

**OUTSOURCING AND PERFORMANCE OF COMMERCIAL
BANKS IN KENYA**

BY

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DECLARATION

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

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

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DEDICATION

This goes to my beloved wife Rosemary, parents, Siblings and all my great friends.

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ABSTRACT

The study adopted a descriptive design and was based on the following objectives: to determine the extent to which outsourcing practices have been implemented among commercial banks in Kenya, to establish the relationship between outsourcing practices on the organizational performance of commercial banks in Kenya and to determine the challenges faced by commercial banks in implementing outsourcing activities. A census approach was adopted and the census consisted of all 43 commercial banks in Kenya as listed in Appendix 2. The findings were presented in frequency tables for easy understanding. The researcher used primary data collected through administering 43 questionnaires to various respondents including staff at the commercial banks in Kenya. However researcher only managed to obtain 30 completed questionnaires representing 70% response rate. The collected questionnaires were edited and cleaned for completeness and consistency. After the questionnaires were coded, they were keyed into the Statistical Package for Social Sciences (SPSS) for analysis. Descriptive statistics such measures of central tendency and measures of dispersion were used to analyze the data. These were mean, standard deviation and frequency distribution. A 5 -point likert scale was used to analyze output of each response received from respondents and therefore from the study findings it can be concluded that outsourcing practices affected organizational performance of commercial banks to a moderate extent. The research also concludes that commercial banks in Kenya have adopted outsourcing activities to a large extent faced challenges to a little extent. The research also concluded that high cost of implementation and lack of management support and training in implementation of outsourcing practices were the most faced challenges. The study recommended commercial banks to hire competent staff that can be entrusted in implementation, management and measurement of the outsourcing practices. These employees should also be trained and motivated so as to reduce the margin of error and chances of mismanagement or sabotaging of outsourcing practices implementations

ABBREVIATIONS

| | | |
|---------------|---|--|
| BSC | - | Balance scorecard |
| CBK | - | Central Bank of Kenya |
| HR | - | Human Resource |
| RBV | - | Resource Based View |
| SACCOS | - | Savings Credit and Cooperative Society |
| TCE | - | Total Cost Economic Theory |
| UK | - | United Kingdom |

CHAPTER ONE: INTRODUCTION

1.1 Background

Over the years, there has been an increase in competitiveness in the business environment which requires various businesses to increase efficiency and embrace invention and innovation in order to be ahead of the game. There is the need for customer value delivery by providing quality and better goods and services while maintaining lower prices, a goal which sustains businesses in the global market. In order to be competitive in the global market by obtaining global opportunities, providing state of the art logistics and capacities, improving customer service and developing good business culture, outsourcing has become a significant practice to adopt. The emergence of globalization, advances in technology, increased social demands and inappropriate exchange rate demands organizations to employ outsourcing technique to increase competitive advantage and profitability (Prescott, 2011).

Outsourcing is a business practice where companies acquire capacities by sub-contracting third parties to perform specific operations with an objective of reducing costs and increasing efficiency of the company. The practice entails transferring an obligation beforehand to an outsourcer at a cost (Lee & Hitt 1995). Making profit is the major goal of existence of businesses. In order to gain profit, businesses put in place various strategies geared towards achieving this goal. Outsourcing is a common strategy preferred for debating in academic institutions and by professional practitioners as a trait in business to business firms which enables businesses to succeed in making the profit (Bearden, Ingram & Lafarge, 2007).

Successful adoption and implementation of an outsourcing strategy result in cutting on costs, increase productivity, increased financial performance, quality improvement, and capacity improvement, reduced cost of innovation and improved efficiency and effectiveness of the organization system. Increased competition and emergence of modern technologies have led to the high need of commercial banks to access more advanced strategies to remain competitive in these dynamic markets (Lee & Hitt 1995).

1.1.1 Outsourcing

According to Stear (1997), hiring systems to perform specific tasks and operations within the organization with an aim of reducing costs and improving quality referred to as outsourcing. According to Ono and Stango (2009), outsourcing is a phenomenon where a company transfers specific in-house tasks and operations to a third party which fully controls the operations. Under outsourcing, the third party does exactly what the client requires by following the description of the client. Normally, firms outsource capacities which are either expensive to own, sensitive to handle or which are best done by other parties. The decision on whether a company should acquire or produce an intermediate input has a long economic history which considers the factors limiting a company to acquire an input rather than producing. Before a company decides to outsource an input, it has to perform the cost-benefit analysis in order to determine whether it is economical to acquire or to produce. Outsourcing hereby allows companies to choose on acquiring intermediate input when the acquiring cost benefit is higher. On determining the cost of outsourcing, all the costs incurred from the point of acquiring the facility up to the point

the operations are accomplished and the possible implication costs must be added up (Abraham & Taylor, 1996).

Outsourcing brings in certain systems which may not be available in the internal department of a company. By outsourcing, companies aim at achieving lower costs in the operations of the company and efficiency of providing goods and services. Buligiu & Ciora (2008). Resource intensive, relatively discrete activities and those which require expert personnel with a fluctuation of work patterns which results from the dynamic markets and the changes in the technology makes it challenging for companies to perform all the processes by their own. For instance; for a manufacturing, some resources like legal personnel might be expensive for a company to train and maintain their own personal, therefore a company will need to acquire legal capacities from others farms (Lyson & Farrington, 2006).

1.1.2 Organizational Performance

Organizational performance is a process by which a firm assesses its progress with regard to the set objectives. Good organizational performance includes; an efficient transformation of raw materials into finished goods, efficient acquisition of raw materials, proper logistics on the acquisition of raw materials and the proper delivery of finished goods to the customers through the proper channel of distribution. (Terrel, 2003). Reduction/increase in the number of complaints, liquidity may be measured in terms of assessing the current ratio, customer growth may be measured by calculating comparative ratios over a given period and loan portfolio can obtain by comparing

amount of loans disbursed over a given period, are measures used to measure customer satisfaction in banks (Dann, 2003). Organizational performance management measures such as return on asset, flexibility, increase in coordination between departments and suppliers, reduced lead time, reduction in costs return on equity, increase in sales and risk performance. The measures evaluate the keenness and appropriateness of the asset utilization in generating accounting profits. It measures the efficiency and effectiveness (Chang *et al.* 2010). According to Barthelemy (2010), outsourcing can improve organizational performance when applied as an organizational strategy.

Financial and nonfinancial measures are the two broad categories used in measuring performance by firms is obtained by proper accounting processes to obtain the right net income, amount of assets the amount of income before interest and tax and the operating income (Cole, 2004). Secondly, it should be analyzed to obtain more relevant information on the liquidity and profitability of the business. (Johnson & Scholes, 2007). Haber and Reichel (2005) argue that the number of employees, revenue growth, and market share and wage rate is the most common non-financial performance measurements in organizations. This study is based on commercial banks in Kenya. The performance measures to be used will include costs, quality, customer satisfaction and timeliness.

