: Outsourcing and Performance of Commercial Banks

9. Do you think outsourcing have influenced the performance of your company?

Yes [ ] No [ ]

b). If yes, explain………………………………………………………………………...

………………………………………………………………………………………

10. To what extent do you agree with the following statements on the organization performance as a result of outsourcing of cash management and handling services? Use a scale from 5 to 1 where 5 –strongly agree, 4 – agree, 3 – neutral, 2 – disagree and 1 – strongly disagree.

Statements		**5**	**4**	**3**	**2**	**1**
(i)	Outsourcing of cash management services has lead to centralization of expertise					
(ii)	Outsourcing has enhanced banks own internal capabilities					
(iii)	Your bank has benefitted from reduction in investment in assets					
(iv)	Outsourcing has lead to increased sales					
(v)	Outsourcing has improved the bank's operational efficiency					
(vi)	Outsourcing has reduced bank's cost of operations					
(vii)	Outsourcing has enabled the bank to be compliant and meet agreed security standards.					
(viii)	Outsourcing has led to increased efficiency and competitiveness					

	Statements					
(i)	Outsourcing has enabled your bank to incur reduced labor costs					
(ii)	Outsourcing has enabled your bank to stay focused on its core business					
(iii)	Outsourcing has led to quicker implementation of new technology					
(iv)	Outsourcing has lead to reduced expenditure on technology support					
(v)	Outsourcing has lead to lower transaction costs					
(vi)	Outsourcing has lead to reduced research& development costs					
(vii)	Outsourcing has enabled your bank to adopt best practices					
(viii)	Outsourcing has lead to centralization of expertise					
(ix)	Outsourcing has lead to better service for your customers					
	Others……..					

Section E: Challenges in Outsourcing

11. To what extent has the following challenges affected the organization as a result of the decision to outsource cash management and handling services? Use a scale of 1-5 where: 5 - Very Great extent, 4 – Great extent, 3 - Moderate extent, 2 - Small extent and 1 - Not at all

Challenges	**5**	**4**	**3**	**2**	**1**
Loss of core activities					
Reduced employee morale due to reduction of number of employees as part of outsourcing plan					
Receiving poor quality of supply of services					
Confidentiality leaks and the loss of intellectual property rights					
Loss of internal coherence and strategic flexibility					
Managing retention of the outsourcing firm					
Loss of control					
Reduced competitiveness					
Challenge in maintaining customer retention and satisfaction levels					
Challenge in harmonizing infrastructure and logistics management					
Increased costs of operations					
Lack of resources or reduced resources					
Technical risks of IT standardization of outsourcer& the outsourcing company					
Reduced employee loyalty					
Difficulties and costly to bring back the outsourced service in-house					

13. What other challenges have you experienced as a result of outsourcing of cash management and handling services? ……………………………………………………...

………………………………………………………………………………………………

Section F: Performance

12. To what extent have outsourcing of cash management and handling services in your organization contributed to the following? Use a scale of 1 to 5 where 5 is Very High, 4 is High, 3 is Average, 2 is Low and 1 is Very Low.

Performance Indicators	**5**	**4**	**3**	**3**	**1**
Increased profitability					
Increased sales growth					
Improved employees productivity					
Others……..					

THANK YOU FOR YOUR PARTICIPATION

Appendix II: Licensed Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Cfc Stanbic bank
7. Chase bank
8. Charter House Bank(Under statutory Management)
9. Citibank
10. Credit Bank
11. Co-operative bank of Kenya
12. Commercial Bank of Africa
13. Consolidated bank
14. Development bank of Kenya
15. Diamond Trust bank
16. Dubai bank
17. Eco bank
18. Equatorial Commercial Bank
19. Equity bank
20. Family bank
21. Fidelity Commercial bank
22. Fina bank
23. First Community Bank
24. Giro commercial bank
25. Guardian bank
26. Gulf African Bank
27. HabibA.G.Zurich
28. Habib bank
29. Imperial Bank
30. Investment and Mortgages bank

31. K-Rep bank
32. Kenya Commercial bank
33. Jamii Bora Bank
34. Middle East bank
35. National bank of Kenya
36. National Industrial Credit bank
37. Oriental Commercial bank
38. Paramount Universal bank
39. Prime Bank
40. Standard Chartered bank
41. Trans-National bank
42. UBA Kenya Limited
43. Victoria Commercial bank

Source: Central Bank of Kenya (CBK), 2013