CHALLENGES OF IMPLEMENTING OUTSOURCING STRATEGY BY COMMERCIAL BANKS IN KENYA

BY

CLARICE INDOSIO OTANGA SESI

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.

October 2014

DECLARATION

I declare that this research project is my original work and that it has not been submitted to any other University for academic credit.

Signed: _________________________________ Date: ______________________

Clarice Indosio Otanga

Registration Number: D61/8888/2006

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

Signed…………………………………………. Date…………………………

Prof. Martin Ogutu

School of Business

University of Nairobi

DEDICATION

This project is dedicated to my husband Paul Sesi for his endless support throughout this program and for creating an enabling environment that has seen the success of this project; and our sons Kelithi, Venieli and Eveni.

To my parents; Alfred and Beverly Otanga, for their support and encouragement to see this course through.

May God bless you all.

ACKNOWLEDGEMENTS

This project and entire MBA course has been accomplished with the support, encouragement and contribution of a number of people whom I deeply indebted. I would also like to express my heartfelt gratitude to all those whom, in one way or the other, may have contributed to the realization of this project.

My sincere thanks go to my supervisor, Prof Martin Ogutu, whose intellectual guidance has enabled me to weather through the path to the success of the project. Special thanks go to the other lecturers in the school of business, University of Nairobi, who have been a source of motivation and inspiration during the entire MBA course. These include, among others, Dr. Yabs.

I wish to acknowledge the support and encouragement I received from my husband that led to the completion of this work.

Finally am grateful to the Almighty God for the good health, strength, knowledge and being on my side during the MBA program.

ABSTRACT

The study is a comprehensive evaluation of the challenges encountered when implementing the outsourcing strategy by commercial banks in Kenya. Various variables were used to determine how effective commercial banks are in implementing the outsourcing strategy and establish challenges faced by commercial banks in implementing the outsourcing strategy. The study primarily targeted all the 44 commercial banks in Kenya and 66% responded.

The study concluded that outsourcing has resulted in improved focus on core competence, better operational control and efficiencies, gaining competitive advantage, gaining access to new technology and skills, risk management, quality control, increased focus on core competence and increased productivity. It also concluded that the factors that greatly influence the successful implementation of the outsourcing strategy are clear vendor selection process and a clear existing policy on outsourcing. The greatest challenges experienced the commercial banks in the outsourcing implementation process are inadequate resources availed for the implementation processes and ineffective management of the process.

The valuable information gathered in this study will guide and improve managerial policy on planning, directing, staffing, monitoring and control, not only in the banking industry but in other sectors as well. For outsourcing to remain successful and sustainable for commercial banks managers should provide ample resources for the implementation process and deal with it effectively.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

It is critical for any organization that embarks on a strategy to be aware of the challenges it can encounter when implementing it. Once the implementers of strategy are aware of the challenges, they are able to adequately prepare themselves for the road ahead. They are able to equip themselves with the necessary tools that change management requires, and therefore are able to avoid the many costly hurdles and setbacks that may come with ill preparedness.

The rational analytical or planning view of strategic development drives this study. It purports that strategy is a sequence of analytical and evaluative procedures to implement intended strategy and ways of implementing it .It includes; setting objectives and goals, analysis of the environment and resources of the organization, match the environment opportunities and threats, resource based strength and weaknesses, generation of strategic options and evaluation, planning of implementation through resource allocation and organizational restructuring.

Commercial banks in Kenya are each determined to be the best in an industry that has stiff competition, each trying to gain the largest share of the market .Commercial banks are therefore employing strategies that will give them the competitive edge. One of the strategies embraced is outsourcing i.e. the transfer or delegation to an external service provider the operation and day-to-day management of a business process. The implementation of the outsourcing strategy is not easy and there are challenges faced when undertaking this change in operation.

1.1.1 Outsourcing strategy

Outsourcing is contracting work outside the company that was originally done inside the firm or any new work that could be done inside the company (Yabs, 2010). Griffiths (1999) defines outsourcing as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources;" sometimes known also as "facilities management." Griffiths asserts that companies have always hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. Lanz and Barr (2000) say that outsourcing is a strategic decision of a company to use an outside organization to perform work that is typically done within that company. It also includes managing the relationship between the buyer with its provider, or outsourcer, because nothing is more likely to lead to an unsuccessful venture than neglecting a partner.

Outsourcing is the transfer of an internal service or function to an outside vender (Bordeianu & Benard, 1997). Outsourcing is a new name for the old practice of "contracting out" for series that organizations chose not to provide internally with their own staff. It has become a standard practice in both the corporate and the not-for-profit worlds. Barthelemy (2003) defines outsourcing as turning over all or part of the organizational activity to an outside vendor. He asserts that in the service industry, outsourcing was traditionally restricted to basic support activities and that it was primarily used when restructuring firms that were in bad financial shape. Today, outsourcing pervades the management of most companies and it has also become increasingly clear that outsourcing is more than a passing fad (Barthelemy, 2003). The functions being outsourced by the business are basically considered noncore to the business itself. The implementation of the business process outsourcing strategy is not an easy road, it has many obstacles. Some of the challenges experienced are; resistance to change by members of the organization and stakeholders, lack of clear and proper procedures and policies around outsourcing.

1.1.2 Banking Industry in Kenya

The Kenyan banking industry is governed by the Companies Act, the Central bank of Kenya (CBK) Act and the Banking Act. These Acts are used hand in hand with the prudential guidelines which the Central Bank, which is the industry regulator, issues. In 1995, the exchange controls were lifted after the liberalization of banking in Kenya. The Kenyan banks have come together to form The Kenya Bankers Association .This is an organization whose main aim is to cater for interests of the member banks in negotiating terms and conditions of service of its unionisable employees and as far as possible, standardize management practices so as to ensure harmony in the industry. The association also works closely with the regulator to ensure that the government initiatives and policies are implemented smoothly.

The Kenyan banking industry has 44 banks; 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and one mortgage finance institution, Housing Finance. Kenyan banks have expanded and presence in the East African region. The Kenyan banks offer a wide range of financial products under the retail, corporate and investment banking subsectors of the industry.

1.1.3 Commercial Banks in Kenya

Recently, increasing rapid changes in all aspects of the environments, and in technology and international deregulation have challenged large corporations to compete on a global scale (Hendry, 1995). To meet this competition the giants had to learn to dance, to be flexible themselves, and to “do more with less”. Critically reviewing the sources of their value-added, many were beginning to contract out non-core functions and move towards to fast-moving, fashion-based industries (Hendry, 1995).

However, reducing costs is not a unique reason that companies begin outsourcing services (Lanz & Barr, 2000). Sound reason could include improving service quality and management, focusing more on the core competencies of the organization as there is a change or expected change in the company’s markets. Gaining access to new technology and skills, reducing headcount, enhancing the organization's capability to develop new products and services, are identified as reasons for outsourcing. Shortening cycle times for market delivery, customer response is also a reason for contracting out (Leavy, 2001; Lanz & Barr, 2000; Bailey, Masson & Raeside, 2002).

Kenyan banks are no exception to this and have therefore embarked on outsourcing as a strategy to enable them meet these expectation of a dynamic environment that has stiff competition; each trying to gain the largest market share .Some of the outsourced functions in Kenyan banks are, ATM card production, courier services, ATM replenishment, cash management and cash in transit services, security, transportation, archiving, cleaning and landscaping.