1.1.3 Commercial Banks in Kenya

Commercial Banks in Kenya are regulated by the Central Bank of Kenya (CBK). The licensing and regulations of the commercial banks in Kenya are provided in the Banking Act Cap 488; similarly, the regulation of the microfinance institutions is provided under

Micro Finance and Forex Bureaus under the CBK Act cap 491 (CBK, 2012). They are further classified into three different classes depending on the market share of net assets, advances, customer deposits and pre-tax profits by Central Bank of Kenya. Large banks have the asset size of over 15 billion shillings, the medium more than 5 billion shillings and small with asset size of fewer than 5 billion shillings, six banks are classified as large, fifteen as medium and twenty-three as small (CBK, 2011).

The financial sector in Kenya is being considered to majorly consist of banks rather than the markets because the capital market in Kenya is still underdeveloped compared to other economies like the United States and South Africa. Banks have over 50% assets of the total financial assets in Bank assets in Kenya and majorly they take part in financing economic developments by offering loans and mortgages to the development companies. For the first decade, the banking sector has undergone many reforms in both regulations and the finances which caused the structural change in the banking industry and also encouraged many foreign banks to set subsidiaries in Kenya (Kamau, 2009).

Financial intermediation process in Kenya depends solely on the commercial banks due to their dominance in the dominance in the financial sector (Kamau, 2009). According to Oloo (2009), on the banking industry, “is a bond that holds the country’s economy together”. Other sectors of the economy depend on the banking sector to obtain finances for operating their sectors. Agriculture and building companies obtain loans and mortgage from the banks to run their businesses. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth.

Over the last decade, the performance of the banking industry has significantly flourished since only two banks, within the period, have been put under receivership by the central bank compared to the period 1986 to 1989 where 37 banks failed under the central bank statutory (Mwega, 2009).

From the Central Bank report dated December 2011, the number of banks and non-bank institutions was 46, 1 Mortgage Company, microfinance institutions and foreign exchange bureaus were 15 and 109 respectively. 32 out of the 45 institutions are owned locally and the rest is owned by the foreign companies. Of the 32, 3 banks are owned largely by the government and the state corporations while the other 28 and the 1 mortgage company are owned by the private companies. Furthermore, shares of the 10 of the firms owned by the private companies are listed on the Nairobi Stock Exchange. Financial institutions according to; The Central bank of Kenya annual supervision report (2009), are categorized into large, medium and small tiers in terms of net assets.

1.2 Research Problem

There has been tremendous increase in the growth and development of outsourcing as an emerging issue in the business area globally. Outsourcing has gained so much emphasis due to challenges encountered in the operations and cost of goods and services in companies. These challenges result from three main causes; inadequate specialist skills, Low-quality applications, and payment inflexibility, all of which are very critical for an organization (Gupta & Zheuder, 2004) In order to remain competitive in the market, firms employ strategies like (Thompson, Strickland and Gamble, 2007).

Outsourcing facilitates focusing on few critical issues in their value chains by the firms and outsources the noncore activities to service providers. According to (Porter, 1998), competitive advantage is the factor which makes a company to survive a competition and therefore achieving market leadership. Outsourcing poses a number of challenges in the banking firm including a risk of losing confidentiality and rising security concerns in the banks.

A number of studies carried out on the relationship between outsourcing and the company performance both globally and locally. Globally, Ahmad and Douglas (2000) study on, “outsourcing implications on companies' profitability and liquidity”, the studies indicated that outsourcing transactions reduced financial pressures and increased profitability in the UK companies. Gregory (2006) studied on; “Outsourcing effects on firms’ operational performance an empirical study” asserted that cost efficiency can be improved by outsourcing. Peter, Steffen, and Gutter, (2008) study on “Productivity effects of outsourcing, new evidence on the strategic importance of vertical integration decisions”, found out that, there is the positive relationship between outsourcing and productivity. Mary *et al.* (2013) findings indicate that there is a strong effect of outsourcing on a cost of labor, materials tending to cause decreased labor and increased materials.

Locally, Kabura (2012) carried out a study on the effect of outsourcing on the financial performance of supermarkets in Nairobi which indicates that there is a positive relationship between the operating Income on one hand and direct outsourcing costs,

labor outsourcing costs and overhead outsourcing costs on the other hand. These three outsourcing costs account for a great percentage of operating Income of the supermarkets in Nairobi. Otieno (2013) studied outsourcing as a strategy for competitive advantage by Barclays Bank of Kenya. The relationship between outsourcing and competitive advantage was positive since Barclays has been able to cut on costs and improve its operations through outsourcing of its noncore activities.

Mbii (2015) established that Most SACCOs carried out outsourcing of the human resource management practices, information technology practices, transport management logistics practices, financial management and customer support practices. Besides, there existed the positive relationship between outsourcing and performance. From the above studies, there is no study which has focused on outsourcing and performance of commercial banks in Kenya. This gap will lead to my study which seeks to answer the following research questions: what is the extent of outsourcing by commercial banks, the relationship between outsourcing and performance of commercial banks in Kenya and challenges facing outsourcing in commercial banks in Kenya?

1.3 Objectives of the study

- i) To establish the extent of outsourcing by commercial banks in Kenya
- ii) To determine the relationship between outsourcing and performance of commercial banks in Kenya.
- iii) To establish challenges facing outsourcing in commercial banks in Kenya.

1.4 Value of the study

This study will provide adequate information to the commercial banks in Kenya on outsourcing. It will facilitate their ability to understand the importance of outsourcing and its relevance to performance. Academicians will use the findings in this study as material for future references on aspects to do with effects outsourcing on performance. They will use this information in understanding the relationship between outsourcing and performance of commercial banks in Kenya.

This study will also benefit policymakers and regulators in the banking industry to better understand the impact of outsourcing in the banking industry. The findings of this study will enlighten policymakers on outsourcing and provide more insight on outsourcing to banks and organizations planning to use outsourcing as a strategy for acquiring the competitive advantage. This study will help to unearth issues for regulators to pay attention to when developing and enforcing relevant measures and regulations aimed at protecting businesses and other stakeholders from the benefits of outsourcing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section brings out the various literatures by previous researchers used to develop this study. It is subdivided into various sections: theoretical framework, the outsourced activities, organizational performance, empirical review and conceptual framework.

2.2 Theoretical framework

Theoretical literature review explores presented concepts and theories in outsourcing management that will be of relevance to outsourcing on organizational performance of commercial banks in Kenya. The study theoretical framework is based on Transaction economic theory (TCE) and the resource-based view (RBV) theory.

2.2.1 The Resource Based View of the Firm

It asserts the reason why organizations can stand its competitive edge due to contributions of human capital management practices by developing particular understanding, expertise and philosophy within organization that are tough to replicate (Afiouni, 2007). This is to say; maintainable competitive edge can be formed and upheld by creating resource variety (accumulating understanding and expertise) and/or resource immobility (a culture that people want to work in). A business must have sufficient human resources controlling practices, organizational procedures, acquaintance administration practices and system, learning chance (both official and informal) and communal collaboration (community building) practices in place (Afiouni, 2007; Barney, 2006; Schafer, 2004) for the purpose of creating human capital resource multiplicity and

rigidity (Barney and Hesterly, 2006) asserts that competitive advantage of a firm may be created if capitals and organizational competences are assorted and organized in an appropriate way. This theory is related to outsourcing in that it constructs from intention of organization lacking valuable, exceptional, unique and structured assets and competencies seeking external providers so as to overcome their weakness.

