THE IMPACT OF OUTSOURCING ON THE PERFORMANCE OF PARASTATALS IN KENYA

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DECLARATION

I declare that this research project is my original work and has never been submitted to any other university for assessment or award of a degree.

Signature…………………………………. Date……………………….

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D61/67572/2011

This project has been submitted with my authority as the university supervisor.

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DEDICATION

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First, I would like to acknowledge the support and guidance of my University supervisor Mr. Michael Chirchir, not forgetting all the teachers and lecturers who have added great value to my life through impartation of knowledge and skill.

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ABSTRACT

Outsourcing is growing at a rapid rate throughout the world because organizations view it as a way to achieve strategic goals, improve customer satisfaction and provide other efficiency and effectiveness improvements. Outsourcing assists management focus all their intellectual resources, expertise and time on the distinctive competencies that give the firm an edge in the market. With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers.

The objective of the study was to determine the impact of outsourcing on the performance of parastatals in Kenya. The research design for the company was descriptive research design. Data was collected using a questionnaire which consisted of both open and closed ended questions. The data collected was analyzed using descriptive statistics and classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables and graphs.

The findings of the study was that the company considers outsourcing ICT and also focussed on competence, cost, flexibility, right time, qualification, professionalism, experience, reputation, right quality of service and type of relationship before deciding the company to outsource the service to. The performance of supply chain was being influenced by quality of service, supplier management, supplier relationship, supplier selection, time service delivered and the internal assessment of criticality of business activities. The risks facing the company as a result of outsourcing training services was found to be loss of command of outsourced service, over reliance of external parties, loss of confidentiality, loss of control in decision making, limited flexibility, low quality work and limited time. The benefits the company derived from outsourcing the service was found to be reduced costs and improvement of its competitive position, increased productivity, focusing on the core competence and strategic flexibility through changes in external flexibility, functional flexibility, change in product range, workplace flexibility and internal flexibility.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Making the decision to outsource selected functions and processes to a Third Party company can be challenging yet rewarding to the organization (Vining & Globerman, 1999). Business functions have grown increasingly complex with globalization, technology, and competition advancing at a rapid pace. Thoroughly examining the motivations, expectations, and justifications for outsourcing critical operations functionality enables organizations to make effective decisions which generate incremental profitability and shareholder value (Hokey Min, 2012). Careful consideration and analysis of cost factors, financial impact, and suitability for outsourcing yields superior outsourcing strategies and transition plans.

Outsourcing ultimately requires trust. Rundquist (2007) noted that handing over various aspects of business operations to a partner can be difficult for organizations that do not typically view their suppliers as cooperative partners. Ralph Waldo Emerson (2001), entering a relationship with a third party company is like handing over your wallet to a business associate. Third part outsourcing is exactly like using a bank to handle your financial transaction management – you make deposits, you issue payment instructions, and you expect a perfect balance.

With a third party contract – you issue goods to a carrier or receipts into a warehouse, you issue orders to ship or deliver to specific consignees, and you expect perfect execution and inventory balances (Ten & Wolf 2001). The difference lies in the physical realities of handling, storing, moving, and controlling physical products and their associated information over space and time, Schmidt (2010). Trust is required and both parties to the relationship must do their part to build and maintain that trust in order to manage a successful operation

Several studies on outsourcing (Butler, 1991; Densai, 2012; Handfield, 2012; Thompson, 2012; Hayes, 2012; Baiye, 2012) have all confirmed that outsourcing is a business strategy in which one or more of a company's business process is contracted out to an outside service provider with the intention of reducing operating cost and focusing on core competencies of the firm. In today's business environment it is important for most organizations to identify their core business

competencies and focus on these for their performance. This can assist organizations in outsourcing services to achieve the desired objectives of the organization.
However, the view of Butler (1991) indicates that outsourcing is the shifting of a function either in whole or in part from a main organization to a third party. The current trend in most industries in Kenya as of now especially in manufacturing, construction and telecommunication industries is the outsourcing of their non-core functions to external organizations for their effective management. According to Baily et al. (1998) as cited in Yurong (2004) that outsourcing is a contractual relationship between an external vendor and an enterprise in which the vendor assumes responsibility for some or more of the business functions of this enterprise.

In response to these ever changing demands and increasing complexities, companies turn to outsourcing of their operations including IT, human resources, warehousing, transportation, materials planning, freight forwarding and reverse logistics (Quinn, 2000). The general motivations for outsourcing these operations fall into three main categories: increase revenue, improve capabilities, and reduce cost.

1.1.1 Outsourcing in Organizations

Outsourcing is defined as the procurement of products or services from sources that are external to the organization (Rundquist, 2007, Ono & Stango, 2005). Thus, outsourcing in this study essentially referred to a process in which an organization delegates in-house operations/processes/services to a third party. Organizational performance in this study referred to cost efficiency, productivity and sustainable funding. According to Chaffey (2008), judgments of efficiency are based on some idea of ‘wastage’ and wastage were the focus of this study. This study borrowed Houseman (2006) definition of productivity to refer to the extent to which an amount of output in a firm is produced with certain amount of input and the extent to which value is created by firm in comparison to the time required to create that value.

According to Rundquist (2007), during the industrial revolution, outsourcing was not formally identified as a business strategy for improving organizational performance until 1989. Development of special services led to increased outsourcing as a strategy for improving organizational performance during the second industrial revolution in the late 19th century, as organizations began to focus more on cost-saving measures (Rundquist, 2007; Slack, 2003; Piore & Sabel, 1990). More recently, outsourcing as a business strategy has moved to intangible activities or knowledge intensive activities such as information technology, product development or research and development (R&D) (Quinn, 2000) and it is an integral part of an organizational strategy of improving organizational performance (Behara et al., 1995).

Typically outsourcing is done with an eye toward efficiency and cost-saving for the company. Houthoofd (2006). Outsourcing could be as simple as hiring a freelancer to edit a company newsletter or as large-scale as hiring an outsourcing company to handle all accounting and payroll functions. Outsourcing can be when a company directly hires an independent contractor to a provide service. Or a company may hire an outsourcing company that either employs or contracts with workers to provide the services (Handfield & Nochols 1999).

An outsourcing company may send workers to its client's workplace or provide the workspace. Sometimes outsourcing companies practice home shoring by hiring home-based workers or they may practice offshoring, by contracting outside the client’s country for the services.

1.1.2 Organizational Performance

Organizational performance refers to achievement of an enterprise with respect to some criterion (Muchuki and Aosa 2011). According to Richard et al (2009) organizational performance encompasses three specific areas of firm that include; financial, product market and share holder return performance. Muchuki and Aosa (2011) observed that organizational performance gives indication of the effectiveness of an organization.

A number of scholars, (Muchuki and Aosa 2011; Richard et al, 2009; Jacobson, 1988; Waring, 1996) argued that measuring organizational performance present a challenge. This is so, as it is not a one dimension theoretical construct and is not likely to be characterized with single operational measure. The common measures used to measure organizational performance include; financial market measures, mixed accounting/ financial market measures (Share holder value analysis, cash flow per share, market value added etc) survival and subjective measures.

Kaplan and Norton (1996) advocated for the use of balance score cards as ultimate measure of organizational performance. The balance scorecard explicitly covers domains of financial, customer outcome, innovation and internal process. The only limitation of the BSC is its focus on specific firms making inter firm comparison almost impossible.

All notwithstanding, Richard et al, (2009) observed that performance measures should not be made specific to research question but be sufficiently robust to cover the domain of organizational performance.

In conclusion, Richard et al (2009) noted that Organizational performance is one of the most important constructs in management research. Reviewing past studies reveals a multidimensional conceptualization of organizational performance related predominately to stakeholders, heterogeneous product market circumstances, and time. Organizational performance is important to scholars across the entire domain of management research. Strategy and accounting scholars seek to influence and measure organizational performance. Similarly, scholars in marketing, operations and human resource management seek to understand and improve performance, each adopting discipline-specific measures such as customer satisfaction, productivity and employee satisfaction (Chenall & Langfield-Smith, 2007).

However, understanding how discipline-specific measures load onto the dimensions of organizational performance and the interrelationships between specialist measures is essential to understanding the relationships between multiple organizational actions. This makes the valid measurement of an overarching performance construct important in allowing researchers in fields such as strategy, marketing and human resource management to appreciate the linkages between the phenomena they study and to have a basis of ready comparison as to the veracity of their discipline based research.

1.1.3 Parastatals in Kenya

Parastatals began as State Owned Corporations (SOC's) established in the colonial era to drive growth and development in Kenya. After independence, the governments revised the SOC's to enable participation of Kenyans in national growth. In the 1990's, the corporations were marred with corruption and controversy which lead advocates to push for a change in strategy and governance in SOC's (Wamalwa, 2013).

