OUTSOURCING STRATEGIES AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This Master of Business Administration research project is my original work and has not been presented for award of any degree in any other University.

Signature: ________________ Date: ______________________

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This Master of Business Administration research project has been submitted with my approval as university supervisor.

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DEDICATION

This research project is dedicated to my Father and Mother, who have taught me to be the best version of myself throughout life lessons, acquiring knowledge that is learned and through experience as I take on the daily challenges in my journey of life as an individual. It is also dedicated to my Aunty Noela who taught me that even the largest task can be accomplished if done step by step at a time and having encouraged me to push forward in order to accomplish this chapter in my life.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
RBV	Resource-Based View
ROA	Return on Assets
ROS	Return on Sales
ROVA	Return on Value Added
SPSS	Statistical Package for Social Sciences

ABSTRACT

Outsourcing has been found to be one of the interesting options which can enable firms take advantage of available worldwide opportunities, through acquisition of state of the art logistics capabilities, so as to drastically enhance customer service and hence enabling them focus on core competencies. Outsourcing is applicable to financial institutions since it enables them focus on effectiveness, compliance delivery, cost reductions, process standardization, processes automation as well as transformation of fixed costs and variable costs. The ever-changing business environment in the banking industry is under pressure to deal with challenges of technology advancement, stiff competition and communication. Concerns have been raised on whether the benefits gotten from outsourcing are feasible among commercial banks. Regardless of increased outsourcing both in global and local firms, financial institutions are still facing substantial setbacks in evaluating suitability of their outsourcing processes. The present research sought to address this knowledge gap through answering research question of whether outsourcing strategies lead to competitive advantage of commercial banks in Kenya. The research anchored on stakeholders' theory, resource-based view and agency theory. It adopted descriptive research design. The population of interest focused on by the current research comprised of all the forty (40) licensed commercial banks which were in operation as at 31st December 2017. The study followed a census approach where all the commercial banks in Kenya participated in this survey. This research focused on collecting primary data. Quantitative approaches were applied in analysis where data was analyzed by use of both descriptive and inferential statistics. Descriptive analysis was done through use of charts, graphs, frequency tables, percentages, means and standard deviation. Inferential analysis was carried out by use of regression model employed to estimate the relationship between outsourcing strategies and competitive advantage among commercial banks in Kenya. The findings established that the outsourcing strategies affect competitive advantage of commercial banks operating in Kenya positively. The findings also revealed that majority of the commercial banks in Kenya rely mostly on focus strategy to sustain their competitive advantage. Most commercial banks were found to ensure cost effectiveness when outsourcing for competitiveness through having access to wider skills, focusing on core processes as well as better service and product quality. The quality outsourcing among commercial banks in Kenya was found to base on trust, reliability, experience, and flexibility of service providers. The results indicated that commercial banks are found to focus on business core function to attain their competitive advantage mostly through offering quality of services and products; profit maximization; work efficiency; as well as observing effectiveness. It was therefore recommended that banking industry in Kenya should adopt outsourcing strategies where possible to be able to better their service delivery and ensure quality. Adoption of outsourcing strategies can as well assist in gaining wider experience from qualified professionals and help in achieving competiveness among financial institutions.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many businesses both upcoming and established have either been involved in outsourcing activities or have started outsourcing processes in ensuring that they remain sustainable while focusing on management of costs and overheads, easy accessibility to exterior services given by professionals as they restrain their payrolls (Beck, *et. al.*, 2010). With the current competition together with demanding business environment, calls for firms within the market to emphasize on a leaner organization, to be efficient, and to embrace creativity and innovativeness in order to keep ahead of their competitors (Otieno, 2013). Outsourcing has been found to be one of the interesting options which can enable firms take advantage of available worldwide opportunities, through acquisition of state of the art logistics capabilities, so as to drastically enhance customer service and hence enabling them focus on core competencies (Willcocks, 2010). Weske (2012) asserted that achievement of competitive advantage in most organization can be done through goods and services production.