2.2.2 Transaction Cost Economics Theory (TCE)

Transaction theory believes that transactions in organizations are basically attributed to production or manufacturing economics. According to this theory, firms are economic factors which make use of the supreme effective instruments for business dealings (Williamson, 1981). It provides a diagnostic background used in making comparison between subcontracting services and internal services (Lacity & Hirschheim, 1995). This theory facilitates the determination of outsourcing success in terms of economic benefits. TCE provides the finest judgment creating basis for supporting firms in making decisions on the services to be outsourced in addition to all necessary qualifications. Irregularity of constricting, ecofriendly and affiliation suspicions forms factors of the degree of contract price hence providing a ground for assessment of outsourcing decisions.

TCE deals with not only experiences but also outcomes of outsourcing. Ability expertise, trivial figures negotiating, and deficient facts are the experiences to outsourcing of which they have adverse connection to subcontracting. In respect to results of outsourcing, growth in contracting out has resulted to lower cost of production and more interesting increased expense of coordination during procuring products, materials and services from

the market, hence it fails to factor the aspect of competitive edge especially during insignificant moments of prospective opportunism (Aubert, 2004).

Lacity and Willcocks (1995) enlightened that outsourcing leads to attainment of firm's primary objective of reducing the cost of operations due to substituting in-house production which enable firms to provide for reduced production cost which is capable of being provided by the market. In house operations tend to be more expensive especially when firm's lacks internal capabilities and expertise hence engaging marketplace through outsourcing practices incapacitates these inadequacies.

2.3 Outsourcing

Outsourcing facilitates improvement in capacity management, services and innovation management, by the firms. This is due to the fact that risk of inadequate capacity bearing done by the suppliers (Quinn, 2006). There is many activities in an organization which can be outsourced. The specific activities that can be outsourced by commercial banks are human resource management, information technology, sales and marketing, administration and finance. Human Resource management outsourcing is majorly driven by a high need of reduction in the HR costs. It is a model involved in decision making which ascertains that cost effects are the basic element in decision making (Greer, Youngblood & Gray, 2006). High competition in the markets coupled with downsizing rivalries forces human resource functional unit of the firm to ensure and embrace more value through being efficient and effective in firm transactions and processes (Roberts, 2001).

Outsourcing of human resource tasks is one of the best ways to overcome the organizational politics and improve organizational performance. Despite the fact that certain essentials of human resource functions seems to have been done by outside or outsourced firms. The most outsourced HR activities include Recruiting, training and development, job evaluation and employee relocation functions Mumbi (2010). By so doing; it facilitates measurement of value of human resource.

Management and control of information treatment procedures ideally in respect to timeline (run time and capacity), storing, delivery and exhibition in a such a way contributing to enterprise outcomes in agreement with costs of netting (creation, prospective, conservation, etc) is what is termed as Information technology (Folina, 2003). Great competition has been the reason behind increased outsourcing of IT. This is due to increased difficulty for administration to keep up with this rate of change and maintain all necessary in-house resources and capabilities. Maintenance, application development and website management are the major outsourced applications under IT (Kipsang, 2003).

Financial management function consists of auditing, tax compliance, cheque writing, financial reporting, billing, general accounting, and specialized training, insurance and legal. There increasing interest in the finance outsourcing (Bailey, 2008). Payroll and benefits, procurement, payables, fixed assets, credit vetting and debtors collection are the functions suitable to outsource under financial management.

Sales and marketing is one of the most outsourced activities of any firm. It involved outsourcing of all aspects to do with marketing of the firms products and ensuring timely delivery of products to the market and customer satisfaction. It ensures that all customer needs are fulfilled through timely Customer support function involves establishing effective partnerships with customers who are always seeking methods of continuous improvement in a firm to reduce costs. Outsourcing allows the organizations to gain greater sales results. The representative firm builds trains and maintains the sales force (William, 2012).

2.4 Organizational Performance

Firm performance measures differ based on several components of the firm, comprising plan, configuration, environment, administrative education, and resources. (Jiang and Qureshi 2006) established that diverse dimensions have been embraced by dissimilar scholars for assessing performance. Ratios are used and classified according to the following performance aspects measured: profitability, liquidity, leverage, and efficiency (Mwaura, 2005). According to Johnson (2002), there has been a development in the recent years to do with organizational Performance measurement systems along the line of the balanced scorecard and now occupy much management time and effort. The Balanced Scorecard is a tool that provides administrative systems enabling organizations establish, trail, and accomplish its vital corporate plans and goals. The BSC holds fiscal metrics as the critical result assessment in determining organizational success, complementing with other metrics such as customer focus, internal process and learning

and growth which forms the basis for developing long-term value to shareholders (Counsell, 2001).

As per this study, the performance measures will include quality services, customer satisfaction, efficient operations, faster response to customer demands, productivity cost reduction.

2.5 Outsourcing and Organizational Performance

Outsourcing is necessary in organizations for several benefits however the results can either be positive or negative depending on the firm's relationship and support offered to the outsourced firm. Generally, outsourcing is supported by scholars and literature as a plan to facilitate and enhance organizational performance on several the literature supports outsourcing as a strategy, which may offer improved business performance on numerous scopes or dimensions (Prahalad & Hamel, 1990), (Quinn et al. 1990). Outsourcing leads to greater flexibility in firms operations which leads to long term improved performance of the organization. Cost is the key driver to outsourcing and if well implemented facilitates better performance of the organization due to substantial cost savings realized by outsourcing. Quinn *et al.* (1990) emphasized the significance of sourcing particularly in delivering improved focus on critical or value adding activities as well as reducing the scope of firms a set of core activities and reduction in the financial scope of the organization hence facilitating the embracement of a more structured and focused firm with vast potentials of increasing responsiveness to market changes hence attaining positive performance.

Outsourcing is capable of delivering accessibility to world-class or the best quality on components and several activities outsourced by firms Quinn *et al.* (1990) hence improve organizational performance. Conversely it might not be the case on situations where service levels monitoring mechanism have not been fully developed to ensure consistent and smooth delivery based on international standards. Whereas managers in many firms may portion anxiety to evade outsourcing essential or critical activities (Jennings, 1997), the regular deficiency of formal policy procedures (Jennings, 1996) can tolerate incremental cost of vital proficiencies to happen hence undermining firms capabilities resulting in loss of critical expertise hence leading to low performance.

Globally, Ahmad and Douglas (2000) carried out a study on outsourcing effects on companies' productivity and liquidity: a sample of UK companies. The goal of the study was establishing connection between outsourcing and organizational performance. He used a sample size of 17 firms in his research methodology. Data was collected from secondary sources and examined using descriptive statistics and multiple regressions. The findings indicated that outsourcing has a positive effect on profitability and leads to decrease in financial pressures. Besides it results in reduction in employee costs and research and development expenditures. The limitation of the study was that the researchers only focused on the UK firms and hence the results cannot be used to generalize findings in the African countries.

