OUTSOURCING AND THE PERFORMANCE OF STATE CORPORATIONS IN KENYA

BY

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DECLARATION

This research is my original work and has not been presented for a degree award in any other university.

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DEDICATION

This project paper is dedicated to my family and friends. A special appreciation goes to my loving parents, Mr. Julius Paul Bugo and Mrs. Margaret Bugo for their inspiration, support and understanding throughout my study. I pay special appreciation to the Almighty God for giving me the knowledge and wisdom to undertake this course.

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God bless all of you.

LIST OF ABBREVIATIONS AND ACRONYMS

BPO	Business Process Outsourcing
HRO	Human Resource Outsourcing
HR	Human Resource
IT	Information Technology
PC	Performance Contract
PPDA	Public Procurement and Disposal Act
PPOA	Public Procurement Oversight Authority
SCAC	State Corporations Advisory Committee
SPSS	Statistical Package for Social Sciences

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ABSTRACT

This study sought to establish the effect of outsourcing and the performance of state corporations in Kenya. It was guided by the statement of the problem which revealed that outsourcing has been understood by most managers however there is a disconnect between outsourcing and performance due to the nature of its complexity. This study was also guided by 3 objectives namely: To establish the extent of outsourcing, to establish the performance levels and to determine the relationship between outsourcing and performance of state corporations in Kenya.

To satisfy the objectives, descriptive research design was adopted. The study population was the 94 state corporations in Nairobi County. The sample was purposively selected using stratified sampling. A sample size of 30% of the state corporations was used in the study. Primary data was collected from the Head of procurement or supply chain department of each of the state corporations using structured questionnaire. Data analysis was done using Statistical Package for Social Sciences (SPSS) with the main analysis tools being frequencies, mean and standard deviation and multivariate linear regression.

The research study results indicated that outsourcing of all the practices was generally low in exception of real estate and physical plants which were outsourced at an average level. Real estate and physical plants was greatly outsourced, followed by finance, logistics and transport, IT, HR, customer support and sales and marketing whereas the least outsourced practice among the state corporations. Outsourcing had also led to an overall performance of above the average among the state corporations in Kenya. Good image impacted greatly on performance, followed by quality of products, innovative practices, customer satisfaction, efficient operations, and staff turnover. It was also established that the relationship between outsourcing and performance differed among the firms.

It is recommended that the top management should be in the forefront in support of outsourcing since this would spur the performance of the firms by enabling them to concentrate on their basic competency. The study also recommends that firms seeking to enhance business performance must complete a strategic analysis that will enable them to outsource the functions that other firms or individuals can do for them better at a cheaper cost.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In an increasingly changing global environment, the mandate, structure and operations of public service must be reshaped and productivity enhanced to make it more focused, efficient and responsive to the needs of those it serves. We should also have a well-integrated performance management by re-defining the purpose, mandate and core business of the public sector and the appropriate service delivery mechanisms (Mathaura, 2010). In the modern world, all firms are subjected to globalization hence the need to focus on core processes so that they would remain competitive (Quandt, 2012).

Outsourcing has increased in the recent years as firms seek to lower cost and respond to high level of competition (Cox, et al. 2012). As competition intensifies, the viability of a firm depends on how well it is capable of responding to customer requirements while becoming lean. Since it is becoming increasingly more difficult and less economical for organizations to produce their needs on their own, outsourcing is becoming one of their main strategies for enhancing performance (Gunasegaram and Patel, 2001). The three main reasons of outsourcing are strategy, cost and politics (Kakabadse and Kakabadse, 2000).

Porter (1998) who is recognized as the father of modern strategy observed that "the essence of formulating competitive strategy is relating a company to its environment." Ford (2012) further observed that "if there is something we cannot do more efficiently, cheaper or better than our competitor then there is no point of doing it and instead we should hire someone who would do it better than us." (http://www.outsourcingportal.eu/news.bpo-of-the-industry). It is appropriate to outsource non-core activities where services available from the market are stronger and more efficient than those available internally. Where there is medium or high strategic risk and where internal capability is low the frameworks generally recommend an alliances or partnership approach (Lyons, 2014). In Kenya public sector serve the needs of both government and citizens with improved delivery of public services to reduce poverty, improve livelihoods and sustain good governance (Kempe, 2012).

1.1.1 Outsourcing Practices

Outsourcing represents a significant scenario in today's international business (Erik, et al. 2006). The dramatic increase in outsourcing has made enterprises to increasingly rely on external supplies to provide not just materials and products but services and design activities (Handfield, et al. 2009). Outsourcing has been defined by Chartered Institute of Purchasing and Supply (2013) as the process of transferring the responsibility for a specific business function from an employee group to a non-employee group.

Lysons (2000) defines outsourcing as the strategic use of resources to perform activities traditionally handled by internal staff. Jansen, et al. (2001) defines outsourcing as the transfer of service provision from the public to an external organization. Moving these functions from the public to the private sector requires a fair and open process in the public's best interest (National Institute of Government Purchasing, 2013). The increasingly challenging global environment means that the public sector must be reshaped to enhance efficiency and responsiveness to the needs of those whom they serve (Public Service Commission, 2010).

The overall objectives of outsourcing in the public sector is to achieve best practice, improve the quality of services and help senior managers to focus more on core competencies of the organization (Kakabadse and Kakabadse 2001). A recent study conducted by Quandt (2012) provided the most common strategies of outsourcing as: Total outsourcing; partial outsourcing; one contractor; multi-sourcing and in sourcing. In his findings, Quandt concluded that to decide which strategy and tactics of outsourcing is the most efficient for the project, it is required to define what is going to be outsourced.

Iraki (2012) observed that Kenya's vision 2030 sees BPO as a fulcrum on which Kenya's future economic growth will hinge on. Manono (2012) also observed that vision 2030 single out BPO as one of the key pillars to medium class economy. Musangi (2013) carried out a study on strategy, firm characteristics, business process outsourcing (BPO) and performance of Kenyan state corporations. The findings of this study confirmed that all the Kenyan state corporations were involved in outsourcing and PBO had a positive contribution to the firms' overall performance. However, BPO was found to have insignificant contribution to the corporations' profitability. Thus the study provides empirical evidence to support that BPO benefits to firm' performance will be realized by the corporations which adopt the right type of strategies.

Sang (2010) carried out a study on outsourcing in Kenyan universities: An examination of challenges and opportunities. The study revealed that through outsourcing the state universities are able to cut costs, improve efficiency and meet their rising demands for greater accountability. The major challenges noted in outsourcing included negative attitude among staff, poor monitoring and evaluation, failure by students to cooperate and interference by the community. The overriding finding revealed that there is no known outsourcing regulatory framework. To succeed, a university requires careful, comprehensive evaluation and planning by management.

1.1.2 Organizational Performance

The definition of organizational performance is an open question with few studies using consistent definitions and measures (Kirby, 2005). Organizational performance is a significant construct mostly defined as a dependent variable which seeks to produce variations of performance (Juliana & Luiz 2012; March & Sulton 1997). Business firms are normally compared in terms of profits, sales, market share, productivity, debt ratio and stock process. For example, universities use research productivity, test score of students and prestige of faculties while hospitals use cost recovery, mortality and morbidity rates, board certifications of physicians and occupancy rate (March & Sulton 1997). (Juliana & Luiz 2012) argue that firm's performance suffers from limited conceptualization, selection of indicators based on '0convenience and no proper consideration of its dimensionality. They conclude that there is need to clearly identify key dimensions that relate to performance.

Performance is the extent to which an organization achieves a set of pre-defined targets that are unique to its mission. Key performance drivers include: Strategic focus, customer value, leadership and team performance, culture, value and ethics, process excellence, talent management and knowledge management. Steps of organizational performance initiative are: Evaluation, planning, implementing and continuity. Critical success factors consist of access to appropriate expertise, planning, creative solutions and flexible process management (Karla, 2011). Ogolla (2012) argue that financial performance measures consists of return on assets, return on equity, profit, market share while non-financial performance measures consists of corporate social responsibility, innovation, responsiveness and employee development.

Hartle (1995) asserts that performance management should link with business strategy, employee development and total quality management. According to Gathungu and Mwangi (2012) sensing the capabilities of the firm is useful in identification and assessing opportunity within firm’s environment. This involves exploring technological opportunities, probing markets and listening to customers. Out of the literature the common approaches for measuring organizations performance are qualitative and quantitative in nature. The objective measures tend to be quantitative while the subjective measure tends to be qualitative.

1.1.3 State Corporations in Kenya

The State Corporation Act Cap 446 is an Act of parliament that makes provision for the establishment of state. In the Act, State Corporation is defined as a body established under the act of parliament. The president may or by order establish a state corporation and each of them shall have power necessary for performance of functions (State Corporation Act Cap 446). The Kenya government forms state corporations to meet both commercial and social goals of the country. State corporations play the essential role of correcting market failure, exploiting social and political objectives, providing education, health, redistributing income or developing marginal areas (Njiru, 2009).

Since June 2005, the government requires all Boards of state corporations to sign performance contracts (PC) with the government and the Chief Executive Officers to sign performance contracts with their respective Boards (Mwai, 2013). All this is in a bid to revamp these corporations by ensuring improved and sustained performance and service delivery (Njiru, 2009). State corporations are guided by government regulations and appointed bodies like the State Corporations Advisory Committee (SCAC) which is mandated with advising the government on all issues pertaining to the administration of state corporations. The terms and conditions released through the SCAC shows that state corporation have no option but to embrace modern business practices to enhance performance (SCAC, 2004). On the other hand public procurement and oversight authority (PPOA) is mandated with the responsibility of initiate public procurement policy.