Recommendations were given that SOC's be partially privatized to increase efficiency in service delivery and accountability. This gave birth to parastatals that are run independently from politics (Kihara, 2013). Due to this independence, parastatals have stable systems that ensure they remain up and running even in times of political turmoil in the country as was seen in the 2007/2008 post election violence. Each ministry in the Kenyan government has a number of parastatals to help it operate efficiently. In each ministry, different parastatals work alongside each other and are interdependent for effective delivery of services.

The formation of parastatals gave government institutions an opportunity to develop and compete fairly with private institutions. This has resulted to excellence in government performance as is evident in the continued growth and success of parastatals such as the various public universities, Capital Markets Authority and KRA among others (Kihanya, 2013).

Kihanya (2013) noted that parastatals are some of the leading job providers in the market, both directly and indirectly. Directly, there is a large number of Kenyans and some none Kenyans citizen working in parastatals as salaried employees and casual laborers. Indirectly, parastatals outsource services and goods from the private sector through tenders providing business to a wide range of Kenyans. The economic importance of parastatals cannot be sidelined both in revenue provision and in consumption. The citizens therefore have a right to know availability of these jobs and the procedure involved in acquiring them.

Understanding the formation and governorship of parastatals will give Kenyans an insight into the functioning of the government. The running of parastatals in itself is a complexity; each parastatal has board of members headed by a chairperson. Depending on the ministry under which the parastatal functions, the chairman has various roles and responsibilities. The managing director or vice chancellor for universities who is a member of the board oversees the day-to-day running of the parastatal or institution (Njagi and Malel 2012)

1.2 Statement of the Problem

The rapid growth and development of outsourcing amongst organizations is an important factor in focusing on organizational performance. It is a driving force for structural change to improve the service delivery to final customer along the supply chain. Even though Zeichick (2004) found out that revenue enhancement through real time processing in outsourcing; cost reduction through elimination of manual processes and improved efficiency in functioning of departments in the firms are some of the benefits that a firm gets from SCM outsourcing, he does not consider similar benefits with the respect to service performance to the consumers.

Kwong (2012) in his study concluded that businesses are gaining competitive advantage by outsourcing none core activities to a third party thereby expanding the network on different locations and even going internationally. The study also narrowed down to financial performance. A study by Rudolf Leuschner and Craig R. Carter (2013) concluded that outsourcing within the firms enable companies to perform well. However its findings are limited to the financial performance.

A study by Sang (2010) on the other hand found out that rapid expansion of companies' programmes and decentralization of their functions are as a result of outsourcing of some of their functions to a third party which leads to maintaining good supplier relationship, effective and efficient internal operation, flexible production processes. The study was however noted to be limited to the service performance when outsourcing. A study by Mutual (2012) found out that outsourcing among Kenya supply chain firms has enhanced the performance on cost reduction, company growth, elimination of waste, focusing on strategic course etc. However, this study has not touched on service performance in relation to outsourcing.

Early research on outsourcing and performance mainly focused on transactional costs but later on strategic themes were addressed in the overall organizational context (chalos 1994). A number of studies have been carried out on outsourcing strategy and the role it plays in the current business environment, good examples include Mwangangi (2007), Nyambura (2007), Machoka (2008), Mwando (2010), and Rono (2011) some of these studies were in outsourcing in an IT context while others relate to the Impact of human capital outsourcing on organizational performance. Although a number of studies have been done on strategic outsourcing, it was still unclear what tools were used to measure the effectiveness of an outsourcing to an organization and to what extend outsourcing affects the performance of the said organization if at all. This research therefore intended to address the following questions; what is the extent of outsourcing in parastatals in Kenya? What is the impact of outsourcing on the performance of parastatals in Kenya? And finally what are the challenges of implementation of outsourcing in parastatals in Kenya?

1.3 Research Objectives

This study consisted of three main objectives as follows;

i. To determine the extent of outsourcing in parastatals in Kenya ;
ii. To determine the relationship between outsourcing and parastatals performance in Kenya; and
iii. To determine factors affecting implementation of outsourcing in parastatals in Kenya.

1.4Value of the Study

Policy and strategic decision makers in Kenya will make use of the findings of this research project in understanding the extent at which outsourcing can enhance organizational performance.

The findings may further help stakeholders such as suppliers, procurement officers and human resource officers, finance officers and heads of department on how to attach performance onto the decision to outsource, knowing that outsourcing should have a direct linkage on performance.

The study findings may help to inform the different organizations on different ways of how outsourcing can be made relevant to organizational performance.

Finally, the findings may be of great use to the academia, especially those who may wish to carry out further research on outsourcing and performance. It may build on the existing body of literature and knowledge.

CHEPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section is organized into four parts. The first part covers theoretical literature review on outsourcing and performance reviewing related theories. In the second part, the study considers outsourcing practices in an organization, third part covers organizational performance. The study also focuses on impact of outsourcing on organizational performance and challenges in implementation of outsourcing in parastatals. The chapter also provides the research gaps identified and a comprehensive conceptual framework

2.2 Theoretical Literature Review

One of the major discussions in strategy concerns the determinants of firm performance. Academics from various backgrounds have focused on explaining firm performance and on identifying the sources of inter-firm performance differences (McGahan and Porter 1997). Researchers in the industrial-organization tradition, for example, have argued that industry structure is a central determinant of firm performance and contend that the structural features of an industry effect the competitive position of all business units in that specific industry (Chang and Singh 2000).

However, the inability of the industrial-organization tradition to provide a rigorous explanation for intra-industry heterogeneity in performance has stimulated strategy researchers to focus on the firm itself with more emphasis on outsourcing (Chang and Singh 2000). As a result, firms were no longer viewed as identical "black boxes" in a given market structure but as dynamic collections of specific capabilities influenced by differing organizational structures and specific strategic decisions (Hawawini and Verdin 2003).

The organizations that have used outsourcing for many years know that with the positives it brings to the organization that it is also important to have a well managed plan of action for hiring a consultant or contractor for a business task (Ten Raa & Wolf, 2001). This includes deciding which projects or tasks to outsource, whom to hire for these tasks, how to manage the outsourced services, how to agree on payment terms, and how to achieve the desired results.

Schmidt-Ehmcke (2010) identifies two major methods of outsourcing, that is partial outsourcing and entire outsourcing. Organizations may outsource part of their activities but it is entirely possible to outsource practically every business process within an organization. Usually when an organization outsources part of its activities, the focus is on retaining the core activities and allowing other organizations handle the non-core activities on its behalf. This type of outsourcing involves specialization in those activities in which the outsourcing organization has a competitive advantage in their handling and those which it other organizations have a competitive advantage they are handled on behalf of the outsourcing organization.

Görg & Hanley (2004) also categorizes outsourcing into two methods/techniques. They are outsourcing activities/functions to companies or hiring manpower from companies and execute the company's activities/functions. Both these methods have their own advantages and disadvantages. However, it depends on the company's requirement to choose one among those. Kremic, Tukel and Rom (2006) categorize outsourcing into six methods that government institutions use. These include contracting out, public-private partnerships, volunteers, load shedding, franchising and vouchers. Contracting out typically involves a competitive bidding process in which Requests for Proposals (RFPs) are disseminated to eligible vendors.

Some government institutions require contractor registration prior to bidding while others independently select potential contractors based on experience and reputation. Contractor proposals are then evaluated and a decision is made based on either a cost or "best value" basis. Contractor performance is then monitored and managed in view of predetermined service goals.

Public-Private Partnerships are cooperative arrangements between governments and private organizations to jointly fund or operate a particular program, project or service. Public-private partnerships typically involve concerned local stakeholders helping to provide a program, project, or service of a particular value to a local community or neighborhood. Such arrangements benefit both the government and the private organizations involved by undertaking a valuable service, project or program that could not be carried out independently by either entity. Volunteers or volunteer associations are often called on to provide public services highly valued by community members for no cost to the government institution. Load shedding involves government relinquishing the responsibility for providing services or operating a program. Most often, this is done with the understanding that another entity, public or private, will buy the public assets associated with the service or program and offer these itself.

Franchising involves the licensing of private service providers to exclusively provide public services in a particular area. Private vendors then charge area residents fees for the services they provide. Vouchers are often used to enhance the competition and availability of a service to residents without direct government service provision.

Kremic, Tukel and Rom (2006) also categorized outsourcing into three methods/techniques: cost driven outsourcing, strategic driven outsourcing and political

2.3 Outsourcing Practices

Different types of outsourcing strategies have been identified in Literature (Outsource Online, 2011; Dana, 2012; Harward, 2013; Power et al., 2013; Wikipedia, 2013a; 2013b; & Hafeezrm,
2013) according to Landers (2006) the most commonly outsourced business activities can be classified into three general categories based on the type of activity. The first category requires highly skilled expertise or executive positions, such as accounting or financial activities. The company, most especially a start-up one, does not have to pay a monthly CFO salary. Instead, there are qualified CFO-level professionals that you can temporarily hire, only when necessary, to accomplish financial statements, provide financial analysis and perform general billing functions.