Gregory (2006) studied on Outsourcing effects on firms' operational performance an empirical study .They asserted that cost efficiency can be improved by outsourcing. The

aim of the research was to determine the influence of outsourcing on firm's performance. The researchers used a sample size of 51 publicly traded firms and the finding indicated that outsourcing improves firm's productivity and efficiency though it had a limitation of relying on publicly available data.

Steffen and Gutter (2008) studied on profitability influence of outsourcing, fresh indication on the strategic significance of vertical incorporation choices. The objective of the study was to investigate the effects of firm level product. The researchers used a sample size of 500 firms in data collection. The findings of the study heavily recommended a review of developed decision making structures for vertical production range based on operating cost deliberations. Transaction cost analysis and cost advantages should be factored with the proficiency and modernization ability formation outlooks.

Mary *et al.* (2013) carried out a study on production outsourcing and factory cost performance: an empirical study. The objective of the study was to establish the performance implications associated with production outsourcing. The findings indicated that there exists an insignificant effect of outsourcing on cost of goods sold. However there is significant effect of outsourcing on components of cost of goods sold. The major limitation of the study was that the information got did not give a clear effect of outsourcing on the three areas that need to be outsourced which include fabrication, production and assembly.

Locally, Kabura (2012) did a research on outsourcing effects on the financial performance of supermarkets in Nairobi. The objectives of the study were to determine the effect of outsourcing on financial performance of supermarkets in Nairobi and to establish the services that are outsourced by supermarkets in Nairobi. The researcher used a sample size of 50 supermarkets in his data used was secondary data. The findings of the study showed positive relationship between operating Income as compared to direct outsourcing costs, labor outsourcing costs and overhead outsourcing costs. The major limitations of the study are that it only focused on supermarkets within Nairobi and hence the results cannot be used to conclude results for all supermarkets in Kenya.

Otieno (2013) studied outsourcing as a strategy for competitive advantage by Barclays bank of Kenya. The major objectives of the study were to determine the competitive advantage experienced by Barclays Bank of Kenya when it outsources some of its functions and challenges faced due to outsourcing some of its functions by Barclays. The researcher used a case study where data was collected by use of an interview guide. The findings indicate that there is higher competitive advantage sourced by Barclays bank due to outsourcing its noncore activities. The major challenge faced was the aspect of lack of confidentiality of information by the bank and training of the outsourced staff.

Ngetich (2014) studied outsourcing and supply chain performance of Kenya Medical Supplies agency. The purpose of the study was to determine the effect of supply chain outsourcing on performance of KEMSA and to establish challenges of outsourcing at KEMSA. The researcher used questionnaires in data collection from a sample size of 100

employees. The findings indicated that cost challenges and loss of confidentiality of information are the greatest challenges sought of outsourcing. Besides there exists a significant relationship between outsourcing and supply chain performance on aspects to do with, reduced lead times reduced costs, increased flexibility among other aspects. The major weakness of the study was that it only focused on KEMSA a pharmaceutical company.

Mbii (2015) carried out a study on outsourcing and performance of savings and credit cooperative societies in Nairobi, Kenya. The objectives were to determine the extent of outsourcing by the SACCO's, and to establish challenges faced due to outsourcing. Questionnaires were used in data collections which were used to collect information from 40 SACCOs in Nairobi. The findings indicated that many SACCOs have implemented specific outsourcing practices which are in line with their specific strategies. Besides there exists a strong relationship between outsourcing and supply chain performance. On the aspects of challenges, lack of clear benefits of outsourcing by the firms together with lack of top management support were the most common challenges sought of outsourcing.

2.6 Challenges of Outsourcing

More recently the main drivers for outsourcing appear to be shifting from cost to strategic issues such as core competence and flexibility (Elmuti & Kathawala, 2000). Perhaps the most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies. Because of intense competition, organizations are forced

to reassess and redirect scarce resources (Quinn, 1999), (azzaque & Chen, 1998). Other strategy issues which encourage the consideration of outsourcing are restructuring, rapid organizational growth, changing technology, and the need for greater flexibility to manage demand swings (Kakabadse & Kakabadse, 2006).

However, all this may not be achieved through outsourcing due to a number of challenges experienced due to outsourcing: Lack of employee training and motivation whereby outsourcing part of an organization's services requires new skills and experience by the internal employees and these is an expense to the organization. Limited resources to outsource noncore activity are also another challenge of outsourcing since it requires enough capital to undertake it. Lack of top management commitment is also a challenge to outsourcing. 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) established 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 anxieties can be dealt with and reduced by firms through use of outsourcing in informed and deliberate manner. Many companies take strategic considerations when outsourcing decisions.

Table 2.1: Summary of Empirical studies and research gaps

| Scholar | Study | Findings | Research gaps |
|----------------|---|--|--|
| Ahmed (2000) | Outsourcing implications on firms profitability | Outsourcing has a positive impact on performance | The study was only based on UK firms and hence the results could not be applied to African countries |
| Gregory (2006) | Outsourcing effects on firms' performance | They indicated that outsourcing affects efficiency | The study failed to look at challenges affecting outsourcing |
| Steffen (2008) | Productivity effects of outsourcing | A strong recommendation that of established decision making schemes for vertical integration | Failure to bring out effects of outsourcing on organizational performance |
| Kabura (2012) | Impact of outsourcing on financial performance of supermarkets in Nairobi | There exists a positive correlation between operating income and outsourcing costs | The study only focused on supermarkets |
| Otieno (2013) | Outsourcing as a strategy for competitive advantage | There is higher competitive advantage due to outsourcing | The study was only focused on Barclays bank |
| Mbii (2016) | Outsourcing and SCP of KEMSA | There is a positive relationship between outsourcing and organizational performance | The study had a methodological weakness, it only focused on outsourcing effects on KEMSA |

