OUTSOURCING AND ITS EFFECTS ON COMPETITIVE ADVANTAGE IN KENYA COMMERCIAL BANKS

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

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D61/68150/2013

This research project has been presented for examination with my approval as the university supervisor:

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DEDICATION

I dedicate this project to my family for their prayers and nursing me with affections and love and for their dedicated partnership for success in my life. May God keep you and bless you abundantly.

ABSTRACT

The study investigate on outsourcing and its effects on competitive advantage in Kenya Commercial Banks. Outsourcing is a vital apparatus utilized by organizations to enhance their capacity to focus on the center capabilities, redistributing non - center capacities. This investigation was established on two hypotheses; Resource based hypothesis and Porters five power hypothesis. The writing survey segment blueprints and investigations distributed articles and diaries composed by authorize researchers and specialists with reference to the point that is being examined. It gives a basic assessment of the accessible research proof about aggressive techniques in which different methodologies were specified. The distinct research configuration was utilized with the end goal of this investigation, which enables an analyst to portray the marvels under examination. The number of inhabitants in this examination was drawn from the Heads of system or their comparable in 40 business banks enlisted and authorized under the Banking Act of Kenya as at June 2017 (CBK, 2017). This examination appeared as an enumeration given that the populace was just 40 Heads of methodology or their identical in all the business banks working in Kenya. Essential and Secondary information was utilized with the end goal of this examination. Essential information was acquired through self-directed drop and pick surveys for quantitative and subjective information. The real discoveries of the examination were valuable in accomplishing the motivation behind the investigation on the degree of re-appropriating in Kenya's managing an account industry, The discoveries of the examination on the degree of re-appropriated benefits in Kenyan banks uncovered that most banks at 96% don't feel that account opening administrations ought to be redistributed. In end it very well may be expressed that the examination has possessed the capacity to satisfy the expressed goals. The examination demonstrates that Commercial Bank of Kenya has possessed the capacity to utilize redistributing as a system of upper hand since re-appropriating empowers the bank to cost cut, appreciate aptitude administrations and furthermore utilize a significant part of the administration time to concentrate on progressively key exercises.

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ACRONYMS AND ABBREVIATION

CBK	Central Bank of Kenya
HRM	Human Resources Management
KBA	Kenya Bankers Association
SPSS	Statistical Package for the Social Sciences”

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Outsourcing has given natural development to associations and has empowered them to decrease costs and contend all the more viably in worldwide markets (Neely, 2015). While this multiplication of re-appropriating has been useful to transient development, it might likewise be dissolving the upper hand that the nation has delighted in the previous century. Banks everywhere throughout the world are encountering hardened rivalry from their rivals. To pick up an aggressive edge, they should be adaptable and inventive in their methods of tasks. Morgan, Kaleka, and Katsikeas (2014) see upper hand as an exceptional edge that empowers an association to manage showcase elements and natural powers superior to anything its rivals do.

This study is established on two theories; Resource based theory and Porters five power theory. The asset based view display and the mechanical association demonstrate are utilized by associations to produce the vital information sources expected to effectively define and actualize systems and to keep up vital adaptability (Hitt, Ireland and Hoskisson, 2005). Doorman (2005) asked that prevalent execution can be accomplished in an aggressive industry through the quest for nonexclusive techniques, these methodologies incorporate; cost authority system, separation procedure, and market center methodology. Hitt et al (2005) upheld this contention by expressing that an association's one of a kind assets and capacities give the premise to a system.

Commercial banks in Kenya have experienced very stiff competition from both local and multinational banks. This has necessitated the adoption of various strategies such as outsourcing to increase their efficiency and remain competitive. Commercial banks in Kenya have incorporated outsourcing in its day to day operations with the aim of reducing overall operational costs by focusing on its core activity in order to achieve organizational goals.

1.1.1 Concept of Outsourcing

The concept of outsourcing originated from the American wording "outside resourcing", which means to get assets all things considered. Redistributing wound up basic once vertical and combination mergers began supplanting the more conventional flat mergers. The reason refered to was that of center skill wherein the 'acquirer' kept on concentrating on its principle tasks and re-appropriated certain exercises. The motivation behind re-appropriating was to keep up the acquirer's upper hand (Quelin and Duhamel, 2003).

The term re-appropriating alludes to contracting out of non - center exercises (Elmuti, 2003).The re-appropriating organization has characterized redistributing as the vital utilization of outside assets to perform exercises generally taken care of by inside staff and assets, however this isn't a sign that the exercises to be re-appropriated are less imperative. Redistributing is in this way worried about the outer arrangement of useful action and hence re-appropriating choices are key in nature. Re-appropriating is commonly considered as an integral asset to cut expenses and enhance execution. Redistributing can likewise help center around the center business.

While most research articles on re-appropriating have contended for its prosperity, there are weaknesses to redistributing. Some re-appropriated exercises have neglected to meet desires and it is hard to control these re-appropriated exercises (Baitheiemy, 2003). Redistributing is developing at an exponential rate, as the inexorably worldwide commercial center sees a variety of focused factors, for example, cost, speed, quality, volume, adaptability and advancement ending up progressively imperative, driving firms to move from value-based re-appropriating to utilizing increasingly key re-appropriating as a methods for making aggressive progress. Firms which make progress in their universal business are those that see the adjustments in the global condition and who can create systems that empower them to react in like manner, (Gilley, Greer and Rasheed 2004).

1.1.2 Concept of Competitive Advantage

Competitive advantage is tendency over contenders gotten by offering purchasers logically imperative respect, either by techniques for lower costs or by giving progressively fundamental focal points and associations that legitimizes an inexorably costly rate (Porter, 1985). Custodian (1985) describes high ground along the three segments of cost, partition and focus with contenders trying to isolate themselves from those obvious as "stuck in the inside" without high ground. He prescribes that having the ability to convey an event at a lower cost stood out from the contenders is one-way to deal with high ground. Hofer and Schendel (1978, p. 7) introduced the possibility of high ground where they cleared up that it is gotten by associations through assignment of advantages and progression of a surprising resource arranging specific from various contenders.