Public sector remains a necessary and an ongoing policy objective for many developing countries. In Kenya, this is being done to overhaul its administrative systems to better serve the needs of both government and citizens with improved delivery of public services to reduce poverty, improve livelihoods and sustain good governance (Kempe, 2012. The government of Kenya is committed to transform public service from process oriented, unnecessary bureaucratic practices, empowering speedy delivery of services by risk management and reviewing procurement management systems (Public Sector Reform and Institutional Capacity Building 2005).

State corporations of Kenya are divided into eight broad categories based on their mandate and functions. They consist of Financial Corporations, Commercial and Manufacturing Corporations, Regulatory Corporations, Public Universities, Training and Research Corporations, Tertiary Education and Training Corporations, Service Corporations and Regional Development Authorities (SCAC, 2004).

1.2 Statement of the Problem

Outsourcing concept has been understood by most managers however there is a disconnect between outsourcing and performance. In theory, research on outsourcing has been done by many researchers among them Richard, Stephen and Gary (1992) who note that western firms such as North America, Europe and Asia poor performance is caused by inefficiency in outsourcing. This is because most managers accept the risk of outsourcing the problems in return for relieve of the problems and improved market performance but ignore the fact that the supplier who is their potential competitor will get an excellent opportunity to learn the core aspects of business functions, improve on them and be their strong competitor.

Mohammad and Saleh (2005) carried out a study on a framework model for the practice of outsourcing asset management services in municipalities in Saudi Arabia. The study indicated that outsourcing is utilized in almost all functions of management of municipal infrastructure. The study concluded that for outsourcing to be successful, general policy and priorities of the activities have to be carefully controlled by the municipality. Beaumont and Amrik (2002) carried out a study on outsourcing in Australia. The paper explores the outsourcing decision to outsource, not to outsource or to discontinue outsourcing. They concluded that dealing in imperfect markets requires identifying appropriate vendors, providing feedback and monitoring their performances. Outsourcing decisions can be complex because modern organizations applications tend to be integrated with each other, sensitive and poor task performance may affect the organizations reputation. The study concluded that outsourcing may affect career opportunities and change organizational cultures.

Deloitte (2005) assert that most large firms that had outsourced failed to achieve the expected cost savings. Gomez Mejia (2007) argues that business strategies like outsourcing have undermined the concept of loyalty of employees. This is because it is quite clear to employees that there is no assurance of employment because even the most stable job can become obsolete as a result of outsourcing. Sebahaltatin and Hatun (2014) note that proper practices of outsourcing provide numerous benefits which also cause the possibilities of numerous risks in the event of improper execution.

Several researchers have looked at the concept of outsourcing in Kenya, Maku and Iravo (2013) carried out a study on effects of outsourcing on organization performance at Delmonte Kenya Limited. The study found out a correlation between outsourcing and performance. Outsourcing challenges consists of loss of control of the outsourced activity, dependence on the suppliers, loss of confidentiality of information and poor quality of certain products. Kamuri (2010) carried out a study on the challenges facing the implementation of outsourcing strategy at Kenyatta National Hospital. He established that the challenges of outsourcing consists of resistance to change, lack of resources, conflict of interest, lack of management support, political factors, fear of loss of control, cost of retrenchment and emphasized on the need to be put in place measures for overcoming the challenges.

Rono (2008) undertook a study on the impact of outsourcing practices on performance of Commercial Banks in Kenya. He concluded that outsourcing practices had both positive and negative impacts. Despite the fact that outsourcing enhanced improved service quality and lower costs it also lead to loss of in-house talent and loss of jobs. Wambui (2010) carried out a study on the analysis of logistics outsourcing at Kenya Armed Forces and found that armed forces work are very secretive therefore limiting the aspect of contracting functions to other firms yet in the developed world sensitive functions such as handling of military hardware is outsourced. Public Procurement and Disposal Act (2005) stresses the need to subject outsourcing contracts to a competitive process. According to Nyaboke, Amema and Osoro (2013) improper implementation of outsourcing is a major factor which leads to ineffective performance of outsourcing contracts due to interferences from both internal and external forces and lack of expertise to manage outsourcing contracts by public.

The literature reviewed indicates that few studies have been undertaken in outsourcing in state corporations in Kenya. Most of the studies reviewed have concentrated on specific state corporations as a case study yet the entire state corporations are a major contributor to Gross Domestic Product (GDP) and employment creation in the economy. This then make their findings narrow and prone to errors due to small samples. The study has answered the following questions: What is the extent of outsourcing in state corporations in Kenya? What is the relationship between outsourcing and performance of state corporations in Kenya?

1.3 Objectives of the Study

The objectives of this study are;

i. To establish the extent of outsourcing by state corporations in Kenya.
ii. To establish the performance levels of state corporations in Kenya.
iii. To determine the relationship between outsourcing and performance of state corporations in Kenya.

1.4 Importance of the Study

The study provide various stakeholders such as the government, state corporations, vendors, academicians and scholars with better understanding of the practice of outsourcing and organization's performance. They can use the study to identify weaknesses of outsourcing and ways in which this can be improved.

The government of Kenya would use the study to formulate regulatory policies relating to outsourcing and performance. The study will also be useful to state corporations' employees in their line of duties as they will be able to make right buy and make decisions that will lead to performance improvements.

The study will help vendors to gain an insight understanding of the extent of outsourcing practices and the impact of outsourcing to state corporations' performance. This will make it possible for vendors to improve on all areas of outsourcing to make them gain competitive advantage by providing higher quality products.

Finally future researchers and scholars who would be interested to carry out further research on areas related to outsourcing and performance of organizations will benefit from the study since the findings will act a source of reference material for researchers and academicians. The study will also highlight other essential areas that require further research in the area outsourcing and performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provided a review of existing literature relating to outsourcing. The researcher has critically analyzed literature published on the subject and provided summaries and comparisons of important issues such as: Outsourcing; outsourcing practices; organizational performance; and outsourcing and organizational performance.

2.2 Outsourcing

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the aspect of outsourcing and firms have adopted its principles to help them expand into other markets (Bender 1999). Strategic management of outsourcing is probably the most powerful tool in management (Quinn 2000).

Outsourcing is a concept used to handle non-core activities which do not add much value for an organization by having a third party based on a contract while concentrating on core activities (Juma'h and Wood, 2000). Norwood, et al. (2006) defines outsourcing differently from the previous writer and adds that it is a process in which the daily management of transactions is shifted from the client company to the outsourcing vendor.

Monczka, et al. (2005) defines outsourcing as a make and buy decisions in which instead of an organization to purchase parts and components from the market and assemble it in-house, it goes outside for a service provider who will provide services to the entire firm or will sell finished products to the firm rather than make it inside. Bruce and Shermer (1993) agree with Juma'h and Wood (2000) that outsourcing is about using a third party contractor to perform non-core activities which do not add value to the organization's value chain.

According to Colonial Group International (CGI) (2004), outsourcing process affects all managerial levels from top management, middle, front line supervision management and other staff. Employees' first impressions might be negative due to the large scale of changes that outsourcing may bring to the organization which is a natural human reaction. Outsourcing could be summarized as the functions of make or buy decisions, transfer of job to a third party while organization focuses on core business activities while handling non-business activities to others who are specialist in order to increase job efficiency and cost reduction. For this study the definition of outsourcing is not very far from what has been discussed above, whereby it is viewed as the decision of make or buy process.

Many authors have come up with various outsourcing practices. For example, Chanzu (2002) points out that outsourced practices consist of manufacturing logistics and transport, human resources (HR), information technology (IT), sales and marketing, management services and administration, real estate and physical plants. Price Water House Cooper (2007) identified outsourcing practices to include: Logistics, manufacturing, human resource management, customer support and service, research and development. For the purpose of this study, outsourcing practices will consist of: Logistics management, HR management, IT management, finance management, customer service management, sales and marketing management, administration management, real estate and physical plants management.

Logistics management has become the choice of companies who are eyeing to reduce cost and enhance value. The findings in the study indicate that logistics outsourcing practices include: Warehouse management, information management, inventory management, material management and procurement practices (Mulama, 2012). Outsourcing of logistics function is measured as the sum of four activities: Content delivery, order fulfillment, order management and payment collection (Deepak et. al, 2009).

Human resource management consists of HR planning, recruitment and selection, training and development, rewards, restructuring and downsizing (Eleanna and Papalexandris 2005). According to Hunton and Williams (2014) HRO has evolved rapidly in the last decade.

Chelius (2013) also argue that HRO is becoming a standard business practice. Greer, et al. (1999) conducted a study on HRO and concluded that companies outsource HRO for operational and strategic reasons. Based on their findings, guidelines for HRO consist of selecting vendors, managing the outsourcing transition, managing vendor relations and monitoring vendor performance. According to Maende (2010) HRO is happening in HR practices like recruitment, training and development, payroll administration, employee benefits administration and contracts management. Mumbi (2010) points out that recruiting and job description, training and development, job evaluation and employee relocation functions are highly outsourced by most companies in Kenya.