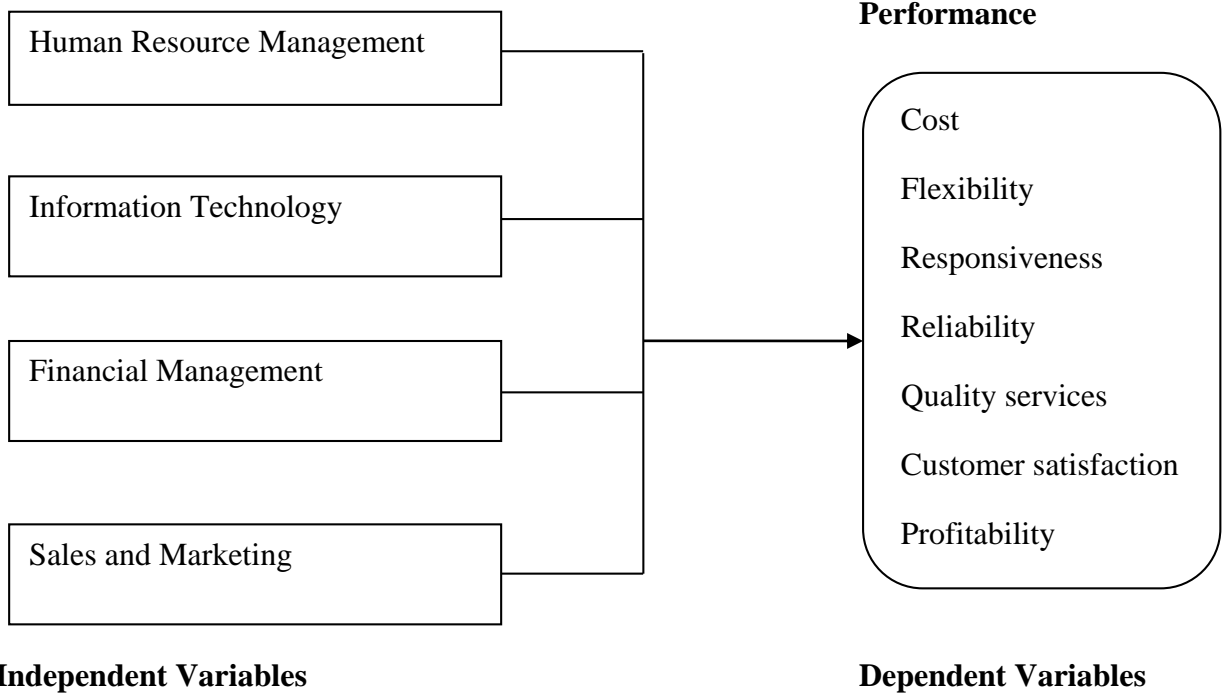
2.7 Conceptual framework

The independent variables are the outsourcing activities which include: human resource management, information technology, financial management and sales and marketing.

The dependent variable is represented by performance.

Figure 2.1: Conceptual Framework

Outsourcing activities



Source: Own Combination (2017)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Under this chapter, the methodology used to carry out the study is stated. It covers the research design, the target population, data collection and data analysis.

3.2 Research Design

This study adopted a descriptive research which was used in explaining the relationship between the outsourced activities and performance of commercial banks in Kenya. It was preferred because it ensured that the respondent's inputs were documented as practiced and reached many respondents (Orodho, 2003).

3.3 Population

The target population comprised of all the 43 commercial banks in Kenya licensed by the Central Bank of Kenya. These included 6 large commercial banks, 14 medium sized banks and 23 small banks (Appendix I). A census survey was used based on the fact that the population was relatively small.

3.4 Data Collection

The study used primary data which was collected by use of self-administered questionnaires consisting of both open and closed ended questions which was designed to elicit specific responses. The questionnaires had three sections. Section A containing questions on the bio-data of the commercial banks; Section B addressing the extent of

outsourcing by commercial banks in Kenya; Section C ascertaining the relationship between outsourcing and performance of commercial banks in Kenya; Section D determine the challenges of outsourcing faced by commercial banks in Kenya. The target respondents were from the Procurement and Finance Managers or their equivalents of each commercial bank.

3.5 Data Analysis

The research was quantitative in nature and the data collected was edited to ensure correctness. Data collected on the objective of finding out the extent of outsourcing by commercial banks in Kenya was analyzed by use of descriptive statistics particularly frequency distribution, percentages, mean and standard deviation. Data on the second objective of outsourcing and performance of commercial banks in Kenya was analyzed by use of multiple regression analysis.

Regression equation $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$

Y = Performance,

X_1 = Human resource management

X_2 = information technology

X_3 = financial management

X_4 = sales and marketing

ϵ =error term

β_{ij} =Regression Coefficients

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presented and discussed the analysis of the data collected from various respondents at commercial banks in Kenya. The data was interpreted according to research questions and objectives. Data was analysed using descriptive statistics including tables that were data quantitative in nature.

The study targeted a study sample size of commercial banks in Kenya and the findings indicated that seventy per cent of the respondents responded to researcher's questionnaires. According to Mugenda and Mugenda (1999), response rate of fifty percent is adequate for analysis and reporting; a rate of sixty percent is good and a response rate of seventy percent and over is excellent.

4.2 General information

4.2.1 Gender

The researcher sought to find out the gender distributions of the respondents and their findings is as indicated on table 4.1 below.

Table 4.1: Gender

| Gender | Frequency | Percent |
|---------------|------------------|----------------|
| Male | 17 | 56.7 |
| Female | 13 | 43.3 |
| Total | 30 | 100.0 |

Source: Research Data

From table 4.1 above, the male respondents were 57% while the female counter parts were 43% implying that the number of male respondents in this targeted population was higher than that of female by 14%.

4.2.2 Age

The study further sought to find out the age distributions of the respondents and the findings are as presented on table below;

Table 4.2: Age

| Age | Frequency | Percent |
|-------------|------------------|----------------|
| 20- 25years | 6 | 20.0 |
| 26-30 years | 16 | 53.3 |
| 31-35 years | 8 | 26.7 |
| Total | 30 | 100.0 |

Source: Research Data

From table 4.2 above, 20% of the respondents were 20-25 years, 53.3% had between 26-30years, and 27% had between 31-35years. From the findings it is clear that majority of the respondents are aged between 26-30 years hence matured and were able to provide accurate data for analysis.

4.2.3 Education Level

The study further sought to find out the education level distributions of the respondents and the findings are as presented on table below;

Table 4.3: Education Distribution

| Education level | Frequency | Percent |
|------------------------|------------------|----------------|
| Diploma level | 7 | 23.3 |
| University Level | 17 | 56.7 |
| Masters Level | 6 | 20.0 |
| Total | 30 | 100.0 |

Source: Research Data

From table 4.3 above, 23% of the respondents had college level of education, 57% had first degrees and 20% had Master's degree. From the analysis, the highest number of the respondents which is 57% implies that most of the respondents had First Degree level of education. Therefore, more than 84% of the participants in this study were highly qualified and eligible to provide accurate data based on their wide understanding of the study variables.

4.2.4 Work Experience

The study further sought to find out the work experience distributions of the respondents and the findings are as presented on table below;

Table 4.4: Working experience distribution

| Experience | Frequency | Percent |
|-------------------|------------------|----------------|
| 1-5 years | 8 | 26.7 |
| 6-10 years | 11 | 36.7 |
| 11-15 years | 7 | 23.3 |
| Over 15years | 4 | 13.3 |
| Total | 30 | 100.0 |

Source: Research Data

From table 4.4 above, 27% of the respondents had 1-5 years' experience, 37% of them having 6-10 years and majority of the respondents having 23% representing 11-15 years of experience. It was also evident that 13% of the respondents had work experience of over 15 years and therefore from the highest number of the respondents 37% it's clear that most of the employees in commercial banks had between 6-10 years of work experience.

4.3 Extent of Outsourcing by Commercial banks

The researcher sought to know the extent to which outsourcing have been adopted by commercial banks in Kenya. Human resource management, information communication technology, financial management and sales and marketing were considered and the respondents were asked to rate their effect on organizational performance. This was done on a Likert scale of 1-5 where 5 represented Very Large extent, 4- Large extent, 3- Moderate extent, 2- Little extent and 1- No extent.

