OUTSOURCING AND PERFORMANCE OF SAVINGS AND CREDIT SOCIETIES IN NAIROBI, KENYA

BY

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DECLARATION

I declare that this project is my original work and has not been submitted to any other college, institution or university for an award of degree or any other certificate.

Signed……..Date……

Barnabas M. Muriithi

D61/75871/2012

This project is submitted for examination with my approval as the University supervisor

Signed…….. Date…….

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DEDICATION

I dedicate this research project to my dear wife Mary and son Stephen, for their encouragement and moral support during this period**.** May Almighty God bless them.

ACKNOWLEDGEMENT

First and foremost, I would like to thank Almighty God for providing me with strength, courage and perseverance when to undertaking this research project. Thanks to all my lectures for their professional support in making my research works a success. In particular, I must single out my supervisor Kariuki .C. Ngugi for his immense support, direction and guidance during the entire period of undertaking this research work

I would like to thank all my colleagues both in school and work place who contributed in one way or another to see me through this project. Special thanks go to my employer, the Teachers Service commission for providing adequate time and resources that enabled me to successfully carry out the research.. I am grateful to acknowledge the participation of my Cousin Stephen for all the consultative forums we shared together during the entire period. Finally, I thank my family for their support, sacrifices and understanding during the undertaking of this course.

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LIST OF ABBREVIATIONS

SASRA	Sacco Societies Regulatory Authority
SACCO	Savings and credit society
I T	Information Technology
NDP	New product development
WOCCU	World council of credit union**s**
AMFIU	Association of Microfinance Institutions of Uganda.
EPS	Earning per share
R O E	Return on equity
ROCE	Return on capital employed
ROI	Return on investment
ROS	Return on savings
IS	Information system
IMF	International monetary fund

ABSTRACT

The purpose of the study was to explore the effects of outsourcing on performance of SACCOs in Nairobi City County. The study was guided by two objectives namely; to establish services outsourced by SACCOs in Nairobi City County, Kenya and to determine the relationship between outsourcing and performance of SACCOs in Nairobi City County, Kenya.

To satisfy the research objectives, the study population was the 34 deposit taking SACCOs in Nairobi City County. All the 34 SACCO in Nairobi were considered and hence it was a census. Two respondents namely finance and operations manager were selected from each SACCO. These respondents were purposively selected because of their position and their role in running of SACCOs. The data was collected using structured questionnaire which had open and close ended questions. The data collected was analyzed using descriptive statistics and presented using frequency tables, pie charts and frequency graphs. SPSS (Statistical Package for Social Sciences) version 17 was used in analyzing data. Regression analysis was also performed in establishing the relationship between outsourcing practices and performance of SACCOs in Nairobi City County.

The regression analysis revealed that new product development and information technology (IT) outsourcing practices positively affect performance of SACCOs while customer support outsourcing practices negatively affects performance of SACCOs in Nairobi City County. This confirms Gilly and Rasheed (2000) and Masten (1993), studies which found that the link between outsourcing and performance is less developed empirically.

The researcher therefore recommends that SACCOs management be educated on the need to have outsourcing in SACCOs operations and the come up with clear outsourcing strategies that will ensure that the benefits of outsourced services surpasses cost. SACCOs should also use bank and other financial institutions to benchmark their outsourcing practices, identify the gaps and come up with strategies of overcoming such gaps.

CHAPTER ONE: INTRODUCTION

1.1 Background

Outsourcing is a process of replacing an in-house provided activity by subcontracting it out to external agents. It involves transferring responsibility of carrying out an activity previously carried on internally to an outsourcer for an agreed charge. Consequently, the management and development of resources and activities in outsourced services become the responsibility of an agent external to the firm (Lee and Hitt 1995).

Most firms are in business for the purpose of making profit. These firms therefore, put strategies in place to reduce costs in order to increase profits. A common strategy that is commonly used for this purpose which has brought some debate in both academia and professional practice is outsourcing; a common trait of business-to-business firms. (*Bearden, Ingram, Lafarge, 2007)*

Outsourcing addresses the issue as to whether a firm should make or buy intermediate inputs; an issue that has a long tradition in economics, dating back to the seminal work by Coase (1937) on the boundaries of a firm. Since then, a large body of literature has been concerned with analysing the determinants of this "make-or-buy decision", focusing on the role of incomplete contracts, specific assets and transactions costs (e.g., Williamson, 1975, Grossman and Hart, 1986, Bolton and Whinstone, 1993). In a nutshell, firms would prefer to "buy" as opposed to "make" as long as the cost of outsourcing is lower than in-house production. Hence, outsourcing can be used to economise on production cost, in particular labour cost (Abraham and Taylor, 1996) by substituting in-house production with the buying-in of components. The cost of outsourcing is not only determined by the price of the bought-in components, but also by transaction costs due to transport and incomplete contracting costs, and the possible implications of asset specificity for supplier and/or customer.

According to Ellram et al. (2007), outsourcing has implications for day-to-day management and performance, as well as strategic implications. Outsourcing decisions may affect company's cost structures, long-term competitive situation and can also alter the nature of risks that the company must manage (Brannemo, 2006). Hence, it is crucial for management to understand and have a clear conceptual framework of their outsourcing decision. Furthermore, it is important

that company must know the benefits and risks of outsourcing. The increasing use of outsourcing, as well as the unfamiliar complexity associated with it especially in developing countries suggests the need to probe further about how to effectively utilize this practice.

It is against this background that the researcher intended to establish how outsourcing affects performance of SACCOs in Nairobi County, Kenya.

1.1.1 Outsourcing

Outsourcing provides organizations with an opportunity to concentrate on their core competencies on definable pre-eminence business area and provide a unique value for customers (Behara, Gundersen, &Capozzoli, 1995). Firms' decision on outsourcing is usually analyzed as a "make or buy" dilemma. On one hand, market imperfections, such as measurement problems, difficulties to control the collaboration between the customers and the provider, reduction in control over how certain services are delivered and increased complexity in arms-length contracts may in turn raise the company's liability exposure. The "make" option is favoured, in the case of services that hinder the comparability of output and prices and reduces market transparency.

The ultimate strategic goal of outsourcing of any entity is to allow it develop core competencies that will strengthen barriers of entry for new firms. Core competencies according to Hilmer& Quinn (1994) are the collective institutional learning capabilities of the company that allow it to supply products and services that uniquely add absolute preeminence in those competencies. According to Greaver (1999), core competencies are the innovative combinations of knowledge, special skills, proprietary technologies, information, and unique operating methods that provide the product or the service that the customer value and want to buy. When outsourcing decisions are made based on an in-depth understanding of the organization's core competencies that are intended to build or enhance the organization's competitive advantages, then, outsourcing decision becomes strategic (Bettis, Bradley, & Hamel, 1992). For the purpose of this study, the researcher matched outsourcing of customer support, new product development and information technology services with SACCOs performance.

1.1.2 Performance

According to Terence (1989) performance measurement is a way of ensuring that resources available are used in the most efficient and effective way. The idea is to provide the organization with maximum return on the capital employed in the business. Branch & Baker (1998) noted that the basis for a self-sufficient or balanced financial intermediary comes as a result of the simultaneous presence of savers and the borrowers of funds. However, the conflicts of interest are inherent in this balance as borrowers want low loan rates, low transaction costs and lax discipline while savers demand high deposit rates and strong prudential disciplines because savers have strong incentives to see the institutional viability strengthened by profitability yet the borrowers' short-term incentives favour conditions– lax discipline, low loan rates, easy access to loans which adversely affect the financial stability of an organization. Allen &Maghimbi (2009) observed that some cooperatives in Uganda were finding it difficult to operate largely because of their poor financial state.