High ground is great position over contenders grabbed by offering clients increasingly vital regard, either by strategies for lower costs or by giving progressively noticeable favorable circumstances and organizations that legitimizes a progressively costly rate (Porter, 1985). High ground is seen as the purpose behind predominant association execution. To perform at such a measurement dependably, a firm consistently needs to continue a creating game plan of high grounds to bring it through competition and after some time. Forceful framework must create out of a propelled appreciation of the rules of contention that choose an industry's charm. Guardian states, "an authoritative purpose of forceful technique is to adjust to and, ideally, to change those standards in the affiliation's direct."(Porter, 1985) It fuses, exchanging intensity of providers, overseeing intensity of purchasers, risk of substitute thing and threat of new individuals. The in excess of four powers consolidate with different parts to influence a fifth power, the component of conflict in an industry. The force of contention among firms sways crosswise over associations. In the event that contention among firms in an industry is low, the industry is viewed as constrained. This ask for may result from the business' history of dispute, the action of driving firm, or accommodating consistence with an everything thought about acknowledged game plan of recognized standards (Porter, 1980).

1.1.3 Banking Industry in Kenya

According to the central bank report as at December 2010, “there were forty six dealing with a record and non-bank associations, fifteen little scale back establishments and one hundred and nine outside exchange offices. The secretly asserted fiscal establishments include 3 keeps cash with colossal government shareholding and 28 elite business.

The remote guaranteed budgetary foundations contained 8 secretly joined outside banks and 4 sections of remote melded banks. Of the 42 private setting aside some cash establishments in the section, 71% are secretly had and the remaining 29% are remote asserted (Central Bank of Kenya, 2010). The CBK conveys information on Kenya's business banks and non-keeping cash financial establishments, credit costs and distinctive creations and principles. The banks have gotten together under the Kenya Bankers Association (KBA), which fills in as an antechamber for the banks' focal points and addresses issues impacting its people (Kenya Bankers Association yearly Report, 2010). Players in this division have experienced extended contention over the span of the latest couple of years coming to fruition in view of extended headways among the players and new members into the market.

The Central bank of Kenya coordinates the undertakings of each and every business bank. In the midst of the on area examinations all threats are evaluated and central recuperating exercises are recommended. The banks have gotten together under the Kenya Bankers Association (KBA), which fills in as a corridor for the dealing with a record division's interests." Throughout the latest couple of years, the Banking division in Kenya has continued creating in assets, stores, profit and things offering (Price water coopers, 2011). The improvement has been generally bolstered by; an industry wide branch arrange augmentation strategy both in Kenya and in the East African social order district.

1.1.4 Commercial Banks in Kenya

Players in this section have experienced extended contention over the span of the latest couple of years happening as a result of extended progressions among the players and new members into the market. The Central bank of Kenya directs the undertakings of each business bank. In the midst of the on area appraisals all perils are surveyed and major remedial exercises are proposed. The banks have gotten together under the Kenya Bankers Association (KBA), which fills in as a lobby for the keeping cash fragment's interests.

A bank is an establishment that deals, all things considered, in real money. It gets stores from examiners and in this way offers whole deal attributes and advances to customers which get repaid at future pre-agreed dates. Banks can be arranged by their activity. They can be transcendently masterminded as: Commercial Banks, Investment Banks, Development Banks and Central Banks. The activity of a business Bank is: Taking money store from the overall public and crediting it out to its customers at a superior business, issuing securities, regulating assets and overseeing in remote exchange trading.

1.2 Research Problem

Re-appropriating is a vital instrument utilized by organizations to enhance their capacity to focus on the center capabilities, redistributing non - center capacities. Redistributing isn't contracting or settling business forms. It is tied in with making esteem. It is tied in with reengineering and having the capacity to give clients a more prominent esteem quicker, at a lower cost and higher quality. As of late, redistributing as a business system has acquired emotional difference in fortunes numerous associations.

Corbett (2012) saw that savvy associations center around center abilities that give high esteem, amplify return on interior assets, treat numerous administrations as key empowering agents and furthermore have an inward client/provider introduction. They approach redistributing in a vital way to acquire consistency and dependability the conveyance of administrations and in addition giving them an upper hand. Business banks in Kenya have encountered firm rivalry from both neighborhood and worldwide banks. This has required the reception of different procedures, for example, redistributing to build their proficiency and stay aggressive.

There are various examinations that have concentrated on redistributing Suraju and Hamed (2013) re-appropriating administrations is perceived as vital device for hierarchical execution; the more an association re-appropriated, the higher its authoritative development and efficiency. Fan (2014) demonstrate that fringe exercises are the most re-appropriated with cost decrease being the fundamental driver. Waweru and Kalani (2014) on Commercial Banking Crises in Kenya built up non-center capacities are the most redistributed, to empower them center around center exercises of the bank.

There are various research thinks about done on redistributing and upper hand; universal examinations are; McLellan, Marcolin, and Beamish, (1995) completed a diary of Financial and key inspirations driving IS re-appropriating. They found that numerous associations are progressing in the direction of the idea of association managing center or vital exercises and with people giving a scope of supporting auxiliary administrations on contracted premise. There are various nearby investigations that have been finished. Shaviya (2013), did re-appropriating and upper hand at Safaricom constrained.

Ichoho (2013) on the execution of re-appropriating procedure at the Nairobi Hospital, King'ori, (2013). Key redistributing at Airtel Kenya. Muluvi (2014) utilization of redistributing system among transportation firms in Kenya. These investigations found that the utilization of re-appropriating administrations has made numerous open doors that have empowered associations to extend its administrations, activities, achieve numerous clients in the objective market and improved cost decrease.

From the examinations referenced above, it is very obvious that redistributing and upper hand have not considered at business banks in Kenya. This exploration consider along these lines looked to research on commitment of redistributing in making upper hand in business banks in Kenya. The study seeks to answer the questions: What are the outsourcing strategies adopted by commercial banks in Kenya? And what is the contribution of outsourcing in creating competitive advantage in commercial banks in Kenya?