Table 4.5: Extent of Outsourcing

| Outsourcing Practices | Mean | Std. Deviation |
|------------------------------|-------------|-----------------------|
| Human Resource Management | 4.5000 | .62972 |
| Financial Management | 4.4667 | .57135 |
| Information Technology | 4.4333 | .62606 |
| Sales and Marketing | 4.3333 | .60648 |

Source: Research Data

The findings from table 4.5 above show commercial banks in Kenya have outsourced human resource management, financial management, information technology and marketing. This indicates commercial banks have no business with non-critical activities hence outsourcing them in order to reduce on cost of operations. The findings corresponds with the literature review in that subcontracting is certainly informed by the 'make-or-buy' verdicts, Banks have long deal with which undertakings to accomplish internally and which to purchase in the market (Ellram *et al.* 2008). Human resource management had the highest mean and has been outsourced by commercial banks to a large extent.

According Greer, Youngblood and Gray (2006) Outsourcing of Human Resources Management role is a framework of creating decisions and determines that cost effects are the most important element in the decision which is becoming a standard business practice response to an overwhelming demand for reduced costs for HR services. Information technology has also been outsourced to a large extent indicating that

commercial banks in Kenya outsource IT to save operating costs. The findings harmonizes with the literature review in that according to Willocks (1996), IT outsourcing saturates, affects and shapes the most organizational processes. Financial management has also been outsourced to a large extent by commercial banks indicating that commercial banks have devoted themselves in conveniently serving customers and ensuring satisfaction through use of outsourced financial management systems. Outsourcing of sales and marketing by commercial banks had a mean of 4.46 indicating outsourcing this function allows the banks to increase superior sales results with fewer financial resources. The findings harmonizes with the literature review in that according to William (2012), the representative firm trains and maintains the sales force. The significant standard deviations indicate that the responses were not clustered around the mean but were widely highly dispersed from the mean.

4.4 Outsourcing and Organizational Performance of Commercial Banks in Kenya

The researcher further sought to know the relationships between outsourcing and organizational performance of commercial banks in Kenya. The researcher carried out a regression analysis to expound this association. The study adopted the following linear regression model to illustrate the anticipated relationship between variables: $Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$. The findings are illustrated below.

Table 4.6: Coefficients of Determination R₂

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .759 ^a | .576 | .508 | .34959 | .576 | 8.478 | 4 | 25 | .000 |

Source: Research Data

a. Predictors: (Constant), Human Resource Management, Sales and Marketing, Information Technology, Financial Management

From Table 4.6 above, R Square value is indicated to be of 57.6% which means that the human resource management, sales and marketing, information technology and financial management explain 57.6% of the variance in the organizational performance of commercial banks in Kenya.

These independent variables are the benefits that accrue as a result of outsourcing and it is evident that they contribute to a large extent to the level of performance that is achieved in Kenyan commercial banks. It is therefore justifiable to make conclusion that outsourcing activities are essential in enhancing the organizational performance of commercial banks given that the unexplained variance is only 42.4%.

Table 4.7: T Test of Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---------------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | | | |
| (Constant) | .398 | 1.038 | | .384 | .704 |
| Sales and Marketing | .225 | .110 | .274 | 2.056 | .050 |
| Financial Management | .688 | .164 | .789 | 4.210 | .000 |
| Information Technology | .223 | .126 | .280 | 1.765 | .090 |
| Human Resource Management | .186 | .168 | .235 | 1.111 | .277 |

Source: Research Data

a. Dependent Variable

From table 4.7 above, the resulting regression equation is $Y = 0.398 - 0.186 X_1 + 0.223 X_2 + 0.164 X_3 + 0.110 X_4$

Where: x_1 represents Human resource management, x_2 =Information technology, x_3 = Financial management and x_4 = Sales and marketing.

The model showed that when all variables are held at zero (constant), the value of organizational performance would be at 0.398. However, holding other factors constant, a unit outsource of human resource management would lead to 0.186 decrease in organizational performance, a unit outsource in information technology would lead to 0.223 increase in organizational performance, a unit outsource of financial management would lead to 0.688 increase in organization performance, a unit outsource of sales and marketing management would lead to 0.225 increase in organizational performance.

There is a positive significance relation between organizational performance and outsourcing of financial management, information technology and sales and marketing

with significance values of 0.001, 0.090 and 0.225 respectively. This means outsourcing of financial management, sales and marketing and information technologies are suitable predictors of dependent variable or organizational performance in commercial banks in Kenya.

Table 4.8: Coefficient of Correlation

| Model | | Human Resource Management | Sales and Marketing | Information Technology | Financial Management |
|---------------------|---------------------------------|--|--------------------------------|-----------------------------------|---------------------------------|
| Correlations | Human Resource Management | 1.000 | .022 | .553 | .707 |
| | Sales and Marketing | .022 | 1.000 | .102 | .092 |
| | Information Technology | .553 | .102 | 1.000 | .344 |
| | Financial Management | .707 | .092 | .344 | 1.000 |
| Covariance's | Human Resource Management | .028 | .000 | .012 | .019 |
| | Sales and Marketing | .000 | .012 | .001 | .002 |
| | Information Technology | .012 | .001 | .016 | .007 |
| | Financial Management | .019 | .002 | .007 | .027 |

Source: Research Data

Table 4.8 above shows variables coefficient of correlations findings which asserts existing correlation between outsourcing and organizational performance even though the

relationships being not significant. Financial management shows a positive correlation of 0.557 which is significant at the 0.01 level for 2-tailed. The other variables even though they showed positive correlation, their relationships to organizational performance is not significant at any level. Outsourcing information technology and human resource management had a positive correlation of 0.354 and 0.110 respectively. All the other variables showed a positive correlation to organizational performance of commercial banks in Kenya with only financial management having a significant relationship to performance.

Table 4.9: Analysis of Variance (ANOVA)

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|--------------|-----------------------|-----------|--------------------|----------|-------------------|
| Regression | 4.145 | 4 | 1.036 | 8.478 | .000 ^b |
| Residual | 3.055 | 25 | .122 | | |
| Total | 7.200 | 29 | | | |

Source: Research Data

The researcher used Analysis of variance to find out the significance of the regression model out of which an F-significance value of $p < 0.000$ was established showing that the regression model has less than 0.05 probability of providing false prediction.

The p value is less than the critical value ($p \geq 0.05$) which means that the impact of outsourcing is significant to performance of commercial banks in Kenya in terms of research variables at 5% confidence level. Therefore, the regression model is statistically significant, meaning that it is a suitable prediction model for explaining how human resource

management, information technology, financial management and sales and marketing affect the organizational performance to a large extent.

4.5 Outsourcing Challenges

In regard to challenges facing implementation of outsourcing at commercial banks in Kenya, the researcher sought to determine the extent to which various challenges affects implementation of outsourcing activities and the findings are shown below, Respondents were to rate the challenges on Likert scale of 1-5, whereby 5-Very Large extent, 4-Large extent, 3-Moderate extent, 2-Little extent and 1-No extent.