1.2 Research Problem

When properly developed, 'strategic outsourcing substantially lowers costs, risks and liability as well as fixed investment while greatly expanding flexibility, innovative capabilities, and opportunities for creating higher value-added and shareholder returns' (Leavy, 2001). It gives access to professional skills and increases efficiencies in operational processes. Outsourcing gives the organization the opportunity to focus in on its core business. The proper implementation of the outsourcing strategy is critical as it the main determinant of the success or failure of the strategy. According to the Fortune magazine, less than ten percent of strategies effectively formulated are effectively executed. The same magazine conducted a major research project with the following question at its core: what is the main reason CEOS fail? The research came up with a very clear answer: lack of implementation. Many businesses executives place too much emphasis on high –level strategy, on intellectualizing and philosophizing, and not enough on execution – this is essentially the discipline for meshing strategy with reality, aligning people and resources and achieving the results promised (Edmund Rudman HR future, 2012). The challenges faced in implementing the outsourcing strategy are numerous. Bureaucracy in organizational processes that delay the implementation of strategy, lack of proper communication and buy in from the key stakeholders are some of the obstacles on the road towards strategy implementation.

Commercial banks are keen on focusing on their core business, which is providing financial services and products to their customers. The non-core functions are then identified and outsourced to a service provider who is specialized in the outsourced function. This results in reduced costs which in turn results in higher returns for their business. Outsourcing has however in the past resulted in lower service standards in service delivery to the customers and therefore impacting negatively on the commercial banks that have taken the decision to outsource. Vendors on the other hand have been disgruntled as the commercial banks have not adhered to service level agreements and contracts. Resistance to change from staff is also often witnessed in organizations that have decided to outsource some of its operational functions. These are just a few of the instances point to the fact that implementation of the outsourcing strategy is not working well, and this by extension points a finger to the fact that implementation is not being done well.

Previous studies have been done on the outsourcing strategy. Nyarandi (2002) conducted a survey of the implementation of outsourcing strategy in private hospitals in Nairobi. Chanzu (2002) conducted a survey of business process outsourcing amongst private manufacturing companies in Nairobi and found that the benefits of business are substantial and include reduced costs experienced service and expertise. Oyombe (2009) conducted a study on the implementation of outsourcing strategy by selected manufacturing firms in the chemical and allied sector in Kenya while Kiptoo (2012) conducted a study on the implementation of business process outsourcing in the ministry of transport in Kenya. Sesi (2009) conducted a study on the challenges of implementing strategy plans at the Kenya Dairy Board and found that policies and procedures, tactical and operational plans , resource allocations, globalization forces ,power and politics were seen as the main challenges faced by Kenya Dairy Board in implementing 2005 to 2009 strategy plan. Drawing from the above studies, none has covered the challenges faced in the implementation of the outsourcing strategy.

The research therefore seeks to answer the question “What challenges do Kenyan commercial banks face in implementing outsourcing strategy?”

1.3 Research Objectives

This research addresses the following two objectives

i. To determine how effective commercial banks are in implementing the outsourcing strategy

ii. To establish challenges faced by commercial banks in implementing the outsourcing strategy

1.4 Value of the Study

This study will make theoretical and practical contribution to the theory of knowledge on outsourcing and show how to effectively implement the outsourcing strategy. Academicians will use the study’s findings to develop themes for further research in the implementation of business process outsourcing.

The study will highlight and help understand the challenges of outsourcing to the implementers. The information will prepare them to better handle the obstacles and avoid the pitfalls of ill preparedness.

The knowledge acquired will be useful in guiding managerial policy in the financial sector. It would serve as guidelines in effectively drafting sound outsourcing policies and especially as regards to implementation in the financial sector.

The valuable information acquired will guide and improve managerial policy on planning, directing, staffing, monitoring and control, not only in the banking industry but in other sectors as well. Sound change management processes will also be embraced in implementing the outsourcing strategy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to review literature on outsourcing and the challenges encountered in implementing strategy. Secondary sources of data e.g. books, journals, articles and reports will be used.

2.2 Theoretical Foundation of the Study

2.2.1 Resource-Based View

The resource-based view of the firm (RBV) views organisations as a collection of productive resources. The central assumption in this view is that organisations gain competitive advantage by their internal resources. An important distinction in resource-based theory is that a resource provides organisations with sustained competitive advantage, and to do so there are different attributes for the resources that have to be fulfilled. This theory answers the question–Why do firms in the same industry vary systematically in performance over time? The RBV posits that it is because internal capabilities and resources yield competitive advantage. Firms have different resources and resources are immobile, firms can generate competitive advantage. There are four attributes of resources that lead to competitive advantage: valuable, rareness, imperfectly imitable, non-substitutable. A resource is valuable if it allows a firm to exploit an opportunity in the market, thwart competitive threats, and conceive of or implement strategies that improve efficiency and effectiveness. A resource is rare if the number of firms in competitive arena possessing a resource is less than the number of firms needed to generate perfect competition (Barney 1991)**.**

2.2.2 Transaction Cost Economic Theory

Transaction Cost Economic addresses these questions: Why do firms exist? What are the most effective strategies for maximizing profits? What should firms make and what should firms buy? The main theoretical argument of this theory is concerned with the conditions under which certain characteristics of the transaction or the object of the transaction would lead to its internal, hybrid or external governance. In outsourcing, it posits that firms need to consider both production costs and transactions costs for an outsourcing transaction. Transaction costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers

2.2.3 Agency Theory

This theory is based on the conceptualization of the firm as a nexus of contracts between principals or stakeholders and agents. This theory deals with the principle agent problem in which the principal delegates an activity to an agent who performs the work. Principals and agents are deemed to be driven by self-interest, are rational and risk-averse. The agency theory deals with two problems that can occur in agency relationships. The first is the agency problem that arises when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principle and the agent may prefer different actions because of the different risk preferences (Eisenhardt, 1989). This results in increased agency costs for developing monitoring and enforcing contracts. These costs may be predicted by outcome, uncertainty, span of control and programmability. Agency costs may decrease over time as principal and agent develop better relation through repeated transactions (Gong 2003). The stakeholders are represented by different groups or persons within the firm as well as outside the firm, such as customers, suppliers, or shareholders. The basic assumption of agency theory is the existence of asymmetric information and different perceptions of risk between principal and agent as well as uncertainty. The basic argument is that the principal transfers decision rights to the agent. An example of agency theory used in outsourcing is the choice of contract. When the perception of risk and uncertainty is low, a client prefers to sign a fixed-fee contract. Otherwise, the client prefers to sign time and material contract (Jensen & Meckling 1976).

2.3 Strategy Implementation

Strategy implementation put simply is the process that puts plans and strategies into action to reach goals. A strategic plan is a written document that lays out the plans of the business to reach goals, but will sit forgotten without strategic implementation. The implementation makes the company’s plans happen. Effective strategy implementation is pivotal for achieving strategic success. In a study of 200 companies in the Times 1000, 80% of directors said they had the right strategies but only 14% thought they were implementing them well, no doubt linked to the finding that despite 97% of directors having a 'strategic vision', only 33% reported achieving 'significant strategic success' (Cobbold et al 2001). It is therefore critical to have a strategic implementation plan that fully considers the factors needed for its success. It is therefore critical to have a strategic implementation plan that fully considers the factors needed for its success. Some of these critical considerations are, the task at hand, building a capable organization SWOT analysis, building core competence, matching strategy to structure and managing change and culture.

A key ingredient of a successful strategy implementation plan also involves having a clear visible leader. The whole management team i.e. the chief executive officer, heads of business units and managers make up the strategy implementation team. The leader has the duty to clearly communicate the strategy to the key stakeholders and keep them constantly informed of the progress, ensure adequate resources for the process and help the organization stay focused on the implementation. Other key responsibilities of the leader include, monitoring the progress of the strategy implementation, adapting the strategy to the changing environment, aligning organizational structure, budgets, performance and reward systems to the strategy. The leader, also acts as a change agent, has a strong vision and gets other stakeholders to buy into it. The leader as a change agent needs to have competencies around negotiating skills, political awareness, tolerance to see issues from other perspectives, networking and team building skills as well as being sensitive to the changes in market conditions and its impact to the organizations strategy. The leader needs to empower the members of the organization by giving power and authority to carry out various functions and ensure that they get the necessary training to equip them with the skills needed in the implementation process.