IT outsourcing in the public sector has increased because of the rapid pace of technological change which makes it increasingly difficult for administration to keep up with this rate of change and maintain all necessary in-house resources and capabilities (Francois, et al. (2007) quoting (Foutains, 2001). According to Dieter and Ashraf (2003) the five phases of outsourcing IT practices are intelligence phase, analysis and planning phase, strategy selection phase, action phase, evaluation and monitoring phase. Kipsang (2003) revealed that IT outsourcing practices consist of maintenance, application development and website management. The major challenges faced by outsourcing are lack of innovation in the IT activity and loss of control. Peslakg (2012) quoting Fish and Seydel (2006) points outs that IT outsourcing practices include applications development, applications management, data center operations, personal computer (PC) acquisition, PC maintenance, systems development, systems maintenance, telecommunications or local area network and IT project management.

Finance management consists of auditing, tax compliance, cheque writing, financial reporting, billing, general accounting, specialized training, insurance and legal. According to Stewart and Donellan (2004) finance outsourcing is gaining momentum.

The business functions suitable to outsource include: Payroll and benefits, procurement, payables, fixed assets, credit vetting and debtors collection. Finance outsourcing practices that firms outsource or plan to outsource include: Employee payroll, treasury and cash management, financial risk management, budget and forecasting, tax compliance and planning, travel, general accounting, expenses processing and financial system application.

Sales and marketing outsourcing practices consists of sales promotion, market analysis and planning, research, public relations, customer survey, field sales, direct mail, customer service and telemarketing (Chanzu, 2002). According to McGovern and Guelch (2005) firms outsource marketing activities such as advertising and promotion campaigns. Benefits of marketing outsourcing include cost savings and improved quality and increasingly critical brain marketing which many firms lack. The extent of outsourcing the marketing function is measured as the sum of four activities: Affiliate marketing, E-mail marketing, E-commerce platform and search engine marketing (Deepak, et al. 2009).

Customer support management refers to how well the firm manages its customer service in terms of effectiveness, productivity and quality (Kong and Richard, 2003). Outsourcing of the customer support function is measured as the sum of four activities: Customer relationship management, web site design, web site search and web analytic (Deepak, et al. 2009).

Administration management is the process of creating information systems and supervising its flow from and to others within an organization. Chanzu (2012) observed that administration outsourcing practices consists of cleaning, records and archives management, Mailroom or delivery service, tea or refreshments, printing or reprographic and photocopying. Outsourcing has also been manifested in libraries, museum and archives (Brendan, 1999).

Real estate and physical plants is defined as planning, organizing, leading and controlling of the real estate assets and related personnel of those organizations whose primary area of business is other than real estate (McDonagh, 2000). Real estate and physical plants outsourcing practices consists of security, cafeteria service and facilities maintenance (Chanzu, 2002). The dynamic of business environment, mobility of workforce and increasing scope for outsourcing of non-core functions which are increasingly integrated within a regional and even global context, have forced many executives with responsibilities of Real estate to consider how to align their resources to meet strategic goals (Dann, 2014).

Several researchers have looked at the concept of outsourcing globally, regionally and locally. Deloitte (2005) in their study of calling for a change in the outsourcing market in 25 world class organizations in public sector, manufacturing, transportation, consumer business, energy, financial services, technology and health care. The analysis of the study describes that outsourcing is an extraordinarily complex process that require firms to differentiate their growth solutions for them to succeed.

Studies done in Kenya for instance, Ochola (2013) established that the drivers of outsourcing are to reduce cost and avail skills required. Rono (2008) concluded that outsourcing practices enhance improved service quality and lower costs as well as loss of in-house talent and loss of jobs. Kirui (2001) noted that outsourcing of non-core logistics activities experience problems of duplication of roles. Chanzu (2002) assets that the extent of outsourcing is high in some department like HR, finance and IT.

2.3 Organizational Performance

According to Public Procurement and Disposal of Public Assets Authority (PPDA) (2008) performance is a function of effectiveness and efficiency that is defined as achievement of the set objectives and responsibilities from the perspective of the judging party. Strong theory on measurement of organizational performance is significant aspect for any research that is related to organizational performance. This is because we need theory to help us understand how the dimensions go together. We also need a combination of subjective and objective measure that best capture performance, over a specific period of time and most important a broader exploration of the paths that link heterogeneous environments, firm characteristics, practices and strategies to overall organizational performance. Performance measures used by most organizations include: Financial performance; profits, return on assets, return on investment, product market performance consist of sales, market share; shareholder return consists of total shareholder return and economic value added (Pierre, Devinney, Yip, & Gerry, 2009).

Superior firm's performance is achieved by developing and sustaining a competitive advantage. Organizational performance factors consist of financial performance such as competitive position, increase in profit, sales volume, market share and firm's reputation. Operational performance include improvement in service quality, reduction in complains, increase in customer satisfaction (Jeevan & Jyoti 2012). Strategy is key in the overall performance of the organization. The environment influences the link between strategy and performance. The combination of the various factors contributes to the strategies selected which influence the performance of the organization (Awino, Ogutu and Muturi (2014).

According to Muthaura (2010) performance management continues to be central to government. The need of reform agenda has a considerable convergence on managing performance the world over. He suggests that we should continue to share experiences with countries that have a relatively well integrated performance management models like Australia, Canada, New Zealand, United Kingdom, United States and Botswana. We must re-define the purpose, mandate and core business of the public sector and the appropriate service delivery mechanisms. According to Awino (2013) state corporations in Kenya performance indicators are financial and non-financial. Financial indicators consist of profitability and cost efficiency while non-financial indicators consist of firm image, customer satisfaction and process efficiency.

According to the Republic of Kenya PC guideline (2014/2015) institutions are expected to select practical indicators in their PC that ensure performance is measured using international best practices and that performance targets are grown to the extent of placing the country on the global edge of competitiveness. Performance targets should be cascaded to all levels of staff through performance appraisal system. Performance indicators for the state corporations are classified under 6 categories. They consist of finance and stewardship, service delivery, non-financial, operations, dynamic or qualitative and corruption eradication. The literature shows that operations have been assigned 55% in all state corporations in exception of commercial State Corporation which has assigned it 30%. Operations constitute various elements such as project implementation (completion rate and cost efficiency), ease of doing business and capacity utilization. Performance is measured by calculating the difference between actual performance and the target. Excellent performance is 100%, very good achievement is 99.9%, good is 76.5%, fair is 53.9% while poor is 38.5%.

Given that the PC allocate more weight to the non-financial performance indicators. This means that non-financial aspect is the dominant indicator which the researcher intends to use in the study. For the purpose of the study the non-financial indicators will consists of: Customer satisfaction, efficiency in operations, quality of products, quantity of output, staff turnover, firm image and innovation.

2.4 Outsourcing and Organizational Performance

Outsourcing has become one of their main strategies of supply chain management however, it often lack the insight for the development of effective performance measures needed. Performance measurements should be classified as strategic, tactical and operational levels and have financial and non-financial measures (Gunasegaram, Patel and Tirtiroglu 2001). Kotabe (1998) also identifies three types of performance measures as necessary components in any outsourcing performance measurement system. They consist of strategic measures; financial measures; and quality measures. He further argues that there could be negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it difficult for the company to sustain its long-term competitive advantages without engaging in the developmental activities of the constantly evolving design and engineering technologies.

According to Dean (2003) organizational key strategies contributes to outsourcing success and are thought to improve performance. These comprise of strategies with clear objectives, right outsourcing partners, adequate skills, adequate planning, effective communication, cooperation and collaboration throughout the organization. Outsourcing is becoming an increasingly strategy of achieving performance improvement. However, some organizations have not achieved the desired benefits associated with outsourcing and instead experience outsourcing failure. A key aspect of effective outsourcing is to develop performance measures for processes before outsourcing. More specifically, where organizations outsource their processes without developing performance measures, they cannot know whether service providers are executing processes better or worse than internal functions (Mclvor, 2008).

According to Tamer (2009) when outsourcing is implemented efficiently, organizational performance can increase in every dimension. The greatest increase in performance dimension is in continuous improvement. The least increase is in the quality of work life dimension. Since outsourcing is a form of downsizing it also causes redundancies and this has a negative influence on the remaining employees. Outsourcing is beneficial to organizational performance if it allows companies to enhance expertise, improve service quality, reduce staff, streamline the process, lower costs and reduce the administrative burden and saving time (Quinn 2000).

Outsourcing provides expert skills, profits and cut salaries which are considered to be one of the largest operation costs (Frazier and Prater, 2006). According to Junma'h and Wood (2000) outsourcing is the strategy that provides companies with the chance to reinforce their competitive edge. Figgis and Gareth (1997) agree with Junma's & Wood that outsourcing results in the creation and growth of markets traditionally supplied exclusively by public agencies. It reduces staff costs, staff management problems, capital requirement, risks and improves consistency of service and flexibility (Lysons 2000). Cecil and Robert (2008) agree with Lysons that outsourcing leads to flexibility and low risks.

Mutiangpili (2010) points out that outsourcing make it possible for government to obtain efficiency by having expertise required to enable the firm to carry out projects successfully. According to Malcolm (1997) State Corporation outsourcing places a greater relieve on the suppliers not only to supply more goods, but also to provide other products such as product design and development, enhancement of competitiveness of the firm through quality improvements, logistics efficiencies and compression of lead times.

Price Water House Coopers (2008) argue that the top reasons of outsourcing consist of: Reduction in costs, access to talent, increases business flexibility, improved customer relationships, development of new products and market segment expansion. Burnes and Antisthenis (2003) quoting Gay and Essinger (2000) in a review carried out in USA and United Kingdom, the benefits of outsourcing include: Flexibility, access to expertise, improved service, extra management time, focus on core services, improved quality, improved cash flow, gain access to world class capabilities and reduced risk. Ogunsanmi (2013) notes that outsourcing practice contributes to high unemployment which can adversely affect the economy of the country. He recommends the need of mobile operators to employ competent vendors who have the capability of enhancing performance and ploughing back their profit to improve and increase present level of infrastructural facilities in use.