Table 4.10: Challenges of Outsourcing

| | Mean | Std. Deviation |
|--|-------------|-----------------------|
| Lack of clear benefits of outsourcing | 4.4000 | .67466 |
| Negative attitudes by employees | 4.4000 | .77013 |
| Lack of top management commitment | 4.4000 | .67466 |
| Cost and profits allocation | 4.2667 | .69149 |
| Resistance to change | 4.2333 | .62606 |
| Misunderstanding of outsourcing | 4.2000 | .76112 |
| Limited resources | 4.1667 | .79148 |
| Conflicts with other initiatives of the firm | 4.1333 | .77608 |
| Lack of employee training | 4.0000 | 1.01710 |

Source: Research Data

The findings as indicated by table above shows that the challenges affected implementation to an average mean of 4.2444 implying to a large extent. Outsourcing practice implementation was affected by all the challenges to a large extent with lack of clear benefits of outsourcing registering a mean of 4.4, Negative attitude by employees a mean of 4.4, lack of top management commitment a mean of 4.4, cost and profit allocation a mean of 4.27, resistance to change a mean of 4.2, misunderstanding of outsourcing a mean 4.2, limited resources a mean of 4.17, conflicts with other initiatives of the firm a mean of 4.1 and lack of employee training registering a mean of 4, respectively.

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. Resistance to change is a challenge faced by commercial banks when outsourcing. This concurs with literature review in that lack of buy in from people inside the banks may take the form of active or passive resistance. Misunderstanding of outsourcing is also a challenge indicated by the respondents and it concurs with the literature review in that the service provider and the banks 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 bank.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this study was to explore the outsourcing and performance of commercial banks in Kenya, extent of adoption of outsourcing and the challenges faced during implementation of outsourcing. This chapter therefore presents a summary of the main findings of the study, giving conclusions and recommendations which reflect the answers to the specific questions for possible action and suggestions for further research.

5.2 Summary of Findings

The researcher administered questionnaires to commercial banks in Kenya and got an excellent response rate. In relation to respondents' demographics, the studies found out that, Majority of the respondents were female while the male accounting the rest indicating that commercial banks in Kenya have observed gender balance in their banks. The research further found out that most of the respondents were at youth age followed by those at middle ages. Minority of the respondents had the least percentage implying that most commercial banks in Kenya consist of young employees who are at their youth stage. Most of the respondents were University graduates followed college level and masters level respectively. Therefore, higher percentage of the participants in this study is highly qualified. Most of the respondents indicated that they have moderate experience, followed by those with less experience and more experience respectively. Respondents with work experience of above decade years were with the least percentage.

In regard to the extent to which various outsourcing activities has been adopted at Kenyan commercial banks, the findings showed that commercial banks in Kenya have outsourced human resource management, financial management, information technology and marketing. This indicates commercial banks have no business with non-critical activities hence outsourcing them in order to reduce on cost of operations. Human resource management had the highest mean and has been outsourced by commercial banks to a large extent. Information technology has also been outsourced to a large extent indicating that commercial banks in Kenya outsource IT to save operating costs.

Financial management has also been outsourced to a large extent by commercial banks indicating that commercial banks have devoted themselves in conveniently serving customers and ensuring satisfaction through use of outsourced financial management systems. Outsourcing of sales and marketing by commercial banks indicating that outsourcing this function allows the banks to increase superior sales results with fewer financial resources. The findings harmonizes with the existing literature review of the representative firm training and maintaining the sales force .The significant standard deviations indicated that the responses were not clustered around the mean but were widely highly dispersed from the mean.

On how various outsourcing activities were linked to performance, the findings showed positive relationships between outsourcing activities and performances of commercial banks in Kenya with a resulting regression equation explaining that when all variables are held at zero (constant), the value of organizational performance would be constant figure

indicated on the model. However, holding other factors constant, a unit outsource of human resource management would lead to decrease by variable coefficient in organizational performance, a unit outsource in information technology would lead to increase in organizational performance by coefficient of the variable, a unit outsource of financial management would lead to increase in organization performance, a unit outsource of sales and marketing management would also lead to increase in organizational performance by the coefficient of the variable.

There was a positive significance relation between organizational performance and outsourcing of financial management, information technology and sales and marketing with significance values of less than recommended confidence level indicating outsourcing variables are suitable predictors of dependent variable or organizational performance in commercial banks in Kenya.

The findings also showed existing correlation between outsourcing and organizational performance even though the relationships being not significant. Financial management had a positive correlation of which is significant for two-tailed. The other variables even though they showed positive correlation, their relationships to organizational performance were not significant at any level. Outsourcing information technology and human resource management had a higher positive correlation. All the other variables showed a positive correlation to organizational performance of commercial banks in Kenya with only financial management having a significant relationship to performance.

In regard to the challenges faced by commercial banks in Kenya in implementation of outsourcing activities practices, the study found out that the challenges affected implementation to a large extent. Outsourcing practice implementation was affected by all the challenges to a large extent with lack of clear benefits of outsourcing, Negative attitude by employees, Lack of top management support and commitment, cost and profit allocation, resistance to change, misunderstanding of outsourcing, limited resources and conflicts with other initiatives of the firm and lack of employee training registering. From the findings majority of the respondents agreed that this challenges affect implementation of outsourcing practices to a large extent hence for commercial banks to successfully adopt this practice, they must first put in place measures to address the listed challenges.

5.3 Conclusions

The study concludes that the introduction of outsourcing to commercial banks have a high significance in the improvement of their performance hence all they should put in place measures to ensure outsourcing activities mentioned are fully adopted. From the study findings it can be concluded that outsourcing practices have affected performance of commercial banks to a large extent. The research also concludes that outsourcing activities have been adopted and faced challenges to a large extent. The research also concludes that lack of clear benefits of outsourcing, Negative attitude by employees, Lack of top management support and commitment, cost and profit allocation, resistance to change, misunderstanding of outsourcing were the most faced challenges.

5.4 Limitations of the study

The researcher encountered quite a number of challenges. First, the study faced the challenge of time, resources thus limiting the study from collecting information for the study particularly where the respondents delayed in filling the questionnaire and travelling expenses for collection of the filled questionnaires.

Bank information is proprietary and confidential. Most of the respondents approached were reluctant in giving some information fearing that the information sought would be used to intimidate them or create a negative image of the institution they work for. The researcher handled the problem by assuring them that the information will be treated with utmost confidentiality and will only be used for academic purposes. This study was being undertaken within a limited period of time which meant that feedback from respondents in various banks was required in within this shorter period. If adequate time was allocated, there could have been a higher response rate. Lastly, the results of this study were largely based on the opinions of respondents' about their banks. The researchers had no direct control of the accuracy of this information. The researchers countered this by calling the respondents to clarify any ambiguous responses.

5.5 Recommendations

The objective of outsourcing in a company is to increase efficiency, satisfaction and reduce the cost of operation in order to ensure banks are attaining both profitability and experiencing growth. The study established that outsourcing various activities can help enhance efficiency and reduce operating cost, which is critical in achieving organization

success. The study recommends that the organizations should develop and design this activities and control systems depending on their size to ensure that all the needs of the organization are adequately addressed. The research established that the benefits of such activities outweigh the challenges and hence should be utilised to optimize banks operations and minimised cost of operations.