Financial performance may be measured using ratios such as earning per share (EPS), return on capital employed (ROCE), return on equity (ROE), and return on total assets. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar Institutions across the same industry or to compare industries or sectors in aggregation (Dann 2003). Customer satisfaction may be measured in terms reduction/ increase of the number of complaints, liquidity may be measured in terms of assessing the current ratio, customer growth may be measured by calculating comparative ratios over a given period and loan portfolio can obtained by comparing amount of loans disbursed over a given period.

Overall performance is very important because it enables managers to measure how well their SACCOs are performing as comparison with other SACCOs in the industry. Performance in this study was measured in terms of financial success, customer success, liquidity, membership growth and loan portfolio. Johnson and Mark (1997) states two major reasons why SACCOs should have performance measurement. First is to produce financial statements at the right time and secondly, to analyze financial statements to produce information about the financial performance of the SACCOs, which must be used to improve that performance. Based on WOCCU's standards of measuring performance, the factors which determine the performance of SACCOs include; asset

base, Liabilities, Performance of the loan book, corporate governance and the quality of staff and Regulations in the industry**.** Other than the above performance indicators, SACCOs encourage saving culture, and based on these savings, they give loan to their members which play a major role in poverty eradication in Kenya

1.1.3 Saving and Credit societies (SACCOs)

According to Cooperatives Societies Act (1966), a savings and credit society is an association of persons who have voluntarily joined together to achieve a common end through the formation of democratically controlled organization, making equitable contributions to capital required and accepting fair share of risks and benefits of the undertaking in which the members actively participate.

SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas. This has made SACCOs more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Munyiri2006). In fact, the core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit (Ofei, 2001). SACCOs have been efficient in achieving this objective. In Kenya, for instance, SACCOs have mobilized over Kshs.200 billion in savings, accounting for over 30% to National Domestic Saving (Co-operative Bank of Kenya, 2010).

The task of Savings and Credit Cooperative societies is to encourage members to save money by offering them competitive interest on their savings compared to those being offered by commercial banks. The accumulated savings are then used for granting loans to the same members at a low interest rate (of one percent per month reducing balance).SACCOs' also bank collections from their members in commercial banks which acts as guarantor for its members' loans from those commercial banks (Maina,2007)**.**

1.2 Statement of the Problem

Savings and Credit Societies (SACCOs) play an important role in the social economic development of Kenya. They act as an instrument for economic growth through influencing members toward social economic changes by way of adapting to innovation and technology. They encourage members to save money by offering them attractive interest on their savings. (Mina 2007)

However, according to Mudibo (2005), SACCOs in Kenya face various challenges among them being lack of trust of board of directors by employees. He further cited that very important decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control.

In order to be more effective and efficient on core competences, Savings and Credit Societies have resorted to outsourcing some of their services. However, according to Barthélemy (2003), though outsourcing is a fast growing phenomenon it does not imply that every firm benefits from it. On the contrary, as Dun and Bradstreet's Barometer of Global Outsourcing (2000) reports, outsourcing arrangements are characterized by unexpected high failure rates. For example, KPMG (2007) indicates that only 42 percent of 659 surveyed firms show that outsourcing had improved their performance.

Although studies have been done on the impact of outsourcing on the overall performance of organizations, very little has been done on the relationship between outsourcing and performance of SACCOs, thus creating a knowledge gap. This study seeks to answer the following question: Does outsourcing affect performance of SACCOs in Nairobi city county, Kenya? The study intended to fill the gap by examining how services outsourced in customer support, new product development and information technology (IT) affects performance of Savings and Credit Societies in Nairobi City County.

1.3 Objectives of the study

i. To establish services outsourced by SACCOs in Nairobi City County, Kenya.
ii. To determine the relationship between outsourcing and performance of SACCOs in Nairobi City County, Kenya.

1.4 Importance of the study

The understanding of outsourcing will help Nairobi SACCOs' management teams in making optimal decisions when buying various services. It will help in designing outsourcing policies and programs that will actively promote the growth and sustainability of good performance as well as helping policy makers in identifying strategies that do not add value to SACCOs and hence eliminate them. It will also benefit staff of Savings and Credit Societies (SACCOs) who will gain insight into how their institutions can effectively manage outsourcing to improve on their performance.

This study will also create ideas which could be replicated in other SACCOs' and institutions in other parts of the country, that would wish to evaluate their organizations' performance in relation to services outsourced. These SACCOs and institutions are expected to gain from the study through cost-benefit analysis of outsourcing in relation to performance as it will enable them adopt outsourcing practices that would maximize the benefits while at the same time keeping cost in check.

It will also be of use to various stakeholders like Government and Institutions of higher learning in the country who may use the findings to benchmark their outsourcing practices and strategies, by giving them an insight on the best practices to adopt when buying services from various sources.

Most importantly, this study will contribute to the literature on the outsourcing and performance of SACCOs especially in developing countries like Kenya. It is hoped that the findings will be valuable to other researchers and academicians who may find useful research gaps that may stimulate interest in further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter provides literature on publications from topics related to the research problem. It examines earlier findings from various researchers and authors who have written about the concept of outsourcing and profitability. The chapter will review theoretical and empirical literature on both outsourcing and profitability, and how the two relate to one another when applied to SACCOs. The chapter ends with the summary and conceptual framework.

2.2 Outsourcing

Outsourcing involves transferring responsibility of carrying out an activity (previously carried on internally) to an outsourcer for an agreed charge. According to Bender (1999) the world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets. Quinn (2000) suggests that strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing innovation is its frontier.

Researchers have identified several outsourcing issues, trends and strategies that companies take in establishing and effectively managing their outsourcing activities (Sinderman 1995; Carney (1997). Frayer et al. (2000) suggest that in order for an outsourcing plan to work effectively, companies must proactively manage their outsourcing strategies by establishing top management commitment, global sourcing structures and processes and global sourcing business capabilities. In addition, they suggest that companies that have not raised their sourcing approach to global, strategic level may already be behind in terms of quality, cost, delivery, technology, performance, and customer service. Klaas et al. (2001), suggest that the influence of organization characteristics is highly contingent, suggesting that organizational characteristics have different effects on various types of outsourcing activities.

According to Bettis et.al (1992) there is growing evidence that outsourcing involves high risks in terms of loss of competencies and can lead to costly failures, due to the lack of an appraisal of hidden costs. As companies outsource more strategically though, and as outsourcing increasingly becomes a strategic tool which addresses issues of corporate change in dynamic environments (Elfring&Baven, 1994; Cross, 1995; Baden-Fuller *et al*., 2000), a wider mix of objectives is

sought. Actually, the main challenge when outsourcing is how to manage short-term cost savings while keeping in mind long-term perspectives for competencies and reputable suppliers, both of which are linked intimately to quality of service. Companies that outsource should continue to monitor the contractor's activities and establish constant communication (Guterl 1996.). Although Gilley and Rasheed (2000) suggest that the link between performance and outsourcing is less well developed empirically, Porter (1997)'suggests that outsourcing is one of the key sources of increasing a firm's performance.