The researcher agrees with the above authors and summarize the performance aspects of outsourcing practices to include: Gain to expert skills, increased competitive advantage, increased flexibility, reduced costs, reduced risks, improved customer satisfaction, increase enjoyment of economies of scale, increase focus on own competencies, improves consistency of service, increase access to world-class capabilities and freeing up resources for other purposes. According to Awino and Mutua (2013) outsourcing performance indicators in state corporations in Kenya consists of financial and non-financial aspects.

2.5 Summary and Conceptual Framework

This section consists of the summary of literature reviewed and conceptual framework. Summary highlights the lessons learned and the need for this study while conceptual framework highlights the factors of the study and their interrelationships.

2.5.1 Summary

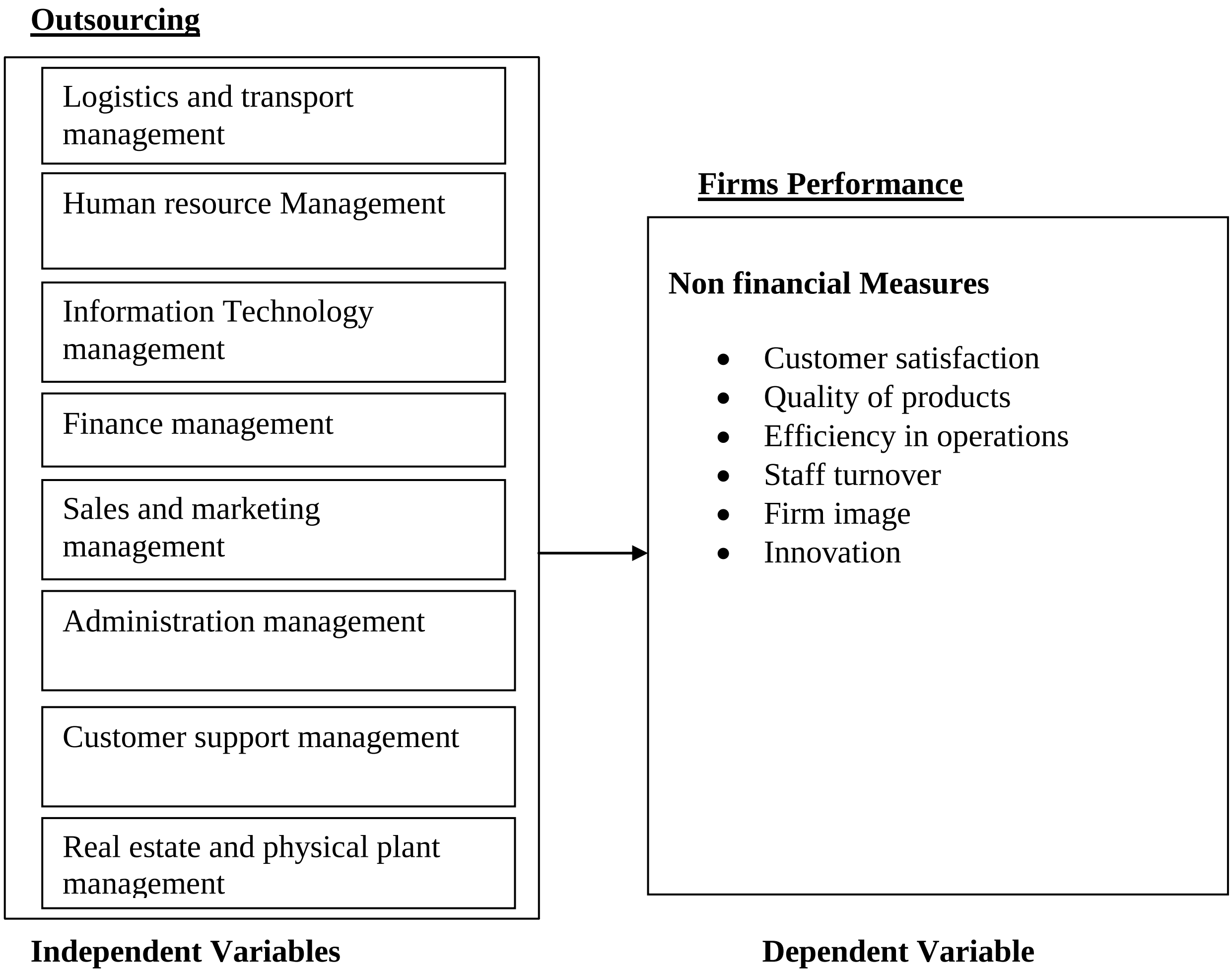
Outsourcing is one of the supply chain strategies which have the potential to make the firm to improve on performance in the global dynamic business environment. Outsourcing practices consists of: Logistics outsourcing, HR outsourcing, information management outsourcing, finance outsourcing, customer service outsourcing, sales and marketing outsourcing, administration outsourcing, real estate and physical plants outsourcing. For a firm to be successful in the modern world, it needs to outsource the activities which others can do better than them at cheaper cost.

The literature reviewed has indicated that research done on outsourcing and performance has concentrated on IT outsourcing, BPO, logistics outsourcing and challenges of outsourcing. Few studies have been carried out on outsourcing and performance of state corporations in Kenya. There is need therefore to conduct a study to establish the outsourcing practices and performance in the state corporations in Kenya to fill the gap.

2.5.2 Conceptual Framework

For this study outsourcing practices is depicted as independent variable while firm performance is depicted as a dependent variable. Independent variables elements consists of logistics management practices, human resource management practices, information technology management practices, finance management practices, sales and marketing management practices, administration management practices, customer support practices, real estate and physical plant management while dependent variable is performance.

Figure 2.1: Outsourcing Practices and Organization Performance



Source: Researcher, 2014

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

Descriptive research design has been adopted. According to Kothari (2004) descriptive includes surveys and fact finding enquiries of different kinds to describe the state of affairs as it exists at present. Previous researchers like Ngari (2012) and Muturi (2007) have successfully employed the descriptive research design.

3.2 Target Population

According to SCAC (2004) there are a total of 125 state corporations in Kenya as indicated in appendix II. The state corporations are grouped in 8 groups in accordance with their mandate. The groups consist of financial corporation (15), regulatory corporations (26), service corporations (25), tertiary education and corporation (5), regional development authorities (6), public universities (6), training and research corporations (11) and commercial/manufacturing corporations (31).

For the purpose of this study, the population of the study will include all the 94 state corporations in Nairobi City County. List of names of the firms was obtained from State Corporations Advisory Committee. The choice of Nairobi as the area to be covered by the study is mainly due to the convenience in terms of accessibility, time schedule and financial resources available and further that most state corporations are headquartered in Nairobi.

3.3 Sampling Design

For the purpose of the study the researcher has divided the population into strata and picked elements from each stratum through convenient sampling as shown in table 1.
The researcher has used a sample size of 30% which will represent 30 state corporations Nairobi County. Mugenda and Mugenda (2003) state that a sample of 30% for a population of less than 500 is sufficient for research.

Table 3.1: Target Population

State corporation	Population size (100%)	Sample size (30%)
Financial corporation	15	5
Regulatory corporation	25	8
Service	17	5
Tertiary education and training corporation	5	2
Regional development authorities	1	1
Public universities	1	1
Training and research corporations	7	2
Commercial/manufacturing corporation	23	7
Total	**94**	**30**

One respondent, the head of procurement or supply chain department of each of the state corporation has been interviewed. On their absence, the deputy manager or any other senior manager has responded to the questionnaire.

3.4 Data Collection

Primary data was collected from questionnaire, personal interview and telephone interview because they are up to date. The questionnaire consists of four parts: A, B and C. Part A captures corporation's general information, part B captures outsourcing practices currently adopted and part C will captures the impact of outsourcing practices and performance.

The questionnaires consisted of closed ended questions. As indicated by Mugenda, Mugenda (2003) closed ended questions are easier to analyze since they are in immediate usable form. Ordinal scale of a 5 point Likert type was used to rate the different aspects and measures the existent and extent of outsourcing practices since it provided the respondent with the opportunity to provide answers which are appropriate to the study. The questionnaire was a drop and pick later at the respondent's office because the respondents were busy and they had requisite knowledge therefore they did not need much research assistant in filling the questionnaire. Telephone follow was used to increase the response rate.

3.5 Data Analysis

The completed questionnaires was thoroughly checked and edited to ensure completeness, consistency, accuracy, uniformity through data coding and data tabulation. Mean and mode was used to establish the existent and the extent of outsourcing practices. A mean of less than 2.38 indicated that outsourcing aspects existed at low level, a mean of 2.38 to 3.11 indicated that outsourcing aspects existed at an average level, a mean of 3.12 to 3.46 indicated that outsourcing aspects existed at above average level while a mean of 3.47 and above indicated that outsourcing aspects exists at significant level in the state corporations (Sekaran, 1992). A standard deviation of >0.9 implied a significant difference on the impact of the variables among organizations.

Regression analysis was performed to analyze data by the use of mean and standard deviation with performance of state corporation as the dependent variable and outsourcing as the independent variable. Regression analysis provided estimates of values of dependent data which was summarized using tables, graphs and percentages. As indicated by Magutu, Lelei and Borura (2010) tables, graphs and percentages help to achieve meaningful description of the distribution of scores. Quantitative data was coded and analyzed using Statistical Package for Social Sciences (SPSS) for a comprehensive regression analysis.