Mintzberg et al (1999) indicates that strategy implementation is composed of a series of activities which are primarily administrative. If purpose is determined, then the resource of an organization can be mobilized to achieve it. Norton and Kaplan (2008) recommend that strategic plans be allocated a specific budget (STRATEX) apart from capital expenditure budget (CAPEX) and operating expenses budgets (OPEX). Organizational structure appropriate for the efficient performance of the required task must be effective by information systems and relationships permitting coordination of subdivided activities

Thompson et al (2007) argue that prescribing view policies and operating procedures to provide an up-down guidance regarding how certain things need to be done is essential. The policies and procedures also enforce needed consistency on how in particular strategy –critical activities are performed in geographically scattered operating units and lastly, well developed policies and procedures promote the creation of work climate that facilitates good strategy implementation. Clear and constant communication to the stakeholders and staff is essential to ensure that all the staff members understand the strategy i.e. the what, why, how, when of strategy and how it translates to their roles in the organization and their role in ensuring that the strategy succeeds. This can be done through presentations, open forums like road shows and town halls. They need to understand from the onset what success looks like, the expected outcomes and how they will be measured. DeLisi (2001) recommends that each management level meets with his/her direct reports in a half day working format. In this meeting the primary questions to be discussed are, how do the corporate strategy and our own business unit strategy affect the work that you do? What will change in your area as a result of the strategies? What reservations do you have about the strategies? How would you propose to rectify these shortcomings? How will you plan to support the subject strategies? What specific actions will you take? This is best communicated through the balances score card. Performance management, measurement and compensation are then enmeshed in a system of incentives and control that must be directed towards desired new behavior of the organization.

It is critical to properly and effectively manage change and culture. Culture is a system of collective values held by a group of people that distinguishes them. Organizational culture is how things are done in organizations, its attitudes, behavior and code of conduct. Culture is important as it can impede or facilitate change that comes with strategy and strategy implementation, it is therefore important to get a good culture strategy fit. Implementation needs to embrace the principles of change management one of which is people management. A situation where people are not well managed, results in resistance to change.

Constant monitoring and adaptation of the strategy to the ever changing business environment that the organization exists is crucial. The strategy that the organization chooses to adapt must be flexible and adaptable so as to effectively respond to both internal and external environments. Periodic analysis of strategy’s performance and relevance to the market responses help to adapt strategy and make it more successful.

2.4 Challenges of Strategy Implementation

The benefits of outsourcing are numerous however; a number of obstacles are identified on the road to successful strategy implementation. Implementation is a complex process that involves a variety of managerial activities i.e. planning, directing, organizing, staffing and controlling. These functions need adequate time to carry out if they are to be done well. Not being fully aware of what needs to happen in these specific functions in preparation to implementation, my result in underestimation of the time needed to implement strategy. Bathelemy (2003) sites the following as impediments to successful implementation of the outsourcing strategy: outsourcing activities that should not be outsourced, not selecting the right vendor, overlooking personnel issues, writing poor contracts, losing control over the outsourced activity, overlooking hidden cost of outsourcing and failing to plan an exit strategy.

DeLisi (2001) in his research found that for strategy execution to be successful, certain things must take place in the strategy creation process itself. Key at this stage of the process is open, honest communication at all levels of the organization. Without this, the strategy that is created will not have withstood the scrutiny required for the best strategic thinking. In addition, valuable input from lower levels in the organization will not occur resulting in a lack of ownership of the strategy by the staff. Later, as the strategy transitions into the execution phase, the lack of input from the lower levels deprives organizations of an effective way to gauge if the strategy is working. Critical information flow is more adversely affected in organizations where negative culture exits around communication. The implementation leaders who do not effectively translate strategy to their staff, leads to a lack of understanding of the strategy, the inability of employees to translate the strategy into their day-by-day job, and from the feeling that they were not involved in the creation of the plan. This results in a lack of employee “buy-in” or commitment and by extension results in resistance to change. Adequate attention to management and employee involvement and interaction should be ensured if strategy failure is to be evaded.

Reed and Buckley (1988) discuss problems associated with strategy implementation. They acknowledge the challenge and need for a clear fit between strategy and structure and claim that which comes first is irrelevant providing there is congruence in the context of the operating environment. A lack of commitment and a lack of motivation of staff is one of the major obstacles to implementation. DeLisi (2001) in his research found that staff is not held accountable for execution. Not making employees accountable for various aspects of the plan or not making them powerful enough to authoritatively make contributions will be detrimental to the implementation plan. With accountability, staff is ultimately responsible for portions of the strategic plan and for predetermined results from that plan. Rewards and/or punishments are administered accordingly. Not translating the main strategy into the staffs deliverables and Key performance indicators in their balance score cards results in a lack of ownership and accountability in the process.

Power and political forces in the organization have greatly impeded the strategy implementation process. Power should be distinguished from authority in that, power is an individual’s capacity to influence decisions while authority is the right to act or command others to act in attainment of organizational goals. Difficulty in obtaining organizational support and indecisiveness on which of the activities to outsource is also one of the hurdles in the implementation of strategy. Monitoring of the progress made in the implementation process is fundamental. A lack of proper mechanisms of tracking the achievement of strategic objectives, inadequate systems to monitor implementation milestones should not be accommodated.

Resistance to change is multifaceted and results in delays, additional costs and instabilities in the change process. Resistance can be systemic, behavioral or emanate from individuals. When implementing strategy, the leader needs to be aware of the source of the resistance and how to deal with this impediment to implementation of the strategy.
Lack of effective leadership and ineffective management ails the strategy implementation process. It is important to note that besides having it all, implementation is a skill that is learned. The art of change management is composed of creativity, ingenuity and personal experience elements that connect to the human aspect. People management skills required Need the right people with the right skills therefore lack of these skills can be a challenge.

2.5 Outsourcing Strategy

Monica Belcourt and Ken Mcbey agree on the following benefits and drawbacks of outsourcing. Factors that influence the decision to outsource include the ability for the organization to have strategic focus on core activities. Organizations cannot pursue excellence in all areas and will therefore focus on core competences that have made the company successful and are in line with the company mission and ultimately vision. Outsourcing these noncore services helps a firm to re-focus on important business activities without unduly sacrificing quality.

2.5.1 Forms of Outsourcing

The range of arrangements between purchasers and service providers highlights a variety of outsourcing forms. The various types of outsourcing are categorized according to the length of contracting time and the level of risk share. Outsourcing can therefore be classified into four types: total outsourcing, selective outsourcing, strategic alliance sourcing and insourcing (Currie and Willcocks, 1998).

Total outsourcing is when an organization chooses to contract out its service to a large single, preferred, trusted supplier. This firm of outsourcing carries with it the greatest interdependency between buyer and supplier and its success depends upon the development of a successful partnership between the two parties (Currie and Willcocks, 1998). Companies should therefore embark on selective outsourcing to multiple vendors.

Selective outsourcing sometimes called transaction-based contracts is usually shorter, single contracts, with a supplier who competes with other suppliers for the business of the client (Kakabadse, A. and Kakabadse, N, 2002). With this type of outsourcing, the interdependence of client and supplier is reduced to some extent as the client can flexibly switch from one supplier to another for the purpose of its business (Currie and Willcocks, 1998).

Strategic alliance outsourcing is entering into an alliance or a joint venture with a supplier on the basic of shared risks and rewards. It might be implemented by selecting an existing supplier or forming a new one to which service can be outsourced. By doing this way, the organization can be able to influence the strategy and planning processes of the supplier as well as access to particular managerial and technical skills, which it does not have in-house (Currie and Willcocks, 1998).

Insourcing happens when an organization would like to reduce risks and interdependency between it and the supplier by retaining an in-house service section and insource technical capability in the form of contractors in accordance with the peaks and troughs of the service needed. Insourcing solves the problem that, in some cases, the in-house technical capability is equal to, if not greater than, that of supplier; therefore, outsourcing would not gain benefits such as accessing special skills or human resources. However, there is no guarantee that an in-house service section, with contractors being managed internally as permanent staff, will create more effective service operations (Currie and Willcocks, 1998).