The traditional outsourcing emphasis on tactical benefits like cost reduction, has more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills (Greer, Youngblood, & Gary 1999). Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Bowersox 1990; Gupta & Zeheuder 1994; Greer et al. 1999), increase capacity, improve quality (Lau and Hurley 1997; Kotabe, Murray & Javalugi 1998), increase profitability and productivity (Casale 1996; Sinderman 1995), improve financial performance (Crane 1999), lower innovation costs and risks (Quinn 2000), and improve organizational competitiveness (Lever 1997; Steensma& Corley 2000; Sharpe 1997). Other researchers have focused on outsourcing strategy effectiveness and its impact on organizational characteristics (Frayer, Scannell & Thomas 2000; Klaas, McGlendon & Gainey 2001).

Outsourcing has a series of advantages and which can be divided for analytical purposes into strategic and operational nature. The main strategic advantages are the creation of competitive advantages, the reduction of risks, an improved long-term cost structure and an increase in organizational sale turnover and profitability. From a strategic stand point, outsourcing allows the firm to concentrate its efforts on consolidating and expanding its core competences. Core competencies are the collective institutional learning capabilities of the company that allow it to supply products and services that uniquely add absolute preeminence in those competencies (Hilmer& Quinn, 1994). By focusing on core competencies and utilizing qualified vendors to provide process that are not one of the organization's core competencies organization's risk are minimized through being shared with its suppliers.

Organizations must have robust performance measurement systems in place to evaluate and manage outsourcing effectively. Organizations need to understand clearly the relationship and interdependencies between business processes before outsourcing. Among the common strategic outsourced services that the researcher intends to use in measuring performance in organizations includes: customer support, new product development and information technology as discussed next.

2.2.1 Customer support

Customer support outsourcing is certainly a way to free a business from the time and expense required to run an effective customer care centre, so as to focus on talents in the core competencies**.** Customer- support outsourcing particularly increases during economic downturns, when it is embraced by companies across many industries as popular cost-saving strategy (Juras 2008). Although customer support is all the range, many outsourcing arrangement fail to deliver the expected lower cost. Blinded by the quick fix cost savings mainly in the area of salaries, many firms forget that there can also be hidden cost of outsourcing (Ren and Zhou 2008), such as those associated with setting up the contract or monitoring the performance of outsourcing provider. According to Deloitte consulting group (2005), only 50 percent of outsourcing in the near future will be successful, with failures stemming from clients that don't know what they are doing, don't understand outsourcing or don't understand their own business and therefore don't know how to structure and manage their outsourcing strategies.

2.2.2 New product development

New product development is a strategic function that firms have started to outsource only recently. Firms have long outsourced some of their activities previously performed in-house to independent outside firms. What began as the outsourcing of peripheral functions such as data entry or payroll processing, has evolved into the outsourcing of more strategic activities like new product development (NPD). Nokia, for example, outsources NPD activities to the Finnish firm TietoEnator. Novo Nordisk. A Danish pharmaceutical firm recently announced it would outsource one third of its NPD activities to India. These examples are not isolated incidents but are reflection of a broader trend. A 2005 survey by AMR Research indicated that 41% of U.S. manufacturers were considering outsourcing NPD in the near future (Industry Week 2006).

Despite the increased popularity of NPD outsourcing, many NPD outsourcing arrangements are not delivering the expected benefits. While labor-cost savings are the primary rationale for most firms to engage in outsourcing (Industry Week 2006), the ultimate cost savings associated with outsourcing strategic activities may not be as substantial as they seem (Tadelis 2007). First, the control of costs to safeguard against potential opportunistic behavior by the outsourcing provider are often overlooked or underestimated at the time outsourcing contracts are signed (Williamson 2008). Second, firms may lose touch with new technological breakthroughs and erode their potential for organizational learning when outsourcing strategic activities (Griffith, Harmancioglu, & Droge 2009).

Actively coordinating the resource and information flows with the outsourcing provider may help guard against this loss of critical knowledge-based capabilities but, in turn, will also increase the coordination costs of these arrangements. A recent Deloitte consulting survey of the world's largest organizations reports that nearly half of the firms identified these "hidden costs" as a serious problem when managing outsourcing relationships (Deloitte Consulting 2005). Against this background, a critical question is how can firms 'design' their NPD outsourcing strategies to alleviate control and coordination concerns, and reap the performance benefits of NPD outsourcing.

2.2.3 Information technology

Firms today prefer outsourcing their business processes to firms that are highly specialized in using IT for business purposes. IT outsourcing, in this sense, is defined as "involving a significant use of resources (either technological or human resources) external to the organizational hierarchy in the management of IT infrastructure" (Loh &Venkatraman 1992a)

The main motivation for IT outsourcing is found to be cost reduction (Altinkemer et al. 1994, Gilley & Rasheed 2000). This is because paying for outsourcing generally costs less than maintaining equivalent services in-house. According to Malhotra (1995), factors that affect IT outsourcing decisions are reduction in operating costs, cost predictability due to fixed contract, sharing risk on technology investments, access to specialized expertise, political reasons that hinder internal IS efficiencies, and perception of efficiency of internal IS function. Clark et al. (1995) identify the changes in information technology, business trends, and technology

management as the major factors that favour outsourcing. Outsourcing decisions may also be due to internal influence or imitative behaviour (Loh &Venkatraman 1992b).

Jiang et al. (2006) find empirical evidence for improved cost efficiency as a result of IT outsourcing, but no change in the productivity and profitability of the outsourcing firms. Researchers also investigated the effects of IT outsourcing versus in sourcing on firm productivity. For example, Lacity and Hirschheim (1995) argue that most cost reductions achievable through outsourcing can equally well be achieved by the in-house IT function if it is given freedom to reorganize. On the other hand, Wang et al. (2008) find that the level of business value created by IT outsourcing is contingent on firms' core IT capability. That is, firms with superior core IT capability have an advantage in leveraging their outsourcing initiatives to enhance firm value.

2.3 Performance

According to Pandey (2006) performance is an indication of the direction of change and reflects whether the firm's situation has improved, deteriorated or remained constant over time. According to Branch and Baker (1998), profitability is not the primary concern for credit unions. However, the WOCCU report (2005) looked at performance of credit unions from a different perspective. It stated that credit unions sought to generate profits in order to directly benefit the owners as they (members) serve as both the owners of the credit union and the recipients of the credit union services. Thus when credit unions maximize their profits, it results in the form of lower interest rates on loans, lower service fees and higher dividends for the members thus indicating a good performance.

In line with the WOCCU report (2005), Bauer (2008) stated that credit unions were financial cooperatives, organized to meet the needs of their members thus surpluses or profits were returned to members in the form of reinvestment in the credit union, dividends to members, or lower interest rates on loan products. Kyazze (2010) pointed out that low performance in SACCOs was not due to governance issues but due to poor costing in order to make the loans attractive to the members, partly due to lack of know-how or relatively high operating costs.

According to the IMF Report (2001) most SACCOs in Uganda had large loan portfolios in arrears, with overdue loan repayments stretching back into the distant past mainly because

lending policies were usually poorly enforced and systems to track and manage arrears hardly existed. Many if not all SACCOs had experienced considerable difficulties realizing collateral. Allen & Makhumbi (2009) maintained that the loan evaluation system and ability of members to repay within a specified time frame had not always been considered sufficiently in the loan application process and that the cooperative model of finance relied to a certain extent on the common bonds shared by members, which fostered a trust between members. The AMFIU report (2008) indicated that there had been problems of over indebtedness as well as poor management of the loan portfolio. Loan application appraisals and subsequent monitoring by SACCO were all poor leading to high default rates. Ocowun (2010) however, explained the causes of high default rate from another perspective. He pointed out that defaulting amongst SACCO members resulted from wrong public perception that the Prosperity-for-All money was a donation from President of Republic of Uganda.