The study recommends that banks should hire competent staff to be entrusted in implementation, management and measurement of outsourcing activities. Furthermore, staff should receive training and motivation to reduce the margin of error and chances of mismanagement or sabotaging of outsourcing implementation. This will eventually elevate the credibility of information captured and aid optimal decision making in commercial banks which will translate to increased flexibility, customer satisfaction and reduced cost of operations. The study further recommends that there should be laid down policies on outsourcing practice and practice implementation to avoid malice and malpractices that would lead to unsuccessful adoption of the same within commercial banks.

5.6 Suggestion for Further Studies

This study concentrated efforts on establishing impacts of outsourcing on organizational performance of commercial banks in Kenya. The study also explored the extent at which outsourcing has been implemented and the challenges faced by commercial banks during implementation of outsourcing activities. The study was however not conclusive effects of outsourcing practices on organizational performance but serves as a basis for more

research to be conducted on more variables to come up with more information concerning the same. The study focused on organizational performance without analyzing quantitative details of the performance, future research can be done to analyze quantitative aspects of performance such as changes in profits among others.

This study suggests that other researchers should undertake to do research on the link between outsourcing on supply chain performance and the benefits or challenges accompanying outsourcing practices on supply chain performance. This research never considered the possible solutions to the challenges facing the implementation of outsourcing at the commercial banks in Kenya hence further study needs to be instituted to investigate the possible solutions to the challenges faced in implementation of outsourcing of various activities.

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APPENDICES

Appendix I: Questionnaire

This questionnaire is intended to provide information for the study on outsourcing and Performance of commercial banks in Kenya. 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: PART A: BIOGRAPHIC INFORMATION

1. Gender:

Male () Female ()

2. Your age bracket

20-25 years () 26-30 years () 31-35 years () 36-40years () above 40 years ()

3. How long have you been working with the firm?

1-5 years () 6-10 years () 11-15 years () 16-20 years () above 20 years ()

4. Highest level of education

College Level () University level () Masters Level ()

| PRACTICE | YES | NO |
|--------------------------------------|------------|-----------|
| Human Resource management | | |
| Sales and marketing | | |
| Financial management | | |
| Information communication technology | | |

SECTION B: THE EXTENT OF OUTSOURCING BY COMMERCIAL BANKS IN KENYA

Please indicate the extent your organization has outsourced the following services. Tick where appropriate, use scale **1=Not at all, 2=Small extent, 3=Moderate extent, 4=Great extent, 5=Very great extent**

| PRACTICE | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Human resource management | | | | | |
| Recruitment and staffing | | | | | |
| Trainings | | | | | |
| Payroll management | | | | | |
| Job evaluation | | | | | |
| Contract employment | | | | | |
| Administration of retirement plans | | | | | |
| Information technology | | | | | |
| Paper less operation in the organization | | | | | |
| Availability of paperless information | | | | | |
| Engage research firm(s) to monitor and evaluate the newly introduced product in the market. | | | | | |
| Use automated services such as cash withdrawals through ATM and M-Pesa point to disburse cash to its member. Use mobile phone providers to communicate; i) Access account balances ii) To transact | | | | | |
| Financial management | | | | | |
| Auditing | | | | | |
| Tax compliance | | | | | |
| Cheque writing | | | | | |
| Billing | | | | | |
| General accounting | | | | | |
| Insurance | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| Sales and marketing | | | | | |
| Use external firms to give after sale service to its customers | | | | | |
| Use of outside firms to educate members on bank's products | | | | | |
| Use of other firms to carry out research | | | | | |
| Use of outside firms to carry out sales promotion | | | | | |

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

Indicate to what extent various outsourced activities affect performance using various performance indicators. **Key 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent, 5-Very great extent**

| PRACTICE | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Human resource management | | | | | |
| Enhanced productivity | | | | | |
| Reduced costs | | | | | |
| Improved retirement plans | | | | | |
| Enhanced focus on core functions | | | | | |
| Contract management improved | | | | | |
| Improved counseling | | | | | |
| PRACTISE | | | | | |
| B) Information communication technology | | | | | |
| Enhanced efficiency | | | | | |
| Saves time | | | | | |
| Enhanced proper flow of information | | | | | |
| Invention of new products | | | | | |
| Use of mobile phones and credit cards to access services | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| C) Financial management | | | | | |
| Improved financial reporting | | | | | |
| Enhanced productivity | | | | | |
| Improved accounting system | | | | | |
| D) sales and marketing | | | | | |
| Improved awareness of the banks products | | | | | |
| Improved sales of the bank's products | | | | | |
| Customer satisfaction | | | | | |

SECTION D: DETERMINE THE CHALLENGES OF OUTSOURCING FACED BY COMMERCIAL BANKS IN KENYA

Please indicate the level of agreeing to which the following challenges of outsourcing faced by Commercial banks in Kenya. **Key 1-Not at all, 2-small extent, 3-Moderate extent, 4-Great extent, 5-Very great extent**

| Challenge | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Lack of employee training | | | | | |
| Limited resources | | | | | |
| Lack of top management commitment | | | | | |
| Negative attitudes by employees | | | | | |
| Lack of clear benefits of outsourcing | | | | | |
| Resistance to change | | | | | |
| Cost and profits allocation | | | | | |
| Misunderstanding of outsourcing | | | | | |
| Conflicts with other initiatives of the firm | | | | | |

Thank you for your cooperation

APPENDIX II LIST OF COMMERCIAL BANKS IN KENYA

- 1 African Banking Corporation Ltd
- 2 Bank of Africa Kenya Ltd
- 3 Bank of Baroda (K) Ltd
- 4 Bank of India
- 5 Barclays Bank of Kenya Ltd
- 6 CFC Stanbic Bank Ltd
- 7 Charterhouse Bank Ltd
- 8 Chase Bank (K) Ltd
- 9 Citibank N.A.Kenya
- 10 Commercial Bank of Africa Ltd
- 11 Consolidated Bank of Kenya Ltd
- 12 Co-operative Bank of Kenya Ltd
- 13 Credit Bank
- 14 Development Bank of Kenya Ltd
- 15Diamond Trust Bank (K) Ltd
- 16 Dubai Bank Kenya Ltd
- 17 Eco Bank Kenya Ltd
- 18 Equatorial Commercial Bank Ltd
- 19 Equity Bank Ltd
- 20 Family Bank Ltd
- 21 Fidelity Commercial Bank Ltd
- 22 G.T Trust Bank
- 23 First Community Bank Ltd
- 24 Giro Commercial Bank Ltd
- 25 Guardian Bank Ltd
- 26 Gulf African Bank Ltd
- 27 Habib Bank A.G Zurich
- 28 Habib Bank Ltd
- 29 Imperial Banks Ltd

- 30 I and M Bank Ltd
- 31 Jamii Bora Bank Ltd
- 32 Kenya Commercial Bank
- 33 K-Rep Bank Ltd
- 34 Middle East Bank (K) Ltd
- 35 National Bank of Kenya Ltd
- 36 NIC Bank Ltd
- 37 Oriental Commercial Bank Ltd
- 38 Paramount Universal Bank Ltd
- 39 Prime Bank Ltd
- 40 Standard Chartered Banks (K) Ltd
- 41 Trans- National Bank Ltd
- 42 Victoria Commercial Bank Ltd
- 43 UBA Kenya Bank Ltd