2.5.2: Reasons for Outsourcing

A research done by The Outsourcing Institute in over 1,200 companies identified several reasons for outsourcing. Outsourcing may relieve a firm of functions that are difficult or out of control or they do not have the required resources to meet an ongoing or new requirement within the company. It also reduces or control operational costs by accessing an external provider at less costs. Outsourcing also reduces investment in non-core business functions and thus provides additional capital available for core business investments thus they become more flexible, more dynamic, and are better able to meet changing opportunities. Companies outsource to improve company focus by freeing up management time and time spent on non-core business functions.

2.5.3: Benefits of Outsourcing

By outsourcing firms are able to achieve economies of scale from doing what they do best and concentrating in a particular area. The resources used to finance support services when outsourced can be redirected to other initiatives which have a higher return on income, thereby justifying the reason for outsourcing. Outsourcing also exposes an organization to specialized services from different vendors. These vendors have specialized systems that provide for more efficiency which in turn allows for a quicker turnaround time, high quality levels while reducing risks and liabilities to individuals. Outsourcing enables staffing flexibility in that it allows for firms to undertake operations that have cyclic or seasonal demand with ease. Another benefit that outsourcing avails is the development of the organization's staff as internal staff can work alongside the new staff and benefit from acquisition of a new skill set. The vendor usually acquires the best technology for equipment in the area which he operates. The organization will therefore have access to this technological advancement at a lower price than if they were to acquire it themselves. Outsourcing helps in gaining access to the untapped market and increase the revenue and helps in the expansion of the firm's business processes. The process also reduces the cost incurred by the firm and helps in conversion of the fixed cost to the variable cost. It also helps in the motivation of the employees by providing them with lucrative incentives.

2.5.4: Challenges of Outsourcing

The challenges that outsourcing presents are loss of managerial control, loss of critical skills, inadequate capabilities of services provider, loss of flexibility. Loss of control impacts comprises of loss of core competence and risks of alienating customers (Lonsdale & Cox 2000) and inadequate capabilities of service providers result in loss of competitive advantage (Gilley & Rasheed 2000). For outsourced functions with an offshore vendor possess additional risks such as culture differences, language barrier and geographical time zone differences come into play (Beaumont & Sohal 2004). Hidden costs in outsourcing contracts may result in the outsourced service becoming more expensive than were it done in-house.

Outsourced services may require that confidential information like medical records, payroll data or bank financial information be transmitted to the outsourced company thus risking a breach of confidentiality for the organizations' customers thus causing undue embarrassment, irreparable damage or legal action. The quality of the outsourced service may be compromised as an outsourcing company like many other firms is driven by profits. As the contract fixes the price, the only way for the outsourcing firm to increase profits will be to decrease expenses. In addition, the outsourcing firm loses the ability to rapidly respond to changes in the business environment. The contract is usually very specific and any changes to it will result in additional charges.

Outsourcing may lead to loss of jobs and therefore needs to be managed professionally and with a lot of sensitivity. If it is not well managed, it may have a negative impact on the remaining workforce as well as loss of morale. Conflicts in outsourcing are as a result of differences of interest between the principal and vendor, a lack of understanding of the contract process and decision rights, not being ready to work together with service providers operationally after signing the contract, disputes in litigations, lock-ins are also some of the challenges that presents itself when and organization decide to implement the outsourcing strategy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed how the study was carried out. It explains the methods and skills that were used to conduct the research. The basis of any valuable research depends on the methods and procedures employed in data collection and clear definition of the target group of the respondents. The topics covered include research design, population of the study, data collection and analysis methods.

3.2 Research Design

The study was undertaken by carrying out a survey because they allow a collection of a large amount of primary data from a sizeable population. The survey is the best method available to social scientist and other researchers who are interested in collecting original data the purpose of describing a population too large to observe directly. In addition surveys can be used for explaining or exploring existing status of two or more variables at a given time and for measurement of characteristics of large population.

3.3 Study Population

The population of the study constituted the 44 banks in the Kenyan banking industry, 31 are locally owned and 13 are foreign owned. This study sought to understand the aspects of the banks that have been outsourced and the challenges faced in their outsourcing strategy implementation.

3.4 Data Collection

A structured questionnaire was used to collect primary data with closed and open ended questions to collect qualitative and quantitative data from informants. Respondents in this study were middle and senior level managers, as they are the ones who are involved in the development, planning, managing and monitoring the implementation of the outsourcing strategy.

A structured questionnaire was used to collect data. Trained research assistants were hired to help in data collection. An introductory letter accompanied the questionnaires so as to give legitimacy to the survey and explain the purpose of the research. Procurement managers were targeted since they were perceived to have relevant information required to achieve the objective of the study. The questionnaires were administered using 'drop-pick later' method. Follow up was done to ensure collection of questionnaires on time to help respondents with difficulty and to probe respondents for further information. The questionnaire were composed of four sections namely Section A which covered demographic information of the respondents and Section B which focused on the business processes and functions of outsourcing, Section C was on the implementation process while Section D covered the challenges faced in the implementation process.

3.5 Data Analysis

Data analysis involved editing, coding, classification and tabulation of collected data. After data collection the data was entered and coded into the research based software, Statistical Package for Social Sciences (SPSS) version 20. Data was analyzed using descriptive statistics such as frequencies, percentages and mean. The findings were presented using tables and pie for easier interpretation. They have the ability to bring relative form to the otherwise abstract nature of the influences under investigation in research.

3.6: Summary

The research methodology which was followed was able to determine the challenges of implementing outsourcing strategy by commercial banks in Kenya. The next chapter, chapter four presents the findings of the research and their interpretation.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1: Introduction

This chapter presents and interprets the findings based on the data collected from the study. The analysis is based on the data collected from the questionnaires sent to Kenyan Commercial Banks. This was with a view of determining how effective commercial banks are in implementing the outsourcing strategy and establishing challenges faced by commercial banks in implementing the outsourcing strategy. The study initially targeted all the 44 commercial banks in Kenya and 29 questionnaires were duly filled and returned to the researcher. This is percentage of 66% of the targeted population.

4.2: Demographic Data

This section represents the general characteristics of the respondents which include the name of the bank, duration of operation, position of the interviewee, department, and length of service in the department and the organization.

4.2.1: Duration of Operation

The researcher sought to find how long the banks have been in operation. The results are presented in Table 4.1

Table 4.1: Duration of operation

Duration of Operation	**Frequency**	**Percent**
Less than 1 year	3	10
1-5 years	1	3
6-10 years	5	17
11-15 years	2	7
16 and above	14	48
Missing	4	14
Total	**29**	**100**

The analysis in Table 4.1 revealed that a significant number (48%) of the banks had been operating for over 16 years while 17% have been operational for between 6-10 years. Another 10% of the banks have been operational for less than one year and 7% between 11-15 years. A few (3%) of the banks have been operational for between 1-5 years.

4.2.2: Position and Title of the Respondents

The study also sought to establish the position and title of the respondents. This was to establish whether they were able to give the required responses on the challenges of implementing the outsourcing strategy in commercial banks in Kenya. The findings are summarized in Table 4.2.

Table 4.2: Position and title of the respondents

Position and title	**Frequency**	**Percent**
Finance manager	8	28
Procurement manager	5	17
Customer service officer	3	10
Head of transaction banking	1	3
Cash service manger	1	3
Treasury operations	1	3
Clerk	1	3
Validation officer	1	3
Teller	1	3
HR Manager	1	3
Manager	1	3
Strategic buyer (Commerce & IT)	1	3
Missing	4	14
Total	**29**	**100**

From Table 4.2, it is clear that the majority of respondents (28%) were finance managers, 17% were procurement managers and 10% reported that they were customer service managers. Information presented in regard to position indicates that the highest number of respondents per department were from finance. Some of the smaller banks do not have a procurement department and the outsourcing function is done by the finance department. The results show that the majority of the respondents are in managerial positions within their departments and hence they were able to competently answer the questions on challenges of implementing outsourcing strategy by commercial banks.