Kairu (2009) highlighted political interference as a possible threat to the quality of the loan portfolio pointing out that whereas politicians were very crucial at the mobilization of members at starting stages of the SACCOs, some were frustrating the program as they take loans from these SACCOs with a feeling that they are not obliged to pay back. Dandapani, Karels & Lawrence (2008) observed another challenge in respect of the loan portfolio in that managers were constrained in their ability to rapidly change the riskiness of the loan portfolio as loan opportunities were limited to members only. The issue of collateral poses another challenge most often the common bond between the members and knowledge for each other's credit worthiness substitutes for absence of collateral (Goddard, McKillop, & Wilson, 2008).

Liquidity is crucial for financial institutions because they are particularly vulnerable to unexpected and immediate payment demands. To stay in business, a SACCO must be able to pay out legitimate withdrawals and credit requests instantly (Bald, 2007). Deshpande (2006) observed that excess liquidity in financial institutions limited incentives to mobilize additional deposits especially poor people's deposits, which tended to be perceived a priori as short term, unstable, and costly. At the institutional level, excess liquidity may be caused by a lack of suitable lending opportunities, real or perceived.

Overall performance is measured using ratios such as earning per share (EPS), return on capital employed (ROCE), return on equity (ROE), (Pandy2006). Earnings per share (EPS) is the maximum profit distributable to the ordinary shareholders out of current profits and is calculated by dividing the net profit after tax and preference dividends by total ordinary shares. Return on capital employed (ROCE) measures the average return of money invested in business by both the owners and the debt holders. It measures the overall profitability of the firm. It is calculated by dividing net profit before interest and taxes by total capital employed and then multiplying the result by a hundred.

Return on equity (ROE) is also known as return on net worth or return on proprietors' fund. The preference shareholders get the dividend on their holdings at a fixed rate and before dividend to equity shareholders, the real risk remains with the equity shareholders. Moreover, they are the owners of total profits earned by the firms after paying dividend on preference shares. Therefore this ratio attempts to measure the firm's profitability in terms of return to equity shareholders. This ratio is calculated by dividing the profit after taxes and preference dividend by the equity capital. Return on total assets ratio is also known as the profit-to-assets ratio. This ratio establishes the relationship between net profits and assets. As these two terms have conceptual differences, the ratio may be calculated taking the meaning of the terms according to the purpose and intent of analysis.

2.4 Outsourcing and Performance of SACCOs

Outsourcing helps to avoid the costs associated with bureaucracy typically associated with production inside the firm (D'Aveni and Ravenscraft (1994), Jensen and Meckling (1976). Although according to Gilly and Rasheed (2000) and Masten (1993) the link between outsourcing and performance is less developed empirically, Demergers (1998), Quinn (1999) and Porter (1997) in their normative literature suggest that outsourcing is one of the key sources of increasing firms' performance.

Various arguments have been provided for such a positive relationship. Domberger (1998), and Quinn (1999) states that because outsourcing makes a firm more nimble, it allows it to increasingly focus on its core activities. According to Hendry (1995) and Kotabe (1998), by using specialized suppliers, outsourcing lowers production cost. It also increases the firms strategic flexibility to deal with technological or volume fluctuations (Balakrishan and Wernerfelt, (1986); Semilinger,

(1993). Farley and Hoeing (1990) found that vertical integration was positively linked to performance in some cases and negatively in others. D'Aven and Ravescraft (1994) found that vertical integration has moderately positive relationship between the extent of external sourcing and profitability (I.e. ROS, ROI and ROE). Then there are studies pointing at no relationship at all. None of the Gilly and Rasheed (2000) and Laiblein.et al. (2002) studies established the relationship between outsourcing and performance. Both studies urged for a moderated effect. So, evidence on outsourcing on firms' performance is inconclusive and the influence of make - or-buy on firms' effectiveness remains unclear. The researcher suggests that rather than simply produce further empirical data, this issue be best tackled through conceptualization of the relationship between outsourcing and performance at firm's level. A fundamental question to ask is whether outsourcing enhances value and, in particular, whether SACCOs that undertakes outsourcing results to better performance in terms of clientele growth, profitability, customer satisfaction and loan portfolio.

2.5 Summary and conceptual framework

The conceptual framework is a structured set of broad ideas and theories that help a researcher to properly identify the problem they are researching on to frame their questions and find a suitable solution. It is a conceptualization in functional form of how the independent variables affect the dependent variables.

2.5.1 Summary

From the literature review it is clear that researches have been done on how outsourcing affects firms' performance but very little has been done on outsourcing and performance of SACCOs in Kenya. Gilly and Rasheed (2000) and Laiblein.et al. (2002) studies established no relationship between outsourcing and performance and both urged for a moderated effect. Gilly and Rasheed (2000) and Masten (1993), also found that the link between outsourcing and performance is less developed empirically.

The increasing use of outsourcing suggests the need to know more about their effect on performance of SACCOs. Consequently, more information is needed to understand successful outsourcing and their effect on overall performance of SACCOs in Kenya, concentrating on Nairobi City County, where most SACCOs are located.

The researcher therefore filled the gap by first, establishing performance levels of deposit taking SACCOs in Nairobi using performance comparative figure over the last five years. He then established the extent of usage of outsourcing practices as used in customer support, new product development and information technology. He finally related the two to find out how outsourcing practices affects performance of SACCOS in Nairobi City County. It is hoped that this will enable the management of SACCOs appreciate the benefits that accrue from outsourcing and thus take an initiative to fully embrace it.

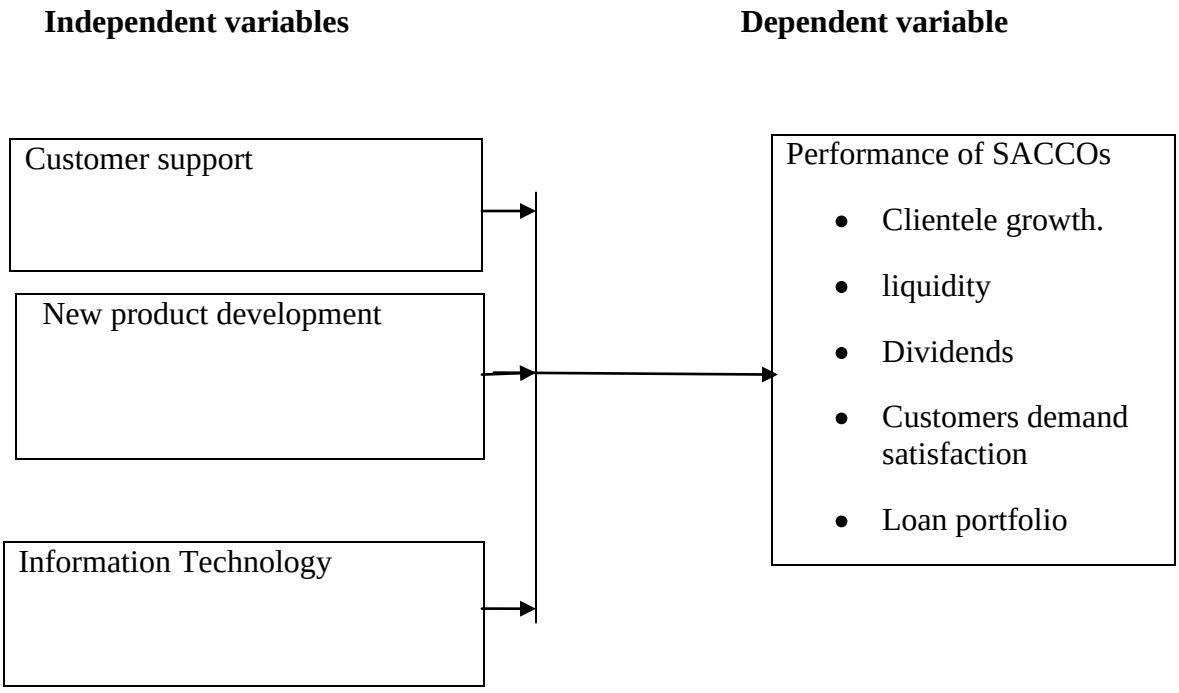
2.5.2 Conceptual Framework

Theoretically, the research conceptual frame work is anchored on the premise that SACCOs' performance is affected by outsourcing practices as used in customer support, new product development and information technology. The researcher will use a conceptual frame work at the outset because it will help him clarify the research questions and objectives.