The linear regression model was used to analyze the relationship between outsourcing and the performance of state corporations in Kenya.

$Y= B_0+B_1X_1+B_2X_2+B_3X_3+B_4X_4+B_5X_5+B_6X_6+B_7X_7+B_8X_{8+}E$

Where: Y= Performance which will be the mean of non-financial indicators

$X_{1=}$Logistics management; X_2=Human resource management; $X_{3=}$Information technology management; $X_{4=}$Finance management; $X_{5=}$Sales and marketing management; X_6 = Administration management; $X_{7=}$Customer support management; and X_8 = Real estate and physical plant management; E=Error term

Bi (i=0 to i=8) =Regression coefficients

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis and findings of the study. Out of the 30 questionnaires issued 23 were returned. This represented a response rate of 77% which is considered adequate for the study. The findings are presented in frequency distributions, percentages, mean, standard deviations and regression analysis.

Table 4.1 show the response rate of the respondent.

Table 4.1: Response Rate

Respondents	Frequency	Percentage
Responded	23	77%
Not responded	7	23%
Total	**30**	**100**

Source: Researcher, 2014

4.2 General Information

The demographic information considered in this study included the sector where the state corporation belonged to, which included: Financial, regulatory, training and research, public university, regional development authority, commercial or manufacturing , service, tertiary education and training; job level of the respondent which included; lower management, middle management and top management; the duration the organization had been in existence which comprised of less than 5 years, 5 to less than 10 years, 10 to less than 15 years, 16 to less than 20 years and more than 20 years.

4.2.1 Organization's Sector

The respondents were asked to indicate the sector where their organization belongs to. Out of the 23 organizations, 2 belonged to financial, 7 to regulatory, 2 to training and research, 1to public university, 1to regional development authority, 6 to commercial/manufacturing, 3 to service and 1 organization belonged to tertiary education and training. The study established that all the state corporations from different sectors were represented in the study thus the findings were a true reflection of outsourcing and performance of state corporations in Kenya. Table 4.2 shows the sector to which the firms belonged to.

Table 4.2: Sector of the Organization

Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Financial	2	8.7	8.7	8.7
Regulatory	7	30.4	30.4	39.1
Training and Research	2	8.7	8.7	47.8
Public University	1	4.3	4.3	52.2
Regional Development Authority	1	4.3	4.3	56.5
Commercial/Manufacturing	6	26.1	26.1	82.6
Service	3	13.0	13.0	95.7
Tertiary Education and Training	1	4.3	4.3	100.0
Total	**23**	**100.0**	**100.0**	

Source: Researcher, 2014

4.2.2 Respondent's Job Level

The respondents were requested to indicate their job level in the categories which consisted of lower management, middle management and top management. Table 4.3 shows the respondent's job level.

Table 4.3: Respondent's Job Level

Job level	Frequency	Percent	Cumulative percent
Lower management	2	8.7	8.7
Middle management	18	78.3	87.0
Top management	3	13.0	100.0
Total	**23**	**100%**	

The findings in Table 4.3 indicates that 8.7% of the respondents were in lower management, 78.3% in middle management and the other 13% indicated they were in top management. The results indicated that majority of the respondents in the middle management.

4.2.3 Duration of State Corporation Existence

The respondents were to indicate the duration the state corporations had been in existence. Table 4.4 shows the duration to which the state corporations' have been in existent.

Table 4.4: Duration of State Corporation Existence

Organization's Existence	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 years	1	4.3	4.3	4.3
11-15 years	3	13.0	13.0	17.4
16-20 years	7	30.4	30.4	47.8
More than 20 years	12	52.2	52.2	100.0
Total	**23**	**100.0**	**100.0**	

The results presented in Table 4.4 indicates that 4.3% of the firms have been in operation for 1 to 5 years, 13% for 11 to 15 years, 30.4% for 16 to 20 years while 52.2% of the firms have been in operation for more than 20 years. The results illustrates that majority of the firms have been in operation for a period of more than 20 years and thus the need for them to outsource some of their functions.

4.3 Practice of Outsourcing

The first objective of the study was to establish the extent of outsourcing by the state corporations. The respondents were requested to indicate the extent to which their firms have used outsourcing practices in a five point Likert scale, where: 1=no extent, 2=to a little extent, 3=to a moderate extent, 4=to a great extent and 5=to a very great extent. According to the findings, the respondents agreed that their organization's practiced outsourcing to a certain extent. Table 4.5 shows the overall mean and standard deviations as per the state corporations' extent of outsourcing.

Table 4.5: Practice of Outsourcing

Practice of Outsourcing	N	Mean	Std. Deviation
Logistics and Transport	**23**	**1.00**	**1.044**
Inventory management	23	.91	1.443
Transport management	23	1.35	1.465
Warehouse management	23	.65	1.229
Material handling	23	.48	.947
Distribution	23	.83	1.193
Human Resource	**23**	**1.48**	**.846**
Recruitment and staffing	23	1.35	1.526
Training	23	2.22	1.413
Payroll	23	.78	1.313
Information system	23	1.65	1.526
Job evaluation	23	2.48	1.377
Relocation	23	.65	1.027
Transport	23	1.48	1.201
Counselling and health information	23	1.65	1.641
Administration	23	.78	1.278
Staff check	23	1.61	1.469
Contract employment management	23	.87	1.254
Administration of retirement plans	23	1.65	1.641
Information Technology	**23**	**1.61**	**.988**
Training	23	2.30	1.222
Maintenance and repair	23	2.48	1.082
Website management	23	2.26	1.251
Application and development	23	1.78	1.204
Contract programming	23	1.83	1.230
End user support	23	1.17	1.267
Full information technology	23	1.30	1.363
Telecommunication or Local Area Networks	23	2.52	1.238
Data entry and simple processing	23	.70	1.105
Personal computer acquisition	23	.70	1.329
Finance Management	**23**	**1.61**	**.961**
Auditing	23	1.65	1.555
Tax compliance	21	1.62	1.802
Cheque writing	23	.57	1.161
Financial reporting	23	.61	.941
Billing	23	.65	1.191
General accounting	23	.70	1.185
Specialized training	23	2.35	1.335
Insurance	23	2.87	1.014
Legal service	23	2.04	1.296

Source: Researcher, 2014

Table 4.5 continues in page 27

Table 4.5 continued from page 26: Practice of Outsourcing

Sales and Marketing	**23**	**1.09**	**.848**
Sales promotion	23	1.39	1.406
market analysis and planning	23	1.39	1.340
Research	23	1.39	1.438
Public relations	23	1.22	1.347
Customer survey	23	2.22	1.476
Field sales	23	1.04	1.224
Direct mail	23	1.39	1.672
Customer service	23	.35	.885
Telemarketing	23	.74	1.251
Administration Management	**23**	**.74**	**1.10**
Cleaning services	22	2.41	1.894
Records and Archives management	22	.59	1.221
Mailroom/delivery service	22	1.36	1.677
Tea or refreshments	22	1.05	1.527
Printing or reprographic	22	.91	1.477
Photocopying	22	.55	1.101
Secretarial	22	.59	1.297
Supply or inventory	22	.77	1.478
Purchasing	22	.64	1.293
Reception or telephone	22	.59	1.297
Database functions	22	.36	.902
Customer Support	**23**	**1.09**	**.949**
Customer relationship management	23	.57	.992
Web site search	23	.65	1.152
Web site design	23	1.91	1.621
Real Estate and Physical Plants	**23**	**2.65**	**1.301**
Security	23	3.13	1.290
Food and cafeteria service	23	2.39	1.751
Facilities maintenance	23	2.70	1.608

Source: Researcher, 2012

The extent of outsourcing logistics and transport management scored a global mean of 1.00 and a standard deviation of 1.044. The elements scored the following; inventory management (mean 0.91), transport (mean 1.35), warehouse (mean 0.65), material management (mean 0.48) and distribution (mean 0.83). This showed that the most outsourced component is transport, followed by inventory management, distribution, and warehouse and material management. The results indicated that outsourcing of this practice is generally low. There was also an overall significant variation in the extent of outsourcing of logistics and transport among the firms.

The extent of outsourcing human resource management scored a global mean of 1.48 and a standard deviation of 0.846. The findings indicated that the most outsourced component was job evaluation (mean 2.48), followed by training (mean 2.22), counselling and health information (mean 1.65), administration of retirement plans (mean 1.65), information system (mean 1.65), transport (mean 1.48), staff check (mean 1.61), recruitment and staffing (mean 1.35), contract employment (mean 0.87), administration (mean 0.78), payroll (mean 0.78) and relocation (mean 0.65). The fact that the results indicate that outsourcing of this practice is generally applied at a low level, the degree of outsourcing of job evaluation was at average level. In addition to this, there is a similar intensity of outsourcing of the entire practices by the firms.

The degree of outsourcing information technology management scored a global mean of 1.61 and a standard deviation of 0.988. The findings indicated that the most outsourced component was telecommunication or local area networks (mean 2.52), followed by maintenance and repair (mean 2.48), training (mean 2.30), website management (mean 2.26), contract programming (mean 1.83), application and development (mean 1.78), full information technology (mean 1.30), end user support (mean 1.17), data entry and simple processing (mean 0.70) while personal computer acquisition was the least outsourced (mean 0.70). It is clear from the findings that outsourcing of the entire practice is low, while outsourcing of training, maintenance and repair and telecommunication or local area networks is at an average extent. On the other hand there is a significant variation of outsourcing of the entire function.