4.2.3: Position Held in the Organization

The researcher sought to know the positions the respondents hold in their respective banks. The results are presented in Table 4.3:

Table 4.3: Department

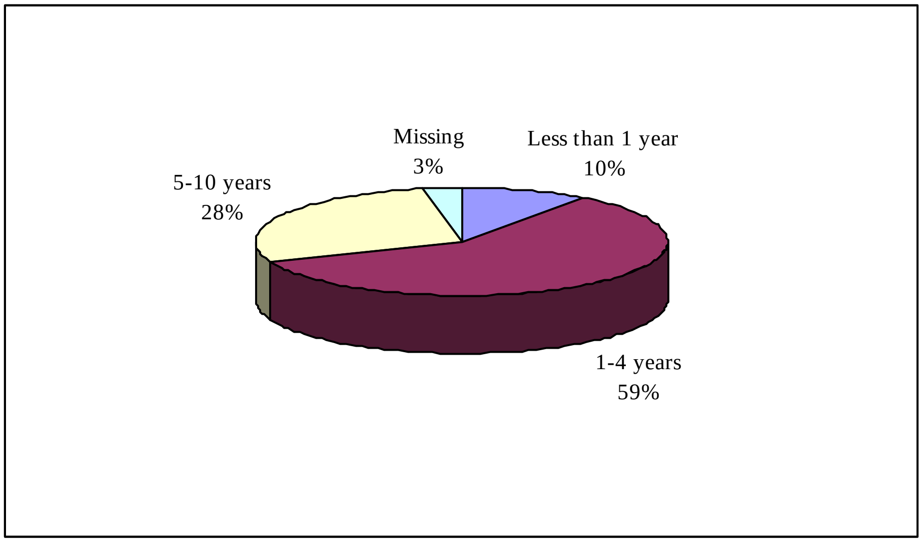
Department	Frequency	Percent
Finance	10	35
Procurement	5	17
Customer service	3	10
Operations & Administration	2	7
HR	1	3
Shared services	1	3
Credit	1	3
Business Development	1	3
Treasury operations	1	3
Cash monitoring unit	1	3
Missing	2	7
Total	29	100

The data presented in Table 4.3 indicates that 35% of the respondents were in the finance department, 17% were in procurement, 10 % in customer service and 7% in operations and administration. Other departments included Human resource (3%), shared services (3%), credit (3%), Business Development (3%), treasury operations (3%) and cash monitoring unit (3%). From the results it can be concluded that the finance function of the company is central in formulating and implementing the outsourcing strategy.

4.2.4: Length of Service in the Department

The respondents were also asked to indicate the length of service in the department. This was important because it provided information on the experience that the respondent had in their respective organizations. The findings in Figure 4.1 above show that the majority of respondents (59%) have worked in their respective departments for between 1-4 years. Another 28% have worked for 5-10 years while 10% have worked for less than 1 year in the department.

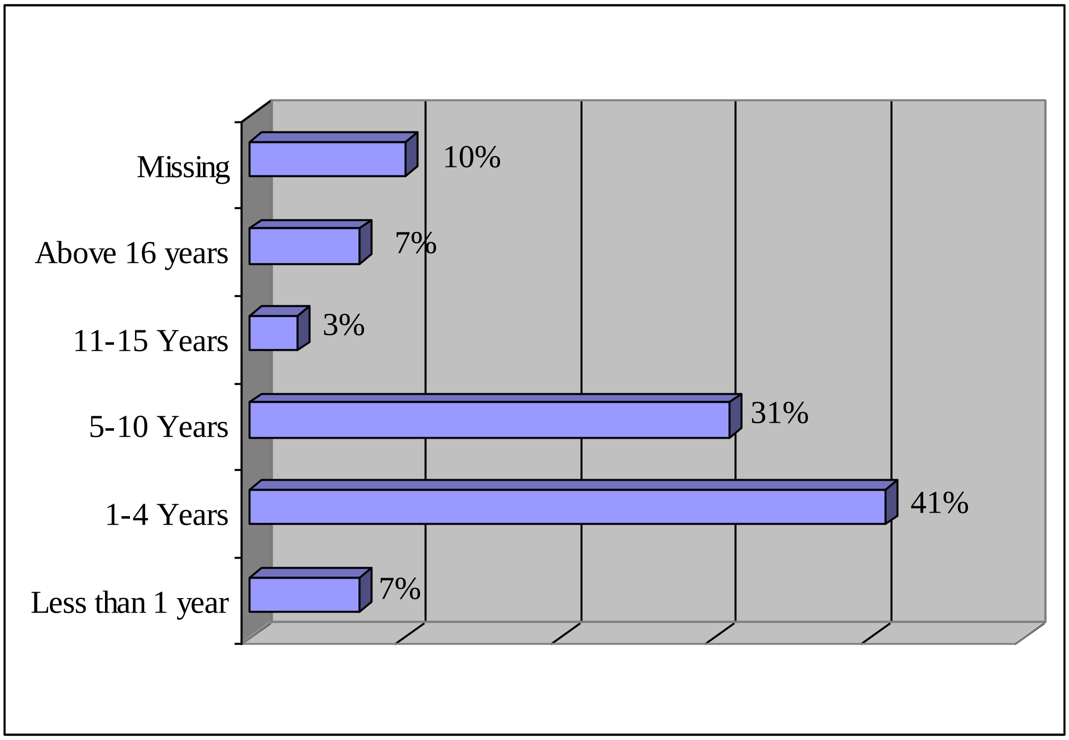
Figure 4.1: Length of service in the department



4.2.5: Length of Service in the Organization

The researcher also sought to know the length of service of the respondents in their respective organization. The findings in Figure 4.2 indicate that 41% of the respondents have worked in the banks foe between 1-4 years while 21% have worked for between 5-10 years. Another 7% have worked in the bank for over 16 years while a similar percentage have worked for less than 1 year and 3% have worked for between 11-15 years.

Figure 4.2: Length of service in the organization



4.3: Effectiveness of the Outsourcing Process

The researcher sought to investigate the extent to which the banks have achieved the results in the table with outsourcing in their business areas:

Table 4.4: Effectiveness of the outsourcing process

Effectiveness of the outsourcing process	Mean	Standard deviation
Lower operating cost	3	1.15
Increased operational control and efficiencies	3.7	0.84
Staffing flexibility	3.3	0.91
Gained competitive advantage	3.6	0.95
Gaining access to new technology and skills	3.5	1.16
Risk management	3.6	1.04
Quality control	3.6	0.94
Increased flexibility	3.4	1.08
Increased focus on core competence	3.8	0.98
Increased productivity	3.7	0.92
Grand mean	**3.52**	

From Table 4.4, the top three factors that have been achieved due to the effectiveness of implementing the outsourcing process increased operational control and efficiencies and increased focus on core competence and increased productivity. These results had a mean score ranging from 3.7-3.8 on a scale of 1-5. Forty five percent of the respondents indicated that the result has been achieved to a high and very high extent. This means that majority of banks have achieved these results to a high extent.

The result that the researcher found to have been achieved by the commercial banks to a moderate extent as was indicated by the majority of respondents was staffing flexibility and lowering of operating cost. The result had a low mean of 3.3 and 3 respectively in the response scale of 1-5 meaning that this result was achieved at a moderate level.

The researcher also sought to know the factors which greatly influence the successful implementation of the outsourcing strategy. The findings are presented in Table 4.5.