1.3 Research Objectives

The following are the research objectives

i. To determine the outsourcing strategies adopted by commercial banks in Kenya
ii. To determine the effect of outsourcing in creating competitive advantage in commercial banks in Kenya.

1.4 Value of the Study

This research may add to the Resource based theory and Porters five force theory literature as these is new concept in the banking industry. For academicians study is intended to add to the body of knowledge, specifically in regard to the effect of outsourcing and how it create competitive advantage in commercial banks in Kenya and hopefully ignite the need for further research especially looking into competition arising in the sector and other research areas that may suggested.

In practice this research informs and guide banking industry and precisely the corporate managers and board of directors of commercial banks gets information on contribution of outsourcing in creating competitive advantage and how it can be managed to ensure real value for the business. The findings shall also be useful to new investors in the industry as they shall get a basis of understanding what the industry practice is when it comes to outsourcing in response to ever changing business environment response in creating competitive advantage.

The policy makers may get information of the saving money industry elements and the reactions that are suitable to re-appropriating system; they may consequently acquire direction from this examination in planning fitting arrangements that manages the area cooperation. The examination will likewise help the business banks in its re-appropriating procedure advancement especially in this aggressive time in the managing an account industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review section outlines and investigations distributed articles and diaries composed by authorize researchers and specialists with reference to the theme that is being considered. It gives a basic assessment of the accessible research proof about focused methodologies in which different systems was counted.

2.2 Theoretical Foundation of the Study

This section discusses the relevant theories that are related to outsourcing and competitive advantage. For this situation the examination concentrated on the asset based view and Porter's Five Forces hypothesis.

2.2.1 Resource-Based View

The asset based view hypothesis can be utilized to expand aggressive procedures. This hypothesis contends that upper hand lies in the assets that an association can access and misuse and not in the capacity to deal with nature (Campbell, 2004). It keeps up that organizations are blessed by the gods with a heap of assets as resources, skills, procedures, and substitutes that furnish the association with upper hand. David (2007) means that since organizations have distinctive traits at various dimensions and diverse groups of assets, contrasts in hierarchical execution are probably going to be seen. The hypothesis further states that organizations have three sorts of assets to be specific; unmistakable assets, elusive assets and hierarchical capacities. Substantial assets incorporate money related, physical, innovative and authoritative resources and accordingly are effortlessly recognized then again impalpable assets are increasingly unpredictable to distinguish and along these lines trouble to impersonate.

They incorporate systems that a firm embraces after some time and finishes to enhanced execution (Barney, 2006). At last, authoritative finally, legitimate capacities are aptitudes and abilities which a firm combines to change considerable and subtle resources into yields, for example, remarkable customer advantage (Dess etal, 2007). The advantage based theory also fights that legitimate resources in themselves are not by any means a wellspring of high ground since foe firms may in like manner have similar resources. For this circumstance in this manner, high ground lies in the benefits having somewhere around one of various properties, for instance, critical substitutes. A firm needs to along these lines bolster a high ground as long as various firms can't duplicate comparative characteristics (Dess et. al, 2007).

The theory battles that a firm needs to saddle its advantages using various leveled repeatable data that promises it a high ground. Permit (2004) places that achieving and making various leveled ability is premier to achieving high ground and thusly high ground is sourced in the affiliation's ability to learn and apply data rather than fundamentally getting to resources. The speculation further battles that forcefulness ought to be maintained by a culture that underpins sharing and exchanging capacities, aptitudes and limits through legitimate learning.

2.2.2 Porter's Five Forces Model

The Five Forces Model describes the rules of competition in any industry. Centered procedure must create out of a refined appreciation of the rules of contention that choose an industry's allure. Guard states, "an authoritative purpose of forceful approach is to adjust to and, ideally, to change those norms in the organization's lead." (Mintzberg,1995).

As per Porter (1980), the capacity of firms to get by in the business condition is reliant upon their determination and usage of an aggressive methodology that separates the firm from contenders. To adapt to powers identified with dangers of passage, substitution, haggling intensity of providers, and contention, Porter proposes the usage of a nonexclusive aggressive methodology (that is, cost initiative, separation, or center) to beat contenders. A cost authority procedure centers around accomplishing a minimal effort without yielding quality and administration. This methodology requests cost minimization and potential for extensive capital speculation, so a high piece of the overall industry, expansive item arrangements, and thoughtfulness regarding estimating are basic to it. Firms utilizing item separation as a focused technique offer remarkable items or benefits and may participate in fluctuating sorts of separation (for instance, item configuration, mark picture, innovation, client introduction). An emphasis technique focuses on an all-around characterized item or market section. Determination of this technique is powerful for firms that serve a restricted, all around characterized advertise as opposed to a wide based market.

2.3 Outsourcing in Organizations

Monetary dualism hypothesis proposes that substantial organizations make double economy by subcontracting, in which they can extend their assets in the midst of fortune and diminish limit in the midst of subsidence, accordingly utilizing sub-contracting as a pad against financial cycles. Anyway this hypothesis flops in current conditions where subcontractors are viewed as accomplices sharing dangers, prizes and incomes (Bacon, 2009).

This re-appropriating can be whole capacity like Nike re-appropriated its assembling capacity or it very well may be a piece of the capacity like numerous organizations re-appropriate the administration of their finance/benefits frameworks while keeping the HR the board (HRM) exercises inside the framework. As per Jennings, (2006), advancement of Outsourcing Subcontracting model has changed radically throughout the most recent two decades. A standout amongst the most widely recognized procedures was numerous sourcing, which emerges from the guideline not to keep all your investments tied up on one place which was sufficient when rivalry is neighborhood or national.

With organizations getting to be worldwide, rivalry has strengthened, time to advertise cycles must be kept low, expanded advancements as clients requesting amazing items, at focused costs wound up troublesome with different sourcing technique. This moved the focal point of organizations towards parallel sourcing methodology where organizations utilize single source inside model gatherings and numerous hotspots for various items. This gives purchaser advantages of sole sourcing like nearer working connections, data sharing and so on and advantages of numerous sourcing like security of supply and market evaluating (Barney, 2001).

2.4 Contribution of Outsourcing in Creating Competitive Advantage

As per Rothman, (2003) “associations that redistribute are looking to acknowledge benefits and also address different issues among them ,cost sparing whereby bringing down of by and large expense of the support of the association. This includes decreasing the degree, meaning of value levels, repeating, re-transaction, cost rebuilding, and access to bring down cost economies through expense rebuilding.

Working influence is accomplished and this is a measure that looks at settled expenses to variable costs, re-appropriating changes the parity of this proportion by offering a more from variable to settled expense and furthermore making variable costs increasingly unsurprising. Enhance quality includes accomplishing a stage change in quality through contracting out the administration with another administration level assentation.

Master redistributing shippers can in like manner bear to place more in new headways and innovative practices than can numerous re-appropriating contract-giving firms (Alexander and Young, 1996). Geniuses in fund getting ready, for example, typically handle this endeavor for different associations, henceforth spreading settled costs and achieving economies of scale. Such specialists have the inside anticipated that would perceive zones that are probability for advancement and the learning anticipated that would demonstration adequately on that care (economies of capacity).

As per Qu and Brocklehurst (2003), from an exchange cost point of view, motivations given by the goal government can diminish the exchange costs and draw in associations to redistribute in the goal. Also administrative mediation as tax assessment can control the volume of seaward redistributing. Macroeconomic conditions in the redistributing goal may likewise empower or demoralize re-appropriating."

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents research methods employed in conducting the study are discussed. These assisted the researcher in responding to the research question. They include: design of study, target population, sample size and sampling techniques, data collection instruments and process, data analysis and description of variables. Finally, a description of how validity and reliability of the data collection instruments were measured is also presented.

3.2 Research Design

The descriptive research design was used for the purpose of this study, which enables a specialist to depict the wonders under examination. This structure depicts the attributes of a specific wonder in a circumstance. It was utilized to acquire data concerning the present status of the business, to portray what exits as for the conditions in a circumstance. This structure was the most appropriate for this examination since the investigation is about impact of re-appropriating and how it make upper hand in business banks in Kenya.

3.3 Population of the Study

The population of this in this examination was drawn from the Heads of procedure or their equal in 40 business banks enlisted and authorized under the Banking Act of Kenya as at June 2017 (CBK, 2017). As indicated by Malhotra (1999), populace is the total of the considerable number of components that share some basic arrangement of qualities and that contain the universe with the end goal of the examination issue. This examination appeared as a statistics given that the populace was just 40 Heads of methodology or their comparable in all the business banks working in Kenya.

3.5 Data Collection

Primary and Secondary data was used for the purpose of this study. Primary data was obtained through self-administered drop and pick questionnaires for quantitative and qualitative data. The structured questionnaire was used to collect data from the Heads of strategy or their equivalent in each commercial bank in the country whose headquarters are all situated in Nairobi. Secondary data sources, Articles, books, Newspapers, the internet, journals and magazines will also be used where the banks granted interviews on effect of outsourcing and how it create competitive advantage in commercial banks in Kenya.

3.6 Data Analysis

The data collected was edited for completeness and accuracy, coded and entered in SPSS for analysis. Descriptive statistics was used to understand the characteristics and relationship outsourcing and competitive advantage in commercial banks in Kenya. Statistical tests such percentages, mean and standard deviation in bringing relationship between outsourcing and competitive advantage in commercial banks in Kenya.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents results on analysis on outsourcing and its effects on competitive advantage in Kenya Commercial Banks. The study therefore sought to determine the outsourcing strategies adopted by commercial banks in Kenya; To determine the effect of outsourcing in creating competitive advantage in commercial banks in Kenya. The study targeted employees in all the 40 Commercial Banks in Kenya. The data sought in this study were precisely provided by one senior Human Resource managers or equivalent per bank, this is because they are knowledgeable on area of research.

4.1.1 Response Rate

The investigation through the questionnaire focused on 40 respondents. While the polls focused on the worker in the bank, out of the 40 expected respondents to the investigation, the examination got 31 respondents. This influenced a reaction to rate of 73.8%. Table 4.1 beneath delineates the reaction rate. As per Cooper (1999) a reaction rate between 55 for each penny of the aggregate specimen size can be summed up to display the conclusion of the whole populace. Thusly, a reaction rate of 73.8% was sufficient for this present examination's motivation.

Table 4.1: Response Rate

Response Rate	**Frequency**	**Percentage**
Response	31	73.8
None Response	9	26.2
Total	**40**	**100**

Source; Research (2018)

4.1.2 Reliability of the Findings

The pilot thinks about included 10 respondents. Cronbach's Alpha is a proportion of internal consistency, that is, the route by which steadily related blueprints of things are as a get-together. A develop composite dependability co-useful (Cronbach alpha) of 0.6 or above, for every single one of the makes, is considered as constantly pleasing. The adequate immovability coefficient is at any rate 0.6, if the Cronbach alpha is underneath 0.6 the unfaltering idea of the diagram is viewed as too low and thusly the examination gadget should be redressed (Nunnaly, 1978).

The disclosures of the pilot test showed that workforce decent variety the executives methodologies scale had a Cronbach's constancy alpha of 0.797 and authoritative execution scale had a faithful quality estimation of 0.788. This recommends the pilot test showed that the scales estimating the objectives had a high steady quality. This likewise demonstrated the investigation mechanical assembly was enough strong and required no adjustment.

Table 4.2: Cronbach's Alpha

Cronbach's Alpha	**Cronbach's Alpha**	**No. of Items**
Outsourcing	.797	18
Competitive Advantage	.788	10

Source; Research (2018)

4.2 Respondents Background Information

This section covers the response obtained from the respondents in terms of the general information, that is, gender, job title, the number of years they have worked for their respective institutions. Descriptive statistics are used to portray the basic features of the data in an examination.).

4.2.1 Gender of the Respondents

In this area the researcher looked to set up the gender characteristics of the respondents.

Table 4.3: Gender of the Respondents

Gender of the respondents	Distribution	
	Frequency	**Percentage**
Male	18	58.0%
Female	13	42.0%
Total	**31**	**100**

Source; Research (2018)

The examination set up that the 58% of respondents were male while female were 42%. From the study findings, it could be said that, majority of the respondents were males. Their responses are highlighted in the Table 4.3 below. It depicts therefore that commercial banks in Kenya employs both genders equally.

4.2.2 Duration of Services

Individual respondent's profile included the amount of years the respondents had worked in the affiliation and the action title or position of the respondents. The amount of years an agent worked in an association implied comprehension of the association's operations subsequently. The outcomes are exhibited in Table 4.4.

Table 4.4: Duration of Service

Duration of service	Frequency	Percentage
1 – 5 years	17	54.8%
6 – 10 years	7	22.5%
11- 20 years	5	16.1%
Over 20 years	2	6.6%
Total	**31**	**100**

Source; Research (2018)

The table 4.4 above shows years of service of the respondents. It was found that majority of the respondents fell in the bracket 1-5 years of service in the organization. This forms 54.8% of the workforce. Majority of the employee are relatively new to the organization.

4.2.3 Position in the Organization

The study also intended to investigate the position of the respondents of the study. Most of the respondents of the study comprised of top level managers (branch managers and operations managers) working in the targeted commercial banks. Also included were middle level managers (departmental supervisors).

4.3 Outsourcing in the Banking Industry in Kenya

This section captures outsourcing in the Banking industry in Kenya and present results on outsourced functions and activities, extent of outsourcing in Kenya's banking industry and challenges of outsourcing.

4.3.1 Outsourced Functions and Activities

The study sought to determine outsourced functions and activities in Kenya's banking industry. Several statements on extent of outsourcing were identified.

Table 4.5: Outsourced Functions and Activities

Outsourced Functions and Activities	Strongly Disagree	Disagree	Not Certain	Agree	Strongly Agree	Total
Cash Management Services	14%	23%	26%	14%	23%	100%
ATM Management Services	9%	30%	9%	17%	35%	100%
Advertisement & Marketing	4%	9%	18%	30%	39%	100%
Account Opening Services	65%	26%	5%	4%	%	%
Staff Recruitment Services	13%	26%	18%	30%	13%	100%
Procurement Services	13%	52%	26%	9%	%	%
Facilities & Premises Management Services	9%	27%	18%	41%	5%	100%
Information Technology Services	9%	26%	13%	43%	9%	100%
Security Services	%	9%	4%	39%	48%	100%
Transportation Services	%	9%	9%	39%	43%	100%

Source; Research (2018)

The results on table 4.5 show that majority of the respondents at 65% strongly disagree that account opening services should be part of the outsourced functions and activities, 52% of the respondents disagree that procurement services of the bank should be part of the outsourced functions and activities, 48% of the respondents strongly agree that security services of the bank should be part of the outsourced functions and activities.

The results further indicate that, 43% of the respondents strongly agree that transportation services should be part of outsourced functions and activities, 43% agree that information technology services should be part of outsourced functions and activities, and 41% of the respondents agree that facilities & premises management services should be part of the outsourced functions and activities.

4.3.2 Extent of Outsourcing in Kenya's Banking Industry

The study sought to determine how technology affects the success of outsourcing strategy in Kenya's banking industry. In order to determine how much the respondents agreed with the statements, a three point likert scale was used where; 1=Not Outsourced at all, 2= Partially Outsourced, and 3= Fully Outsourced.

Table 4.6: Extent of Outsourcing

Extent of Outsourcing	Not Outsourced at all	Partially Outsourced	Fully Outsourced	Total
Cash Management Services	35%	35%	30%	100%
ATM Management Services	30%	44%	26%	100%
Advertisement & Marketing	9%	69%	22%	100%
Account Opening Services	96%	4%	%	%
Staff Recruitment Services	35%	52%	13%	100%
Procurement Services	65%	31%	4%	100%
Facilities & Premises Management Services	22%	69%	9%	100%
Information Technology Services	17%	57%	26%	100%
Security Services	%	29%	71%	100%
Transportation Services	%	54%	46%	100%

Source; Research (2018)

The results on table 4.6 indicate that majority of the respondents at 96% feel that account opening services should not be outsourced at all. 71% of the respondents feel that security services should be fully outsourced, 69% of the respondents feel that advertisement & marketing should be partially outsourced, 69% feel that facilities & premises management services should be partially outsourced, 65% of the respondents feel that procurement services should not be outsourced at all.

The results further indicate that 57% of the respondents feel that information technology services should be partially outsourced, 54% of the respondents feel that transportation services should be partially outsourced, and 52% of the respondents feel that staff recruitment services should partially be outsourced.

4.3.3 Challenges of Outsourcing

The study found that despite the competitive advantages enjoyed by Banks of Kenya, there were also some challenges experienced by the banks as a result of outsourcing its activities. The employee outsourced by the vendor to carry out banking work experience a gap in the learning curve. This is because the activities are to be carried out as per the bank's laid down procedure and policies and the employee being hired by the vendor might not be conversant with them. The employees therefore, have to be trained in order to fill in the gap in the learning curve. This usually comes at a cost because trainings have to be regularly conducted to make staff more effective and conversant with the outsourced services. This has to be done by the bank in order to manage expectations and to maintain good relationship with the service providers. Lack of control by the bank over the employee outsourced is another major challenge for the bank. This is because the employee does not report directly to the bank's management.

The bank's management experience a major challenge and a difficulty. Another challenge occurs during the time the bank is planning to outsource one or more of its functions and there are bank employees that have been doing those functions. The bank usually faces a dilemma of whether to redeploy such employees to other functions or to transfer such employees to the vendor. The employees affected by the outsourcing usually feel anxious and demoralised as they usually don't know their fate during such a time.

Other challenges experienced as a result of outsourcing is the disruption of business due to supplier failure to deliver services on time or totally or inefficiency on the part of the vendor. Commercial bank has come up with some measures to curb on this such as; formulation of Service Level Agreement (SLA) that dictates what the vendor is supposed to do and how it is to be done and any penalties charged in case there is a failure on either part of the two parties. There is also Service Review Meetings with the supplier and constant communication of the involved parties. This helps to minimize any negative impact on the part of the bank as any grey areas can be clarified and any emerging issues addressed in time.

Table 4.7: Challenges of Outsourcing Strategy

Challenges of Outsourcing Strategy	No Extent	Small Extent	Moderate Extent	Great Extent	Very Great Extent	Total
Lack of Top Management Support	4%	8%	9%	33%	46%	100%
Resistance to Change	%	%	17%	54%	29%	100%
Lack of Employees with Right	%	13%	46%	33%	8%	100%
Inability to Develop Clear	%	8%	25%	42%	25%	100%
Absence of Performance Measures	%	17%	29%	37%	17%	100%
Lack of Resources	4%	13%	24%	38%	21%	100%
Lack of Clear Communication to Stakeholders	%	8%	29%	21%	42%	100%
Inadequate Supporting Infrastructure	%	17%	25%	25%	33%	100%
Failure to Recognize Outsourcing as	%	%	13%	48%	39%	100%

Source; Research (2018)

The results on table 4.7 show that majority of the respondents at 54% feel that resistance to change has a great extent on outsourcing strategy. 48% of the respondents feel that failure to recognize outsourcing as a strategy has a great extent on outsourcing strategy, 46% of the respondents feel that lack of top management support has a very great extent on outsourcing strategy, and 46% of the respondents feel that lack of employees with right skills has a moderate extent to outsourcing strategy.

The results further indicate that 42% of the respondents feel that lack of clear communication to stakeholders has a very great extent to outsourcing strategy, 42% of the respondents feel that inability to develop clear objectives has a great extent to outsourcing strategy, 38% of respondents feel that lack of resources has a great extent to outsourcing strategy, 37% of the respondents feel that absence of performance measures has a great extent on outsourcing strategy, and 33% of the respondents feel that inadequate supporting infrastructure has a great extent on outsourcing strategy.

4.4 Competitive Advantage

Mostly, the bank outsources non-core activities so that the bank management can focus on the core activities. This helps the bank to focus on the more strategic activities. The competitiveness of the activity to be outsourced is also considered; the cost per unit of outsourcing such services is compared to the cost of carrying out the activity in-house. If the cost of outsourcing the service is lower than the cost of performing the function internally, the bank can consider outsourcing the service. This can be seen with the bank outsourcing some of its back office activities.

Most of the activities outsourced are simple and routine jobs that are not so critical in the bank's operations. The bank therefore, outsources this so as to benefit from cheaper labour as compared to the bank hiring its own clerks. If the bank was to hirer its own clerks, the clerks would be more expensive to the bank since the bank will have to give higher salary and other defined benefits that include, medical, pension and even remuneration stipulated in Collective Bargaining Agreement and other union requirements.

Table 4.8: Competitive Advantage

Competitive Advantage	**mean**	**Standard dev**
Proficient firms distribute their assets to exercises for which they appreciate similar preferred standpoint	4.7442	.48961
The cost decreases because of contrasts in labor costs lead to re-appropriating and positive changes in labor information, and yield delivered is adjusted by benefits and profitability development	4.4419	.33356
Upper hand are typically collected as remunerations: trimmed down work costs, enlarged profitability, diminished business obligation, better representative maintenance and enhanced passive consent with laws and directions	4.6628	.47372
Upper hand empowers associations to concentrate on center exercises.	4.5465	.34548
There is expanded adaptability to design assets to meet changing business sector needs	3.9302	.43269

Source; Research (2018)

From the research findings, respondents firmly concurred that banks had rehearses for upper hand. Which is apparent that most minimal mean for the pointers is 3.9302 for the expanded adaptability to design assets to meet changing business sector needs. The most elevated mean being 4.7442 which states Efficient firms distribute their assets to exercises for which they appreciate similar favorable position. The resulting pointers are Competitive preferred standpoint are typically collected as remunerations: trimmed down work costs, enlarged profitability, diminished manager risk, better worker maintenance and enhanced quiet submission with laws and directions with a mean of 4.6628. Upper hand empowers associations to concentrate on center exercises with a mean of 4.5465. The cost decreases because of contrasts in labor costs lead to redistributing and positive changes in labor information, and yield delivered is modified by benefits and profitability development with a mean of 4.4419.

4.5 Discussions

From the research findings, it can be argued that Commercial Bank of Kenya outsources its activities for economic, strategic and technical reasons. According to Loh and Venkatraman (1992), the most important economic driver is anticipated cost reduction. Commercial Bank outsources in order to reduce overall operational cost. By outsourcing printers/copiers and transport services, it is able to pay for only what it has used and therefore some fixed cost is converted to variable cost (Thompson, Strickland and Gamble, 2007; Jain and Natarajan, 2011). Shepherd (1999), argues that organizations outsource for strategic reasons in order to access a more flexible business support during rapid change. This was observed in Commercial Bank of Kenya, outsourcing of Information Technology maintenance and upgrading.

The bank outsourced information systems replatforming from "Brains" system to "Flexcube" system. According to Quinn (2000), organizations outsource in order to improve overall business performance and to enhance customer service. Commercial bank of Kenya has continually upgraded its Information Technology so as to provide its customers world class experience through mobile and internet banking. The competitiveness of the activity to be outsourced is also considered; the cost per unit of outsourcing such services is compared to the cost of carrying out the activity in-house. If the cost of outsourcing the service is lower than the cost of performing the function internally, the bank can consider outsourcing the service. This can be seen with banks outsourcing some of its back office activities. Most of the activities outsourced are simple and routine jobs that are not so critical in the bank's operations. The bank therefore, outsources this so as to benefit from cheaper labour as compared to the bank hiring its own staff. If banks were to hire their own staff for such minor services, it would be more expensive to the bank since it will have to incur the expense of salaries and other benefits that include, medical, pension and even remuneration stipulated in Collective Bargaining Agreement and other union requirements.

Banks also outsource some of their activities in order to take advantage of the expertise of the vendor. Some services are better performed by the vendor instead of being done by the bank. For instance, security services and most of the noncore activities, the bank benefit from expertise services. Banks are also able to adopt new innovations in different fields as a result of outsourcing. This makes Kenyan banks more advanced in terms of technology and other fields. Since technology is the backbone of most banks operations, the bank is able to have an edge over its competitors.