The research anchored on Stakeholders' theory and Resource-Based View (RBV). The concept of stakeholders' theory allows the business owners to observe the framework and structures put in place towards achievement of the organizations' goals and objectives based on the missions and visions (Freeman, 1984). In addition, stakeholder's theory helps the management in ensuring success of organizations and it depends on how they utilize their wealth adequately (De Villiers & Van Staden, 2011). RBV gives direction of how organizations can utilize of exploit available opportunities and resources that contribute to enhancement of sustainability in competitive business environment. Many organizations tend to compete on the basis of resources they possess (Barney, 1991).

Financial institutions that operate in the banking sector might undergo changes which might be brought about by the ever-changing business environment (Shekell, 2010). Thus, the concept of outsourcing strategy in this sector has shifted from product and/or service focus to that of speed-to-market and differentiation among commercial banks. Outsourcing is applicable to financial institutions since it enables them focus on effectiveness, compliance delivery, cost reductions, process standardization, processes automation as well as transformation of fixed costs and variable costs (Beck, *et. al.*, 2010). Awino and Mutua (2014) reiterated that because of an increase in business competition accompanied by decline in profit margins, many businesses have resolved to pursue unique operations strategies in order to maintain their market share as they improve their profits. Therefore, the main which was the focused of this study was to investigate the influence of outsourcing strategies on competitive advantage of commercial banks in Kenya.

1.1.1 Outsourcing Strategies

The term strategy can be defined as a position which reflects decisions of offering a specific product or service within a given markets (Mintzberg, 1994). Outsourcing strategy refers to process of getting materials and services procured from an outside source (Troacă & Bodislav, 2012). Previously outsourcing was known as “contracting and it dated back to the Romans’ days where the task of tax collection was managed via orderly and regular contracting out of the task to enable efficiencies" (Lee *et. al.,* 2014). Kolawole and Agha (2015) explained that outsourcing knowledge had led to transformation of financial institutions to be able to competently utilize the available organizational resources sufficiently. According to Javalgi, Joseph, Granot, and Gross (2013), outsourcing strategy is the transfer of long-term responsibility to a supplier from outside to undertakings which in the past were carried out by a given firm.

Therefore the concept of outsourcing strategy is becoming popular in many organizations in bid of transferring their activities such as financial management, information services and human resource to other firms and service providers (Kohlbacher & Reijers, 2013). Service providers in outsourcing should be qualified in technological tool and services, business process management plus other professionalisms that are vital in achieving success of banks' outsourcing projects (Beck, *et. al.*, 2010). Krstić and Kahrović (2015) asserted that organizations should put into consideration that outsourcing has gradually become an essential instrument in the current business environment. In practice, when undertaking outsourcing setup, the parties may involve express wording in master agreement offering that two parent entities may ensure their involved subsidiaries submit any conflict between one another for the resolution at parent company level (Harrison & De Colle, 2010).

Leavy (2004) argued that outsourcing strategies as the promising opportunity in businesses be measured based on four indicators namely disruptive innovation, focus, strategic repositioning and scale without mass. Trkman (2010) stated that service providers should be outsourced based on their accessibility, quality, trust and flexibility.

Muinde (2017) estimated outsourcing strategies through the following aspects: human resources, logistics and distribution, software development, contact centers, benefit administration, research and development services. On the other hand, Honess (2003) classified outsourcing into two categories namely critical business non-cores, and core business functions. Lacity and Willcocks (2013) measured outsourcing based on cost-effectiveness and core business functions. Kolawole and Agha (2015) and Beck, et. al. (2010) stated that outsourcing is essentially subjective as it is driven by the perception, expectations, and needs of consumers/customers.

1.1.2 Competitive Advantage

Thompson and Strickland (2010) described competitive advantage as "a section of business strategy which handles plans of management that helps in successful competition in enhancing sustainability". Competitive advantage can be defined as the outcomes realized from the effective performance of business processes from suppliers externally (Porter, 1996). The competitive advantage exists when a given firm offers a service or a product that is seen by customers as good and of quality in the market place as compared to that of its rivals (Mohanty & Gahan, 2015).