Table 4.5: Factors which greatly influence the successful implementation of the outsourcing strategy

Factors which greatly influence the successful implementation of the outsourcing strategy	Frequency	Percent
A clear existing policy on outsourcing	24	27
Clear vendor selection processes	26	29
A clear implementation plan with timelines for delivery	10	11
A budget that set aside adequate resources from the implementation process	8	9
Clear operating procedures	16	18
Constant monitoring and adaptation of strategy to the changing business environment	6	7
Total	**90**	**100**

From Table 4.5 it can be seen that the major factors which greatly influence the successful implementation of the outsourcing strategy are clear vendor selection processes (29%) and a clear existing policy on outsourcing (27%). The findings indicate that the factors that least influenced the successful implementation of the outsourcing strategy were a budget that set aside adequate resources from the implementation process and constant monitoring and adaptation of strategy to the changing business environment

4.4: Challenges Encountered in the Outsourcing Implementation Process

In Table 4.6, the study investigated the challenges encountered by commercial banks in the outsourcing implementation process.

Table 4.6: Challenges Encountered In the Outsourcing Implementation Process

Challenges Encountered In the Outsourcing Implementation Process	Mean	Standard deviation
Implementation process taking a longer time than anticipated	2.8	1.2
The contracts with the vendors were did not cover all contentious areas	2.6	1.15
Personnel and people management concerns not adequately addressed	2.9	1.14
People resistance to change on different levels in the organization	2.8	1.18
Inadequate resources availed for the implementation processes	3.0	1.04
Hidden and unanticipated costs	2.9	1.12
Complex business environment	2.9	1.2
Lack of commitment and motivation from staff	2.7	1.2
Ineffective management of the implementation process	3.0	1.28
Lengthy payment process	2.4	1.12
Lack of staff with the skills needed for the implementation	2.3	1.08
Lack of clear and constant communication in the implementation process	2.6	0.99
Lack of an exit strategy plan	2.8	1.06
Loss of control over the outsourced process/function.	2.6	1.22
Longer turnaround time of service delivery to the stakeholders	2.6	1.21
Grand mean	**2.7**	

From Table 4.6, the challenges that greatly affected the outsourcing implantation process were inadequate resources availed for the implementation processes and ineffective management of the implementation process exhibited by a mean score of 3.0. The challenges that the bank encountered the least hen outsourcing services were lengthy payment process and lack of staff with the skills needed for the implementation. These challenges had a mean score ranging from 2.3-2.4. Based on the mean scores of 3 and below none of the challenges affected the commercial banks to a very high extent.

4.5: Discussions

The first objective was to determine the effectiveness of implementation of outsourcing strategy in commercial banks. The research revealed that all commercial banks use several strategies to ensure successful implementation of outsourcing. The two major factors that greatly influenced the successful implementation of the outsourcing strategy in the banks were clear vendor selection process and a clear existing policy on outsourcing. Constant monitoring and adaptation of strategy to the changing business environment and a budget sets aside adequate resources for outsourcing least influenced the successful implementation of the outsourcing process. Experience and accumulated knowledge about the business and a network of personal relationships have a great influence on the ability of a leader to effectively lead the outsourcing implementation process. Based on the findings managers' conclusion about the role he/she should play in light of what needs to be done plays the least role in influencing the ability of a leader to effectively lead the implementation process.

Majority of the banks engage their employees in the outsourcing implementation process. Most of the employees give feedback on the implementation process and also contribute on how things need to be done. A few banks however do not engage their employees in the outsourcing implementation process. This is due to the fact that it is carried out by a selected group and also due to restrictions based on company policy. Employee engagement is essential to the successful realization of an effective outsourcing strategy. Majority of the organizations have clear policies on vendor management. Clear vendor policies may be a key factor in the successful implementation of the outsourcing strategy. From the findings all the commercial banks pay their vendors on time.

The second objective was to identify the challenges faced in implementing the outsourcing implementation process by commercial banks in Kenya. From the findings the challenges in the outsourcing implementation process include inadequate resources availed for the implementation processes and ineffective management of the implementation process. The rest of the objectives affected the commercial banks to a less extent.

Increased focus on core competence was the most realized result among the commercial banks in Kenya. The results that had been achieved to a high extent in the outsourcing process include increased operational control and efficiencies, gained competitive advantage, gaining access to new technology and skills, risk management, quality control, increased focus on core competence and increased productivity. These findings are in line with those of Lanz and Barr (2000) who argued that cost reduction is not the sole reason that companies begin outsourcing services. Companies outsource in order to improve service quality and management, focus more on the core competencies of the organization, gaining access to new technology and skills, reduce headcount and enhance the organization's capability to develop new products and services (Lanz & Barr, 2000). The findings are however contrary with those of Chanzu (2002) who conducted a survey of business process outsourcing amongst private manufacturing companies in Nairobi and found out that the benefits of business include reduced costs. Effectiveness of the outsourcing implementation process may result in the lowering of operating costs and counter challenges experienced by commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

This chapter gives a summary of the findings that emanated from this study. The focus of the discussion on the key findings is based on the objectives of the study and the results of the data analysis. It also gives recommendations based on the research findings as well as areas for additional research.

5.2: Summary

The following is a summary of the findings based on the objectives of the study**.** Firstly it discusses the effectiveness of commercial banks in implementing the outsourcing strategy. It also discusses the challenges faced by commercial banks in implementing the outsourcing strategy

5.2.1: Effectiveness of Implementation of the Outsourcing Strategy

Majority (93%) of the banks have outsourced their processes and functions. The decision to outsource should be grounded in the overall strategic direction of the commercial banks. The top outsourced services by the banks include cleaning, security, training services, landscaping, card production, ATMs and Card centers. The least outsourced services were document management and call centers and customer satisfaction survey. Most of the services that have been outsourced are back office functions. From the findings it seems that the commercial banks have not yet embraced information and knowledge outsourcing.

From the study, 45% percent of the respondents said the bank had outsourced services for between 5-10 years, 14 percent of the banks had outsourced services for 6-10 years and 10% of the respondents said 11-15 years. Another 7% of the respondents indicated that the banks had outsourced services for above 16 years and a similar percentage indicated that they had outsourced the services for less than 1 year. These findings could explain the reason that the banks have not yet embraced newer types of outsourcing.

Increased focus on core competence was the most achieved strategy among the commercial banks in Kenya. From the findings the results that have been achieved to a high extent in the outsourcing process include increased operational control and efficiencies, gained competitive advantage, gaining access to new technology and skills, risk management, quality control, increased focus on core competence and increased productivity. When key employees are released from performing non-core functions they are able to invest more time building the organizations' core business. This may serve to enhance competitive edge.

The factors that greatly influence the successful implementation of the outsourcing strategy in the organizations are clear vendor selection process and a clear existing policy on outsourcing. Constant monitoring and adaptation of strategy to the changing business environment and a budget sets aside adequate resources for outsourcing least influence its successful implementation. Experience and accumulated knowledge about the business and a network of personal relationships have a great influence on the ability of a leader to effectively lead the outsourcing implementation process. From the findings managers' conclusion about the role he/she should play in light of what needs to be done plays the least role in influencing the ability of a leader to effectively lead the implementation process. The respondents highlighted a mix of factors that influenced the quality of a leader to effectively lead the implementation process.

Majority of the banks engage their employees in the outsourcing implementation process. Most of the employees give feedback on the implementation process and also contribute on how things need to be done. From the findings almost a half (47%) of the respondents indicated that employees were involved in the outsourcing process by giving feedback on the implementation process while 26% contribute on how things need to be done and 16 % engage in the consultation process. Eleven percent of the population said employees are involved in Buy in during the outsourcing process. A small number of banks do not engage their employees in the outsourcing implementation process. This is due to the fact that it is carried out by a selected group and also due to restrictions based on company policy. All the employees should be involved in the outsourcing implementation process so as to gather opinions across the board.