Outsourced processes in customer support, new product development and information technology are the independent variables which were measured in terms of the extent of their usage using the Likert scale. Performance was the dependent variable and was calculated using performance ratios used by SACCOs in Nairobi City County.

Figure 2.1 shows interrelationship between outsourcing and Profitability of SACCOs in Nairobi, Kenya.

Figure 2.1: Conceptual framework



Source: Researcher (2014)

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter dealt with the methods the researcher used in carrying out the study and includes research design, target population, sample size, sampling methods, and data collection methods and data analysis.

3.1 Research Design

The study adopted an explanatory research design to establish the effect of outsourcing on the performance of SACCOs in Nairobi City County. According to Cooper and Schindler (2003), an explanatory study uses hypothesis or theories to account for the forces that caused a certain phenomenon to occur. Orodho (2003) explained that an explanatory study analyses the cause-effect relationship between two or more variables. Hence the design was appropriate for the study.

3.2 Target Population

According to SASRA (2010) Nairobi City County has 34 deposit taking SACCOs which the researcher used as the population of this study.

3.3 Sampling

All the 34 SACCOs in Nairobi City County was considered, hence it was a Census. The respondents were financial and operations manager of each SACCO in Nairobi City County These respondents were purposively selected because they were deemed to have wide knowledge of SACCOs' operations due to their positions and roles in managing the day to day affairs of SACCOs.

3.4 Data Collection

Both primary and secondary data was used for the study. Primary data was collected from the two respondents of each SACCO. This type of data was more relevant and reliable than secondary data as it provided firsthand information from source. The data collection tool was a questionnaire which consisted of both open and closed questions. The questionnaire had three sections. Section A consisted of questions that lead to bio data of the SACCOs in Nairobi. Section B consisted of questions in relation to outsourcing practices and section C consisted questions relating to performance respectively. The questionnaires were administered to sampled respondents through

drop and pick. This method allowed the respondents to have ample time to fill the questionnaires. A maximum period of two weeks was allowed from drop period to pick period.

Secondary data sources were mainly through a review of previous works in the subject matter with a view to finding out any gaps that existed. These secondary sources included information sought from journals, government reports, and financial report from SACCOs in the past four years. Data obtained was used to establish the relationship between outsourcing and performance of SACCOs in Nairobi, Kenya.

3.5 Data Analysis

Data collected was organized, collated and analyzed using descriptive measures. The data analysis entailed calculating the mean, standard deviation and performing regression analysis. The mean was calculated from the scores obtained from Likert scale. A mean of 3.0 and above was assumed to indicate strong usage of outsourcing. A mean of less than 3.0 was assumed to indicate little or no usage of outsourcing. Standard deviation was calculated to show how outsourcing practices by SACCOs deviate from the calculated mean.

Performance was measured by calculating actual percentage mean of data from respondents over the last five years on clientele growth, dividend growth, customer satisfaction, loan portfolio and liquidity. The resulting mean calculated from these indicators was then divided by five to give the overall performance of SACCOs. Regression analysis was finally used to calculate the relationship between outsourcing and performance of SACCOs.

The regression equation will be of the form: $Y=\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where:

Y= Performance

X_1=Customer support

X_2=New product development

X_3=Information technology

β_0 = constant.

b_1, b_2, b_3 = coefficient of correlation

ε = Error term

The estimated form of the regression model is $= Y=b_0 + b_1X1 + b_2 X2 + b_3X_3$

The regression equation was used to predict performance at a given level of outsourcing by SACCOS in Nairobi City County, Kenya. The results were interpreted and presented using tables, graphs and pie charts that facilitated description and explanation of the study findings.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains data analysis on general information, outsourcing practices on customer support, new product development and information technology. It also contains data analysis on SACCO's performance, relationship between outsourcing practices and SACCOs' performance and discussions.

4.2 General Information

The researcher collected and analyzed data on the years the SACCOs under consideration were started, period of service of respondents in their service areas, number of employees in respondents' service area and period of service in respondents service area. This information was intended to give the researcher an insight of SACCOs under consideration for further decision making.

4.2.1 Response rate of SACCOs and respondents.

All the 34 deposit taking SACCOs in Nairobi City County were considered, but only 26 responded translating to 76%. The questionnaires administered were sixty eight (68) out of which fifty two (52) were filled and analyzed. This represented a 76% response rate. This response rate is deemed to be adequate to give the desired results and was achieved after the researcher made persistent follows ups with the respondents. Tables 4.1 and 4.2 show the response rate of SACCOs and respondents respectively.

Table 4.1 Response rate for the SACCOs

Responses	Frequency	Percentage (%)
Responded	26	76
Not responsive	8	24
Total	34	100

Source: Survey data (2014)

Table 4.2 Response rate for respondents

Respondents	Frequency	Percentage (%)
Finance managers	26	38
Operation Managers	26	38
Not responded	16	24
Total	68	100

Source: Survey data (2014)

4.2.2 Years SACCOs started.

According to Table 4.2,out of the 34 deposit taking SACCOs under consideration, 31 % were started between 1968 and 1973, 38% were started between 1974 and 1980, 8% were started between 1981 and 1985, 8 % were started between 1986 and 1990, 8% were started between 1991 and 1995, 7 %were started after the year 2000. This means that majority of SACCOs are old enough to give the information required for this study.

Table 4.3 The years the SACCOs under consideration were started.

Year started	Number of SACCOS	Percentage (%)
1968-1973	8	31
1974-1980	10	38
1981-1985	2	8
1986-1990	2	8
1991-1995	2	8
After the year 2000	2	7

Source: Survey data (2014)

4.2.3 Years worked by respondent in their service areas

Table 4.3 shows that out of 52 respondents, 4% have on average worked for seven years, 8 % have worked for 8 years, another 8 % have worked for 10 years, 38 % have worked for 11 years, 11% have worked for 12 years, 19% have worked for 13 years, 8 % have worked for 14 years and 4% have worked for 16 years

Table 4.4 Average number of years worked by respondents in each SACCO.

Years worked	Number of respondents	Cumulative number of respondents	Percentage of years worked (%)	Cumulative percentage (%) number of years worked
7	1	1	4	4
8	2	2	8	12
10	2	5	8	20
11	10	15	38	58
12	3	18	11	69
13	5	23	19	88
14	2	25	8	96
16	1	26	4	100

Source: Survey data (2014)

Majority of respondents have worked long enough in their respective SACCOs as shown above and are therefore deemed to be knowledgeable and experienced enough to give the information required for this study.