Click and Duening (2005) observed that the main indicators of competitive advantage are brought around it terms of costs of physical assets. Porter (1996) stated that competitive advantage essentially focuses on three aspects namely, differentiation advantage, low costs and focus strategy. Porter further highlighted that competitive forces can be addressed based on threat of substitutes, powerful customers, threat of new entrants and rivalry as well as powerful suppliers. However, Mohanty and Gahan (2015) explained that in terms of firm profitability, competitive advantage that exists within a firm when it is sustained beyond normal returns. Therefore, the strength of competitiveness in the banking sector can result to higher potential gains (Ndungu, 2010).

1.1.3 Banking Industry in Kenya

Financial sectors across the globe undergo regular transformations (Allen & Gale, 2004). The world-wide move for change is mostly focused on the deregulatory policies on financial services at the both local and international competition; technological innovation; changes in corporate behaviour, like growth in disintermediation as well as more focus on values of shareholders (Berger, Dick, Goldberg & White, 2007). The Kenyan banking sector is controlled by the Central Bank of Kenya (CBK) whose duty is to foster the proper functioning, solvency as well as liquidation of a financial institution in the market. CBK deals with development of appropriate guidelines, regulations and laws governing the firms in banking industry. The banking industry is comprised of non-bank financial institutions, commercial banks, deposit taking microfinance institutions, credit reference bureaus, building societies, foreign exchange bureaus, as well as mortgage finance companies (Yildirim & Philippatos, 2007). The Kenyan banking industry constitutes of banks, insurance firms, microfinance institutions, stock brokerage firms as well as non-bank financial institutions. The role played by the banking sector is essential in the process of intermediation between savers and investors. This industry leads both in size and development in the East African community and has therefore experienced stable improvement in the past decade (CBK, 2014).

According to CBK (2015) annual report, "the Kenyan banking sector realized steady advancement in the present years which has enabled its great expansion across the region of East African". The sector is involved in automation and outsourcing of both essential and non-essential services thus a shift from old ways of banking to the current dynamic ways that enable them meet the needs of customer and challenges of globalized world. As such the Kenyan banking sector remains sound and resilient, developing and deepening faster. From the time the government introduced liberalization, the current operation of banking industry finds itself in a business environment that is challenging and competitive as compared to olden days. It has led to flooding of financial services from many institutions providing same services/products as that of the banks, thus an increased rivalry. This most challenging and dynamic business environment has made many banks to undergo major restructuring which come along with changes in the look and feel of the entire industry.

1.1.4 Commercial Banks in Kenya

As the world economies advances, new technological changes tend to affect the structural setups together with performance of commercial banks in new markets primarily by the impact it causes on the costs in conjunction with optimal scale determination. For instance, transactions made within bank branches are more costly as compared to other options of delivery channels and this could make banks to have less competitive advantage. Therefore, cost advantage seems to work well for smaller institutions, since the investments required to provide banking services and attract deposits are low unlike costs involved in setting up an existing branch network.

Outsourcing process can be poses to be one among the fundamentals of economic development programs found within Vision 2030 from which they can be exploited in its possibility to increase Gross Domestic Product (GDP) (GoK, 2017). For Kenyan government to attract investors, it gave an assurance on the creation of conducive business environment that can enable a number of interested willing business people to invest in the country. This environmental condition should be able to enable joint ventures and the stand-alone operators to do well and therefore, creating an appealing image to investors.

1.2 Research Problem

The ever-changing business environment in the banking industry is under pressure to deal with challenges of technology advancement, stiff competition and communication (Obiageli, Uzochukwu & Agbomma, 2015). For that reason, financial institutions can only be assured of their survival if they adopt and embrace outsourcing to ensure and improve quality and cost of their products and services (Armstrong, 2009). Concerns have been raised on whether the benefits gotten from outsourcing are feasible among commercial banks. Sople (2017) argued that outsourcing has proven to have a substantial long-term impact on the competitive edge of most businesses as it influences the quality, costs, and reduces risks associated to operation of outsourced activities. Nevertheless, in a number of banking institutions, outsourcing seem not to help in attainment of competitive advantage, but it can be a cause which can guide an organization to disregard its internal weaknesses given the presence of external suppliers (Awino & Mutua, 2014).