The degree of outsourcing finance management scored a global mean of 1.61 and a standard deviation of 0.988. This implied that state corporations outsourced this practice to a low extent while the degree of outsourcing varied significantly among the firms. On the other hand, the most outsourced element was insurance (mean 2.87), followed by specialized training (mean 2.35), legal service (mean 2.04), auditing (mean 1.65), tax compliance (mean 1.62), general accounting (mean 0.70), billing (mean 0.65), financial reporting (mean 0.61) while the least outsource was cheque writing (mean 0.57). This also showed that insurance was outsourced at an average level while the rest were outsourced at a low level.

The global extent of outsourcing sales and marketing scored a mean of 1.09 and a standard deviation of 0.848. This verified that outsourcing of this practice is generally applied in the firms at a low level while the level of outsourcing is more similar among the firms. The most outsourced component was customer survey (mean 2.22), followed by sales promotion (mean 1.39), market analysis and planning (mean 1.39), research (mean 1.39), direct mail (mean 1.39), public relations (mean 1.22), field sales (mean 1.04), telemarketing (mean 0.74) and customer service (mean 0.35). The finding shows that all the elements were outsourced at a low level given that these activities are mainly done in house.

The global extent of outsourcing administrative management scored a mean of 0.74 and a standard deviation of 1.01. This meant that outsourcing of this practice is generally applied at a low extent although the degree of outsourcing by firms varied among the firms. The most outsourced component was cleaning services (mean 2.41), followed by research (mean 1.39), mailroom or delivery service (mean 1.36), tea or refreshments (mean 1.05), printing or reprographic (mean 0.91), supply (mean 0.77), purchasing (0.64), records and archives management (mean 0.59), reception (mean 0.59), secretarial (mean 0.59), photocopying (mean 0.55), while the least outsourced was database functions (mean 0.36). The finding showed that all the elements are outsourced at a low level in exception of cleaning service which was outsourced at an average level by the firms.

The overall extent of outsourcing customer support scored a mean of 1.09 and a standard deviation of 0.949. This implied that outsourcing of this practice was generally applied at a low level whereas there was a significant variation on the level of outsourcing among the firms. The most outsourced element was web site design (mean 1.91), web site search (mean 0.65) and customer relationship management (mean 0.57). The results pointed out clearly that the level of outsourcing is low for all the elements since most of the functions were done in-house and outsourcing was done on need basis.

Finally real estate and physical plants outsourcing scored a mean of 2.65 and a standard deviation of 1.30. This implied that the overall extent of outsourcing this practice is at an average level. The most outsourced component was security (mean 3.13), followed by facilities maintenance (mean 2.70) while food and cafeteria (mean 2.39) was the least outsourced. The findings point out that security was outsourced at above the average level while facilities maintenance, food and cafeteria were outsourced at an average level.

4.4 The Overall Performance of State Corporations

The respondents were to indicate the extent of performance of the firms on a rating scale of 1-5: Where 1 = strongly disagree, 2 = disagree, 3 = either agree or disagree, 4 = agree and 5 = strongly agree. Table 4.6 shows the overall mean and standard deviations as per their level of performance of the state corporations.

Table 4.6: Performance of State Corporations

Performance Levels	**N**	**Mean**	**Std. Deviation**
Our customers are satisfied	23	2.96	.767
Quality of products are efficient	23	3.09	.515
Operations are efficient	23	2.39	.988
Staff turnover has reduced	23	2.30	1.295
Our firm image is good	23	3.17	.937
Our practices are innovative	23	3.04	.825
Global non finance performance Level	**23**	**2.87**	**.869**

Source: Researcher, 2014

In line with the second objective of the study which sought to establish the performance levels of state corporations in Kenya, the study findings revealed that the overall performance of state corporations is above the average given that it scored a mean of 2.87. The overall standard deviation of 0.869 implied that there was insignificant difference on the level of performance among the firms. The results also postulated that good image (mean 3.17) impacted a lot of the performance of the firms, followed by quality of products (mean 3.09), innovative practices (mean 3.04), customer satisfaction (mean 2.96), efficient operations (mean 2.39), while reduced staff turnover (mean 2.30) had the least impact on performance of the entire state corporations.

4.5 Relationship between Outsourcing and Performance of State Corporations in Kenya

In line with the third objective of the study which sought to establish the relationship between outsourcing and performance of state corporations in Kenya. The study sought to establish the relationship between outsourcing and performance of state corporations. The relationship was investigated using correlation and regression analysis. The data used for correlation and regression is shown in table 4.7.

Table 4.7: Results used for Regression Analysis

Firm	Y	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
1	3	2	2	2	2	2	1	1	3
2	5	1	1	1	2	1	1	1	2
3	4	2	2	3	2	3	2	2	5
4	4	1	1	3	1	1	1	3	4
5	4	4	4	4	4	2	2	4	2
6	4	2	3	3	3	2	2	2	4
7	5	4	4	4	5	4	4	3	4
8	3	1	2	2	2	2	1	2	5
9	2	1	2	1	3	2	1	1	2
10	3	3	3	2	2	2	1	2	4
11	3	3	3	3	3	3	2	2	4
12	4	1	2	2	2	3	2	2	3
13	5	2	3	5	3	3	1	2	4
14	4	1	2	3	3	1	1	4	2
15	3	1	2	2	2	1	1	2	5
16	3	1	2	2	2	2	1	2	5
17	3	1	2	2	4	1	1	2	5
18	4	2	4	4	4	2	4	4	5
19	5	2	3	3	2	3	2	2	5
20	4	3	2	2	2	2	2	1	3
21	4	2	2	2	2	3	2	2	2
22	5	4	3	2	2	1	1	1	1
23	5	2	3	3	3	2	4	1	5

Source: Researcher, 2014

4.5.1 Correlation among Variables

Correlation among variables was used to show the magnitude and direction of relationship between the variable as shown in Table 4.8.

Table 4.8: Correlations among Variables

		Performance level	Logistics and transport	Human resource	Information technology	Finance	Sales & marketing	Administrative	Customer support	Real estate & physical plants
Pearson Correlation	Non-Financial Performance level	1.000	.351	.274	.467	.102	.201	.426	.069	-.122
	Logistics and transport	.351	1.000	.720	.396	.370	.359	.388	.092	-.268
	HR	.274	.720	1.000	.669	.703	.446	.632	.399	.117
	IT	.467	.396	.669	1.000	.512	.422	.485	.619	.278
	Finance outsourcing	.102	.370	.703	.512	1.000	.272	.557	.447	.069
	Sales & marketing	.201	.359	.446	.422	.272	1.000	.505	.047	.193
	Administrative	.426	.388	.632	.485	.557	.505	1.000	.262	.274
	Customer support	.069	.092	.399	.619	.447	.047	.262	1.000	.099
	Real estate & physical plant	-.122	-.268	.117	.278	.069	.193	.274	.099	1.000

Table 4.8 continued from page 32: Correlations among Variables

Sig.	Non-Financial Performance level	.	.050	.103	.012	.322	.179	.021	.376	.289
	Logistics & transport	.050	.	.000	.031	.041	.046	.034	.339	.108
	HR	.103	.000	.	.000	.000	.016	.001	.030	.298
	IT	.012	.031	.000	.	.006	.022	.009	.001	.099
	Finance	.322	.041	.000	.006	.	.104	.003	.016	.376
	Sales & marketing	.179	.046	.016	.022	.104	.	.007	.416	.188
	Administrative	.021	.034	.001	.009	.003	.007	.	.114	.103
	Customer support	.376	.339	.030	.001	.016	.416	.114	.	.326
	Real estate and physical plant	.289	.108	.298	.099	.376	.188	.103	.326	.

It is clear from Table 4.8 that there is both a negative and a positive relationship between outsourcing and performance of state corporations in Kenya. There was a general moderate positive relationship; the highest positive relationship was found to be between outsourcing of information technology and performance which scored 0.467, followed by administration 0.426, logistics and transport 0.351, human resource 0.274 whereas customers support which obtained the lowest correlation of 0.069 indicated that there was a weak relationship between customer support and performance. On the other hand the negative relationship between real estate and physical plant and performance - 0.122 verified that there was a low negative linear relationship between the practice and the performance of firms. Since all the dependent variables had less than 0.50 score this clearly revealed that the relationship between outsourcing and performance of state corporations was generally low.

4.5.2 Regression Model of Outsourcing on Performance

The relationship between outsourcing and performance was established by regression. The independent variables were; outsourcing logistics and transport, human resource, information technology, finance, sales and marketing, administration, customer support and real estate and physical plants and dependent variable was performance.

Table 4.9 provides explanatory information of the variables which were proposed as explanatory to the variations in the dependent variable and Table 4.10 show Anova for the regression model.

Table 4.9: Explanatory Power of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761[a]	.578	.338	.707

The adjusted R square is the coefficient of determination indicates that there is a variation in the dependent variable due to the changes in the independent variable(s). The value of adjusted R square show there was variation of 33.8% on the non-financial performance of state corporations due to the level of customer satisfaction, quality of products, efficiency in operations, staff turnover, firm's image and innovative practices. A coefficient of multiple determinations (R square) of 0.578 implied that the model is good fit since it explains that 57.8% of the variation in non-financial performance of various state corporations in Kenya. R Square also indicates that performance (y) of state corporations is explained by 57.8% of the independent variables used in the model while 42.2% which is the error term explains the other factors not included in the model. The correlation, R value of 0.761 indicates a high positive relationship between outsourcing and performance of state corporations in Kenya.