4.2.4 Average number of employees in respondents' service areas

On average 65% of SACCOs have between 50 and 100 employees in respondents' service area and 35% have between 100 and 150 employees.

Table 4.5 Average number of employees in respondents' service areas.

Range of number of employees in service area	Percentage number of employees in respondents service area	Cumulative number of employees in respondents service area
50-100	65	65
100-150	35	100

Source: Survey data (2014)

According to the table above, 65% of SACCOs have between 50- 100 employees meaning that majority of SACCOS have very few employees in some service areas probably due to outsourcing.

4.3 Outsourcing practices

The first objective of the study sought to establish services outsourced by SACCOs in Nairobi City County, Kenya. The researcher identified customer care, new product development and information technology as strategic areas where many SACCOs in the recent past have focused their outsourcing.

Table 4.6 Outsourcing practices by SACCOs in Nairobi City County.

Outsourcing practices in Customer Support		
Practices	Mean	Std deviation
Your SACCO use external firms to give after sale service to its customers	2.7	1.22
Your SACCO use outsourced services (E.g. security firms) to manage your queues in the shop floor?	4.1	.81
iii) Your SACCO engage outside firms to Educate:- Members on new products?	3.0	.97
Members on emerging issues e.g. use of information technology to transact business away from the SACCOs premises?	3.7	.67
Your SACCO use outside firms to manage your customer care office?	3.0	1.04
Your SACCO use outside firms (E.g. courier services) to communicate to members on issues affecting them?	2.9	1.07
Customer support mean	**3.23**	**.96**
Outsourcing practices in new product development		
Your SACCO use outside firms e.g. research firms to come up with a new product.	2.9	1.1
viii) Your SACCO use outside firms to market your SACCO's new product?	2.8	.91
Your SACCO engages research firm(s) to monitor and evaluate the newly introduced product in the market?) 5	3.1	1.0
New product development mean	**2.93**	**1.0**
Outsourcing practices in information technology		
Your SACCO use automated services such as cash withdrawals through ATM and Pesa point to disburse cash to its members?	4.2	.74
Access account balances. Provide cash withdrawal services through ATM and/or Pesa Point?	4.4 4.6	.97 1.04
Your SACCO engage outside information technology firms to:- Install new software? Learn new programs?	 4.7 4.8	 1.04 1.14
Your SACCO transact business with its members through mobile phones	4.3	.98
Information technology mean	**4.5**	**0.795**
Global mean and standard deviation	**3.6**	**.92**

Sources: Survey data (2014)

Table 4.6 shows mean and standard deviation of customer support outsourcing practices, new product development outsourcing practices and information technology outsourcing practices. The calculated mean of 3.23in customer support outsourcing practices indicates strong usage of outsourcing practices in customer support since it is slightly above that of the researcher of 3.0.The standard deviation of 0.96 also indicates that data is not widely spread from the mean. Outsourced practices in customer support that were above the researchers mean of 3.0 were; use of outsourced services (E.g. use of security firms) to manage queues in SACCOs' shop floor, use of outside firms to educate members on new products and emerging issues such as use of information technology to transact business away from the SACCOs premises and use of outside firms to manage customer care offices.

The Calculated mean of 2.93 in new product development outsourcing practices indicates little usage of outsourcing practices in new product development since it is below that of a researcher of 3.0. The standard deviation of 1.0 show that data is widely spread from the mean compared to that of outsourcing in customer support practices. Outsourced practice in new product development that was above the researcher's mean of 3.0 was that SACCOs engage research firm(s) to monitor and evaluate the newly introduced product in the market.

The calculated mean of 4.5 in information technology outsourcing practices indicates very high usage of outsourcing practices as it surpasses the researcher's mean of 3.0 by 1.5.All the outsourced practices in information technology were above the researcher's mean of 3.0 indicating that information technology outsourcing practices is highly practiced by SACCOs in Nairobi to a high extent.

The global mean 3.6 indicates that all evaluated SACCOs in Nairobi county practice outsourcing to a high extent. The standard deviation of 0.98 indicates low deviation from the mean indicating that most of the outsourcing practices are very close to the mean of 3.6

The standard deviation of 0.98 that indicates the spread of outsourcing practices from the average (mean), or expected value. A low standard deviation means that most of the numbers are very close to the average. A high standard deviation means that the numbers are spread out.

4.4 Performance of SACCOs

Performance was measured by calculating actual percentage mean of data from respondents over the last five years on clientele growth, dividend growth, customer satisfaction, loan portfolio and liquidity. The resulting mean calculated from these indicators was then divided by five to give the overall performance of SACCOs.

Table 4.7 Percentage performance of SACCOs

SACCOs	1	2	3	4	5	6	7	8	9	10	11	12	13
performance	5.47	6.38	8.83	.226	3.6	4.87	3.88	3.32	.056	.62	3.15	3.30	1.43

Table 4.7 Continued

SACCOs	14	15	16	17	18	19	20	21	22	23	24	25	26
Performance	4.96	9.0	13.5	10.35	.673	.06	3.0	3.78	.62	7.8	3.96	.54	21.61

Source: Survey data (2014)

4.5 Outsourcing and performance of SACCOs

The second objective was to determine the relationship between outsourcing and performance of SACCOs in Nairobi City County, Kenya. To achieve this objective, the researcher used data from SAACOs performance, outsourcing practices on customer support, new product development and information technology.

Table 4.8 Data on performance and outsourcing practices

S/NO	Performance	Customer support outsourcing practices.	New product development outsourcing practices.	Information technology outsourcing practices.
	Y	X_1	X_2	X_3
1	5.4684	2.667	2.333	4.667
2	6.3796	3.1667	3.444	4.667
3	8.83	3	2.333	3.667
4	.2256	2.833	3.333	3.667
5	3.6	3.1667	3.333	4.333
6	4.87	3.8333	3.667	4.1667
7	3.881	4	3.667	4.333
8	3.3184	3.667	4.333	3.833
9	.05576	3.5	3.444	4.833
10	.6196	3.333	3	4.833
11	3.1506	3.5	3.444	4.833
12	3.3012	3.333	3.444	4.833
13	1.426	3	3	4.833
14	4.9608	3.1667	3	4.667
15	9.036	2.667	3.444	4.833
16	13.4924	2.667	3.444	4.667
17	10.35	2.667	3	4
18	.6726	3.667	3.444	4.1667
19	.05576	3.5	3.333	4
20	3.0478	4	2	4.833
21	3.7768	2.8333	3	4.667
22	.622	3	3.444	4.667
23	7.7964	3	3.333	4.1667
24	3.964	3.5	3	4.833
25	.537	3	3.444	4.833
26	21.6084	3.333	4	4.833

Source: Survey data (2014)

The resulting variables were put in an SPSS program whose result is as discussed next. .

Table 4.9 Descriptive statistics of the variables

variables	Mean	Std. Deviation	N
Performance (Y)	4.9463	4.79620	26
Customer Support (X1)	3.2308	.40568	26
New product Development (X2)	3.2562	.49266	26
Information Technology (X3)	4.4871	.39968	26

Source: Survey data (2014

According to table 4.9, all the SAACOs under review put across have a mean for performance of 4.95 per cent which is very low. The same performance shows a standard deviation of 4.8 per cent indicating a wide spread of data from the mean.

The customer support outsourcing practices yielded a mean of 3.23 which is marginally above the required measure of 3.0. This indicates that it is slightly above the recommended strength.
New product development outsourcing practices yielded a mean of 3.25 which is marginally above the required measure of 3.0. This also indicates that it is slightly above the recommended strength.
Information technology outsourcing practices yielded a mean of 4.49 which is above the required measure of 3.0. This also indicates that it is above the recommended strength. The standard deviations of all the three independent variables range from 0.4 to 0.49 which indicates that they are not far away from the mean.