Regardless of increased outsourcing both in global and local firms, financial institutions are still facing substantial setbacks in evaluating suitability of their outsourcing processes (Karanja, 2016). For instance, outsourcing adoption in most financial institutions only came into place to enable them satisfy the need of complying with the policy that might limit their normal operations and hence they find it hard to sail through the competitive and dynamic business environment (GOK, 2013). Therefore, outsource decision is accompanied by some complex issues that entails the pivotal level of organization's processes, and institutions' capability to select the service providers as well as suppliers.

Various scholars have carried out researches on the concepts of outsourcing and competitive advantage as well as different contexts. For instance, a study carried out by Giustiniano and Clarioni (2013) empirically analyzed the impact of outsourcing on performance of business. Nazeri, Damavand, Gholami, Ilam and Rashidi (2012) conducted a study to determine how outsourcing can impact performance operations of an organization. The two studies focused on outsourcing and business performance whereas the current research will investigate the relationship between outsourcing and competitive advantage. In addition, Muweesi (2011) research determined outsourcing influenced performance of organizations in private sector of Uganda. Muweesi's study presents both conceptual and contextual gap since it did not include competitive advantage and the research area was in Uganda. Similarly, Suraju and Hamed (2013) also carried out a study on services of outsourcing as a strategic instrument for performance of firms in the Nigeria. The study was conducted in Nigeria and missed test of competitive advantage.

González, Llopis and Gascó (2013) investigated information and communication technology offshore outsourcing in financial services. Their research tested the relationship between ICT and outsourcing, but did not test how outsourcing affects competitive advantage as per aim of the present study. M’kuma (2015) on the other hand, did a research to establish the influence of strategic positioning on competitive advantage in banking Industry in Kenya. The concept of outsourcing was included in M’kuma’s study; however, in the current study outsourcing was used as independent variable which is used to estimate variability of competitive advantage as dependent variable. Karanja (2016) studied the factors influencing offshore outsourcing among international banks in Kenya. Karanja was limited to international bank whereas the present study focused to researching on all commercial banks operating in Kenya. Githaiga (2013) conducted a study to establish how management of customer relationship contributes to competitiveness the banking sector. This research looked at the perspective of customer relationship unlike the present research which focused on outsourcing and competitive advantage.

Based on the afore-mentioned studies/researches, none of them addressed outsourcing strategies and competitive advantage of commercial banks in Kenya. It can also be seen that some scholars researched either on outsourcing among other entities or tested its relationship with other variables other than competitive advantage vis-à-vis the current study. Therefore, the present research sought to address the knowledge gap identified through research question: Do outsourcing strategies lead to competitive advantage of commercial banks in Kenya?

1.3 Research Objective

1.3.1 General Objective

The general objective of the study was to examine the relationship between outsourcing strategies and competitive advantage of commercial banks operating in Kenya.

1.3.2 Specific Objectives of the Study

i. To identify the outsourcing strategies used in Kenyan commercial banks for competitiveness.

ii. To establish effect of outsourcing strategies on competitive advantage of Kenyan commercial banks.

1.4 Value of the Study

This study is of benefit to policy makers as it can act as a source of reference in the bid to formulate policies, regulate and control financial institutions in the country specifically in the area of outsourcing. Banks in demand of outsourcing will be able to come up with outsourcing decisions which are right in the outsourcing process and take into account the precise potential risks and benefits that are involved in outsourcing and perceived economic consequences.

The research made contribution to existing theories and understanding of outsourcing and competitive advantage. Added knowledge related to outsourcing strategies and competitive advantage was realized and this provided information for future researchers, scholars as well as students. The research pointed out key areas which might require further investigation as far as outsourcing strategies and competitive advantage are concerned.