5.2.2: Challenges in the Outsourcing Implementation Process

Majority of the organizations have clear policies on vendor management. All the respondents indicated that the organizations pay their vendors on time. Clarity on the outsourcing strategy, expected outcomes and measurement and clear and constant communication of what their role is in the process to high extent influenced staff preparedness in the outsourcing implementation process. The greatest challenges experienced the commercial banks in the outsourcing implementation process are inadequate resources availed for the implementation processes and ineffective management of the implementation process. The challenges of outsourcing must be addressed in order to achieve any benefits.

5.3 Conclusion

From the study it can be concluded that majority of the commercial banks have outsourced their business processes and functions. Outsourcing has resulted in increased focus on core competence, better operational control and efficiencies, gaining competitive advantage, gaining access to new technology and skills, risk management, quality control, increased focus on core competence and increased productivity. For outsourcing to remain successful and sustainable for commercial banks mangers should provide adequate resources for the implementation process and manage it effectively for best results. The proper implementation of the outsourcing strategy is critical as it the main determinant of the success or failure of the strategy

5.4 Recommendations

The following recommendations are in line with the objectives of the study. The researcher established that the all commercial banks utilize several strategies to ensure successful implementation of successful outsourcing.

5.4.1 Implication to Theory

Outsourcing takes on special importance in the banking sector in Kenya. The outsourcing process is grounded in a number of theories such as Resource-based view and Transaction cost economic theory. Many theories have been advanced to help understand the nature of outsourcing activities and to help in the management of the outsourcing process. This study contributed to the existing body of knowledge on the outsourcing process and served to establish the implication of the theories. The theories have significant applications exploring the commercial banks learning characteristics for improving performance, value creation and capabilities**.** Results from the study imply that outsourcing has a positive influence on organizational performance.

This complements the resource-based view of the firm (RBV) which views organisations as a collection of productive resources. The central assumption in this view is that organisations gain competitive advantage by their internal resources. The RBV posits that it is because internal capabilities and resources yield competitive advantage (Barney 1991)**.** The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. The theory can be used in the outsourcing implementation process to identify the decision making framework and in the vendor selection stage for selecting an appropriate vendor. The study also utilized the Transaction cost economic theory which is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for implementation process.

5.4.2: Recommendation for Managerial Policy

Organizational results are the consequences of the decisions made by its leaders. There is need for commercial banks to have a good outsourcing strategy to define a business future and determine the banks' ability to compete. The top factors that were utilized by the banks were clear vendor selection process and a clear existing policy on outsourcing.

The researcher recommends that the commercial banks should involve a mix of strategies as well as engage employees by accommodating their ideas and views so that they feel a part of the implementation process. The banks should also put in sustainable measures in the outsourcing implementation process that will ensure its success. To address the challenge of successful implementation process the commercial banks should avail resources for the process and manage it effectively for optimal results.

According to Grant, (2000) the amount of competition in an industry determines turnover and competitive edge. The commercial banks should be able to deliver the same products and services as competitors but at a lower cost (cost advantage) to gain a competitive advantage over other firms. This can be achieved by having a great outsourcing implementation process. This will lead to creation of superior value to customers and larger profits for banks.

5.4.3: Recommendations for Managerial Practice

From the discussions and conclusions in this chapter, the researcher recommends that although there are some challenges in the outsourcing implementation process there is a great need for commercial banks to remain competitive in the industry.

From the study most of the employees are engaged in the outsourcing implementation process. Both top management and employees should undertake the process of implementation the outsourcing strategy. The inclusion of employees in decision making will contribute to new ideas and solutions which will make the outsourcing process a success. For effectiveness in the implementation process, the researcher recommends that resources should be availed for the process. Secondly the outsourcing process should be managed effectively for better results. The study revealed that the outsourcing process lowered operating cost to a moderate extent.

5.5 Limitations of the Study

This study relied mainly on quantitative methodology of data collection and is therefore restrictive. The researcher recommends that more of qualitative methodology of data collection should be undertaken in future to provide wider perspective to the present study. In future, the research design can employ case study methodology, document analysis and interviews to provide a holistic picture on the outsourcing implementation process.

In an effort to depict a superior image of the organizations, respondents may state what should be the ideal practice instead of what is the actual practice. The researcher relied on open ended questions to confirm responses generated from close ended questions. The researcher maintained confidentiality by not disclosing the respondents' identity.

5.6 Suggestions for Further Research

A great deal of interest in the outsourcing process has been shown as an emerging area in management of organizations. However there is need for the proper implementation of the outsourcing process to ensure its success. The researcher suggests that studies need to be carried out on other areas of outsourcing; a similar study should be carried out in another industry for comparison of results.

An exploratory study on outsourcing would help commercial banks and other organizations to avoid outsourcing processes which will be unsuccessful. The study was a survey of commercial banks and further a case study/in-depth approach should be done for each of the banks to find out more.

REFERENCES

Bailey, W. Masson R& Reside, R. (2002). *Outsourcing* Edinburgh and the Lothian's European.

Barthelemy, J. (2003). *The Seven Deadly sins of Outsourcing*. Academy of Management Executive, 2003 Vol. # 7 No. 2, 87-96.

Barney JB. (1991). *Firm resources and sustained competitive advantage*. Journal of Management. 17 (1), 100-108.

Beaumont, N.and Sohal, A. (2004). *Outsourcing in Australia.* International Journal of Operations & Production Management, Vol. 24 Iss: 7, pp.688 – 700.

Belcourt, M. & McBey, K. (2013). *Strategic Human Resources Planning* (5th Ed).

Benjamin, B. Tregoe and John W. Zimmerman. (1980). *Top management strategy*, Simon & Schuster, New York.

Bordeianu, S. and Benard, C. (1997). *Outsourcing in American Libraries-An Overview, Against the Grain*.

Chanzu S.M. (2002). *A survey of business outsourcing practices amongst private manufacturing companies in Nairobi*. Unpublished MBA research Project, University of Nairobi .

Cobbold I & G Lawrie. (2001). *Why do only one third of UK companies achieve strategic success?*

DeLisi, P. (2001). *"Strategy Execution: An Oxymoron or a Powerful Formula for Corporate Success"*, Organizational Synergies, http://www.org-synergies.com.

Eisenhardt, M, K. (1989). *Agency theory: An assessment and review*. Academy of Management Review, 14(1), 57).

Gilley K.M., Rasheed A. (2000). *Making more by doing less: An analysis of outsourcing and its effects on firm performance.* Journal of Management, Vol. 26, No. 4, 763-790.

Griffiths, D. (1999). *The Theory and Practice of Outsourcing.*

Hendry, J. (1995). *Culture, community and networks: The hidden cost of outsourcing*, European Management Journal 13(2), 218-229.

List of Commercial Banks in Kenya (2014) retrieved from http://www.centralbank.go.ke

Banking in Kenya (2014) retrieved from http://www.bankinginkenya .com

Sstrategy implementation and realisation: Systems and processes for successful implementation of organizational strategy and business development plans (2014) retrieved from http://www.businessballs.com/businessstrategyimplementation.htm

Lanz, J. and Barr, E.: *Managing the risks of information Technology* (An article at www.itriskmgt.com pg. 7-12).

Leavy B. (2001). *Supply strategy* - *What to outsource and where. Irish marketing review*, Vol. 14.

Lonsdale C., Cox A. (2000). *The historical development of outsourcing: The latest fad?* Industrial management & Data systems

Kaplan R.S and Norton D.P (2008). *The execution premium; linking strategy to operations for competitive advantage*

Kakabadse, A & Kakabadse N. (2002). *Smart Outsourcing, International Best Practice*, Palgrave Macmillan.

Kiptoo K.K (2012). *Implementation Challenges of the Business Process Outsourcing Strategy in the Ministry of Transport in Kenya*. An unpublished MBA research Project, University of Nairobi

Mc Ivor R.T and Humphreys, P.K. (2000*). A case based reasoning approach to the make or buy decision integrated manufacturing systems.*

Mintzberg, H, Quin, J, B, &Ghoshal. (1999). *The strategy process revised*. European edition: Pearson Education Limited

Murray, J. Y., and Kotabe, M. (1999). *Sourcing Strategies of U.S. Service companies: A modified transaction-cost analysis.* Strategic Management Journal 20,791-809

Nyarandi J.O. (2002). *A survey of implementation of outsourcing in private hospitals*. An unpublished MBA research Project, University of Nairobi.