Table 4.10 the aspect of correlation coefficient

ASPECT Of CORRELATION		Variables			
		Performance	Customer Support	New product Development	Information Technology
Pearson Correlation	Performance	1.000	-.269	.141	.074
	Customer Support	-.269	1.000	.193	-.009
	New product Development	.141	.193	1.000	-.099
	Information Technology	.074	-.009	-.099	1.000
Sig. (1-tailed)	Performance	.	.092	.246	.360
	Customer Support	.092	.	.173	.483
	New product Development	.246	.173	.	.314
	Information Technology	.360	.483	.314	.
N	Performance	26	26	26	26
	Customer Support	26	26	26	26
	New product Development	26	26	26	26
	Information Technology	26	26	26	26

Source: Survey data (2014)

Table 4.10 shows the relationship between performance of SACCOs and outsourcing practices in customer support services is low negative at .269. The relationship between performance and outsourcing practices in new product development is low positive at .141 and the relationship between performance and outsourcing practices information technology is low positive at .074 thus indicating the low effect that outsourcing has on performance. The independent variables therefore seem not to significantly affect the dependent variable.

Regression analysis was used to calculate the relationship between outsourcing and performance of SACCOs.

Table 4.11 Explanatory Power of the Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.346[a]	.119	-.001	4.79762
a.) Predictors: (Constant), Information Technology, Customer Support, New product Development b) Dependent variable: Performance				

Source: Survey data (2014)

According to Table 4.11, the independent variables are only able to explain 11.9% of the changes in the dependent variables (performance) meaning that customer support outsourcing practices, new product outsourcing practices, information technology outsourcing practices do not significantly affect performance of SACCOs.

Table 4.12 ANOVA Table for the regression model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	68.711	3	22.904	.995	.414[a]
Residual	506.378	22	23.017		
Total	575.089	25			
a. Predictors: (Constant), Information Technology, Customer Support, New product Development b. Dependent Variable: Performance					

Source: Survey data (2014)

According to Table 4.12 sum of squares for regression model is 68.711.Sum of squares for the residual is 506.378 (unexplained). This shows that only 68.711 of the sum of squares can explain the relationship between performance (dependent variable) and the three outsourcing practices (independent variables). The residual sum of squares of 506.378 could not relate performance with the three variables.

Table 4.13 Significant of coefficients

Coefficient	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Customer Support	40.608	25	.000	3.23080	3.0669	3.3947
New product Development	33.702	25	.000	3.25619	3.0572	3.4552
Information Technology	57.245	25	.000	4.48712	4.3257	4.6486

Source: Survey data (2014)

Table 4.13 shows all variables are significant at 95% confidence interval. This test has taken 25 observations into considerations meaning that out of 26 observations, one was an outlier.

Table 4.14 Standardized coefficients

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.119	14.618		.350	.730
Customer Support	-3.649	2.410	-.309	-1.514	.144
New product Development	2.043	1.995	.210	1.024	.317
Information Technology	1.106	2.413	.092	.458	.651
a. Dependent Variable: Performance					

Source: Survey data (2014)

Table 4.14, shows the coefficients of the regression model for various independent variables on the dependent variable. As per SPSS generated results the equation $Y=\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$ becomes $Y = 5.119 – 3.649 X_1 + 2.043 X_2 + 1.106 X_3$

According to the regression model established, keeping all other independent variables constant, the performance of SACCOs will be 5.119. The finding further indicate that keeping all other independent variables constant, a unit decrease in outsourcing of customer support practices will lead to reduction of performance by 3.649. Keeping all other things constant, the findings reveals that there is 2.043increases in performance for every unit increase in outsourcing practices of new product development. The data also reveals that keeping all other things constant, there is 1.106 increase in performance for every unit of outsourcing practices of information technology.

New product development outsourcing practices yielded a mean of 3.25 which is marginally above the required measure of 3.0. This also indicates that it is slightly above the recommended strength.

4.6 Discussion of the results

This chapter dealt with the data analysis of the research results and discussion.

The research study had two objectives which were; to establish services outsourced by SACCOs in Nairobi City County, Kenya and to determine the relationship between outsourcing and performance of SACCOs in Nairobi City County, Kenya. The study considered all the 34 deposit taking SACCOS in Nairobi County and two respondents namely; operations and finance managers from each SACCO. Correlation and regression analysis was carried out to establish the relationship between performance and outsourcing practices in SACCOs. The results of data analysis were presented in tables which were then discussed through explanation, description and interpretation. Where tables were not used, results were presented in writing.

The results clearly indicate that there is strong usage of outsourcing in SACCOs in Nairobi City County. This is clearly shown by the global mean of 3.7 which indicates high extent usage of outsourcing practices. The global standard deviation of .98 also indicates that there is low spread of data from the calculated mean indicating that almost all SACCOs under consideration practiced outsourcing almost on the same rate.

The relationship between performance and outsourcing is marginally positive in new product development and information technology. However outsourcing practices in customer support is negative confirming earlier theories by Gilly and Rasheed (2000) and Laiblein.et al. (2002) whose studies established no relationship between outsourcing and performance and both urged for a moderated effect. Gilly and Rasheed (2000) and Fasten (1993), also found that the link between

outsourcing and performance is less developed empirically. The result therefore shows that there is still much that management of SACCOs should do if they are to reap the maximum benefits of outsourcing.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDITIONS

5.1 Introduction

This chapter provides a summary of the conclusions, recommendations, limitations of the study, and suggestions for further research. Conclusions are based on the findings of the empirical tests conducted and recommendations are based on objectives and the findings of the study. Challenges encountered in this study are discussed in detail under limitations of the study from which suggestions for further study have been developed.

5.2 Conclusions

The research study had two objectives which were**;** to establish services outsourced by SACCOs in Nairobi City County and to determine the relationship between outsourcing and performance of SACCOs in Nairobi City County. The researcher identified three strategic areas namely; customer support, new product development and information technology to establish whether SACCOs outsourced services.

The research findings showed a global mean of 3.7 hence surpassing the mean of the researcher (.i.e. 3.0) thus showing that outsourcing is practiced by SACCOs to a great extent. The standard deviation of 0.98 shows that the data on outsourcing practices is not very far from the calculated mean.

On the relationship between outsourcing and performance, the results show that the independent variables seem not to significantly affect the dependent variable. This is evidently shown in table 4.11 where the independent variables are only able to explain 11.9% of the changes in the dependent variables (performance) meaning that customer support outsourcing practices, new product outsourcing practices, information technology outsourcing practices do not significantly affect performance of SACCOs. According to Table 4.12 sum of squares for regression model is 68.711. Sum of squares for the residual is 506.378 (unexplained). This shows that only 68.711 of the sum of squares can explain the relationship between performance (dependent variable) and the three outsourcing practices (independent variables). The residual sum of squares of 506.378 could not relate performance with the three variables. According to regression model, coefficients a unit

decrease in outsourcing of customer support practices will lead to reduction of performance by 3.649 percent of performance. The findings reveal that there is 2.043 increases in performance for every unit increase in outsourcing practices of new product development. The data also reveals that keeping all other things constant, there is 1.106 increases in performance for every unit of outsourcing practices of information technology. The researcher therefore concludes that though outsourcing is highly practiced by SACCOs Nairobi County, it has not significantly added much value to performance.