The second category comprises of highly repetitive business tasks, such as secretarial or clerical duties, accounts payable, shipping inventory, distribution, human resource, sales and marketing. The last category is outsourcing highly specialized business functions, such as Information Technology (IT), Project Management (PM), engineering, construction or customer support. IT is considered to be one of the largest areas of outsourcing that involves the right skill set from professionals that will constantly adapt to the changing needs of the company

ICT outsourcing can be carried out in many combinations depending on the component of services scope that is outsourced and the responsibilities attached to the outsourced contract. Different authors describe ICT outsourcing arrangements differently. Mohamed (2007) noted that there are four types of ICT outsourcing categories, which are total outsourcing, insourcing, selective sourcing and strategic alliance/joint venture.

In Kenya, Information Technology and Communication (ICT) outsourcing practices are evolving as many organizations continue to identify its opportunities and benefits. This upward trend will likely keep growing as increasing fiscal pressures, citizen demands and workforce attrition drive both governments and public sectors to explore new operating models with embedded ICT technology.
Since outsourcing ICT has received much attention and has become a widespread worldwide phenomenon both in the private and public sectors, Kenya has the opportunity to become a key player in the global outsourcing arena especially in the role of outsourcer. It needs to position itself correctly or it will lose that opportunity.

The ICT outsourcing strategy is widely associated with cutting costs, launching of new business ventures and improving efficiency. However, the literatures have emphasized the risks associated with ICT outsourcing project implementation and identifying information security risks is one of the critical risks in the process intellectual properties. According to Khidzir (2013) ICT risks are caused by lack of control on threats and vulnerabilities. These threats may be natural or man-made circumstance or event that could have an adverse or undesirable impact, minor or major, on organizational asset. Mohamed (2007) also stated that vulnerability which refer to the absence or weaknesses of a safeguard in an asset that makes a threat potential more harmful or costly, more likely to occur, or likely to occur more frequently in ICT outsourcing.

However for effective implementation of ICT outsourcing, Linder (2009) stated that managing risk explicitly is one of the critical success factors. Reed (2010) agreed that it is important to perform active risk management throughout all stages of the outsourcing lifecycle. However, the first step in a good risk management program is to identify the risks and produce a list of risks that have the potential to minimize the ITO from delivering on time, within budget and to an acceptable level of quality. Identifying risks is the process of developing an understanding of the potential unsatisfactory outcomes associated with a particular project.

In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons. According to analysts, companies usually cite cost reduction as the most crucial reason for HR outsourcing. There are a number of reasons, at both the strategic and operational level, why firms want to outsource HR activities. Many share similarities with the outsourcing of other organizational functions. In particular, demands for increased productivity, profitability, and growth have forced organizations to examine their internal HR processes, resulting in a move toward strategic outsourcing services and away from discrete services.

As Greer, Youngblood, and Gray (1999) observe, HR outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for HR services. Downsizing and tougher competition mean that the HR functions is under increasing pressure to demonstrate value, both in terms of efficiency and effectiveness (Roberts, 2001). Although some elements of the HR functions may have always been performed by external service providers, outsourcing HR is also seen as an effective way to bypass organizational politics and improve efficiency

Outsourcing is never a fix for poor internal systems, Wright stressed. "You have to fix your own processes within the company first, before outsourcing, or you will have a bigger headache on your hands than when you started."

For decades, outsourcing has been an integral part of most global supply chain management (SCM) operations. At many companies, in fact, the rise of third party logistics entities such as DHL and Bollore logistic has resulted in the elimination of in-house transportation fleets; likewise, the high-technology and automotive industries frequently outsource some or all of their manufacturing operations, thus making it possible for them to focus on activities such as research, product design and marketing.
The study of Smith (2012) investigated outsourcing and supply chain performance among mobile telephone service provides in Kenya. This study established the relationship between outsourcing and supply chain performance among mobile phone service providers. Supply chain performance was measured from operation system responsiveness, logistic process responsiveness, supplier network responsiveness and competitive advantage. Results of the study indicate that supplier network responsiveness has the greatest impact on outsourcing while operating system responsiveness has the greatest negative effect on outsourcing.

Supply chain system responds rapidly to charges in product volume demanded by customers and to changes in product mix demanded by customers. Further results show that supply chain effectively expedites emergency customer orders, rapidly reconfigures equipment to address demand changes, rapidly changes manufacturing processes to address demand changes and rapidly adjusts capacity to address demand changes. However, some degree of relevance of Smith (2012) research to the present study can be found in the relationships between outsourcing and supply chain performance for mobile telephone service producers. The major differences between these two studies have been in performance metrics.

According to Magutu et al., (2013) logistics outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance, on the other hand Gilley et al., (2004) says outsourcers who know how to manage the process can enhance their company's performance and achieve a high level of satisfaction with the results Outsourcing not only results in a shift of profitability but also exacerbates the productivity differential between outsourcing firms and vendors.

Leaders of corporate in Kenya are always working to increase profits and build shareholder equity Mokua (2012). Increasing sales and decreasing costs are two of the most effective ways to reach these goals. Outsourcing is a common practice to reduce costs, increase sales and still focus on core competencies. Companies regularly outsource their legal, security, technology and web maintenance departments. Equally effective, is outsourcing the sales and marketing function.

Crant (2000) observed that outsourcing allows the organizations to gain greater sales results with fewer dollars. The representative firm builds trains and maintains the sales force, while the firms provides technical training to the Reps along with samples, literature and other support. Using a network of Rep firms with synergistic product lines provides the ability to explore new markets and opportunities while keeping close to current Customers in a cost-effective manner

2.4 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.).

Organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management. This broad construct is essential in allowing researchers and managers to evaluate firms over time and compare them to rivals. In short, organizational performance is the most important criterion in evaluating organizations, their actions, and environments. This importance is reflected in the pervasive use of organizational performance as a dependent variable (March and Sutton 1997)

The narrower domain of organizational performance provides the useful potential to make meaningful comparisons across firms and industries. However, what is evident is that even with a narrower domain organizational performance is not a one-dimensional theoretical construct nor is it likely to be characterizable with a single operational measure. Although the multi-dimensionality of performance is recognized in accounting (e.g., Callen, 1991) and finance (e.g., Henri 2004) and discussed theoretically in the management literature (Venkatraman & Ramanujam, 1986), empirically the lack of consistency in the measurement of organizational performance in management research has revealed a surprising lack of researchers "walking the walk".

The study of the relationship between ownership and performance is one of the key issues in corporate governance which has been the subject of ongoing debate in the corporate finance literature. The relationship between firm performance and ownership identity, if any, emanate from Agency Theory. This theory deals with owners and manager's relationship, which one way or the other refers to ownership and performance. In relation to performance according to Javid and Iqbal (2008), the identity of ownership matters more than the concentration of ownership.

This is so because ownership identity shows the behavior and interests of the owners. Ongore (2011) argues that the risk-taking behavior and investment orientation of shareholders have great influence on the decisions of managers in the day-to-day affairs of firms. According to Ongore (2011), the concept of ownership can be defined along two lines of thought: ownership concentration and ownership mix. The concentration refers to proportion of shares held (largest shareholding) in the firm by few shareholders and the later defines the identity of the shareholders. Morck et al. in Wen (2010) explained that ownership concentration has two possible consequences.

Specifically, ownership identity is one of the factors explaining the performances of firms across the board; yet the level & direction of its effect remained contentious. There are scholars who claimed that foreign firms perform better with high profit margins and low costs compared to domestic owned firms (Farazi et al., 2011). This is so because foreign owned firms are believed to have tested management expertise in other countries over years. Moreover, foreign firms often customize and apply their operation systems found effective at their home countries (Ongore, 2011). It is also assumed that private firms crossing boundaries are often those big and successful ones. For instance in countries such as Thailand, Middle East and North Africa region, it was found that foreign firms performance is better than domestic counterparts (Azam and Siddiqui, 2012; Chantapong, 2005; Farazi et al. 2011). The study conducted in Pakistan by Azam and Siddiqui (2012) concluded that "...foreign firms are more profitable than all domestic firms regardless of their ownership structure by applying regression analysis." They further suggest that "...it is better for a multinational firm to establish a subsidiary/branch rather than acquiring an “existing player” in the host country." Moreover, Chantapong (2005) by studying domestic and foreign firm performance in Thailand concluded that foreign banks are more profitable than the average domestic banks profitability. It is also supported by Okuda and Rungsomboon (2004) that foreign owned firm in Thailand are found to be efficient compared to their domestic counterparts due to modernized business activities supported by technology, reduced costs associated with fee-based businesses and improved their operational efficiency. These indicate that in the area studied above foreign firms were found to be more profitable than their domestic counterparts. The major reason behind these assertions is that foreign firms were believed to be strong & efficient.

2.5 Outsourcing and Organizational Performance

Essentially 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 (as cited in Görg & Hanley, 2004) on the boundaries of a firm. Since then, a large body of literature has been concerned with analyzing the determinants of this “make-or-buy decision”, focusing on the role of incomplete contracts, specific assets and transactions costs (Bolton & Whinston, 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 economize on production cost, in particular labor cost (Abraham & Taylor, 1996) by substituting in-house production with the buying-in of components.

Supporters argue that outsourcing is simply about keeping costs down in response to competition, which will allow firms to stay competitive (Kane, Schaefer & Fraser as cited in DeMaiolo, 2009). In addition, competition among firms created by outsourcing ensures that lower costs are passed on to consumers in the form of lower prices. In this sense, outsourcing has an effect similar to a technological change that lowers cost in production (Hubbard & O„Brien, 2006).

Outsourcing, from the business perspective, allows firms to offer competitive rates and expand efficiency. Another supporting argument emerges from Boston University Professor Nitin Joglekar [who]…found that less than 20% of workers affected by outsourcing lose their jobs; the rest are repositioned within the firm, thus implying that increased efficiency.

According to Littler and Benson (2002), the first and most prominent reason for choosing outsourcing is to minimize business costs. Research has shown that companies can save as much as sixty percent of their business costs when they choose outsourcing. This is possible because those companies that supply outsourcing services have adequate resources, personnel etc needed to conduct that business function under consideration. Additionally, such companies may be located in other regions or countries that supply input at a lower price than in the country of normal operation. For instance, some Asian countries giving call care services charge very little for their services owing to the fact that labor supply in these countries is cheap and they can then trickle down these low costs to respective consumers in the Western world.

Recent evidence from practitioners casts some doubt on the benefits of outsourcing. A UK survey by Manpower focusing on the benefits accruing to firms from outsourcing services, found that 68 percent of firms outsource at least some services, the main motivation being cost reduction (http://www.manpower.co.uk/news/OutsourcingSurvey .pdf). Chong, Dolley, Houghton and Monroe (2009) in their study compared the cost-efficiency of „in-house□ and outsourced financial audits in the public sector. The results showed that outsourced audits were, in general, more costly than in-house audits, but this result was conditional on the type and size of public agency. Specifically, outsourced audits were more costly than in-house audits for small statutory authority audits, whereas for specialist audits (i.e. hospitals) and large and complex statutory authority audits, the in-house supply was equally efficient as the outsourced service.

Relating to productivity, the main reasoning is that the productivity of firms is determined by their potential to minimize production costs via allocating inputs to their most efficient use (Paul & Yasar,

2009). Firms therefore assess the productivity of their in-house production and compare it to outside suppliers. If external suppliers can provide a comparable service cheaper – e.g. due to benefits of economies of scale and centralization of expertise – certain tasks may be subcontracted.
According to Amiti and Wei (2006), one channel by which outsourcing may increase productivity is by allowing a firm to shed its relatively inefficient parts of the production process and expand its output in stages it has comparative advantage.

Similarly, Wamalwa (2003) argued that outsourcing is a viable option to any company because it takes away attention from dealing with other aspects of the business that have nothing to do with the core business functions of a company. Companies can therefore concentrate on aspects of business that they encircle their business objectives and this eventually improves their business functions.

Feenstra (2007) notes through outsourcing the gain in firm productivity may translate to higher real wages due to the drop in prices for final goods. Lin & Ma (2009) found a positive, albeit weak relationship between material outsourcing and Korean productivity. By contrast, service outsourcing had a negative impact on total factor productivity in Korea.

Outsourcing also gives companies the opportunity of expanding (Woolson & Speckhals, 2001). Since a company is concentrating on their core business functions while other companies deal with other aspects, then chances are that productivity will be heightened and the level of quality emanating from such a business enterprise will increase. The overall effect of such an approach is that many persons may now have the opportunity to improve their business values. This then gives them a platform for improving their business sizes.

Outsourcing is also chosen by many enterprises because through this business approach, it is possible to save on valuable time (Smith, 2004, pp. 16). Usually, companies that outsource can make faster deliveries to their respective consumers. The overall result is that consumers' needs are satisfied. All clients consider prompt delivery as a positive business attribute and this may keep them coming back to that respective business.

2.6 Factors Affecting Implementation of Outsourcing

The outsourcing implementation is when "the rubber meets the road." It is the critical juncture in the outsourcing relationship where: required planning should already be defined in order to initiate the change. Secondly the future groundwork is laid for the enterprise-wide relationship between the client and service provider. Lambert (2009) noted that outsourcing implementation comes with a lot of challenges. Based on his interviews and analysis, the number one problem in outsourcing implementations is a lack of understanding of post-contract processes and decision rights. The results are that services simply aren't performed, implementation activities get stalled, client stakeholders and service provider staff are both frustrated, and the entire schedule for achieving expected business benefits is delayed.

The first practice that draws universal consensus among outsourcing advisors is clarity of goals and objectives on the client side, Mutual (2012). There are many reasons why firms decide to partner with external providers, but each situation is different. Companies should understand their own drivers and priorities, and should rank and rate their criteria. It's critical that this determination be an inclusive process, with plenty of stakeholder communication and participation (Hawawini and Verdin 2003). Just as lack of stakeholder involvement is often cited by project experts as a key reason for project failure, lack of inclusion creates unacceptable risks for outsourcing programs.

Transitioning to outsourced operations is difficult Kihanya (2013). When done well, the transition brings benefits to fruition faster; when done poorly, a transition can impede operations. There are two parts to ensuring a smooth transition: First, the current operations must proceed uninterrupted; second, there must be a parallel initiative to transition seamlessly to outsourced operations. Sang (2010) observed that to ensure a strong transition, companies must analyze the requirements for their outsourced operation, and design, build, test, and deploy each stage of the project, with formal approval at each stage.

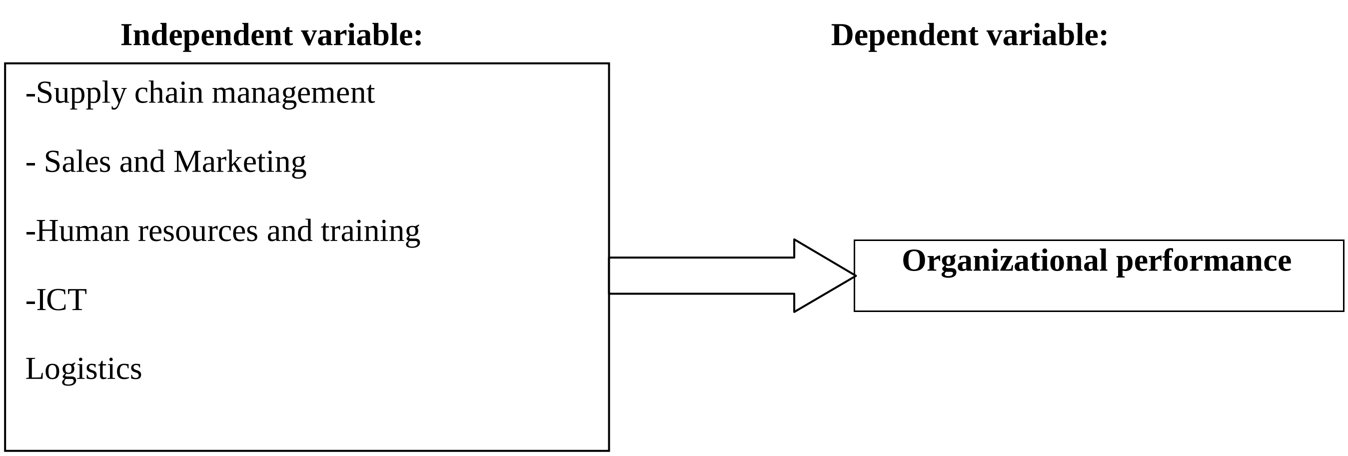
According to Baily et al. (1998) an outsourcing relationship has started, the background work does not cease—it requires ongoing coordination to sustain operational excellence. Both the company and outsourcing partners must develop processes, and adopt project and workflow management tools.

Richard et al, (2009) also observed that it is also important to create thorough documentation, including process maps, procedures manuals, and operations plans. These documents should include standard operating procedures for change requests and issue tracking and resolution. Companies need proper documentation to understand the process and respective responsibilities, and to help bring new team members on board

Socialization and marketing of the decision to outsource is another key best practice and is especially important due to the impact that outsourcing can have on employees' livelihoods and daily work life Kwong (2012). Companies are more likely to be successful when they market and communicate the rationale for outsourcing, using the opportunity to generate enthusiasm rather than fear and resentment for the outsourcing decision. Schmidt (2010) noted that internal marketing efforts are more likely to be successful when senior managers clearly demonstrate their belief in, and commitment to, the outsourcing efforts. Many outsourcing providers go so far as to insist on an internal executive champion to clearly emphasize to the stakeholder community that the decision is strategic.

2.7 Conceptual Framework on Organizational Performance

Figure 2.1 Conceptual framework



Source; Research data (2014)

CHEPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter has dealt with the research design methodology that has been used in the study. The chapter is organized into subheadings which include research design, target population, data collection and data analysis.

3.2 Research Design

This study adopted a descriptive survey research design. A descriptive research is a process of collecting data in order to test the hypotheses or answer questions concerning the current status of the subjects in the study (mugenda and Mugenda 1999). They pointed out that the purpose of a descriptive research is to determine and report the way things are done. In this case, the research problem is the impact of outsourcing on the performance of parastatals in Kenya.

This research design has been adopted for the study because of the need to collect cross sectional data and conduct comparative study.

3.3 Population and Sample

The population of study consists of all the142 registered parastatals in the Government of Kenya 2013 (appendix 1).

Parastatals were stratified according to the ministry they fall under. The sample size will be calculated as follows

$$n = \frac{z^2pqN}{e^2(N-1) + z^2pq}$$

Where;

n=sample size, z=z-score, that is the value of the standard variate at a given confidence level. For this study the confidence level is 95% hence z-score is 1.96

p=sample proportion,   q=1-p.

Kothari (2013) reiterates that for p=0.5, n will be the maximum and the sample will yield at least the desired precision.

N= population of interest,   e=error margin or precision rate, for this study it will be ±10%.

Based on the above formula a sample of 58 parastatals was drawn from the population. Kothari (2013) asserts that when a sample size is obtained using the above formula it is considered optimum because it fulfills the requirements of efficiency, representativeness, reliability and flexibility. The sample that was drawn using the stratified random sampling technique is shown in the table below.

Table 3.1 Sample size

Category (stratum)	Population (Ni)	Sample size (ni)
National treasury	13	5
Ministry of water and natural resources	13	5
Ministry of transport and infrastructure	16	7
Ministry of agriculture	28	11
Ministry of education	18	8
Ministry of energy	9	4
Ministry of commerce and tourism	13	5
Ministry of industrialization	12	5
Ministry of health	7	3
Ministry of land housing	7	3
Office of the president	6	2
Total	142	58

Source; Research Data (2014)

$n_h = (N_h / N) * n$, where n_h is the sample size for stratum *h*, N_h is the population size for stratum *h*, N is total population size, and n is total sample size.

3.4 Data Collection

This study involved the use of primary data. The data have been collected using questionnaires that were administered to the head of department of procurement and finance or their equivalents of the sampled parastatals; these were to total up to 116 respondents but only 98 questionnaires were received. Questionnaires were both open and closed-ended questions (munn and Drever, 2004) and were administered through drop and pick method.

The questionnaire consisted of four parts. Part A collected general information, part B focused on the extent of outsourcing in the parastatals, part C determineed the impact of outsourcing on performance of parastatals, and finally part D determined the challenges of the implementation of outsourcing in parastatals.

3.5 Data Analysis

The data collected was checked for completeness and comprehensibility. The data were then be summarized, coded and tabulated. Descriptive statistics such us means, standard deviation and frequency distribution will be used to analyze the data. Data were entered into the statistical package for social science (SPSS) for analysis. SPSS were used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables.

Regression analysis was used to establish the extent, to which the twelve independent variables transport, logistics, procurement, legal services. Payroll maintenance, security services, ICT warehousing, sales & marketing, human resources &training and research and analysis explain the impact of outsourcing on performance of parastatals.

The model is depicted as follows

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + \ldots\ldots\ldots\ldots + b_iX_i + \varepsilon_i$

Where:

Y is Organizational performance, a-is the Y intercept when x-is zero

b_1, b_2 and b_3 are the regression weights attached to the variables

X_1= Supply chain management X_3=ICT

X_2=Sales and marketing X_4=Human resources and training X_5=Logistics

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish how outsourcing affects organizational performance in parastatals in Kenya. This chapter presents the analysis, results and the discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 116 questionnaires were issued out. Of the 116 questionnaires issued out, only 98 were returned. This represented a response rate of 84% and this was considered satisfactory for the analysis.

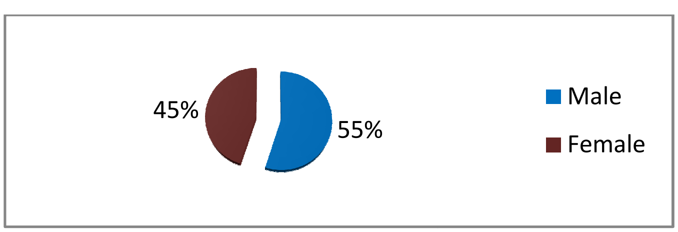
4.2 Profiles of the Respondents

This section presents the characteristics of the respondents as follows: gender, age, level of education, management level and length of continuous service with the company.

4.2.1 Respondents Gender

The researcher sought to establish the respondents' gender and the research findings indicated that, 55.1% were male while 44.9% were female. The finding on the gender of the respondents shows that the field of Procurement and finance is largely dominated by male employees. This is in line with other researches that show women numbers are on the rise in professional careers in Kenya and Africa as more and more get access to education as shown in figure 4.1.

Figure 4.1: Respondents Gender



Source; Research data (2014)

4.2.2 Respondents age Bracket

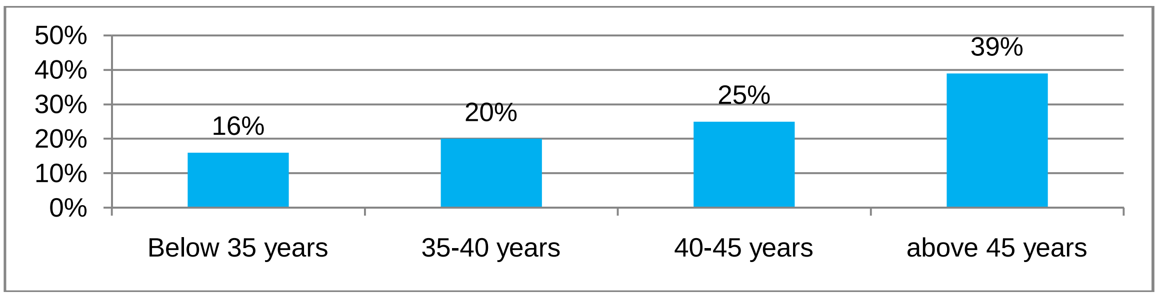
The respondents were requested to indicate their age bracket.

Table 4.1: Respondents age bracket

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 35 years	16	16.3	16.3	16.3
	35-40 years	20	20.4	20.4	36.7
	40-45 years	24	24.5	24.5	61.2
	above 45 years	38	38.8	38.8	100.0
	Total	98	100.0	100.0	

Source; Research data (2014)

Figure 4.2 Respondent age bracket



Source; Research data (2014)

The results in table 4.1 indicates that 16.3% of the respondents were below 35 years, 20.4% of the respondents were between 35 and 40 years, 24.5% of the respondents were between 40 to 45years while 38.8% of the respondents indicated that they were above 45 years. The results indicate that majority of the respondents were above forty five years. With the majority of the staff being over 40 years, they will be nearing their retirement age and it will be necessary for the organization to have to introduce younger staff in the levels of respondents to facilitate a flawless succession program and also introduce new views in the decision making process.

4.2.3 Respondents Level of Education

The respondents' were asked to indicate the level of education they have attained and the results are presented in table 4.2.

Table 4.2 Respondent level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High school	3	3.1	3.1	3.1
	Tertiary College	9	9.2	9.2	12.2
	Undergraduate degree	48	49.0	49.0	61.2
	Master degree	38	38.8	38.8	100.0
	Total	98	100.0	100.0	

Source; Research data (2014)

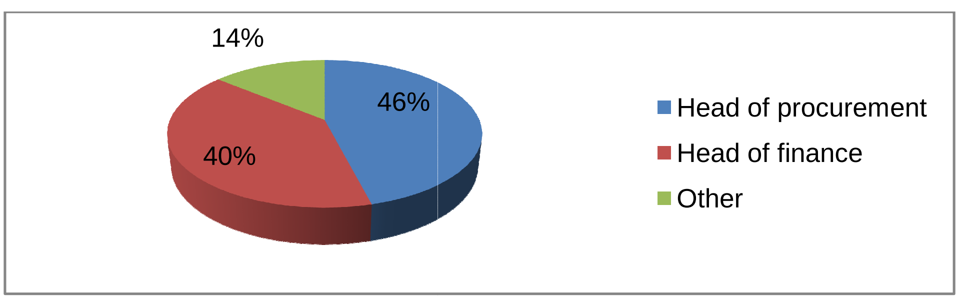
The results presented in table 4.2 indicate that 3.1% of the respondents only attained high school level, 9.2% of the respondents had attained tertiary college level, 49% of the respondents were undergraduate degree holders, and 38.0% had attained master degree level of education. The results indicates that majority of the respondents were university degree holders and above an indication that the company's' employees have pursued university education.

The staff in the organization can be said to be well trained and have the necessary education to steer the company to greater heights. It is therefore necessary for the management to come up with necessary reward system to retain the same staff. It is also necessary for the management to involve this cadre of staff in decision making and preferable a bottom- up decision making need to be adopted in the company to capture the expertise in the these staff.

4.2.4 Level of Management

The respondents were asked to indicate their departments and the results are presented in Figure 4.2.

Figure 4.3 level of management

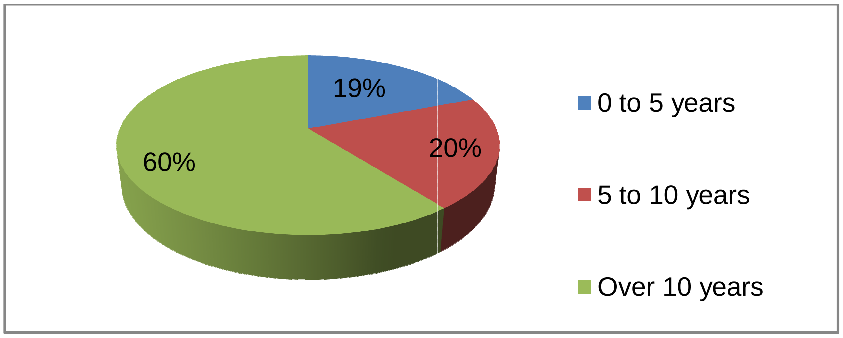


Source; research Data (2014)

The results in figure 4.3 indicate that 46% of the respondents were from procurement, 40% of the respondents were from finance while 14% of the respondents were from other departments. The results indicates that majority of the respondents were from procurement.

4.2.5 Length of Continuous Service

Figure 4.4: Length of Continuous Service



Source research data (2014)

The results in figure 4.3 indicates that 60% of the respondents have been working in the company for over 10 years, 20% of the respondents indicated that they have worked in the company for between 5 to 10 years while 19% of the respondents indicate that they have worked in the company for less than 5 years. The results indicate that majority of the respondents have worked for the company for more than five years and thus they understand the impact of outsourcing training services. The implication of this trend is that the companies need to come up with adequate knowledge management policy to preserve the acquired knowledge and retain the same in the case of a loss of an employee. The company should also include a mechanism of rotating the staff in all section and avoid a situation where staff stay long in a section develop an 'empire building' situation.

4.3.1 The Extent of Outsourcing in the Parastatals

Firms should consider outsourcing when it is thought that certain functions can be accomplished faster, cheaper, or better by another organization. Outsourcing of training services enables organizations to take advantage of a whole host of benefits and it is fast becoming the preferred model among organizations looking to focus on their core competencies as well as reduce risk, decrease costs and improve the efficiency and effectiveness of all training activities (Elmuti, 2003).

The respondents were requested to indicate the services they consider important from service providers in outsourcing of training services in a five point likert scale. The range was 'no extent (1)' to ‘very large extent’ (5). The scores of very low extent and low extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; (0≤ S.E <2.4). The scores of ‘moderate extent’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale: (2.5 ≤M.E. <3.4) and the score of both great extent and very great extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; (3.5≤ L.E. <5.0). A standard deviation of >0.7 implies a significant difference on the impact of the variable among respondents. The results are presented in table 4.5

Table 4.3: Extent of outsourcing in the parastatals

	N	Mean	Std. Deviation
ICT	98	4.1122	0.92928
Logistics	98	4.0204	0.8613
Sales and marketing	98	3.8163	1.04878
Supply chain management	98	3.7755	0.1.29655
Human resource and training	98	2.9286	1.37166
Valid N (listwise)	98		

Source; Research data (2014)

The results in table 4.3 indicate the level of outsourcing at the major functions of the parastatals, ICT (mean 4.1122), logistics (mean 4.0204), sale and marketing (mean 3.8163), supply chain management (mean 3.7755), and human resources (mean 2.9286). The low variation of standard deviation indicates that the respondents were unanimous on extend of outsourcing of major functions of the parastatals.

4.3.2 Extent to which Outsourcing has affected the Performance

The respondents were asked to indicate the extent to which outsourcing has affected the organizational performance.

Table 4.4 Effect of outsourcing on performance

	N	Mean	Std. Deviation
Operational costs	98	4.1327	.94855
Performance of contract	98	3.9592	.92968
Service quality	98	3.796	.9944
Enhance management advantage	98	3.7449	.98767
Technical capacity	98	3.6122	1.05158
Cycle time to asset turnover	98	3.7449	.98767
Market share compare to past year	98	3.5102	1.06727
Customer service e.g. retention rates	98	3.4796	1.02775
Productivity e.g. efficiency rate, percentage of hours spent on production.	98	3.4082	.99314
Valid N (listwise)	98		

Source; Research Data (2014)

The findings in table 4.4, shows to what extent has outsourcing affected the perceived performance. The company wants to improve its focus on operational cost (mean 4.1327), service quality (mean 3.796). The reasons which were also being considered by the company to a moderate extent for outsourcings of its functions were technical capacity (mean 3.6122), performance of contract (mean 3.9592), and improved cultural compatibility (mean 2.6223), enhance management advantage (mean 3.7449), market share (mean 3.4087), customer service (mean 3.4082), productivity (mean 3.4082) and cycle time (mean 3.5102) The low variation of standard deviation for the factors was an indication that the respondents view of the reasons for the company outsourcing of its functions were unanimous.

4.3.3: Relationship between Outsourcing and Performance

Table 4.5: Relationship between outsourcing and performance

Adoption of outsourcing	N	Mean	Std. Deviation
Well developed manufacturing processes	98	2.7245	1.25822
Better accountability/management	98	2.4082	.97216
Legal compliance	98	2.3878	1.08059
Sharing and reducing risks	98	2.3265	.91691
Gaining recognition around the industry	98	2.2653	.99017
Achieve economies of production	98	2.2041	.82436
To attain a competitive advantage	98	2.2041	.93013
Reduced business operation costs	98	2.1939	.88117
Well developed the technological advances	98	2.1735	.82519
More focus on and improve core competence areas	98	2.1633	.92718
Efficiency in the business operations	98	2.1122	.97264
Improved customer service delivery processes	98	2.0306	.77929
Lack of trained and qualified manpower	0		
	0		

Source; Research Data (2014)

The factors that are improved due to outsourcing of business functions were found to be efficiency in business operations (mean 2.1122), reduced business operation cost (mean 2.1939), economies of productions (mean 2.2041), well developed technology advance (mean 2.1735), well developed manufacturing process (mean 2.724), improved customer service (mean 2.0306), improved core competence (mean 2.1633), competitive advantage (mean 2.2041), gain recognition (mean 2.2653), legal compliance (mean 2.3878), reduced risk (mean 2.3265) and better accountability (mean 2.4082) .There was unanimous agreement among the respondents on the factors improving firm performance through outsourcing.

4.3.4 Factors affecting implantation of outsourcing

Table 4.6: Factors affecting implantation of outsourcing

Factors	N	Mean	Std. Deviation
Internal assessment of criticality of business activities	98	2.5816	1.01457
Supplier relationship	98	2.4694	.98655
Time service is delivered	98	2.3265	.95005
Transitioning to outsourced operations	98	2.2959	.98660
Supplier selection	98	2.2449	.86228
Quality of service	98	2.2449	.83803
Supplier management	98	2.1939	.91559
Valid N (listwise)	98		

Source; Research Data (2014)

The respondents were asked to indicate the factors that have positively or negatively affected the implantation of outsourcing in their parastatals in a five point Likert scale. The range was ‘very high (1)’ to ‘very low’ (5). The scores of very high have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; (0≤ S.E <2.4). The scores of ‘average’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale: (2.5≤M.E.<3.4) and the score of both high and very high have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; (3.5≤ L.E. <5.0). The results are presented in Table 4.8.

4.3.5: Risk of Outsourcing of Firms Functions.

The respondents were asked to indicate the risks of outsourcing business functions.

Table 4.7 Risk of outsourcing

Risk of outsourcing	N	Mean	Std. Deviation
Low quality work	98	3.6531	.92058
Loss of confidentiality	98	3.0714	1.10528
Over reliance of external parties	98	2.7653	1.09168
Limited flexibility	98	2.6837	.89208
Limited time	98	2.6633	.94098
Loss of command of outsourced service	98	2.2449	.85024
Loss of control in decision making	98	2.1531	.85376
Valid N (listwise)	98		

Source; Research Data (2014)

The results in table 4.6 were that the risks which the company faces in outsourcing of its functions: loss of command of outsourced service (mean 2.1531), over reliance of external parties (mean 2.7653), loss of confidentiality (mean 3.0741), loss of control in decision making (mean 2.1531), limited flexibility (mean 2.6837), low quality work (mean 3.6531) and limited time (mean 2.6633). The results indicate that the company is faced by various risks if they outsource training services and these could affect achievement of the intended objectives.

4.4 Regression Analysis

The determinants of firm performance were investigated from the results of the respondents. From Table 4.4.1 below, the established multiple linear regression equation becomes:

$Y= -1.329 + 0.018X_1 + 0.0033X_2 + 0.118X_3 + 0.306X_4 + 0.015X_5$

Table 4.8: Results of General Least Square

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.329	.796		1.670	.098
	Supply chain management	-.018	.074	-.023	-.238	.813
	Sales and marketing	-.033	.092	-.035	-.355	.724
	Human resources and training	-.118	.070	-.167	-1.696	.009
	ICT	.306	.105	.292	2.924	.004
	Logistics	.015	.111	.014	.137	.891

Source; Research Data (2014)

The intercept of the vertical axis has a value (1.329) and means that the points where the independent variables are zero then the performance will be negative. Holding other factors constant, a unit increase in outsourcing of supply chain would lead to .018 decrease in organizational performance, a unit increase in outsourcing of sales and marketing would lead to .033 decrease in organizational performance, a unit increase in outsourcing of human resource and training would lead to .118 decrease in performance, a unit increase in ICT outsourcing would lead to .306 increase in organizational performance and finally a unit increase of logistics outsourcing would lead to .015 increase in organizational performance. There is a positive significance relation between organizational performance and ICT p=.004. This means that ICT is a suitable predictor of Y given that the significant level used is 5%. This means that for every unit increase in measure of ICT, the measure of performance increases by 0.306 units. These findings however differ with
Asiago's (2013) findings where he found out that, in cement industry, supply chain management is the most essential in firm performance.

Business efficiency=1.329-1.67*HR training+2.92*ICT
Main factors influencing business operations efficiency is the use of ICT (p=0.004)
The independent variables in this case explain about 12.3% (R2=1.23) of the total variation in business operations efficiency

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.351[a]	.123	.075	.93529

Source; Research Data (2014)

Source: researchers' computation

Table 4.9 indicates that there is an R^2 value of 12.3%. This means that 35.1 % of the changes in the firm's performance are explained by the changes in the independent variables in the model. The remaining 64.9% of the changes in the Y is explained by other factors not in the model. The C is the constant, where the regression line intercepts the y axis, representing the amount the dependent y will be when all the independent variables are 0. Here C is1.329 -; the probability of the coefficient is significant.

Table 4.10 F TEST for the Full Model-ANOVA Table

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.287	5	2.257	2.580	.031[a]
	Residual	80.479	92	.875		
	Total	91.765	97			

Source; Research Data (2014)

F TEST for the Full Model-ANOVA Table

The study used ANOVA to establish the significance of the regression model from which an F-significance value p>0.031was established. This shows that the regression model has less than 0.031 likelihood (probability) of giving wrong prediction which in 5% significance level will not be adequate for use. However at 10% significance level, the model is relevant in determining the impact of outsourcing on the performance of parastatals in Kenya. Hence, the regression model is in overall statistically significant, meaning that it is a suitable prediction model for explaining how outsourcing affects the organizational performance and the extent.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary, conclusions, recommendations, suggestions for further studies and limitations of the study.

5.2 Summary and Discussions

The study found out that in order to ensure that they outsource the business functions to the organization that will offer services which meets the standards they desired, the company should consider past supplier performance, competence, cost, flexibility, right time, qualification, professionalism, experience, reputation, right quality of service and type of relationship. The reasons which the company advances for outsourcing of business functions were found to be the need to improve its focus, improve efficiency and access skills and resources not available in-house and due to pressure from business environment.

Outsourcing of the services will enable the company to concentrate on its core functions which would enable the company to achieve strategic advantage and at the same time act as a means in which a business condition or problem can be alleviated in a manner that is more efficient or effective than in-house performance of logistics functions or ICT functions. The study established that the performance of firms were being influenced by quality of service, supplier management, supplier relationship, supplier selection, human resources and training, ICT, Sales and marketing , time, service delivered and the internal assessment of criticality of business activities.

Although outsourcing of business function is essential to companies, the respondents indicated that as a result of outsourcing business functions, the company is faced by risks emanating from loss of command of outsourced service, over reliance of external parties, loss of confidentiality, loss of control in decision making, limited flexibility, low quality work and limited time.

The performance of the business was indicated as being affected by poor structures to manage the outsourcing function well, poor planning, failure to adhere to quality systems, high rates of redundancies, holding unrealistic expectations, outsourcing before being really ready, increase in costs of administering the outsourcing function, providing unclear specifications and dilution of control e.g. the corporation does not have control over the quality. The risks and challenges facing the company as they outsource need the management of the company to have a guiding methodology.

The benefits accruing to the company as a result of outsourcing business functions were found to be reduced costs, productivity, focus on core competence and strategic flexibility. Reduced costs emanates from the charges outsourcing firm’s access to economies of scale and the unique expertise that a large outsourcing vendor can deliver. Since these outsourcing contract receivers are typically servicing many clients, they often achieve lower unit costs than can any single company. Outsourcing of non-core activities allows the organization to increase managerial attention and resource allocation to its core competence and rely on management teams in other firms to oversee tasks at which the outsourcing firm is at a relative disadvantage. This focus can improve results by allowing the firm to be more effective, more innovative and more skilled in those activities.

5.3 Conclusion

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance, however it is essential that the right partners are selected based on past supplier performance, competence, cost, flexibility, right time, qualification, professionalism, experience, reputation right quality of service as these will enable the company to get the most from outsourcing of business functions and eventually lead to closer ties and relationships. The study established that the performance of the supply chain was affected by various factors which include quality of service, supplier management, supplier relationship, supplier selection, time service delivered and the internal assessment of criticality of business activities. Despite the benefits of outsourcing business functions accruing to the company, the study found out that the company faced risks resulting from loss of command, over reliance of external parties, loss of confidentiality, loss of control in decision making, limited flexibility, low quality work and limited time.

Outsourcing of business functions by the firms would result in numerous benefits which includes reduce costs and improvement of its competitive position, increased productivity through increased managerial attention and resource allocation to those tasks that it does best, focusing on the core competence differentiating market outputs so that they can match the market segment precisely and strategic flexibility through changes in external flexibility, functional flexibility, change in product range, workplace flexibility and internal flexibility.

5.4 Recommendations

The study found out that the organizational performance was affected by factors resulting from non-adherence of outsourcing process and it is recommended that the company should have a formal outsourcing process so that they can make decisions which would result to management of risks and securing added value and continuous improvement. The study established that the company faced risks such as loss of command of outsourced service, over reliance of external parties, loss of confidentiality, loss of control in decision making, limited flexibility, low quality work and limited time. It is therefore recommended that the organization should put all measures in place to ensure that they do not face severe losses as a result of outsourcing the services. It was found out that the company derives benefits which include reduced, increased productivity, core competence focus and strategic flexibility. It is recommended that the company should not be contended with the benefits and outsources more services as outsourcing of some services does not yield the expected benefits.

5.5 Limitations of the study

The findings of this study should be viewed in light of a few limitations. The use of questionnaires to gather relevant information on the extent of outsourcing on performance should be noted. The use of additional data collection methods such as observation in order to enhance the richness and depth of future studies should be considered.

In addition, access to internal organization documents like board minutes, policies and procedures which could provide more insight into the strategic thinking of the management would greatly have contributed towards a more pragmatic review and analysis. Also most of the senior managers were not available for interview.

5.6 Recommendations for further research

Since this study has revealed the success of outsourcing of none-core activities in parastatals in Kenya, it would be interesting to study firm(s)/ government arms that have not had good results with outsourcing strategy adoption and much more a firm that has had disastrous results. Probably by so doing, the conclusions of the study would help in indicating to the approaches/tactics that don't work for new strategy adoption. More insight could be derived from that and help in understanding some of the reasons that have led to some firms failing in new strategy adoption.

The researcher proposes that a study be conducted to determine the extent to which outsourcing adoption has impacted on the staff turnover in an organization. A study can also be done to establish the relationship between outsourcing adoption and organizational effectiveness. Another area of interest would be to find out if there is competitive advantage derived from outsourcing adoption in government ministries.

Finally, this study is limited to the extent that its focus is on a specific country and industry/sector, Kenya and the parastatals respectively. It is recommended that for a start, a similar study be undertaken within a region wide context and findings compared to the Kenyan context. This will provide a basis upon which the industry in Kenya can be rated for its outsourcing adoption against the other countries in the region.

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APPENDIX 1

PART 1: GENERAL INFORMATION

1. Name of the parastatals…………………………………………………….

2. Gender

   Male [ ] Female [ ]

3. Kindly tick the age bracket you belong as per below

   Below 35 years [ ] 35-40 years [ ]

   40-45 years [ ] above 45 years [ ]

4. What is your level of education?

   High school [ ] Tertiary College [ ]

   Undergraduate degree [ ]

   Master degree [ ] Others (specify……………………..)

5. What is your position in this organization?

   Head of procurement [ ] Head of finance [ ]

   Others (specify…………….)

6. Length of service in this organization?

   0 to 2 years [ ] 2 to 5 years [ ]

   5 to 10 years [ ] Over 10 years [ ]

SECTION 2: EXTENT OF OUTSOURCING IN THE PARASTALS

7. To what extent has your parastatal outsourced its functions (outsourcing practices) to improve its performance? Use a scale of 1 to 5, where 1=no extent, 2=little extent, 3=moderate extent, 4=large extent and 5=very large extent

Outsourcing Practices	**1**	**2**	**3**	**4**	**5**
Supply chain management					
Sales and marketing					
Human resources and training					
ICT					
Logistics					
Any other outsourcing practices (please specify)					

8 To what extent has outsourcing affected the following perceived performance of your organization? Use a scale of 1 to 5, where 1=no extent, 2=little extent,

3=moderate extent, 4=large extent and 5=very large extent

Perceived Performance for outsourced activities	**1**	**2**	**3**	**4**	**5**
Operational costs					
Service quality					
Technical capacity					
Performance of contract					
Improved cultural compatibility					
Enhanced management advantage					
Market share compared to past years					
Customer service e.g. retention rates					
Productivity e.g. efficiency rate, percentage of hours spent on production.					
Cycle time to asset turnover					

SECTION 3: RELATIONSHIP BETWEEN OUTSOURCING AND PERFOEMANCE

1. (Elmuti, 2003), Outsourcing is consider as one of the strategy in improving firm performance, on a scale of 1 to5 **where 1 is Very High**, **2 is High**,**3** is **Average 4** is **Low and 5** is **Very Low.** To what extent do you think each of the listed perceived performance relates to outsourcing?

Adoption of Outsourcing	**1**	**2**	**3**	**4**	**5**
Efficiency in the business operations					
Reduced business operation costs					
Achieve economies of production					
Well developed the technological advances					
Well developed manufacturing processes					
Improved customer service delivery processes					
More focus on and improve core competence areas					
Lack of trained and qualified manpower					
To attain a competitive advantage					
Gaining recognition around the industry					
Legal compliance					
Sharing and reducing risks					
Better accountability/management					

SECTION 4: FACTORS AFFECTING IMPLENTATION OF OUTSOURCING

10. Outsourcing as is said to influence the organizational performance through various factors, some of the factors are listed here-below. On a scale of 1 to
5 **where 1 is Very High**, **2 is High**, **3** is **Average 4** is **Low and 5** is **Very Low.** To what extent do you think each of the listed factors has contributed to the performance?

Factors	1	2	3	4	5
Internal assessment of criticality of business activities					
Supplier selection					
Supplier management					
Supplier relationship					
Quality of service					
Time service is delivered					
Transitioning to outsourced operations					

11. To what extent do you agree with each of the following as risk of outsourcing?

Risk	Strongly agree	Agree	neutral	Disagree	Strongly disagree
Loss of control in decision making					
Loss of command of outsourced service					
Limited time					
Limited flexibility					
Low quality work					
Loss of confidentiality					
Over reliance of external parties					

Thank you very much for your time

APPENDIX 2

1 National Treasury

1 Kenya Revenue authority
2 Retirement Benefits Authority
3 Kenya Re-Insurance Corp.
4 Capital Markets Authority
5 Consolidated bank of Kenya
6 Deposit Protection Fund Board
7 Kenya Post Office savings Bank

8 Kenya Accountants & Secretaries Examination Board (KASNEB)
9 Kenya National Assurance (2001) Limited
10 Central Bank of Kenya
11 Capital Markets Tribunal
12 State Corporations Appeals tribunal
13 Kenya Institute for Public Policy Research and Analysis 1

2. Ministry of water and natural resources

1 National Water Conservation & Pipeline Corporation
2 National Irrigation Board
3 Kenya Water Institute
4 Water Services Regulator Board
5 Lake Victoria South Water Services Board
6 Coast Water Services Board
7 Northern Water Services Board
8 Water Services Trust Fund
9 Rift Valley Water Services Board
10 Lake Victoria North Water Services Board
11 Athi Water Services Board
12 The Tana Water Services Board
13 Water Resources Management Authority

3.Ministry of Transport and Infrastructure

1 Kenya Airports Authority
2 Kenya Railways Corporation
3 Kenya Ports Authority
4 Kenya Ferry Services Limited
5Transport Licensing Board
6 Kenya civil Aviation Authority
7 Transport licensing Appeal Tribunal
8 Kenya Roads Board
9 Kenya National Shipping Line
10 Ministry of Information, Communications& Technology (ICT)
11 Communication Commission of Kenya
12 Postal Corporation of Kenya
13 Telkom Kenya Ltd.
14 Kenya Broadcasting Corporation
15 Kenya Film Commission
16 The Kenya Information & Communication Technology

4.Ministry of Agriculture, Livestock & Fisheries

1Tea Board of Kenya 2 Pyrethrum Board of Kenya

3 Horticultural Crops development authority 4 Coffee Board of Kenya

5 Agricultural Finance Corporation. 6 National Cereals & Produce Board

7 Kenya Plant Health Inspectorate Board 8 Kenya Sugar board

9 Nzoia Sugar Company 10 Chemilil Sugar Company

11 Kenya Sugar research foundation 12 Pests control Products Board

13 Central Agricultural Board 14 Nyayo Tea Zones Development Corporation

15 Agricultural development Corporation 16 Kenya Seed Company

17 Kenya Agricultural research Institute 18 Coffee Research Foundation

19 Tea research foundation 20 Sugar Arbitration board

21 Agricultural Information resource Centre 22 Kenya Sisal Board

23 Bukura Agricultural College 24 Kenya dairy Board

25 Kenya Meat commission 26 Kenya Marine & Fisheries Research Institute

27 Co-operative College of Kenya 28 New Kenya Co-operative Creameries Ltd

5.Ministry of Education

1 National council for Science & Technology (NCST) 2 Public Universities Inspection Board

3 University of Nairobi 4 Moi University

5 Egerton University 6 Jomo Kenyatta University of Agriculture & Technology

7 Kenyatta University 8 Maseno University

9 Kenya National examination Council 10 Kenya Literature Bureau

11 Jomo Kenyatta Foundation 12 Kenya Institute of Education

13 Kenya Education staff Institute 14 Commission for Higher Education

15 Higher Education Loans Board 16 Teacher's Service Commission

17 Western University College of science and Technology 18 Kenya National library services

6.Ministry of Energy & Petroleum

1 Kenya Power and Lighting Company 2 Kenya electricity Generating Company (KenGen)

3 Kenya Pipeline Company 4 National Oil Corporation of Kenya

5 Kenya Petroleum Refinery 6 Electricity Regulatory Board

7 The Energy Tribunal 8 Rural Electrification Authority

9 Energy Regulatory Commission

7.Ministry of Commerce&Tourism

1 Kenya Tourist Development Corp. 2 Kenya Tourist Board

3Catering Training & Tourism Development levy Trustees

4 Kenya Utalii College 5 Kenya Wildlife Services

6 Kenyatta International Conference Centre Corporation

7 Hotels& Restaurants Authority 8 Kenya Investment Authority

9 Export Processing Zones Authority 10 Ministry of Environment

11 Kenya Forest Service 12 Kenya Forestry Research Institute

13 National environmental Management authority

8.Ministry of Industrialization and Enterprise Development

1 Kenya National Trading Corporation 2 Kenya Wine Agencies Limited

3 Industrial & Commercial Dev. Corporation (ICDC) 4 Industry Property Tribunal

5 Numerical Machining Complex 6 Anti-Counterfeiting Agency

7 Kenya Industrial Property Institute 8 Kenya Agricultural & Development Institute

9 East Africa Portland cement 10 Kenya Industrial estates

11 Kenya Bureau of Standards 12 Industrial development bank Capital Limited

9.Ministry of Health

1 Kenyatta National Hospital 2 Kenya Medical Training College

3 National Hospital Insurance fund 4 Moi Teaching & Referral Hospital, Eldoret

5 Kenya Medical Research institute 6 Kenya Medical Supplies Agency

7 Radiation protection board

10.Ministry of Land, Housing and Urban Development

1 National Housing Corporation 2 Ewaso Ngiro North Development Authority

3 Ewaso Ngiro South Development Authority 4 Lake Basin Development Authority

5 Coastal Development Authority 6 Kerio Valley Development Authority

7 Tana & Athi River Development Authority

11.Under the office of the president

1 National Sports Stadia Management Authority
2 Kenya Cultural Centre
3 Kenya National Library services
4 National Disability Council
5 Gender commission
6 Public Archives Advisory Council