The findings can also help outsourcing vendors in having a glimpse of what outsourcers look for when selecting an outsourcing vendor. This can drive the vendors to improve on products offered to increase their competitiveness in the outsourcing field and also to improve their effectiveness in service provision. The findings of the study are beneficial in making inferences in other labor intensive production sectors of the banking industry. The research findings are essential to both existing and uprising managers of financial institutions in finding out important considerations in outsourcing decision. This research can help bank managers in making informed decisions towards outsourcing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter captured the notions from which the study anchored on. This include the theoretical review based on relevant theories applicable on the concepts of outsourcing used by the commercial banks in Kenya in their bid to gain competitive advantage, empirical review, as well as the conceptual framework tailored for this study.

2.2 Theoretical Review

This section summarized the theories that form the foundation of this study. These comprised of the stakeholder theory, agency theory as well as resource based view.

2.2.1 Resource-Based View

The resource-based view (RBV) is found to be a better instrument used to describe the reasons some firms outperform others, since they offer limited (normative) guidance to managers and stakeholders (Butler, 2001; Freeman, 1984). In principle, the analysis of RBV is normally expressed in universal terms and its applicability can be on whichever resource found in a given organization. This wide generality can be taken as either strength or weakness. Barney (1991) states that the resource is very limited, its substitutes are few, or had to mimic, it helps organizations in exploiting available opportunities, and it enhances sustainability of competitiveness of an organization. Companies will compete on the basis of resources they possess.

According to Krogh and Roos (1999) the firm's resources must have four fundamental characteristics in order to create sustainable competitive advantage. Thus the resources must be valuable, lack strategically equivalent substitutes, perfectly inimitable and rare among competitors. Amit and Shoemaker (1993) have given a list of eight criteria of complementary, scarcity, inimitability, limited substitutability, durability and overlap with strategic industry factors. Fahy (2005) emphasizes three attributes of such resources, that they must be valuable, have barriers to duplication and be appropriable.

The resource based view can help commercial banks in Kenya to come up with strategies that emphasize on economic growth through distinctive capabilities. Economic value added is what banks need over and above the cost of the capital employed in their business. The resource-based view can also assist banks in understanding their underpinning resources on the supplementing of positioning strategy before being put into consideration by the organization (Moller & Broderick, 1998).

Criticism in the resource-based view was based on its weaknesses. For instance, Kraaijenbrink, et. al. (2010) observed that the theory does not have implication manager, its implication poses infinite regress, there is limited applicability of RBV, lack of achievable and sustainable competitive advantage, the theory does not put a firm into consideration, and lastly, lack of clarity in resource definition. Miller (2003) also noted that the resources needed by a firm to establish a competitive advantage which is sustainable are basically those whose acquisition is difficult. In addition, the argument of Miller is that organizations which already have the resources are the only ones with the ability to acquire and apply additional resources. Currently, businesses environment is ever changing and the idea of coming up more innovative is mandatory. RBV helps in sustaining the competitive edge of a given business but only if there is proper utilization of resources.

2.2.2 Stakeholder Theory

The foundation of theory of stakeholder was by Freeman (1984) whose argument is based on applicability to managers of firms in modern day, with an implication on the linkage to shareholders as well as stakeholders. De Villiers and Van Staden (2011) contend that a compliance platform is set up by regulation of reporting. Kock, Santalo and Diestre (2012) reasoned that if compliance is enforced, such reporting frameworks personally held managers accountable and responsible should they misbehave. Further argument is based on intervention of government organs viable policies adding energy to an organization to adopt and initiate related practices of good corporate governance (De Villiers & Van Staden, 2011).

Just like any other firms, stakeholder theory can help the commercial banks in Kenya to formulate the creation of ways to manage various groupings as well as relationships formed strategically. From Freeman's (1984) viewpoint, the stakeholders' notions or management of stakeholders or their approaches to business management are formulated and implemented through process of satisfaction of various groups and individuals with business stake. The essential duty of this theory is to focus on the management and integration of the interests and relationship of employees, shareholders, suppliers, communities, customers as well as other business related groups. Thus, the approach of stakeholder is focused on active management of various business relationships and business environment as well as promotion of interests shared to enable the development of business strategies. Stakeholder theory is therefore, essential to this study as it challenges the usual analysis frameworks by suggesting putting stakeholders' needs first before any action.