Oyombe G.G (2009). *An investigation of the implementation of outsourcing strategy by selected manufacturing firms in the chemical and allied sector in Kenya*. An unpublished MBA research Project, University of Nairobi.

Reed, R. and Buckley, M.R. (1988). *Strategy in Action – Techniques for Implementing Strategy, Long Range Planning*

Sesi, M.N. (2009). *The Challenges of implementing strategic plans at Kenya Dairy Board.* An unpublished MBA research Project, University of Nairobi

Thompson Jr. A.A, Strickland III, A.J., & Gamble J.E. (2007). *Crafting and executing strategy: Text and readings*. (USA) Mc Graw Hill Irwin.

Why CEOs Fail - R Charan & G Colvin, Fortune Magazine, 21 Jun 1999.

Wilcocks Leslie and Currie W (1998). *Analysing IT sourcing Decisions*, Information system journal 8, 119 - 143 .

Yabs, J. (2010). *Strategic Management Practices: A Kenyan Perspective*. 2nd Ed., Lelax Global (Kenya) Ltd.

APPENDICES

Appendix I : Questionnaire

CHALLENGES OF IMPLEMENTING OUTSOURCING STRATEGY BY COMMERCIAL BANKS IN KENYA

Dear respondents,

You are invited to participate in this study on the "Challenges of implementing outsourcing strategy by Commercial Banks in Kenya". The aim of the study is *to determine how effective commercial banks are in implementing the outsourcing strategy* and *establish challenges faced by commercial banks in implementing the outsourcing strategy*.

The responses to the study will be kept strictly confidential and data collected will only be used in aggregate. I will highly appreciate your participation.

Clarice Otanga

MBA (Strategic Management) Student

University of Nairobi

Instructions

Please answer all of the following questions in the space provided or tick in the boxes provided at the end of each choice

SECTION A: DEMOGRAPHIC DATA

1. **Name of bank** ………………………………………………………………………..
2. **Duration of operation**

Less than 1 year ( ) 1-5 years ( ) 6-10 years ( ) 11-15 years ( ) 16 and above ( )

3. **Position and title of the interviewee**………………………………………………………
4. **Department**

   ……………………………………………………………………………….

5. **Length of service in department**

   ………………………………………………………….

6. **Length of service in the organization**

   ………………………………………………….

SECTION B: BUSINESS PROCESSES/FUNCTIONS OUTSOURCING

7. **Has the organization outsourced any of its processes /functions?**

   Yes ( ) No ( )

8. **If Yes Indicate by ticking, the processes/functions that have been outsourced**

Call Centre ( )

Card Production ( )

IT/Data Centre ( )

ATMS and Cash Centre ( )

Transport ( )

Cleaning ( )

Security ( )

Training Services ( )

Landscaping ( )

Customer satisfaction survey ( )

Other (please indicate)

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………

9. **Indicate the number of years the Bank has outsourced the services above**

Less than 1 year ( ) 1-5 years ( ) 6-10 years ( ) 11-15 years ( ) 16 and above ( )

10. **For the functions that have been outsourced , are single or multiple vendors used ?**...

....

....

11. Using a Scale of 1. No extent 2. Low extent 3. Moderate extent 4. High extent 5. Very high extent , tick the appropriate answer for the extent to which the firm has achieved the result below with outsourcing in its business areas:

	1	2	3	4	5
a. Lower operating cost					
b. Increased operational control and efficiencies					
c. Staffing flexibility					
d. Gained competitive advantage					
e. Gaining access to new technology and skills					
f. Risk management					
g. Quality control					
h. Increased flexibility					
i. Increased focus on core competence					
j. increased productivity					

SECTION C: IMPLEMENTATION PROCESS

12. Indicate by ticking the factors which greatly influenced the successful implementation of the outsourcing strategy in your organization

a. A clear existing policy on outsourcing ( )

b. Clear vendor selection processes ( )

c. A clear implementation plan with timelines for delivery ( )

d. A budget that set aside adequate resources from the implementation process ( )

e. Clear operating procedures ( )

f. Constant monitoring and adaptation of strategy to the changing business environment ( )

13. Indicate by ticking, which of the following factors have a great influence on the ability of a leader to effectively lead the implementation process?

a. Experience and accumulated knowledge about the business ( )

b. Network of personal relationships ( )

c. Diagnostic, administrative, interpersonal and problem solving skills ( )

d. Authority the given to you ( )

e. Leadership style ( )

f. Managers conclusion about role he/she should play in light of what needs to be done ( )

14. Are employees engaged in the outsourcing implementation process

Yes ( ) No ( )

15. If YES, what are the ways that employees are engaged in the implementation process? Tick the appropriate answer.

Feedback on the implementation process ( )

Consultation ( )

Buy in ( )

Contribution on how things need to be done ( )

Other (Please

indicate)………………………………………………………………………………

16. If NO why?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

17. Using a Scale of 1. No extent 2. Low extent 3. Moderate extent 4. High extent 5. Very high extent, Indicate the extent to which the following factors have an influence on staff preparedness for their various roles in the outsourcing implementation process?

		1	2	3	4	5
i.	Clarity on the outsourcing strategy and the expected outcomes and measurement					
ii.	Clear and constant communication of what their role is in the process					
iii.	Performance management, measurement and compensation tied in to the strategy though the balance scorecard					

18. Do you have Clear policies on vendor management

Yes ( ) No ( )

19. Are the vendors paid on time?

Yes ( ) No ( )

SECTION D: CHALLENGES ENCOUNTERED

Which of the following challenges do you encounter when outsourcing services?

Using a Scale of 1.No extent 2. Low extent 3. Moderate extent 4. High extent 5. Very high extent

	1	2	3	4	5
Implementation process taking a longer time than anticipated					
The contracts with the vendors were did not cover all contentious areas					
Personnel and people management concerns not adequately addressed					
People resistance to change on different levels in the organization					
Inadequate resources availed for the implementation processes					
Hidden and unanticipated costs					
Complex business environment					
Lack of commitment and motivation from staff					
Ineffective management of the implementation process					
Lengthy payment process					
Lack of staff with the skills needed for the implementation					
Lack of clear and constant communication in the implementation process					
Lack of an exit strategy plan					
Loss of control over the outsourced process/function.					
Longer turnaround time of service delivery to the stakeholders					
Others (Please specify)					

Appendix II: List of Sampled Commercial Banks

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd
3. Bank of Baroda Kenya Ltd
4. Barclays Bank of Kenya Ltd
5. CFC Stanbic Bank Ltd
6. Chase Bank (K)
7. Commercial Bank of Africa
8. Consolidated Bank of Kenya Ltd
9. Co-operative Bank of Kenya Ltd
10. Credit Bank
11. Development Bank of Kenya Ltd
12. Eco bank
13. Equatorial Commercial Bank Ltd
14. Family bank
15. Fidelity Commercial Bank Ltd
16. First Community Bank Ltd
17. Giro Commercial Bank Ltd
18. Guardian Bank Ltd
19. Gulf African Bank Ltd
20. Habib Bank A.G Zurich
21. Jamii Bora Bank Limited
22. Kenya Commercial Bank Ltd
23. K-Rep Bank Ltd
24. National Bank of Kenya Ltd
25. Paramount Universal Bank Ltd
26. Prime Bank Ltd
27. Trans-National Bank Ltd
28. Victoria Commercial Bank Ltd
29. Housing Finance Ltd

Appendix III: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 18/7/2014

TO WHOM IT MAY CONCERN

The bearer of this letter CLARICE I. OTANGA.

Registration No. D61/88881/2006

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
18 JUL 2014
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS