

**OUTSOURCING AND PERFORMANCE OF SAVINGS AND CREDIT CO-  
OPERATIVE SOCIETIES IN NAIROBI, KENYA**

**BY**

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**DECLARATION**

I declare that this Research Project is my original work and has not been submitted for examination in any other university.

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This Research Project has been submitted for examination with my approval as the university Supervisor

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## **DEDICATION**

This research project is dedicated to my beloved family without whom; my dreams of going to school would not have been possible; God bless you. It is also dedicated to my Husband and my two sons for their encouragement, patience, and understanding, in the course of my studies when they most needed my attention and whose prayers, love and tolerance have strengthened me all the time.

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## **ABBREVIATIONS AND ACRONYMS**

ANOVA	Analysis of Variance
BOSA	Back Office Services Activity
BPO	Business Process Outsourcing
CS	Customer Support
FM	Financial Management
FOSA	Front Office Services Activity
HR	Human Resource
HRM	Human resource Management
IT	Information Technology
ICT	Information & Communication Technology
ITES	Information Technology Enabled Services
KUSCCO	Kenya Union of Savings & Credit Co-operatives
MOCDM	Ministry of Cooperative Development and Marketing
SACCO	Saving and Credit Societies
SASRA	Sacco Societies Regulatory Authority
SPSS	Statistical Package for Social Sciences
TML	Transport Management and Logistics
WOCCU	World Council of Credit Union

## **ABSTRACT**

The purpose of the study was to establish the effects of outsourcing and performance of savings and credit co-operative societies in Nairobi, Kenya. The study was based on the following specific objectives: To establish the extent of service outsourcing by SACCOs, to establish the relationship between outsourcing and performance of SACCOs and to determine the challenges of outsourcing faced by SACCOs in Kenya. To meet the research objectives, the study targeted a sample size of 40 respondents from which 35 filled in and returned the questionnaires making a response rate of 87.5%. The target respondents were the Procurement and Finance Managers or their equivalents of each SACCO. The study used primary data that was collected through a self-administered questionnaire that consisted of both open and closed ended questions that were designed to elicit specific responses. Data analysis was done using a Statistical tool for Social Sciences (SPSS) and was analyzed and presented the specific issues through coding and summarizing the responses of all the respondents. Regression analysis was also performed in establishing the relationship between outsourcing practices and performance of SACCOs in Nairobi County. The findings of the study indicate that the adoption of outsourcing practices will in the long run determine their survival as they seek to reduce operating costs, improve customer satisfaction and timely delivery of services to their clients, improved public relations, improved customer survey, improved field sales, improved paperless operations in the organization, availability and proper flow of information, improved staffing, recruitment and improved training. Flexible outsourcing practices through appropriate research efficiently helps the business to meet the changing needs as well as addressing the challenges arising from a dynamic global business environment such as lack of employee training and motivation, limited resources, lack of top management support and resistance to change. The researcher therefore recommends that the SACCO's management teams need to embrace outsourcing initiatives to help them appreciate the direct impact of outsourcing. They should focus on both qualitative and quantitative aspects in their decision making and more sustainable outsourcing strategies integration across the group will yield synergies.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Firms have always sought ways to gain a competitive advantage over their competitors however, with the emergence of the global economy, advances in technology, increased social demands and inappropriate exchange rate regimes, organizations are forced to examine their performance and this has created a widespread desire for increased organizational profitability (Prescott, 2011). To cope with these changes organizations are seeking solutions and one of the most recent strategies which have become an important business approach is outsourcing.

The Cooperative movement in Kenya is an important player in the social economic development of this country. Cooperatives cut across all sectors of the economy and provide an important framework for mobilization of both human and capital resources. Savings and Credit Societies (SACCOs) act as an instrument for economic growth through influencing members toward social economic changes by way of adapting to innovation and technology (Maina, 2007). Efforts to spur growth in the sector have been considered with outsourcing being one of the strategies.

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 costs 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 (Handfield, 2012). Successful outsourcing requires a strong understanding of the organization's capabilities and future direction.

All organizations have core and non-core business activities. The core business of an organization is an idealized construct intended to express that organization's "main" or "essential" activity. A core business is a capability or skill that a firm emphasizes and excels in doing while in pursuit of its overall mission. The role of the non-core or supporting activities is to create the environment in which core business can be delivered efficiently and cost effectively. Non-core business activities are of no means unimportant, they are crucial in avoiding disruptions to production and product delivery (Lysons & Farrington, 2006)

### **1.1.1 Outsourcing**

Outsourcing is a phenomenon in which a company delegates part of its in-house operations to a third party with the third party gaining full control over that operation/process. The clients inform their provider what they want, how they want the work performed and the control of the process is with the third party instead of the parent company (Ono & Stango, 2009). Outsourcing is certainly informed by the 'make-or-buy' calculation, organizations have long contended with which activities to perform in-house and which to buy in the market (Ellram et al, 2008). The contracting out of production activities has occurred for many decades by firms seeking the advantages of specialization, efficiency and economies of scale.

According to Bendor-Samual (2010), the word outsourcing defines the process of transferring the responsibility for a specific business function from an employee group to a non-employee group. The answers lie in the fact that outsourcing provides certain leverage that is not available to a company's internal departments. Buligiu and Ciora (2008), added that organizations that outsource are seeking to realize benefits or address the following issue of cost savings by lowering the overall cost of the service to the business, operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable. Achieve a step change in quality through contracting out the service with a new Service Level Agreement (SLA). Services are provided through a legally binding contract with financial penalties and legal redress, this is not the case with internal services.

BPO is a part of the outsourcing business. It is referred to as Information Technology Enabled Services or ITES. It utilizes technology aimed at revamping the process, trimming own unnecessary steps, and eliminating redundancies. Iraki (2012) observed that Kenya's vision 2030 sees BPO as a fulcrum on which Kenya's future economic growth will hinge on. BPO is the rearrangement of entire business functions to some other service providers, primarily in low cost locations. Following the launch of Vision 2030 it states that BPO as an objective to transform Kenya into a middle income economy by 2030 and create new jobs. BPO may have been mainly viewed as one of the cost cutting measures. A number of activities are being implemented in pursuit of achieving the Kenya Vision 2030 objectives and its core mandate of developing an efficient and competitive business.

### **1.1.2 Organizational Performance**

Effective outsourcing has become a critical issue for organizational performance. Organizational performance is a process by which a firm assesses progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose) (Terrel, 2003).

Organizational Performance is the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable (Mahapatra, 2010)

According to Gilley et al., (2004) outsourcers who know how to manage the process can enhance their organizational performance and achieve a high level of satisfaction with the results. Outsourcing not only results in a shift of profitability but and the productivity differential between outsourcing firms and vendors. Market performance such as costs savings, cycle time, customer satisfaction, measures the effectiveness of outsourcing practices. Organizations which do not have better Organizational performance means in their processes, procedures, and plans experience lower performance and higher customer dissatisfaction and employee turnover (Artley & Stroh, 2011, Amaratunga & Baldry, 2012)

### **1.1.3 Outsourcing and Organizational Performance**

According to Barthelemy (2010), Outsourcing can improve organizational performance when applied as an organizational strategy. Organizational performance can increase in every dimension. The greatest increase in performance dimension is in continuous improvement. Decisions regarding significant functions are among the most strategic that can be made by an organization, because they address the basic organizational choice of the functions for which internal expertise is developed and nurtured and those for which such expertise is purchased. Most organizations measure their performance using financial and non- financial measures. Financial performance is the results of a firm's policies and operations in monetary terms. Financial performance is the results of any of many different activities undertaken by an

organization. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value (Cole, 2004). There are two major reasons as to why organizations should have financial performance measurement. The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance, (Johnson & Scholes, 2007)

Haber and Reichel (2005) argue that the most common non-financial measures adopted by organizations are number of employees, growth in revenue across time, market share and revenue per employee. These measures need to be reviewed and updated regularly ensuring that they remain suitable for the changing environments, competition, availability of resources, meeting the stakeholders needs and expectations, and fit into internal planning and target settings.

#### **1.1.4 Saving and Credit Cooperative Societies (SACCOs)**

Savings and Credit Cooperatives (SACCOs) are associations of people who have come together to form a democratically controlled organization with common goals geared at improving their livelihood economically. The Ministry of Cooperatives regulates the movement under the rules which were enacted in 1966 and revised in 2004. The Sacco Societies Regulatory Authority (SASRA) is a semi-autonomous Government Agency. It is a creation of the Sacco Societies Act 2008 and was inaugurated in 2009 charged with the prime responsibility to license and supervise Deposit Taking Sacco Societies in Kenya and the Co-operative Societies Act 2008. (Republic of Kenya, 2008 b) demands for greater accountability and real results have increased in SACCOS. As at 31st December 2011, Nairobi County annual report indicated that there were 1,102 active SACCOs, with a total membership of 795,541, Share Capital amounting to Kshs.11.78 billion while the member's savings/Deposits amounted to Kshs.110.57 billion (Njeru, 2012).

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. The core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement

of credit (Ofei, 2001). A SACCO offers its members competitive interest on their savings compared to those being offered by commercial banks. (The Sacco Star Magazine, 2012).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 (Co-operative Bank of Kenya 2010).

SACCOs have extended banking services to their members and even nonmembers. They have given members a chance to pool their resource together for re-investment in many areas such as provision of decent shelter for their families, healthcare, education, transport and benevolence (Mitchell, 2002).According to (Maina, 2007) SACCO are moving into areas of co-operative banking, which is locally referred to as Front Office Services Activity (FOSA). This is a radical departure from their earlier practice where their services were offered through the Back Office Services Activity (BOSA) under which they granted credit that could only be cashable in the local commercial banks.

## **1.2 Statement of the Problem**

The rapid growth and development of outsourcing is an emerging business area in many countries. Outsourcing is due to the difficulties experienced services in the flow and cost of goods and services in an organization. The three main causes of the problems included lack of specialist skills, poor quality applicants and pay inflexibility, all of which are particularly acute in an organization (Gupta & Zheuder, 2004).

A number of studies have been done in the area of outsourcing. Price Water House Coopers (2005) conducted a survey in the United States among America’s fastest growing companies, the conclusion arrived at was that businesses that outsource were growing faster, were larger and generated more profits than those that did not. The survey further revealed that, of the companies that outsourced, 70 percent claimed to save money and 25 percent had improved focus on core business. The goals of outsourcing often include reducing labour and overhead costs, maximizing profits, dominating a market, and gaining a competitive advantage. While this strategy looks quite promising, it is surprising to find that “more than one-fourth of outsourcing deals fail in the first year. Within the United States, problems have developed between vendors

and clients that have been likened to a failed marriage. Gonzales et al. (2006). Dunn and Bradstreet Barometer of Global Outsourcing (2010) reports that between 20% and 25% of all outsourcing relationships fail in any two-year period and half of the relationships will fail within five years due to lack of adequate strategy leading to low procurement performance.

Deloitte Consulting (2008) in their survey on the success of outsourcing concluded that almost seven out of ten firms had negative experiences with outsourcing projects; one quarter of the firms brought the outsourced activity back in-house; 62% found that outsourcing required more effort than anticipated; and 48% did not have standardized methodologies.

Mulama (2012) established that outsourcing practices led to firm's performance improvement as it resulted in increased productivity. Onyango (2014) concludes in his study that rapid changes in the business environment have enabled the firms to opt to outsource for them so as to enhance customer satisfaction and increase efficiency in operations in order to improve 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. The study sought to answer the following questions; what is the extent of Service outsourcing of SACCOS in Kenya? What is the relationship between outsourcing and performance of SACCOs in Kenya? And finally, what challenges do SACCOS face when they outsource their services?

### **1.3. Objectives of the Study**

The objectives of this study are;

- i. To establish the extent of Service outsourcing by SACCOs in Kenya.
- ii. To establish the relationship between outsourcing and performance of SACCOs in Kenya.
- iii. To determine the challenges of outsourcing faced by SACCOs in Kenya.

### **1.4 Value of the Study**

Various categories of Organizations will benefit from the study. The study provides information to SACCOs to evaluate the outsourcing practices and organizational performance. The study will



help the government of Kenya to formulate regulatory policies relating to outsourcing and performance through the newly established SASRA, and will establish whether regulating the co-operatives will instil confidence and security in the sector in Kenya.

The study determined the challenges of outsourcing faced by SACCO sector and evaluate whether outsourcing has been of any benefit and the impact on their performance.

The study findings are of importance to the management of SACCOs in Kenya as it will give insights to the management of the SACCOs on the effects of SASRA regulations on performance and the ultimate goal of ensuring growth, sustainable income and maximum benefit to the members.

Finally, future scholars and academicians will carry out further research on areas related to outsourcing and performance of SACCOs. There is inadequate literature in the field of regulations and the need for outsourcing. This will form a basis of review by researchers interested in the same areas of study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter involves a systematic process of identification, location and analysis of documents containing information related to the problem being studied. It examines earlier findings from various researchers and authors who have written about the concept of outsourcing and performance. The chapter will review theoretical and empirical literature on both outsourcing and performance and how the two relate to one another when applied to SACCOs.

### **2.2 Theoretical Review**

The outsourcing process is a complex structure consisting of numerous activities and sub activities, carrying many managerial dilemmas. It is no wonder that many theories have been utilized to help the academics to understand the nature of those activities, and to help practitioners successfully manage the process. It is knowledge that each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. From its occurrence, the outsourcing has been approached by different theories (Gottschalk and Solli-Saether, 2005).

#### **2.2.1 The Resource-Based View**

The Resource Based View (RBV) theory focuses on the internal resources of organizations. The core premise of the resource-based view is that resources and capabilities can vary significantly across firms, and that these differences can be stable (Barney & Hesterly, 1996). According to Kutsikos and Mentzas (2011) first the resource must have a value, expressed as being valuable for the organization. Second, the resource must be rare, which means that it must be unique or rare among the organization's competitors. Third, the resource must be imperfectly imitable, which means that it is not possible for the competitor to imitate the resource. And finally, the resource must be impossible to substitute, which means that the organization's competitors cannot substitute the resource. These attributes are rareness, imperfect imitability and substitutability.

Porter (1985) describes five competitive forces that determine the profitability of organizations and industries: suppliers, potential entrants, buyers, substitutes and industry competitors. The

five forces model rests on the assumption that firms have the same possibility to use and control strategically relevant resources.

In terms of the outcomes of outsourcing, the resource should be able to provide the ability to generate above normal rents. However, it may achieve a unique combination between the outsourced resource and other internal firm resources. Therefore the most prominent use of the theory in outsourcing process is for defining the decision making in the vendor selection phase for selecting an appropriate vendor (Aubert, 2004)

### **2.2.2 Transaction Cost Economics Theory**

This theory assumes that transactions are determined by production economics. Organizations are economic actors using the most efficient mechanism for transactions. TCE addresses outsourcing directly, as it deals primarily with firm boundaries (Williamson, 1981). The transaction cost approach offers an analytical framework in comparing outsourcing services and in house services (Lacity & Hirschheim, 1995). Transaction cost theory assist in predicting outsourcing success in terms of economic benefits. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The theory aims at explaining the characteristics of a structure such as contract or governance. Infrequency of contracting and environmental and relationship uncertainties are the determinants of the magnitude of transaction cost, which, in turn, provides a basis for the evaluation of outsourcing decision making.

TCE deals with both the experiences as well as the outcomes of outsourcing. The experiences to outsourcing according to TCE are asset specificity, small numbers bargaining, and imperfect information. All three of these have a negative relationship to outsourcing, i.e. higher values of these ideas results in lower outsourcing activity. In terms of the outcomes of outsourcing, increase in outsourcing will result in lower production costs of the market, but increased coordination costs of sourcing the goods from the market, so it does not consider competitive advantage when the potential for opportunism is not significant (Aubert, 2004)

Lacity and Willcocks (1995) Costs advantages are usually the primary reason cited by organizations that outsource. By switching from internal production, a firm is able to avail of the lower production costs that the market is able to provide. Internal production is more expensive

due to internal inefficiencies, moving to a market through outsourcing overcomes these inefficiencies.

### **2.2.3 Contingency theory**

Contingency theory is considered a dominant, theoretical, rational, open system model at the structural level of analysis in organization theory (Scott, 1992). The basic assertion of contingency theory is that the environment in which an organization operates determines the best way for it to organize. The position of the organizational theorist is that the best way to organize depends on the nature of the environment to which the organization relates (Scott, 1992). When making an analysis of the contingencies in the environment, a PESTEL analysis could be very helpful. An organization has selected, acquired and combined a set of resources that were available in the environment. The firm sees a need to exploit opportunities and counter the threats. Organizations that face a high degree of uncertainty in their environments, for example due to fluctuations in prices, may seek to ensure some stability by entering into outsourcing contracts (Koberg & Ungson, 1987).

This may be understood in context of resources with regards to outsourcing. An organization selects, acquires and combined a set of resources that were available in the environment. However, these resources may not be sufficient for it to meet its goals. This causes the organization to perceive a gap between its present capabilities and its intended capabilities. This gap may be also caused by the dynamics of the external environment. The changing environment may expose new opportunities and threats to the firm. This again causes the perception of a gap between the present resources of a firm and those needed to exploit opportunities and counter threats. The organization seeks to achieve a fit between the resources of the firm and the competitive environment by acquiring the resources in the gap either through outsourcing. Therefore, from the perspective of contingency theory environmental uncertainty or dynamism is an originator to outsourcing. We speculate that greater environmental uncertainty will lead to an increase in outsourcing (Donaldson, 2001)

### **2.3 Outsourcing Practices**

Outsourcing has been effecting changes that would be hard to implement internally, it also enables flexibility in that supply can be readily turned on and off. It offers an improved method of capacity management and of services and innovation of technology where the risk in providing the excess capacity is borne by the supplier. (Quinn, 2006). Many authors have come up with various outsourcing practices. For example, (Chanzu 2002) points out that outsourced practices consist of practices which includes: Human resources (HR), information technology (IT), logistics and Transport, Sales and Marketing, Management Services, Administration and Finance.

According Greer, Youngblood and Gray, (2006) Outsourcing of Human Resources Management function is a model of making decisions and ascertains that cost effects are the most important element in the decision which is becoming a standard business practice. 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.

Mumbi (2010) points out that recruiting and job description, training and development, job evaluation and employee relocation functions are highly outsourced by most companies in Kenya. This appears to encourage the measurement of value of human resource which comes about through the need for service level agreements and key performance indicators with a greater focus on customer satisfaction.

According to Folina (2003) Information Technology Management function is defined as "managing and controlling information handling processes optimally with respect to time (flow time and capacity), storage, distribution and presentation in such a way that it contributes to company results in concurrence with the costs of capturing (creation, searching, maintenance, etc). IT outsourcing has increased because of the rapid pace of technological change which makes it increasingly difficult for administration to keep up with this rate of change and

maintain all necessary in-house resources and capabilities. Kipsang (2003) revealed that IT outsourcing practices consist of maintenance, application development and website management.

Transport Management Logistics function is widely used for transportation services as well as the management of the transport companies providing the service. According to Stock and Lambert, (2009), logistics can have a great influence on performance of the firm. If inbound material flows from the supplier are erratic, the firm's internal operation will not be able to sustain their production strategies without a high level of safety stock. Similarly, if the flows of the finished goods to the customer are erratic, the firm's customer base will be dissatisfied. Thus, the performance of the firm's logistics operation can significantly influence both the cost and revenue of an operation.

Financial management function consists of auditing, tax compliance, cheque writing, financial reporting, billing, general accounting, and specialized training, insurance and legal. According to Bailey (2008) finance outsourcing is gaining momentum. The business functions suitable to outsource include: Payroll and benefits, procurement, payables, fixed assets, credit vetting and debtors collection. Finance outsourcing practices that firms outsource or plan to outsource include: Employee payroll, treasury and cash management, financial risk management, budget and forecasting, tax compliance and planning, travel, general accounting, expenses processing and financial system application.

Customer support function involves establishing effective partnerships with customers who are always seeking methods of continuous improvement in a firm to reduce costs. Customers expect value from the products they purchase and provide value to the consumers whom they interact. Outsourcing allows the organizations to gain greater sales results with fewer dollars. The representative firm builds, trains and maintains the sales force (William 2012)

## **2.4 Organizational Performance Measurement**

Firm performance measures varies according to various elements of the organization, including strategy, structure, environment, organizational learning, and resource. Different measurements have been adopted by different researchers for measuring performance (Jiang and Qureshi 2006). Ratios are used and classified according to the following performance aspects measured:

profitability, liquidity, leverage, and efficiency (Mwaura, 2005). These ratios can be computed directly using financial statement information. Valuation ratios are added with the traditional classification of ratios, which incorporate more current assessments by the market of the company's worth.

According to Johnson (2002) organizational Performance measurement systems along the line of the balanced scorecard have developed rapidly in recent years, and now occupy much management time and effort. The Balanced Scorecard is a tool that provides a method a management system that enables organization to set, track, and achieve its key business strategies and objectives. After the business strategies are developed, they are deployed and tracked of linking organizational strategies to activities and results. The BSC retains financial metrics as the ultimate outcome measures for company success, but supplements these with metrics from three additional perspectives customer, internal process, and learning and growth which are the drivers for creating long-term shareholder value. An organization using this framework is encouraged to develop metrics that facilitate collection and analysis of information from the following perspectives; financial, Customer, Learning and Growth and Internal Business Processes (Counsell, 2001)

## **2.5 Empirical Review**

Several studies had been carried out on the outsourced services and organizational performance but little had been done in the savings and credit cooperative societies (SACCOs) in Kenya. Therefore, a research gaps exists that need to be filled by doing a thorough study on the outsourced services and organizational performance in the savings and credit cooperative societies in Kenya. After critically reviewing the literature the researcher will identify the gaps that exist on the study of outsourced services. There are also very weak operational structures throughout the country as well as lack of capacity to make the SACCOs effective in championing their common interests within and outside the government.

In line with the WOCCU report (2005), stated that credit unions were 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 (Mudibo, 2005) there is lack of trust of board of directors by employees. 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. Board members in most cases are non-professional volunteers, yet they assume very highly technical tasks such as loan analysis and disbursement, budgeting and financial expenditure control.

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. 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 & Wilson, 2008).

## **2.6 Challenges of Outsourcing**

Some of the major potential obstacles to outsourcing include Lack of employee training and motivation, Limited resources, Lack of top management commitment, Negative attitude from employees which leads to loss of critical skills, Resistance to change by employees, Lack of clear benefits from outsourcing i.e. cost and profit allocation, difficulty in obtaining organizational support and broad involvement (Kremic, 2006)

McIvor and Humphreys (2012), Misunderstanding of outsourcing and the indecisiveness on which activities to outsource, inadequacy cost analysis systems and profit allocation benefit, Conflicts with other initiatives of the firm are among the commonly cited inhibitors to outsourcing. But all these concerns can be addressed and minimized by companies who go about the outsourcing process in an informed and deliberate fashion. Many companies take strategic considerations when making outsourcing decisions.

## **2.7 Summary of Literature Review and Knowledge Gaps**

The literature review introduced the subject of outsourcing and how firms try to survive in dynamic competitive environment. Outsourcing is a managed process of transferring activities to be



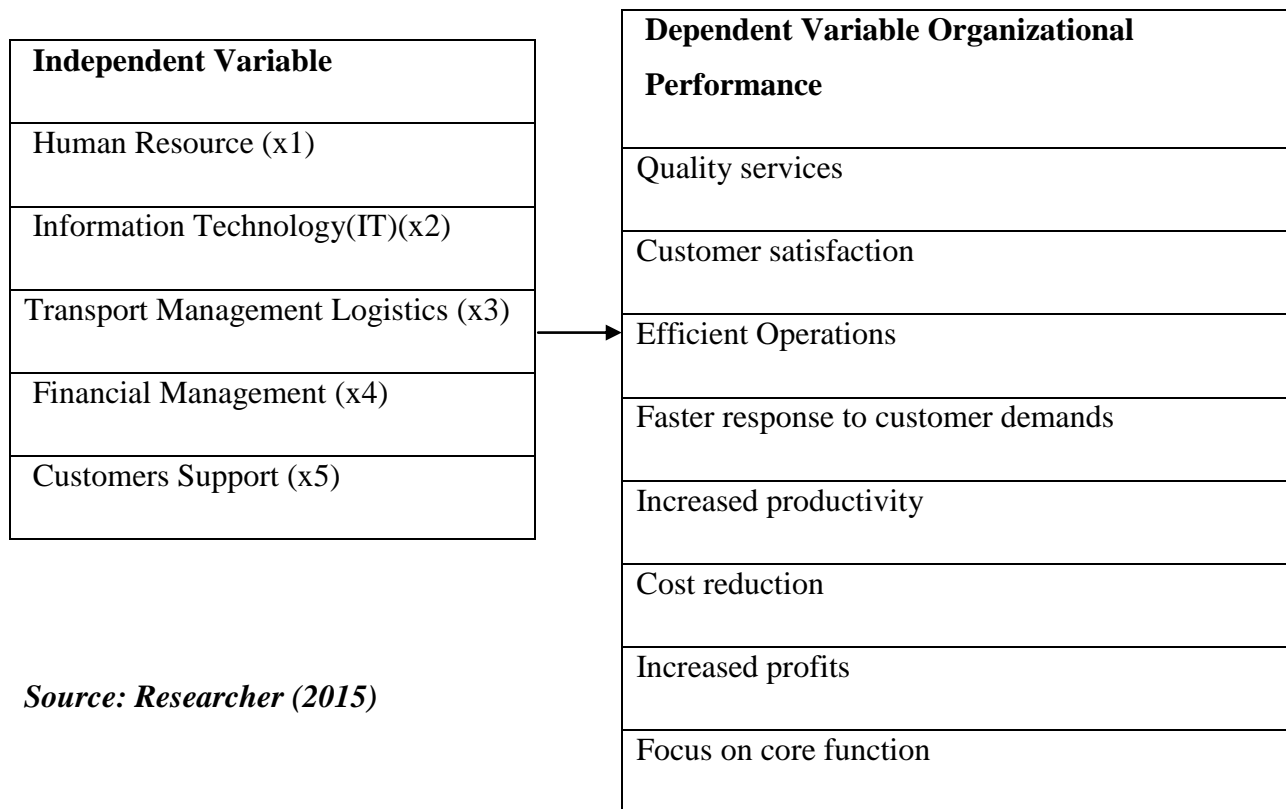
performed by others. Organizational performance is the results of any of many different activities undertaken by an organization. Common examples of performance include operating income, earnings before interest and taxes, and net asset value (Cole, 2004). So there is a need to outsource the activities in SACCOS to fill the gap.

**Table 2.1 Summary of Findings**

<b>Author</b>	<b>Study</b>	<b>Major findings</b>	<b>Limitations and Gaps</b>
Ono & Stango (2009)	Firms Use of Outside Contractors.	Study identified that outsourcing is significant for make or buy decisions.	The research focused on outsourcing decisions and how they affect organizational performance.
Bendor-Samual (2010)	Cashing in on competition.	Study adopted outsourcing process as transferring responsibility.	The research focused that on the outsourcing leverage that is not available to a company's internal departments.
Price Water Coopers (2005)	Evolution of BPO in India Price Water	The goals of outsourcing often include reducing labor and overhead costs.	The study found that outsourcing required more efforts than anticipated.
Deloitte Consulting (2008),Dunn and Bradstreet of Global outsourcing (2010)	HR outsourcing: threat or opportunity and outsourcing relationships.	The benefits of outsourcing are cost savings, restructuring, improved quality, capacity management, operational expertise and staffing issues.	Both studies stated how deals fail within a short time because the lack adequate strategy. Many firms brought the outsourced activity back in-house because of failure to realize the hidden costs generated a contract.
McIvor and Humphreys (2012)	Challenges of Outsourcing:	The study identified that outsourcing is a challenge and it can be addressed and minimized by companies.	Study defined lack of overall post-outsourcing measurements and methodologies.

## 2.8 Conceptual Framework

Conceptual framework according to Thompson (2010) can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Its aim is to assist a researcher to develop awareness and understanding of the situation under scrutiny. It highlights the study variables and illustrates the underlying relationships. In this study the conceptual frame work is base of on effects of outsourcing on costs, economics of scale and the focusing on core activities as independent and dependent is the outcome or impacts of outsourcing which leads to organizational performance and cost saving as explained below,



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter deals with the research methodology that was applied in conducting the study. It was to discuss the research design, target population, sampling design and sample size, data collection procedures and instrument, determination of reliability and validity as well as data analysis techniques.

### **3.2 Research Design**

This study adopted a descriptive research. A descriptive survey was used in explaining the relationship between variables in a study. It was applied in laying more emphasis in determining the frequency with which the variables are implemented or the extent to which the variables co-vary (Kothari, 2004). Descriptive survey was used in establishing the relationship between outsourcing and performance of SACCOs in Nairobi City County.

### **3.3 Target Population**

The target population for the study consists of 40 SACCOs in Nairobi County which are regulated by SASRA 2015 (refer to appendix II). For the purpose of this study, a census was carried out since the population was small.

### **3.4 Data Collection**

The study used primary data that was collected through a self-administered questionnaire that consisted of both open and closed ended questions that was designed to elicit specific responses. The questionnaires had four sections. Section A contained questions on the bio-data of the SACCOs, Section B was addressing the extent of service outsourcing by SACCOs in Nairobi City County, Kenya; Section C was establishing the relationship between outsourcing and performance of SACCOs, while Section D determined the challenges of outsourcing faced by SACCOs. The target respondents were the Procurement and Finance Managers or their equivalent of each SACCO.

### 3.5 Data Analysis

The research was both qualitative and quantitative in nature. Quantitative data was analyzed through the combination of descriptive statistics particularly frequency distribution, percentages, mean and standard deviation. Inferential statistics such as regression and correlation was used to analyze qualitative data. Statistical tool for Social Sciences (SPSS) was used to analyze and present the specifics issues through coding and summarizing the responses off all the respondents.

**Table 3.1 Summary of Findings**

Objectives	Questionnaire	Data Analysis
General Information	Section A of the questionnaire	Descriptive
Extent of outsourcing by SACCOs in Kenya	Section B of the questionnaire	Descriptive
Impact of outsourcing in an organizational performance of SACCOs in Kenya.	Section C of the questionnaire	Correlation and regression analysis
Determine the challenges of outsourcing faced by SACCOs in Kenya	Section D of the questionnaire	Descriptive

**The linear regression equation was of the form;**

$$Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + e$$

Where: Y= Outsourcing Performance, a= the Y intercept where, b<sub>1</sub>,b<sub>2</sub>,b<sub>3</sub>,b<sub>4</sub> and b<sub>5</sub>, are regression coefficient of **x<sub>1</sub>** Human Resource **x<sub>2</sub>** = Information Technology(IT), **x<sub>3</sub>** = Transport Management Logistics, **x<sub>4</sub>** = Financial Management, **x<sub>5</sub>** = Customers Support **a** and **b** are regression constants, **e** is the error term.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTREPRETATION

### 4.1 Introduction

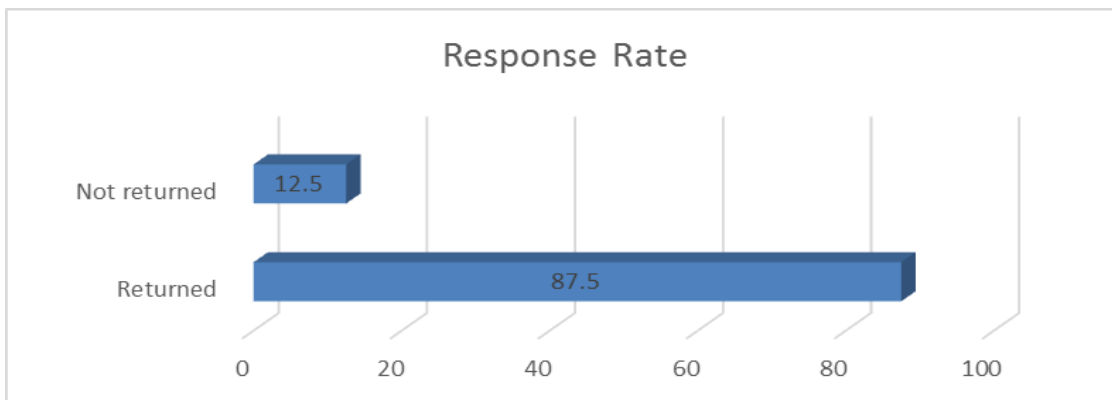
This chapter provides a summary of the data analysis, results of the study and the interpretation of the results of the study. The results were presented on the outsourcing and performance of savings and credit co-operative societies in Nairobi, Kenya. The study was based on the following specific objectives: To establish the extent of Service outsourcing by SACCOs in Kenya, to establish the relationship between outsourcing and performance of SACCOs, and to determine the challenges of outsourcing faced by SACCOs in Kenya.

### 4.2 General Information

#### 4.2.1 Response Rate

The study targeted a sample size of 40 respondents from which 35 responded being a response rate of 87.5%. This response rate was satisfactory and representative to make conclusions for the study. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was considered to be excellent.

**Figure 4.1: Response Rate**



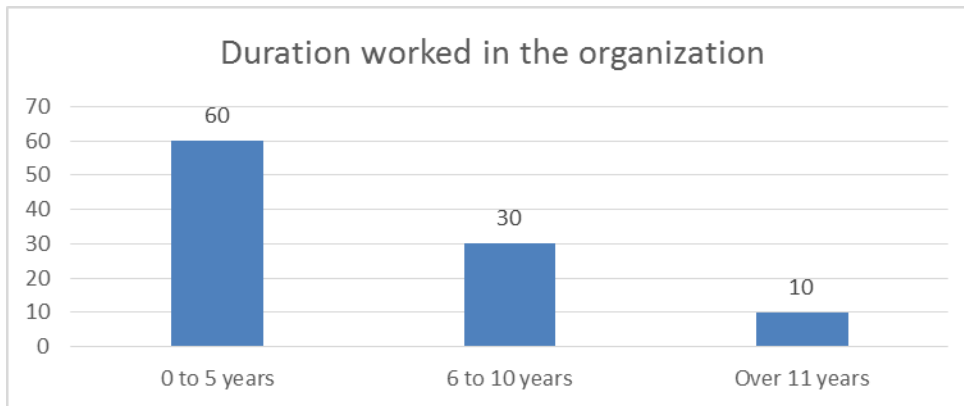
*Source: Research data, (2015)*

#### 4.2.2 Duration Worked

The study sought to establish the information on the respondents employed in the study with length of period of work at the SACCO, and the number of members in the SACCOs. These bio

data point at the respondents' appropriateness in answering the questions. When asked the duration of time they had worked for the Sacco, 60% of all respondents reported to have worked for 0 to 5 years, 30% had worked for a period of 6 to 10 years, while the remaining 10% had worked for over 11 years. This is the product of the SACCO culture of attracting and retaining the best and hence the extensive experience resource, internal capabilities, the organization enjoy in building its competitiveness hence improved performance.

**Figure 4.2: Duration worked in the organization**

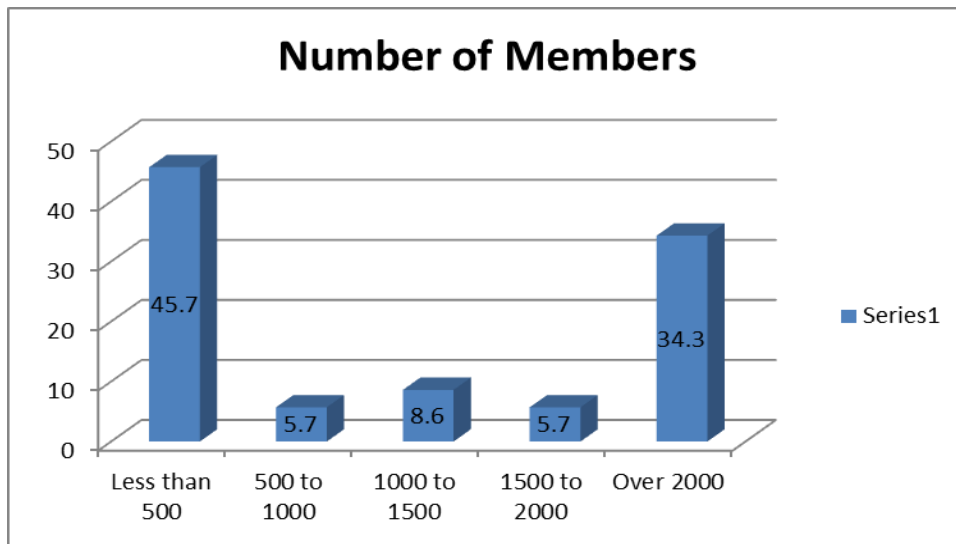


*Source: Research data, (2015)*

### **4.2 3. Number of Members in the SACCOs**

As pertaining to the number of members in the SACCO, 45.7% of the respondents indicated their SACCO has members less than 500, 5.7% respondents indicated the SACCO has from 500 to 1,000 members, 8.6% indicated between 1,001 and 1500 members, while the 5.7% indicated between 1500 and 2000 and 34.3% indicated between 2,000 and above members. The study finding implies that some SACCOs are small but weak as evidenced by low membership while, others are very large and strong.

**Figure 4.3: Number of Members**



*Source: Research data, (2015)*

### **4.3 The extent of Outsourcing by SACCOs**

On a scale of 1 to 5, where (1) not at all (2) to a small extent (3) to moderate extent (4) to a great extent where (5) to a very great extent, the respondents were asked to indicate the extent of outsourcing in their SACCOs. The scores of not at all and small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq S.E < 2.4$ ). 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; ( $2.5 \leq M.E < 3.4$ ) and the score of both great extent and very great extent have been taken to represent a variable with a mean score of 3.5 to 5.0 on the continuous Likert scale; ( $3.5 \leq L.E < 5.0$ ). A standard deviation of  $>1.0$  implies a significant difference on the impact of the variable among the respondents. The Table 4.1 below summarizes the mean scores with a low margin above 3 and average of 4/5 to a very great extent; affirming that the outsourcing applied by the SACCOs have greatly contributed to its competitiveness and performance. The respondents indicated they outsource the human resource management, information technology, transport management logistics, financial management and customer support. This indicates that the SACCOs outsource the non-core activities to cut on unnecessary costs. The findings concurs with the literature review in that outsourcing is certainly informed by the 'make-or-buy' decisions, organizations have long contended with which

activities to perform in-house and which to buy in the market (Ellram et al, 2008). The contracting out of production activities has occurred for many decades by firms seeking the advantages of specialization, efficiency and economies of scale.

According Greer, Youngblood and Gray, (2006) Outsourcing of Human Resources Management function is a model of making decisions and ascertains that cost effects are the most important element in the decision which is becoming a standard business practice. HR outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for HR services.

The information technology is outsourced to a large extent as indicated by the respondents. This indicates that the SACCOs outsource IT to save costs. This implies that IT service providers provide financial benefits like compliance with government regulations. The findings concurs with the literature review in that according to Willocks et al.,(1996), IT outsourcing pervades, affects and shapes the most organizational processes.

The transport management logistics is outsourced to large extent as indicated by the respondents with a mean value of 3.67. This indicates that SACCOs need transport throughout the whole supply chain being the link between supply chain members. This is because the demand and supplies have become international processes, short lead time is important hence creates competitive advantage.

The finding concurs with the literature review in that according to Gotzamani et al (2010), quality of transport service affects the competitiveness of the entire supply chain. The highly competitive environment along with customer' demands for tailored products and services has forced companies to continuously evaluate, improve and reengineer their logistic operations through outsourcing their services to providers. These operations have a noticeable contribution in companies' efforts to meet customer's expectations.

The result after analysis shows that the respondents indicated that their SACCOs outsource the financial management to a large extent. This shows that SACCOs are viewing their operations with fresh perspective. This is driven by the need to survive amongst the increasingly fierce completion hence the need to outsource firms to improve the performance by reducing the costs of hiring new employees. The customer support is outsourced to moderate extent. This shows



that SACCOs has to market their products. The finding concurs with the literature review in that customers expect value from the products they purchase and provide value to the consumers whom they interact. Outsourcing allows the organizations to gain greater sales results with fewer dollars. The representative firm trains and maintains the sales force (William 2012).

**Table 4.1 Summary statistics of outsourcing services**

	<b>Mean</b>	<b>Std. dev.</b>
Information technology	4.010	0.834
Transport management logistics	3.909	0.796
Financial management	3.801	0.867
Customer support	3.758	0.930
Human resource management	3.721	0.9991

*Source: Research data, (2015)*

#### **4.4 Effects of Outsourcing Services**

On a scale of 1 to 5, where (1) not at all (2) to a small extent (3) to moderate extent (4) to a great extent where (5) to a very great extent, the respondents were asked to indicate the impact of outsourcing human resource in their SACCOs. The scores of not at all and small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq S.E < 2.4$ ). 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; ( $2.5 \leq M.E < 3.4$ ) and the score of both great extent and very great extent have been taken to represent a variable with a mean score of 3.5 to 5.0 on the continuous Likert scale; ( $3.5 \leq L.E < 5.0$ ). A standard deviation of  $> 1.0$  implies a significant difference on the impact of the variable among the respondents. Table 4.2 below summarizes the mean scores with a low margin above 3 and average of 4/5 to a very great extent; affirming that the outsourcing practices adopted by the SACCOs have greatly contributed to its competitiveness and performance.

The findings after analysis showed that outsourcing human resource affects performance as reflected through recruitment and staffing has improved, training has improved, payroll has improved, job evaluation has improved, counselling and health information has improved, administration of employee loans has improved, contract employment management has improved, administration of retirement plans has improved. This indicates that human resource providers implement performance management plans to ensure employee comply with company policies and procedures and successfully meet business goals. The firms monitor employee performance and report findings to management hence reduce workload of managers by minimizing the amount of administrative responsibilities they must focus on.

The findings concurs with the literature review in that human resource outsourcing human resource providers help streamline important functions such as payroll, benefit administration and compliance management. This helps employers and managers spend less time doing paperwork and more time dedicated to improving the efficiency and effectiveness of the workforce. The outsourcing of human resource improves employee training in that human resource outsourcing companies helps the SACCOs to adjust to new functions by training the current employees while handling the basic tasks hence they help the entire organization to evolve.

According to Roberts, (2001) Downsizing and tougher competition means that HR functions is under increasing pressure to demonstrate value, both in terms of efficiency. Although some elements of the HR functions may have always been performed by external providers, outsourcing HR is seen as an effective way to bypass organizational politics and improve efficiency.

The findings showed that the improved performance of outsourcing IT is reflected through paperless operation in the organization with a mean of 4.12, availability and proper flow of information with a mean of 4.13, using outside firms market, SACCOs new product with a mean of 3.77, monitoring and evaluating the newly introduced product in the market with a mean of 4, using automated services such as cash withdrawals through ATM and Mpesa point to disburse cash to its member with a mean of 3.897 and using mobile phone providers to communicate on accessing account balances and to transact with a mean of 4.41 and 4.14 respectively. This shows

that the information technology practices adopted have significant impact on the SACCOs performance.

The transportation management logistics has improved the performance of SACCOs as reflected through route optimization. It has been achieved with a mean of 4.01, vehicle scheduling has improved with a mean of 3.93 and fleet tracking tools have increased vehicle visibility with a mean of 3.78. The results indicate that outsourcing of transportation management logistics has enabled the SACCOs to optimize freight and in turn, service levels to customers. The findings concur with the literature review in that according to Stock and Lambert, (2009), logistics can have a great influence on performance of the firm. If inbound material flows from the supplier are erratic, the firm's internal operation will not be able to sustain their production strategies without a high level of safety stock. Similarly, if the flows of the finished goods to the customer are erratic, the firm's customer base will be dissatisfied. Thus, the performance of the firm's logistics operation can significantly influence both the cost and revenue of an operation.

The findings established that the financial management practices led to the SACCOs performance improvement as it resulted in improve auditing with a mean of 3.78, improved tax compliance with a mean of 4.15, improved legal service with a mean of 4, improved insurance with a mean of 3.57, improved specialize training with a mean of 3.99, improved general accounting with a mean of 3.73, improve billing with a mean of 3.52, improve financial reporting with a mean of 3.78 and improved Cheque writing with a mean of 3.67. This indicates the financial management practices have an effect on Sacco's performance.

The results after analysis established that the customer support practices have an effect on Sacco's performance. This indicates that outsourcing customer service ensures customer receives the help they need. The finding concurs with the literature review in that customers expect value from the products they purchase and provide value to the consumers whom they interact.

## **4.5 Outsourcing and Performance of SACCOs**

### **4.5.1 Correlation Analysis**

To establish the degree of association between performance of SACCO and outsourcing of services, the study used Karl Pearson coefficient of correlation. A value of 0 indicates that there is no association between the two variables. As cited in Wong and Hiew (2005), the correlation

coefficient value (r) range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. However, according to Field (2005), correlation coefficient should not go beyond 0.8 to avoid multi co-linearity. The results show that there is high correlation between financial management and outsourcing performance with a value of 0.701, information technology and outsourcing performance with a value of 0.694 and customer support and outsourcing performance with a value of 0.673. The correlation coefficients on the main diagonal are always 1.0, because each variable has a perfect positive linear relationship with itself.

**Table 4.3: Pearson Correlation Coefficients Matrix**

Pearson Correlation	outsourcing Performance	HR	IT	TML	FM	CS
Outsourcing Performance	1.000	.587	.694	.581	.701	.673
HR	.587	1.000	.524	.456	.637	.732
IT	.694	.524	1.000	.602	.725	.478
TML	.581	.456	.632	1.000	.541	.500
FM	.701	.637	.691		1.000	.567
CS	.673	.732	.542	.431	.627	1.000

*Source: Research data, (2015)*

#### 4.5.2 Regression Analysis

The regression analysis is concerned with the distribution of the average value of one random variable as the other variables which need not be random are allowed to take different values. A multivariate regression model was applied. The regression model specifically connects the average values of y for various values of the x-variables. A regression equation is in no way a mathematical linking two variables but serves as a pointer to questions to be answered. Basically, the regression analysis is used in two distinct ways; (1) as a means of considering data taking into account any other relevant variables by adjustment of the random variable; and (2) to generate mathematical forms to be used to predict the random variable from the other (independent) variables. The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Y = Outsourcing Performance

$\beta_0$  = Constant Term

$\beta_1$  = Beta coefficients

$X_1$  = Human resource

$X_2$  = Information technology

$X_3$  = Transport management logistic

$X_4$  = Financial management

$X_5$  = Customer support

$\varepsilon$  = error term

The result from regression analysis are shown in table 4.4

**Table 4.4: Regression Coefficients**

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Co-linearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1(Constant)	.376	.114		.043	.525	.627	.812		
<i>HR</i>	.115	.121	.258	.014	.041	.291	.345	.377	6.24
<i>IT</i>	.304	.104	.376	.032	.027	.323	.761	.234	4.321
<i>TML</i>	.211	.297	.417	.063	.047	.259	.437	.273	3.183
FM	.363	.087	.129	.032	.019	.618	.674	.189	2.227
CS	.214	.313	.343	.067	.034	.411	.265	.424	4.080

Source: Research data, (2015)

From this table, the sample linear multiple regression models is,

$$Y = 0.376 + 0.115X_1 + 0.304X_2 + 0.211X_3 + 0.363X_4 + 0.214X_5$$

The model was subjected to statistical significant tests to establish the reliability or adequacy of the model for estimation purposes.

**(i) Using p-values**

Where the p- value of a regression is  $< 0.05$  then the regression coefficient is termed significant and the corresponding predictor is a good predictor and can be used in the model. All the regression coefficients in the model are significant since their p-values are less than 0.05.

**(ii) Using t-values**

Generally the larger the t-values the more significant the regression coefficient. From the t-values in the table 4.5 there are no marked changes in the t values for the regression coefficients and hence these values are in agreement with p values. The small t values could probably be due to multicollinearity.

**4.5.3 Coefficient of Determination,  $R^2$**

Coefficient of determination determines the position of the response variable while the position explained by the predictors in the model. Generally the higher the value of  $R^2$ , the higher the position of response variable that is explained by the predictors in the model and hence the most reliable and adequate the model is for prediction purposes and vice versa. The results of  $R^2$  are depicted in table 4.5.

**Table 4.5 Coefficient of determination, R<sup>2</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.886 <sup>a</sup>	.786	.849	.342	.786	21.991	5	30	.021	2.219

**Source: Research data, (2015)**

From this table  $R^2 = 0.786$  i.e. 78.6% variation in the performance of SACCOS is explained by predictors in the model. However 21.4% variation in performance of SACCOS is due to other factors not in the regression model. From this test result the model is a good model and can be used for estimation purposes.

#### 4.5.4 Analysis of Variance (ANOVA)

ANOVA refers to statistical techniques used for testing the whole regression model for its adequacy and reliability. Results from ANOVA are presented in table 4.6

**Table 4.6 Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.867	5	2.573	21.991	.021 <sup>a</sup>
	Residual	3.508	30	.117		
	Total	16.375	36			

**Source: Research data, (2015)**

**(i) Using p-value**

The model is significant since the p-value is less than 0.05 i.e. ( 0.021 < 0.05)

**(ii) Using F test statistics**

The critical F test statistic  $\alpha = 0.05$  with df (degrees of freedom) in the numerator is  $k-1=6 -1=5$  and with df in the denominator  $n-k=36-6=30$  is 2.01. The model is significant since  $21.991 > 2.01$  and hence is reliable and adequate and can be used for prediction.

**4.6 Challenges of Outsourcing**

**Table 4:7: Challenges of outsourcing**

<b>Challenges</b>	<b>Mean</b>	<b>Std. dev</b>
Conflicts with other initiatives of the firm	4.4278	.7125
Resistance to change	4.4129	.7168
Lack of employee training and motivation	4.234	.8912
Misunderstanding of outsourcing	4.1112	.8137
Limited resources	4.0123	.9321
Lack of clear benefits from Outsourcing	4.0000	.8913
Lack of top management support	3.9891	.8845
Lack of broad organization involvement	3.9211	.8726
Negative attitude from employees	3.786	.9134
Cost and profit allocation	3.6121	1.0932

**Source: Research data, (2015)**

In examining the possible challenges the SACCOs experiences when outsourcing, the respondents were asked to indicate some possible limitation on a scale of 1 to 5, where, (1) not at all (2) to a small extent (3) to moderate extent (4) to great extent where (5) to a very great extent.



The scores of not at all and small extent have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq S.E < 2.4$ ). 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; ( $2.5 \leq M.E < 3.4$ ) and the score of both great extent and very great extent have been taken to represent a variable with a mean score of 3.5 to 5.0 on the continuous Likert scale; ( $3.5 \leq L.E < 5.0$ ). A standard deviation of  $>1.0$  implies a significant difference on the impact of the variable among the respondents. The challenges pointed out by the respondents when outsourcing to a great extent includes lack of employee training and motivation with a mean of 4.2, limited resources with a mean of 4.0, lack of top management support with a mean of 3.99, negative attitude from employees with a mean of 3.79, lack of clear benefits from outsourcing with a mean of 4, resistance to change with a mean of 4.4, cost and profit allocation with a mean of 3.6, misunderstanding of outsourcing with a mean of 4.1, conflicts with other initiatives of the firm with a mean of 4.42, and lack of broad organization involvement with a mean of 3.92.

The findings concur with the literature review lack of employee training and motivation is a challenge. The outsourcing SACCOs lose the skills which it has built up over the years in managing that area of its non-core business internally and as a result become too dependent on the contractor. This demotivates the employees. Also the SACCOs practicing outsourcing are left with very little or no control over training partner. The SACCOs are not able to keep up with the consistency and quality of training across the channel. Also outsourcing brings bad publicity.

Also the cost and profit allocation is a challenge as management time will need to be allocated both to choosing the contractor and in ensuring that the obligations entered into by both the contractor and the organization are met. This implies that it may take a significant amount of management time for it to be effective. Conflicts with other initiatives of the firm and lack of clear benefits from outsourcing are challenges to SACCOs that outsource. This shows that SACCOs expect outsourced companies to take care of everything. This unreasonably high expectations can lead to conflict as the both the Sacco and the outsourced company feel disappointed and frustrated hence the service provider end up demoralized with their output.

Misunderstanding of outsourcing is also a challenge indicated by the respondents. The finding agrees with the literature review in that the service provider and the SACCOs have their own team members who might not be familiar with what is included in the contract. The outsourced

company team might treat the task with the personal bias and affect the relationship with the SACCOs. Top management support is a challenge as the leaders do not actively participate with the service provider hence they fail to evaluate the output first hand while they are updated with the overall status of the project. These results in miscommunication, slow progress and failed project.

The finding after analysis shows that negative attitude from employees and resistance to change is a challenge faced by SACCOs when outsourcing. This concurs with literature review in that lack of buy in from people inside the SACCOs may take the form of active or passive resistance. Hence this creates uncertainty for existing employees, who may decide to look elsewhere for employment.

## **CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

In examining outsourcing as defined Handfield, (2012) as the 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 costs and focusing on core competencies of the firm. This chapter provides a summary of findings, establishing the extent of Service outsourcing by SACCOs, establish the relationship between outsourcing and performance of SACCOs, determining the challenges faced by SACCOs when outsourcing, outsourcing practices adopted, conclusion, recommendations, implications of the study on policy, theory and practice, limitation of the study, and suggestion for further research.

### **5.2 Summary of the Findings**

To establish the extent of Service outsourcing by SACCOs in Kenya, the study findings revealed clearly that SACCOs adopts specific outsourcing practices that are aligned to its corporate strategy in running its value chain function and these practices have significantly contributed to the performance and hence creating competitive edge in the very SACCOs industry by focusing on operational effectiveness and efficiency.

The findings concur with the literature review on other similar studies of other organizations. At this age of very uncertain, sporadic business environment and stiff competition coupled with a very knowledgeable customer, SACCOs are turning inward, tapping as much value from their core competencies to establish a sustainable competitive edge through operational effectiveness and efficiency to improve the performance.

To establish the relationship between outsourcing and performance of SACCOs in Kenya, the study showed that outsourcing the practices resulted in increased vehicle visibility due to fleet track tools, route optimization, improved vehicle scheduling, improved auditing, improved financial reporting, improve tax compliance, improved customer service, improved public relations, improved customer survey, improved field sales, improved paperless operation in the

organization, availability and proper flow of information in the organization, improved staffing and recruitment, improved training and payroll. This would spur the performance of the SACCOs as it would enable the SACCOs to concentrate on the basic activity (core competence) and use best method and experiences.

To determine the challenges of outsourcing faced by SACCOs in Kenya, the studies found out that leaders over the world are realizing the value in outsourcing and now viewing outsourcing as strategic imperative, they grapple with serious challenges. In this study, the respondent's sites misunderstanding of outsourcing as the service provider and the SACCO have their own team members who might not be familiar with what is included in the contract. Top management support is a challenge as the leaders do not actively participate with the service provider hence they fail to evaluate the output first hand while they are updated with the overall status of the project.

Conflicts with other initiatives of the firm and lack of clear benefits from outsourcing are challenges to SACCOs that outsource. This shows that SACCOs expect outsourced companies to take care of everything. This unreasonably high expectations can lead to conflict as the both the SACCOs and the outsourced company feel disappointed and frustrated hence the service provider end up demoralized with their output. Employee resistance hinders outsourcing as they become comfortable with the way the business is run. They know the expectations and their role within the company. When a major change disrupts their familiarity, some employees become upset. They don't want to relearn their jobs or change the way they do things.

### **5.3 Conclusion**

Based on the findings of the study and the forgoing discussions, it is clear that there exist very strong outsourcing practices and strategies that have contributed to good performance within the operation and practice conversely impacting on the SACCOs overall performance and its competitive strength in the challenging business environment. The results established that the firms were outsourcing the human resource management practices, information technology practices, transport management logistics practices, financial management and customer support practices.

From the study findings the study concludes that the adoption of outsourcing practices will in the long run determine their survival as they would seek to reduce operating costs, improve customer satisfaction, timely delivery of services to clients, tax compliance has improved, financial reporting has improved, billing has improved, recruitment and staffing has improved and payroll has improved. This shows that outsourcing was well customized process to suit the SACCOs change needs as SACCOs had very well defined outsourcing practices and strategies. These practices would give the company the higher success rate to the change process hence competitive advantage and improved performance.

From the study findings, the study concludes that the outsourcing practiced by SACCOs faced various challenges which hindered the effectiveness and efficiency. The main challenges included; lack of employee training and motivation, limited resources, lack of top management support, negative attitude from employees, lack of clear benefits from outsourcing, resistance to change, cost and profit allocation, misunderstanding of outsourcing, conflicts with other initiatives of the firm and lack of broad organization involvement. Therefore, the SACCOs faced diverse challenges that slowed down the effectiveness and efficiency to achieve its goals hence performance of the SACCOs.

#### **5.4 Conclusion and Recommendations**

The results established that the SACCOs were outsourcing the human resource management practices, information technology practices, transport management logistics practices, financial management and customer support practices. It is recommended that the SACCOs outsource these practices in that they would guarantee them competitive over other organizations in the competitive environment of today and at the same time enable the SACCOs achieve the desired objectives.

The study found that outsourcing of processes by the SACCOs has influenced performance and therefore it is recommended that the SACCOs should continue outsourcing services which they do not have competitive advantage so that they can continue improving performance.

Outsourcing need to be embraced to help the management team appreciates the direct impact of these initiatives. Adoption of flexible outsourcing practices through appropriate research will help efficiently and effectively meet the business diverse yet drastic changing needs as well as

address challenges arising from a dynamic global business environment. Management should embrace both qualitative and quantitative aspects in their decision making and more sustainable outsourcing strategies integration across the group will yield synergies.

The outsourcing is a heavy matter as evident from the study, clearly reflecting how they marry with corporate strategy to yield improved performance and hence creating competitive advantage. To achieve effective of the various outsourcing practices, it requires clear policies to be formulated, implemented and monitored to ensure they remain relevant to the business.

The theory as captured at the literature review stage is such that organization that practice sound outsourcing practices outperform those that do not and indeed the gap keep widening as such companies continue to innovatively implore fresh outsourcing practices targeting further and faster creation of value given immense competition and pressure from the stake holders such that sustainability of those that do not embrace such best outsourcing strategies is at stake. The outcome of this study on SACCOs clearly supports this theory.

With the globalization and stiff competition, there is not much time left to slow copying SACCOs, proactively and innovatively investing in appropriate outsourcing practices should be the core calling of top management if their SACCOs are to grow.

### **5.5 Limitations of the Study**

The study focused on SACCOs in Nairobi and not the entire country and the region as a whole. The researcher also faced challenges in that; there was limited access to information. Others failed to return the questionnaires claiming that they had no time to fill them; some were hard to reach due to their tight schedules while others were unwilling to cooperate due to organizational policies on divulgence of information.

### **5.6 Areas for Further Research**

The study confined itself to SACCOs in Nairobi and the findings may not be applicable in other sectors as a result of uniqueness of these SACCOs. It is therefore recommended that the study is replicated in other sectors of the Kenyan economy for comparison purposes and to allow for generalization of findings on the outsourcing and performance in Kenya.

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## APPENDIX I: QUESTIONNAIRE

This questionnaire is intended to provide information for the study on outsourcing and Performance of SACCOs in Nairobi 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.

### Section A: General information about the institutions.

1. What is the name of your SACCO.....
2. When was your SACCO stated.....
3. Respondents position in the SACCO.....
4. For how long have you served in your current position? .....
5. How many members does your service area have?
 

100-500	[ ]
501-1000	[ ]
1001-1500	[ ]
1501-2000	[ ]
2000 and above	[ ]

### SECTION B: THE EXTENT OF OUTSOURCING BY SACCOS IN KENYA

6) Please indicate the extent your organization has outsourced the following services?

Tick where appropriate,

Use the scale of: 1- Not at all, 2- Small extent, 3- Moderate extent, 4- Great extent, 5- Very great extent

	Practice	1	2	3	4	5
1	Human Resource Management					
2	Information Technology					
3	Transport Management Logistics					
4	Financial Management					
5	Customers Support					

		1	2	3	4	5
	<b>A)Human Resource Practices</b>					
1	Recruitment and staffing has improved					
2	Training has improved					
3	Payroll has improved					
4	Job evaluation has improved					
7	Counseling and health information has improved					
8	Administration of employee loans has improved					
9	Contract employment management has improved					
10	Administration of retirement plans has improved					
	<b>B) Information technology</b>					
1	Paper less operation in the organization					
2	Availability and proper flow of information in the organization					
3	Use outside firms to market your SACCO's new product?					
4	Engage research firm(s) to monitor and evaluate the newly introduced product in the market.					
5	Use automated services such as cash withdrawals through ATM and M-Pesa point to disburse cash to its member					
6	Use mobile phone providers to communicate; i) Access account balances ii) To transact					
	<b>C)Transportation management logistics</b>					
1	Vehicle scheduling has improved					
2	Route optimization has been achieve					
3	Fleet tracking tools have increased vehicle visibility					

	<b>D) Financial Management practices</b>					
1	Auditing has improved					

2	Tax compliance has improved					
3	Cheque writing has improved					
4	Financial reporting has improved					
5	Billing has improved					
6	General accounting has improved					
7	Specialized training effective					
8	Insurance has improved					
9	Legal service has improved					
	<b>E) Customer Support Practice</b>					
1	Use external firms to give after sale service to its customers					
2	Use outsourced services (E.g. security firms					
3	Engagement of outside firms to Educate members on new products					
4	Do Sales promotions					
5	Do Research					
6	Direct mail has improved					
7	Customer service has improved Customer service					
8	Public relations has improved					
9	Customer survey has improved Customer survey					
10	Field sales has improved					

**SECTION C: TO ESTABLISH THE RELATIONSHIP BETWEEN OUTSOURCING AND PERFORMANCE OF SACCOS IN KENYA.**

7.) State the relationship between outsourcing and performance in relation to the outsourced Practices you have adapted.

Key: 1- Not at all, 2- Small extent, 3- Moderate extent, 4- Great extent, 5- Very great extent

	<b>A) Human Resource Management Practice Outsourcing</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Enhances productivity					
2	Improved productivity					
3	Improved retirement plans					
4	Reduce costs					

5	Improved contract management						
6	Improved counselling and health information						
7	Enhanced focus on core functions						
	<b>B) Information Technology</b>						
1	Enhances efficiency						
2	Saves time						
3	Enhanced proper flow of information						
4	Invention of new product						
5	Use of automated services such as cash withdrawals through ATMS						
6	Use mobile phones to communicate and access account balances						
	<b>C) Transport Management Logistics practice Outsourcing</b>						
1	Improved vehicle scheduling						
	Active route optimization						
	<b>D) Financial Management practice Outsourcing</b>						
1	Improved cheque writing						
2	Improved financial reporting						
3	Enhances productivity						
4	Improved accounting systems						
5	Improved payments of dividends						

	<b>E) Customers Support Practice</b>						
1	Enhances faster responses for customer demands						
2	Improved sales promotions						
3	Improved customer service						
4	Improved customer survey						
5	Improved field sales						



**SECTION D: DETERMINE THE CHALLENGES OF OUTSOURCING FACED BY  
SACCOS IN KENYA**

7.) Please indicate the level of agreeing to which the following challenges of outsourcing faced by SACCOs in Kenya.

Key: 1- Not at all, 2- Small extent, 3- Moderate extent, 4- Great extent, 5- Very great extent

<b>Challenges</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Lack of employee training and motivation					
Limited resources					
Lack of top management commitment					
Negative attitude from employees					
Lack of clear benefits from outsourcing					
Resistance to change					
Cost and profit allocation					
Misunderstanding of outsourcing					
Conflicts with other initiatives of the firm					
Lack of broad organization involvement					

Any other (Please specify).....  
.....

Thank you for your cooperation.

## APPENDIX II- SACCOS IN NAIROBI COUNTY, KENYA

1. Afya Sacco Society Ltd
2. Chai Sacco Society Ltd
3. Chuna Sacco Society Ltd
4. Ubora Sacco Society Ltd
5. Harambee Sacco Society Ltd
6. Upenyo Sacco Society Ltd
7. Jamii Sacco Society Ltd
8. Mwamba T Sacco Society Ltd
9. Mwalimu National Sacco Society Ltd
10. Naku Sacco Society Ltd
11. Safaricom Sacco Society Ltd
12. Ukulima Sacco Society Ltd
13. Agdeco Sacco Society Ltd
14. Stima Sacco Society Ltd
15. Ufanisi Sacco Society Ltd
16. Sheria Sacco Society Ltd
17. Wanaanga Sacco Society Ltd
18. Nassefu Sacco Society Ltd
19. Youth Enterprise Development Fund Board
20. Kenya Bankers Cooperative Society Ltd
21. Portland Sacco Society Ltd
22. Kilele Sacco Society Ltd
23. Lenga Tumaini Sacco Ltd
24. Reli Sacco Society Ltd
25. Ballot Sacco Society Ltd
26. Taifa Sacco Society Ltd
27. KumbuKumbu Sacco Society Ltd
28. Karibu Sacco Society Ltd
29. Ufundi Sacco Society Ltd
30. Naciwasaco Sacco Society Ltd
31. Kencream Sacco Society Ltd
32. Kasneb Sacco Society Ltd
33. Transafaris Sacco Society Ltd
34. Kapa Sacco Society Ltd
35. Kelibu Sacco Society Ltd
36. Asili Sacco Society Ltd
37. Ports Sacco Society Ltd
38. Nacico Sacco Society Ltd
39. Nafaka Sacco Society Ltd
40. Nafaka Sacco Society Ltd

**Source: SASRA 2015**