In respect to stakeholder's theory, a firm's success solely depending on maximization of wealth of the shareholders is not enough since the organization is recognized as a link of implicit and explicit contracts among the organization with its stakeholders. Nonetheless, Mansell (2013) argues that application of the concept of politics to stakeholder theory, contradicts the entire principle based on market economy. Harrison, Wicks, Parmar & De Colle (2010) also criticised on stakeholder theory by arguing that it assumes that the welfares of some stakeholders are balanced or compromised among each other.

2.2.3 Agency Theory

As described by Jensen and Meckling (1976), agency theory deals with existence of the relationship between business owner(s) (the principals) and manager(s) (the agents) to act on behalf of the principal. These actions may sometimes include delegating some of the decisions to be made by the agent. The executive directors make available valuable information about the activities of a firm while non-executive directors are usually expected to contribute both expertise and objectivity in monitoring managerial decisions all of which constitute agency costs (Freeman, Wicks & Parmar, 2004).

Outsourcing is considered as one of the aspect of which many firms consider when making decisions, reforms and policies that are implemented respective managers (Mario, 2014). In this respect, managers of commercial banks in Kenya are agents who are charged with the responsibility of ensuring that the institutions are solvent, profitable and efficient. This theory can therefore be applied to managers in financial institutions who make decisions on the type of outsourcing to be undertaken by their respective banks based on available policies. Furthermore, they also make decisions as to when to outsource or not based on the guidelines laid down by bank owners or principals.

This theory has been faced with some criticism. For instance, Kostova, Nell and Hoenen (2016) considered the agency relationship that exists between the parent company and the subsidiary as the potential for misuse of delegated responsibility. They argue that subsidiaries as agents would make decisions that only suit the subsidiary and not the parent company or the group. As agents of the owners banks are therefore required to outsource quality, qualified, and competent skills and services to be able to sustain or improve their competitive advantage. The main criticism of this theory is that, agency costs have to be incurred impose checks and balances to ensure that managers do not maximize perquisites at the expense of the interest of the owners (Boateng, *et. al*, 2015).

2.3 Outsourcing Strategies and Competitive Advantage

In the arrangement of outsourcing, the decisions and full accountability to retain for the outsourced activity is left to top and middle level management of most commercial banks (Casale, 2001). In order for banking institutions to remain competitive, there is need for them to recognize the role brought about by outsourcing process in line to their strategies and objectives (Dube & Kaplan, 2008). The outsourcing decision being based on aspects of either making or buying, can be realized once an investigation on comparing production done internally with opportunity costing together with purchase cost and assesses the best uses of accessible facilities (Najafi, Tavani, Giroud & Anderson, 2014).

Based on viewpoint of Leavy (2004), there is need for management of financial institutions to develop a robust understanding in the capabilities of achieving their goals and objectives through outsourcing. According to Fuchs (2007), the process require deeper and honest self-assessment of firms based on relative weaknesses, managerial strengths as well as core competencies, towards the future goals and key values of any given organization. Festus and Adenike (2011) believe that outsourcing measurement can only be done by the top level management and that it is vital to strategic planning efforts which can lead to better competitive advantage of organizations. Furthermore, objectives of outsourcing are normally put in place where specific activities being outsourced are evaluated (Giustiniano & Clarioni, 2013).

In the matter of the relationship identified from external service provider(s), (Troacă & Bodislav, 2012) argue that the context of outsourcing is related to collection of aspects contributing to the making of comprehensive projects and this can realized by a given company exploiting available marketable opportunities. For instance, organizations making use of two vendors have a higher degree of maintaining their competitive edge in the market given the fact that each service provider is assigned a portion of duty to accomplish (Macchiavello & Miquel-Florensa, 2017). The same duty can be interchanged among different vendors based on contract timelines where those vendors showing great production and cost improvements are given an upper hand (Malcomson, 2013). Vagadia, (2012) stated that this move sometimes force a particular enterprise not only to maintain its competitiveness in the market, but also comes along with some shortfalls where some enterprises seem not to truly corporate for the betterment of their firms.