Outsourcing of services has enabled the bank to streamline its organization structure and to have fewer head count. This has enabled banks to reduce its wage bill and to have the desired organization structure. In outsourcing of services such as transport, printers/photocopiers/scanners, banks are able to control their expenditure and pay only for the services used. This has further reduced operational cost and other costs associated with maintenance of such machines. Costs associated with having machines stay idle and therefore not in use is also eliminated. Kenyan banks are able to benefit from quality services offered by the vendors.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is a continuation of chapter four on data analysis and interpretation. The chapter provides a summary of the findings, discussion of the findings and recommendations of the study. The discussions sections provides the findings of the study and a cross examination with the previous studies to generate more understanding of the findings.

5.2 Summary of the Study

To achieve this, the researcher studied the various outsourced functions in Kenyan banks, how technology and the bank's management capability affect the success of the outsourcing strategy and the challenges of implementing a successful outsourcing strategy and conclusions made.

The major findings of the study were useful in achieving the purpose of the study on the extent of outsourcing in Kenya's banking industry, The findings of the study on the extent of outsourced services in Kenyan banks revealed that most banks at 96% do not feel that account opening services should be outsourced. This is because account opening is the first line of contact with its customers, therefore banks will still prefer to have personal and direct contact with its customers to increase to benefit from more business, to provide firsthand support and improve relations among the customer and the bank. 71% of the banks feel that security services should be fully outsourced.

Security services are not considered to be core to the banking industry hence majority of banks will outsource this services to firms such as G4S, Bob Morgan Security, KK Security and Wells Fargo. This is because security is capital and labour intensive and requires expert or professional skills. Hence banks would opt to outsource this service. 69% of the respondents feel that advertisement & marketing should be partially outsourced. Again most banks would opt to outsource marketing and advertising services but still maintain some degree of this function in-house. Most Banks in Kenya use marketing and advertising agents such as Ogilvy, Squad, Nation Media and The Standard Group. However, banks still maintain a marketing and advertising function in-house to help drive innovation, creativity and ultimately sales. 69% feel that facilities & premises management services should be partially outsourced.

Most Kenyan banks have huge asset bases comprised of property inform of land, buildings and premises. Due to the high numbers of properties owned, most banks are unable to single handedly manage these properties. The respondents feel that procurement services should not be outsourced at all. Procurement services in most Kenyan banks are not outsourced mainly because most banks prefer to have a dedicated team working in-house that will be able to procure unique goods & services to the bank. Banks have diverse needs and wants in the attempt of gaining competitive advantage; hence most banks will have a dedicated team working to achieve this.

The results further indicate that 57% of the respondents feel that information technology services should be partially outsourced. Most Kenyan banks partially outsource IT services whilst still maintain a significant amount of the function in-house. This is because of privacy policy regulations and data security. Banks maintain confidential information of their clients which are held or saved in electronic format in servers and cloud storage. Due to the risk of losing such information to third parties, most Kenyan banks will have internal IT teams. 54% of the respondents feel that transportation services should be partially outsourced. Majority of banks outsource Transportation services as it is not core to their business and 52% of the respondents feel that staff recruitment services should partially be outsourced. Staff recruitment is a delicate matter of which at times needs subjectivity, objectivity as well as face to face contact.

In the banking industry, technology has helped improve speed in various aspects such as communication and sharing information. Some banks in Kenya have outsourced their customer contact centers to firms in India. With the ease and speed brought by technology, these banks are able to gain from outsourcing these services. The speed and efficiency of money transfer has also drastically improved, thanks to technology.

The findings of the study on the influence of bank's management capability while implementing the outsourcing strategy in Kenyan banks revealed that most banks at 46% view lack of top management support as a great risk to the success of an outsourcing strategy. Hence most outsourcing strategies in Kenyan banks are led and steered by top management staff. Resistance to change by staff or top management has a great impact at 54% on the success of outsourcing.

Lack of employees with the right skills within the banks is seen to have a moderate impact at 46% on the success of outsourcing. This is because the firm being the outsourced to, has the skills lacking from the bank. Inability to Develop Clear Objectives is viewed to have a moderate impact at 42% on the success of an outsourced strategy. Absence of Performance Measures and lack of resources also have a significant impact of 37% and 38% respectively on the success of outsourcing. Also lack of adequate infrastructure and failure to Recognize Outsourcing as a Strategy can hinder the success of an outsourcing strategy in most Kenyan banks.

5.3 Conclusion

In conclusion it can be stated that the study has been able to fulfill the stated objectives. The research indicates that Commercial Bank of Kenya has been able to use outsourcing as a strategy of competitive advantage since outsourcing enables the bank to cost cut, enjoy expertise services and also use much of the management time to focus on more strategic activities. Consequently, the study has been able to expose some challenges experienced by the bank as it outsources its services. The major challenge experienced being that of training new employees hired by the vendor, disruption of services when the vendor fails to deliver as expected and the challenge of managing the banks employees whose jobs have been outsourced.

5.4 Limitations of the Study

The study targeted top managers in the Sourcing Division and one of the managers scheduled to be interviewed was not there as the position fell vacant. This impacted on the quality and scope of information collected as the respondents were less. In conclusion it can be stated that the study has been able to fulfill the stated purpose.

The research indicates that Kenyan Banks have been able to use outsourcing as a strategy of competitive advantage since outsourcing enables them to reduce operating costs, benefit from expertise services and also use much of the management time to focus on more strategic activities. Some functions re core to the banks and are not outsourced and they include account opening services, procurement function and cash management services. The challenges of outsourcing among banks in Kenya include, resistance to change, inability to develop clear outsourcing objectives, lack of proper communication to stakeholders; lack of top management support and lack of supporting structures.

5.5 Recommendations

From the research findings, banks in Kenya face the challenge poor quality service and goods through outsourcing. In order to mitigate risks associated with outsourcing, pilot testing of new outsourcing options is necessary. Banks needs to explore new outsourcing options in terms of new suppliers, new services, or new engagement models with existing suppliers as well as extensive research. Banks should also enhance inbuilt quality control mechanisms and closely monitor the outsourced operations to improve on quality and service delivery. There should be stiff penalties for non-performers and those firms that deliver substandard services.