Table 4.10: Anova for the Regression Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.607	8	1.201	2.401	S.073[a]
Residual	7.001	14	.500		
Total	**16.609**	**22**			

From the ANOVA statistics, if the value of significant (p-value) is more than 5% imply that the data is not ideal for making a conclusion and if the significant level was 10% then this means that there is no meaningful correlation among the variables. From the findings the processed data which is the population parameters, had a significant level of 0.073 (7.3%) which showed that the data was not ideal for making a conclusion on the population's parameters as the value of significant (p-value) was more than 5%.

Table 4.11: Coefficients Estimates and Significance

Table 4.11 was used to show the magnitude and direction of relationship between the variables which comprised of the coefficients of various independent variables (outsourcing practices) and dependent variable (performance).

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	3.288	.500		6.579	.000		
Logistics and transport	.052	.270	.063	.193	.850	.285	3.507
Human resource	-.278	.431	-.271	-.644	.530	.171	5.853
Information technology	.798	.264	.907	3.024	.009	.335	2.989
Finance outsourcing	-.257	.250	-.278	-1.029	.321	.411	2.431
Sales and marketing	-.225	.224	-.219	-1.002	.333	.628	1.592
Administrative outsourcing	.519	.216	.604	2.408	.030	.479	2.088
Customer support	-.343	.228	-.375	-1.506	.154	.486	2.059
Real estate and physical plant	-.263	.151	-.393	-1.737	.104	.588	1.701

From the data in table 4.11 the estimated regression model was:

$$Y=3.288 + 0.52X_1 - 0.278X_2 + 0.798X_3 - 0.257X_4 - 0.225X_5 + 0.519X_6 - 0.343X_7 - 0.263X_8$$

$$(.50) \quad (.27) \quad (.43) \quad (.26) \quad (.25) \quad (.22) \quad (.22) \quad (.23) \quad (.15)$$

From the estimated regression model it is confirmed that holding logistics and transport management, human resource management, information technology management, finance management, sales and marketing, administration management, customer support and real estate and physical plants constant, non-financial performance of state corporations would stand at 3.288.

Keeping all other variables constant, a unit increase in the level of outsourcing practices will lead to an increase in performance of state corporations as follows; logistics and transport 0.052 , human resource 0.278, information technology 0.798, finance 2.57, sales and marketing 0.225, administrative 0.519, customer support 0.343, real estate and physical plants 0.263.

The significant values of t tests indicated that p values are only significant if p<0.05. From the study we confirmed that the independent variables which comprised of; logistics and transport, human resource, finance, sales and marketing, administration, customer service and real estate and physical plants p values are greater than 0.05. This implied that the changes in the predictors are not associated with the changes in the response. On the other hand, information technology and administration management p values were found to be less than 0.05. This implied that they were the appropriate measure for encapsulating performance.

4.6 Discussion of Results

The overall average mean score on the extent of specific outsourcing practices scored the following mean; logistics and transport 1.00(20%), human resource 1.48(29.65), information technology 1.61(32.2%), finance management 1.61(32.2%), sales and marketing 1.09 (21.8%), administration management 0.74(14.8%), customer support 1.09(21.8) and real estate and physical plants 2.65 (53%). The findings revealed that real estate and physical plants was greatly outsourced, followed by finance, logistics and transport, IT, HR, customer support and sales and marketing whereas the least outsourced practice was logistics and transport among the state corporations. The findings also show there is a general low extent of outsourcing of all the practices in exclusion of real estate and physical plants which was outsourced at an average level.

The research findings have revealed that outsourcing has led to an overall performance level of a mean of 2.87 which represent a 57.4% improvement on the performance in state corporations in terms of the element of performance which scored the following mean; customer satisfaction 2.96, quality of products 3.09, efficient operations 2.39, reduced staff turnover 2.30, good image 3.17 and innovation practices 3.04.

The study also revealed that the extent and direction of relationship between outsourcing and performance of the state corporations. The level of relationship between outsourcing practices and performance of state corporations differ since other specific practices are outsourced more or less than the others. There was a moderate positive relationship where; information technology scored 0.467, administration is 0.426, logistics and transport is 0.351, human resource is 0.274 whereas customers support which obtained the lowest correlation of 0.069 showed a weak relationship between customer support outsourcing and performance. A negative relationship between real estate and physical plant and performance -0.122 verified a low negative relationship between the practice and the performance of firms.

According to Awino and Musangi (2014) carried out a study on business process outsourcing strategy and performance of Kenyan state corporations. The study pointed out that non-financial performance indicator non-financial performance indication of an organization consists of profitability, cost efficiency, firm image, customer satisfaction and process. The non-financial performance indicators in this study are more similar to the ones used in the study because they consists of customer satisfaction, enhance quality of products, efficient operations, reduced staff turnover, firms good image and innovative practices.

Mulama (2012) carried out a study on logistics outsourcing in large manufacturing firms in Kenya. The study established that outsourcing practices led to firms performance improvement as it resulted in increased productivity (mean 4.0548), organizational effectiveness (mean 3.9474), increased profits (mean 3.8158), continuous improvement (mean 3.7368), improved quality (mean 3.5263) and improved quality of work life (mean 3.4474). Tamer (2009) carried out a study on the relationship between outsourcing and organizational performance for hotel sector. The study revealed that organizational performance level after outsourcing was significantly higher than before outsourcing. Organizational effectiveness (difference 0.6417), productivity (difference 0.6583), profitability (difference 0.5750), quality (difference 0.5917), continuous improvement (difference 0.9188), quality of work life (difference 0.4167) and social responsibility (difference 0.5125).

The study has also confirmed that outsourcing leads to increased performance among the firms. The study has also portrayed that the impact of outsourcing on performance of differ among sectors. From the results obtained it is clear that outsourcing has led to high performance among manufacturing sectors and hotel sector as compared to the public sector which show a low performance as compared with the rest of the sectors.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of the key findings and conclusion from chapter four, recommendations and limitations of the study based on the objectives of the study. Also included in this chapter are the suggestions for further studies on other research areas based on the findings of the study.

5.2 Conclusion

The study was designed to achieve 3 specific objectives: To establish the extent of outsourcing, to establish the performance levels and to determine the relationship between outsourcing and performance of state corporations in Kenya. The study revealed that the extent of outsourcing practices among state corporations differ with the kind of the practice being outsourced.

The research findings have shown that outsourcing practices are in use in state corporations since the global mean achieved by the 8 outsourcing practices consisted of; logistics and transport (1.00), human resource (1.48), information technology (1.61), finance 1.61, sales and marketing (1.09), administration (0.74), customer support (1.09), real estate and physical plants (2.65). The level of outsourcing is rather low in logistics and transport, human resource, information technology, finance, sales and marketing, administration and customer support. On the other hand outsourcing of real estate and physical plants was at an average level.

The study results have revealed that the overall performance of state corporations is above the average given that it scored a mean of 2.87. The overall standard deviation of 0.869 showed that the level of performance among the firms was at a great extent similar. This portrayed that outsourcing has led to the increase in customer satisfaction, enhanced quality of products, increased efficiency in operations, reduced staff turnover, good image and innovative practices.

Eventually the study revealed that outsourcing had effect on the performance of state corporations. This was portrayed by regression model which show that there was a variation of 33.8% on the non-financial performance of state corporations due to the level of customer satisfaction, quality of products, efficiency in operations, staff turnover, firm's image and innovative practices. Also the correlation, R value of 0.761 indicated a high positive relationship between outsourcing and performance of state corporations in Kenya

5.3 Recommendations

From the above findings the following conclusions were made. Outsourcing has mostly been implemented to varying extents by the state corporations which seek to improve their performance. Indeed, outsourcing is so common today that it is unusual to find an organization that has not employed outsourcing to some degree.

Rapid changes in the business environment have enabled the firms to opt to outsource for them so as to enhance customer satisfaction, enhance quality of products, increase efficiency in operations, reduce staff turnover, enhance firm's image and increase innovation in practices in order to continuously improve performance. These resulted to outsourcing of logistics and transportation, human resource, information technology, finance, sales and marketing, administration, customer support, real estate and physical plants.

It is recommended that the top management should be in the forefront in support of business by increasing the extent of outsourcing since this would spur the performance of the firms by enabling them to concentrate on the activities they have that they have the capability of doing well and outsourcing the functions that other firms or individuals can do for them better than themselves.

5.4 Limitations

The researcher encountered three major challenges. One of them being inadequate time and finances which made the researcher to focus on state corporation in Nairobi and thus did not cover other regions in the country. The researcher would have wished to administer the questionnaires personally to the state corporations in the entire nation so as to cover a broad area.

The confidential nature of some state corporations required the respondents to seek authority of the Chief Executive Officer to be allowed to collect data. This was a long process which delayed the process of analyzing data thereby putting pressure on the time allocated for completing the project. The researcher therefore had no choice but to work within the limited time to analyze the data and come up the findings.

Eventually some of the respondents were not very cooperative as they feared that the same may leak out to unauthorized person therefore they did not fill in the questionnaire. As a result of this, not all questionnaires were received back making the researcher to only use the questionnaires received back from the respondents for data analysis.