The most appropriate way to design an acquisition strategy and to select related model of contract for a particular situation can be very important to the future of any given firm (Gil & Zanarone, 2016). Kolawole and Agha (2015) and Beck, et. al. (2010) stated that outsourcing is essentially subjective competitive advantage of companies as it is driven by the perception, expectations, and needs of consumers/customers. The world-wide move for change is mostly focused on the deregulatory policies on financial services at the both local and international competition; technological innovation; changes in corporate behaviour, like growth in disintermediation as well as more focus on values of shareholders (Berger, Dick, Goldberg & White, 2007).

The present research focused on the quality of services offered by commercial banks, cost effectiveness and core business function, as these indicators are commonly used to define financial targets in banking industry. It can be understood that for any firm to increase her profitability, can either stem from a reduction in costs or an increase in revenue, or both. Therefore, the use of these metrics came in hand to help in determining the effects of outsourcing strategies on competitiveness among the commercial banks.

2.4 Empirical Studies and Research Gaps

Various studies have been carried out on the concepts of outsourcing and competitive advantage of firms. Giustiniano and Clarioni (2013) conducted an empirical analysis of the impact of outsourcing on business performance. Results showed that outsourcing could contribute to giving companies a sustainable competitive advantage. It was however found that return on equity was the only indicator to worsen between variables of business performance. Nazeri, Damavand, Gholami, Ilam and Rashidi (2012) studied on how outsourcing is impacting the performance operations. Their research dealt with the managers' opinions based on outsourcing issues affecting telecommunication industry on strategies used in operations, more specifically, based on the aspects related to flexibility, better service, cost reduction, as well as developed quality. The results indicated that outsourcing might lead to greater flexibility, production of higher quality goods, cost reductions, improved financial and non-financial performance and a whole lot better service experience. A study by González, Llopis and Gascó (2013) on investigation of information technology offshore outsourcing in financial services, realized that the ICT outsourcing was a key aspect among financial institutions in their quest to keep operational costs low and improve on service quality. They identified the changes in the operating environment including: pressure brought about by the regulatory authorities, high level of competition following high degree of globalization and the need for organizations to keep their operational costs low.

A study by Kaul (2009) stated that in Africa, outsourcing started in North Africa and South Africa followed close behind however as stated by Amrinder (2012), North Africa's attractiveness as an outsourcing destination took a hit during the protocol upheaval in 2011. Muweesi (2011) research determined outsourcing influenced performance of organizations in private sector of Uganda focusing on Uganda Telecommunication Limited and identified that outsourcing comes along with a lot of benefits. The study further identified that in today's context it is very difficult for a firm to manage its entire suite of activities against full reliance on its own suite of skills and capabilities. Despite undergoing challenges the study explains that most firms in Uganda have adopted outsourcing as a way of scaling up their performance. Another study done by Suraju and Hamed (2013) conducted a study on services of outsourcing as a strategy instrument for performance of organizations in the Nigeria. Results showed that outsourcing services enabled firms to boost capability, help in improvement of service quality, staff reduction, streamlining of the processes, and reduce costs and administrative loads as well as saving time.

A research done by Wachira, Brookes and Haines (2016) on the impact of outsourcing practices conducted by organizations in Nairobi, established that outsourcing yielded both positive and /or negative outcomes depending on the prevailing circumstances like risks prevailing in the business environment, organizational policies and regulations, business functions outsourced, and the competence and commitment of the outsourcing vendor. The success of the outsourcing depended on how well the service level agreement was executed and internal employee management. A study on the factors influencing offshore outsourcing among international banks in Kenya by Karanja (2016) discovered that the reasons for offshore outsourcing included; cost cutting, increase in an organizations' profitability index, and lead to better service quality.

Based on a sample size of 60 employees of Kenya Commercial bank, Githaiga (2013) conducted a study to establish how management of customer relationship contributes to competitiveness the banking sector. Descriptive research design was employed in this study and respondents were picked using stratified random sampling technique. The study discovered that the major benefits perceived from the use of customer relationship management are that it leads to better organization performance, enhances market productivity, enhances market effectiveness and enhances organization competitiveness.