Contracting procedures should be enhanced to ensure that the company gets the most competitive service and products from the outsourced firms. The study also reveals that top management support is a challenge facing outsourcing strategy among banks in Kenya. It is therefore important to seek the support of the top management before engaging in outsourcing activities. Lack of proper communication to stakeholders is also a challenge to outsourcing strategy among banks in Kenya.

5.6 Suggestions for Further Research

Future studies should be carried out on cost benefit analysis experienced by the bank when activities are outsourced. Research should also be done to explore the opinion of other employees especially the junior staff, towards outsourcing. As research finding noted that there is lack of motivation and high staff turnover of the outsourced staff especially where the staff outsourced work together in the same office with the bank's employees. Further study should be done to find out how the bank can improve the performance and motivation of the outsourced staff. A cost benefit analysis should also be done to confirm whether outsourcing in such circumstances is truly cheap in the long term.

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APPENDICES

"Appendix I: Questionnaire

This questionnaire is to collect data for purely academic purposes. All information will be treated with strict confidence. Do not put any name or identification on this questionnaire. *Answer all* ***questions as indicated by either filling in the blank or ticking the option that applies.***

SECTION A: PERSONAL INFORMATION

PART A: RESPONDENTS BACKGROUND INFORMATION

1) What is your gender?

   a) Female ( )   b) Male ( )

2) How long have you been employed in this institution?

   a) Less than a year ( )   b) 1 – 5 years ( )

   c) 6 – 10 years ( )   d) 11- 20 years ( )

   e) Over 20 years ( )

3) Position in the organization

   Senior Manager [ ]   Manager [ ]

   Senior Executive [ ]   Executive [ ]

4) Please indicate your job description in the organization.

   ……………………………………………………………………………….

   ……………………………………………………………………………….

SECTION B: OUTSOURCING AND ITS EFFECTS ON COMPETITIVE ADVANTAGE IN KENYA COMMERCIAL BANKS

PART A: OUTSOURCING IN THE BANKING INDUSTRY

5) Kindly indicate the extent to which you agree with the following statements concerning the outsourced functions and activities in the bank

KEY: 1=Strongly Disagree 2=Disagree 3=Not Certain 4=Agree 5=Strongly Agree

Function	**1**	**2**	**3**	**4**	**5**
Cash management services					
ATM management services					
Advertisement and marketing					
Account opening services					
Staff recruitment services					
Procurement services					
Facilities and premises management services					
Information technology services					
Security Services					
Transportation services					

6) Please indicate the level of outsourcing adopted by the bank for the functions listed in the table below.

KEY: 1= Not outsourced at all 2= Partially outsourced 3= Fully outsourced

Function	**1**	**2**	**3**
Cash management services			
ATM management services			
Advertisement and marketing			
Account opening services			
Staff recruitment services			
Procurement services			
Facilities and premises management services			
Information technology services			
Security Services			
Transportation services			

7) In regard to above discussed challenges about outsourcing, what do you think Commercial Bank of Kenya can do differently?

………………………………………………………………………………………………
………………………………………………………………………………………………
……………………………………………………………………………………………..

8) Indicate the extent to which you consider the following as challenges of outsourcing strategy.

KEY: 1= No extent 2= Small extent 3= Moderate extent 4= Great Extent 5= Very great extent

Function	**1**	**2**	**3**	**4**	**5**
Lack of top management support					
Resistance to change					
Lack of employees with right skills					
Inability to develop clear objectives					
Absence of performance measures					
Lack of Resources					
Lack of clear communication to stakeholders					
Inadequate supporting infrastructure					
Failure to recognize outsourcing as a strategy					

PART C: COMPETITIVE ADVANTAGE

9) What is key factors considered are the nature of activity to be outsourced; Is it a core activity or a non-core? How critical to the bank is the function to be outsourced?

………………………………………………………………………………………

………………………………………………………………………………………

10) Kindly rate the following statements on effects outsourcing on competitive advantage whereby: 1= very low extent, 2=low extent, 3=moderate extent, 4=high extent, 5=very high extent

COMPETITIVE ADVANTAGE	**1**	**2**	**3**	**4**	**5**
Cost efficiency remains the primary explanation for outsourcing					
Efficient firms allocate their resources to activities for which they enjoy comparative advantage					
The cost reductions due to differences in labor costs lead to outsourcing and positive changes in labor input, and output produced is altered by profits and productivity growth					
Competitive advantage are normally harvested as rewards: trimmed down labor expenses, augmented productivity, reduced employer liability, better employee retention and improved acquiescence with laws and regulations					
Competitive advantage enables organizations to focus on core activities.					
There is increased flexibility to configure resources to meet changing market needs					

THANK YOU VERY MUCH FOR YOUR SUPPORT IN THIS STUDY PROJECT"

Appendix II: List of Commercial Banks

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Citibank
7. Commercial Bank of Africa
8. Consolidated Bank of Kenya
9. Cooperative Bank of Kenya
10. Credit Bank
11. Development Bank of Kenya
12. Diamond Trust Bank
13. Dubai Islamic Bank
14. Ecobank Kenya
15. Equity Bank
16. Family Bank
17. First Community Bank
18. Guaranty Trust Bank Kenya
19. Guardian Bank
20. Gulf African Bank
21. Habib Bank AG Zurich
22. Housing Finance Company of Kenya[
23. I&M Bank
24. Jamii Bora Bank

25. Kenya Commercial Bank
26. Mayfair Bank
27. Middle East Bank Kenya
28. National Bank of Kenya
29. NIC Bank
30. Oriental Commercial Bank
31. Paramount Universal Bank
32. Prime Bank (Kenya)
33. SBM Bank Kenya Limited
34. Sidian Bank
35. Spire Bank
36. Stanbic Bank Kenya
37. Standard Chartered Kenya
38. Trans National Bank Kenya
39. United Bank for Africa
40. Victoria Commercial Bank