5.3 Recommendations

The following recommendations were as a result of the conclusions the researcher drew from the findings. The global mean of 3.6 shows that outsourcing is highly practiced in SACCOs**.** However, as discussed in the conclusions above, outsourcing does not appear to significantly affect Sacco's performance**.** The researcher therefore recommends other dependents variables such as capital base to measure performance of SACCOs which should then be related outsourcing practices.
SACCOs are sometimes managed by elected members who may have little knowledge on what to outsource. Towards this end the researcher recommends that SACCO management team be educated on the need to have outsourcing in SACCOs operations and the need to come up with clear outsourcing strategies that will ensure that the benefits of outsourced services surpasses cost.

SACCOs should identify their key performance indicators and bench mark them with those of other institutions in the same industry. These performance indicators should then be related with outsourcing practices. Gaps in performance should be identified and strategies of overcoming them be developed.

5.4 Limitations of the study

The SACCOs in Nairobi County are unevenly distributed and the researcher had constraints of time and resources to administer questions to all targeted respondents. The researcher therefore could have left out some of the respondents who could have more vital information. Some of the respondents were reluctant in filling the questionnaire which delayed the process of analyzing data.

Not all SACCOs responded to questionnaires administered to them. There is possibility that some of the respondents left out had some crucial information that could have altered the findings of this study.

5.5 Suggestions for further research

Since this study is considered as the first attempt to investigate the effect of outsourcing on performance of SACCOS, there is need for further research. Further comparative studies with other Government Parastatals, financial institutions and other service providers is needed in order to determine the effects of outsourcing practices on performance of SACCOS.

There are many factors that influence outsourcing in organizations and it was difficult to identify all those outsourcing practices that influence performance of SACCOs in Nairobi County, Kenya. The study findings were narrowed into the three outsourced practices namely customer support, new product development and information technology which were addressed by the research objectives. These factors cannot be fully relied upon to address all factors influencing outsourcing. Suggestion for further studies is therefore advisable to contribute towards identification of more other factors influencing outsourcing and assist in implementation of strategic outsourcing measures in SACCOs.

A research study can focus on the in-depth outsourcing strategies and the Gains of outsourcing on any other public institution of Sacco's nature. Finally critical success factors in implementation of outsourcing practices should be subjected to review, critique and discussion for an extended period before making a generalization.

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APPENDICES

APENDIX I: List of Deposit taking SACCOs in Nairobi County, Kenya

1	AFYA SACCO SOCIETY LTD
2	AIRPORTS SACCO SOCIETY LTD
3	ASILI SACCO SOCIETY LTD
4	CHAI SACCO SOCIETY LTD
5	CHUNA SACCO SOCIETY LTD
6	COMOCO SACCO SOCIETY LTD
7	FUNDILIMA SACCO SOCIETY LTD
8	HARAMBEESACCO SOCIETY LTD
9	HAZINA SACCO SOCIETY LTD
10	JAMII SACCO SOCIETY LTD
11	KENPIPE SACCO SOCIETY LTD
12	KENVERSITY SACCO SOCIETY LTD
13	KENYA BANKERS SACCO SOCIETY LTD
14	KENYA POLICE SACCO SOCIETY LTD
15	KINGDOM SACCO SOCIETY LTD
16	MAGEREZASACCO SOCIETY LTD
17	MAISHA BORA SACCO SOCIETY LTD
18	MILIKI SACCO SOCIETY LTD
19	MWALIMU NATIONAL SACCO SOCIETY LTD
20	MWITO SACCO SOCIETY LTD
21	NACICO SACCO SOCIETY
22	NAFAKA SACCO SOCIETY LTD
22	NAKU SACCO SOCIETY LTD
23	NASSEFU SACCO SOCIETY LTD
24	NATION SACCO SOCIETY LTD

25	SAFARICOM SACCO SOCIETY LTD
26	SHERIA SACCO SOCIETY LTD
27	STIMA SACCO SOCIETY LTD
28	UFANISI SACCO SOCIETY LTD
29	UKRISTO NA UFANISI SACCO SOCIETY LTD
30	UKULIMA SACCO SOCIETY LTD
31	UNITED NATIONS SACCO SOCIETY LTD
32	WANAANGA SACCO SOCIETY LTD
33	WANANDEGE SACCO SOCIETY LTD
34	WAUMINI SACCO SOCIETY LTD

Source : SASRA (2010)

APPENDIX II: 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 15/9/2014

TO WHOM IT MAY CONCERN

The bearer of this letter MR. BARNABAS MATIENGE MWORIA

Registration No. D61/75821/2012

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
15 SEP 2014
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX III: QUESTIONNAIRE.

This questionnaire is intended to provide information for the study on outsourcing and performance of SACCOs in Nairobi City County. Please note that the information provided will be used for academic purpose only and will be treated with utmost confidentiality.

Please answer the following questions by ticking (√) in the appropriate box or by giving the necessary details in the spaces provided.

Part A: General information about the institutions.

1. When was your SACCO started_____
2. Respondent's position in the SACCO_____
3. In which service area of your SACCO do you work? _____

_____

4. For how long have you served in your current position? _____

5. How many employees does your service area have?

   a. 100-500 [ ]
   b. 501-1000 [ ]
   c. 1001-1500 [ ]
   d. 1501-2000 [ ]
   e. 2000 and above [ ]

Part B: Outsourcing practices

Indicate (by ticking in the relevant box) the extent to which the following outsourcing practices are used by your SACCO where,

1 = Not at all, 2 = Small extent 3 = Moderate extent, 4 = High extent, 5 = very high extent

A)	**Outsourcing Practices on customer support**	**Extent of usage**				
		1	2	3	4	5
1	Your SACCO use external firms to give after sale service to its customers					
2	Your SACCO use outsourced services (E.g. security firms) to manage your queues in the shop floor?					
3	Your SACCO engage outside firms to Educate:- i) Members on new products.					
	i) Members on emerging issues e.g. use of information technology to transact business away from the SACCOs premises.					
4	Your SACCO use outside firms to manage your customer care office?					
5	Your SACCO use outside firms (E.g. courier services) to communicate to members on issues affecting them?					
B)**Outsourcing Practices on new product development**						
6	Your SACCO use outside firms e.g. research firms to come up with a new product?					
8	Your SACCO use outside firms to market your SACCO's new product?					
9	Your SACCO engage research firm(s) to monitor and evaluate the newly introduced product in the market.					
C)**Outsourcing Practices on information technology**						
10	Your SACCO use automated services such as cash withdrawals through ATM and Pesa point to disburse cash to its members					

11	Your SACCO use mobile phone providers to:- i) Access account balances.					
	ii) Provide cash withdrawal services through ATM and/or Pesa Point?					
12	Your SACCO engage outside information technology firms to: i) Install new software.					
	ii) Learn new programs.					
13	Your SACCO transact business with its members through mobile phones					

Part D: Performance

14. Please indicate the number of members in your SACCO in each of the following years:

2013	2012	2011	2010	2009	2008

15. Please indicate the rate of dividend of your SACCO in each of the following years,

2013	2012	2011	2010	2009	2008

16. Please indicate the total amount of loan your SACCO disbursed in each of the following years,

2013	2012	2011	2010	2009	2008

17. Please indicate the number of complaints your SACCO received in each of the following years,

2013	2012	2011	2010	2009	2008

18. Please indicate the current ratio of your SACCO in each of the following years

2013	2012	2011	2010	2009	2008

Thank you for your cooperation.