5.5 Areas for Further Research

The study recommends an in-depth study to establish why the extent of outsourcing is rather low among state corporations in Kenya. This is because out of the 8 outsourcing practices that the study used, 7 of them were practiced at a low level while 1 of them was being practiced to a moderate level. More so, the study should also identify other outsourcing practices.

The study confined itself to state corporations in Nairobi. This indicates that the findings may not be applicable in other state corporation in other regions within the country. It is therefore recommended that the study covers state corporations in the entire country. This will reveal a more general relationship between outsourcing and performance of state corporations in the entire country.

It is also recommended that the study is replicated in other sectors such as private sectors and humanitarian sectors since public sector offer unique services which are different from the ones offered by others. This would establish the extent of outsourcing and the relationship between outsourcing and performance of other firms.

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APPENDICES

APPENDIX I: STUDY QUESTIONNAIRE

This questionnaire contains questions relating to the outsourcing practices in the state corporations in Nairobi County, Kenya. The information provided will be treated with confidentially and will purely be used for academic purpose.

PART A: General Information

Kindly fill in by ticking (√) the appropriate response.

1. Which sector does your organization belong to?

Financial	[ ]
Regulatory	[ ]
Training and Research	[ ]
Public University	[ ]
Regional Development Authority	[ ]
Commercial/Manufacturing	[ ]
Service corporation	[ ]
Tertiary Education & Training	[ ]

2. What is your job level?

Lower management	[ ]
Middle Management	[ ]
Top Management	[ ]

3. How long has your organization been in operation?

Less than 5 years	[ ]
6-10 years	[ ]
11-15 years	[ ]
16-20 years	[ ]
More than 20 years	[ ]

PART B: The Practice of Outsourcing

The table below indicates the common kinds of outsourcing practices. On a rating scale of 1-5, please indicate the extent to which your firm has used the outsourcing practice, where: 1 = no extent, 2 = to a little extent, 3 = to a moderate extent, 4 = to a great extent and 5 = to a very great extent.

No	**Outsourcing Practices**	**Rating**				
		1	**2**	**3**	**4**	**5**
1.	**Logistics and Transport**					
i.	Inventory management					
ii.	Transportation management					
iii.	Warehouse management					
iv.	Material handling management					
v.	Distribution					
2.	**Human Resource**					
i.	Recruitment and staffing					
ii.	Training					
iii.	Payroll					
iv.	Information system					
v.	Job evaluation					
vi.	Relocation					
vii.	Transport					
viii.	Counseling and health information					
ix.	Administration of employee loans					
x.	Staff check					
xi.	Contract employment management					
xii.	Administration of retirement plans					
3.	**Information Technology**					
i.	Training					
ii.	Maintenance and repair					
iii.	Website management					
iv.	Application and development					
v.	Contract programming					
vi.	End user support					
vii.	Full Information Technology outsourcing					
viii.	Telecommunication/Local Area Networks					
ix.	Data entry and simple processing					
x.	Personal computer acquisition					
4.	**Finance Outsourcing**					
i.	Auditing					
ii.	Tax compliance					

iii.	Cheque writing					
iv.	Financial reporting					
v.	Billing					
vi.	General accounting					
vii.	Specialized training					
viii.	Insurance					
ix.	Legal service					
5.	**Sales and Marketing**					
i.	Sales promotion					
ii.	Market analysis and planning					
iii.	Research					
iv.	Public relations					
v.	Customer survey					
vi.	Field sales					
vii.	Direct mail					
viii.	Customer service					
ix.	Telemarketing					
6.	**Administration Outsourcing**					
i.	Cleaning					
ii.	Records and Archives management					
iii.	Mailroom/delivery service					
iv.	Tea/ refreshments					
v.	Printing/reprographic					
vi.	Photocopying					
vii.	Secretarial					
viii.	Supply/inventory					
ix.	Purchasing					
x.	Reception/telephone					
xi.	Database functions					
7.	**Customer Support**					
i.	Customer relationship management					
ii.	Web site search					
iii.	Web site design					
8.	**Real Estate and Physical Plants**					
i.	Security					
ii.	Food and cafeteria service					
iii.	Facilities maintenance					

PART C: Performance of State Corporations in Kenya

The table below shows the non-financial performance levels of state corporations in Kenya. On a rating scale of 1-5, tick the extent to which you agree with the following statements concerning your organizational performance where: 1 = strongly disagree, 2 = disagree, 3 = either agree or disagree, 4 = agree and 5 = strongly agree.

NO	**Non-Financial Performance Levels**	**Rating**				
		1	**2**	**3**	**4**	**5**
1	Our customers are satisfied					
2	Quality of products is enhanced					
3	Operations are efficient					
4	Staff turnover has reduced					
5	Our firm's image is good					
6	Our practices are innovative					

THANK YOU

APPENDIX II: STATE CORPORATIONS IN KENYA

Financial Corporations

1. Agricultural Finance Corporation
2. Consolidated Bank of Kenya
3. Deposit Protection Fund Board
4. Industrial and Commercial Development Corporation
5. Industrial Development Bank
6. Kenya Industrial Estates
7. Kenya National Assurance Company
8. Kenya Post Office Savings Bank
9. Kenya Re-Insurance Corporation
10. Kenya Revenue Authority
11. Kenya Roads Board
12. Kenya Tourist Development Corporation
13. National Bank of Kenya
14. National Hospital Insurance Fund
15. National Social Security Fund

Regulatory Corporation

1. Capital Markets Authority
2. Catering, Tourism and Training Development Levy Trustees
3. Coffee Board of Kenya
4. Commission for Higher Education
5. Communications Commission of Kenya –Communication Authority of Kenya
6. Council of Legal Education
7. Electricity Regulatory Board
8. Export Processing Zones Authority
9. Export Promotion Council
10. Horticultural Crops Development Authority
11. Investment Promotion Center
12. Kenya Bureau of Standards
13. Kenya Civil Aviation Authority
14. Kenya Dairy Board

15. Kenya Industrial Property Institute
16. Kenya Plant Health Inspectorate Services
17. Kenya Sisal Board
18. Kenya Sugar Board
19. Marine Authority
20. National Environmental Management Authority
21. National Irrigation Board
22. NGO Coordination Bureau
23. Retirement Benefits Authority
24. Water Services Regulatory Board
25. Tea Board of Kenya
26. Water Services Regulatory Board

Service Corporations

1. Agricultural Development Corporation
2. Bomas of Kenya Ltd
3. Central water services bard
4. Cost water services board
5. Higher Education Loan Board
6. Kenya Accountants and Secretaries National Examination Board
7. Kenya ferry services
8. Kenya National Examination Council
9. Kenya National Library Services
10. Kenya Tourist Board
11. Kenya Wildlife Service
12. Kenyatta National Hospital
13. Lake Victoria north water services
14. Lake Victoria south water services
15. Local Authority Provident Fund
16. Moi teaching and referral hospital
17. Nairobi Water Services Board
18. National Aids Control Council
19. National Council for Law Reporting
20. National Sports Stadia Management Board

21. Northern water services
22. Rift valley water services
23. Teachers Service Commission
24. Water Resources Management Authority
25. Water Services

Tertiary Education and Training Corporations

1. Cooperative College of Kenya
2. Kenya College of Communications Technology
3. Kenya Medical Training College
4. Kenya Utalii College
5. Kenya Water Institute

Regional Development Authorities

1. Coast Development Authority
2. Ewaso Ng'iro North Development authority
3. Ewaso Ng'iro North Development authority
4. Kerio Valley Development Authority
5. Lake Basin Development Authority
6. Tana and Athi Rivers Development Authority

Public Universities

1. Egerton University
2. Jomo Kenyatta University of Agriculture and Technology
3. Kenyatta University
4. Maseno University
5. Moi University
6. University of Nairobi

Training and Research Corporations

1. Coffee Research Foundation
2. Kenya Agricultural Research Institute
3. Kenya Forestry Research Institute
4. Kenya Industrial Research and Development Institute

5. Kenya Institute of Administration
6. Kenya Institute of Public Policy Research and Analysis,
7. Kenya Marine and Fisheries Research Institute
8. Kenya Sugar Research Foundation
9. National Museums of Kenya
10. Tea Research Foundation
11. Kenya Agricultural Research Institute

Commercial/ Manufacturing Corporations

1. Agrochemical and Food Company
2. Chemilil Sugar Company
3. East African Portland Cement Co.
4. Gilgil Telecommunications Industries
5. Jomo Kenyatta Foundation
6. Kenya Airports Authority
7. Kenya Broadcasting Corporation
8. Kenya Electricity Generating Company
9. Kenya Literature Bureau
10. Kenya Medical Supplies Agency
11. Kenya Ordinance Factories Corporation
12. Kenya Pipeline Company Ltd
13. Kenya Power and Lightning Corporation
14. Kenya Ports Authority
15. Kenya Railways Corporation
16. Kenya safari Lodges Hotels
17. Kenya Seed COMPANY Limited
18. Kenya Wine Agencies
19. Kenyatta International Conference Center
20. National Cereals and Produce Board
21. National Housing Corporation
22. National Oil Corporation of Kenya
23. National Water Conservation and Pipeline Corporation
24. Numerical Machining Complex
25. Nzoia Sugar Company

26. Postal Corporation of Kenya
27. Pyrethrum Board of Kenya
28. School Equipment Production Unit.
29. South Nyanza Sugar Company
30. Telkom Kenya limited
31. UNES

Source: SCAC (2004). Guidelines on the terms and conditions for state corporations for chief executive officers, chairmen and board members, management staff and unionisable staff. http://www.scac.go.ke.