Another research done by Kaiba (2016) focused on competitive strategies and performance of commercial banks in Kenya. This research was quantitative in nature and data was analyzed through regression analysis method. Her study revealed that there exist of several opportunities in banking industry which can be exploited only if they re-examine their employee training needs with an aim of equipping them with appropriate skills to guide the organization to fully automation of services.

M'kuma (2015) researched on strategic positioning and competitive advantage in banking Industry in Kenya with focus on banks in private sector. A survey research design was used by this study with an estimated sample size of 250 executive bank managers. Data estimations were by use of correlation analysis where the outcomes of the study showed that strategic positioning and competitive advantage of the banking sector is affected by the sectors ability to invent and embrace technology as a means of yielding high results.

2.5 Conceptual Framework

The study variables were conceptualized through the framework presented in Figure 2.1. The model illustrates two key variables which comprised of outsourcing strategies portrayed as the independent variable of the study and competitive advantage of commercial banks in Kenya presented as the study's dependent variable. Outsourcing strategies was measured in terms of strategic repositioning, disruptive innovation, scale without mass, and focus. On the other hand, the indicators of competitive advantage were differentiation advantage and cost advantage.

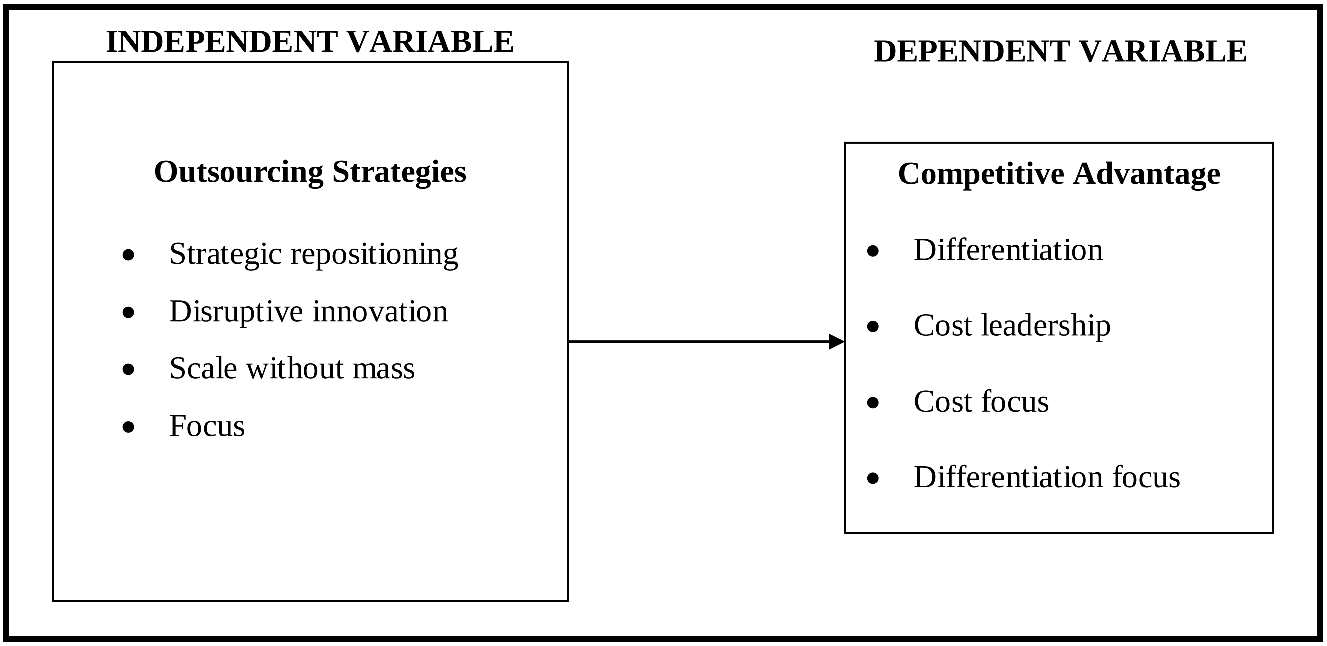


Figure 2.1: Conceptual Model

Source: Research Data (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided reviews of the methods which were utilized by the research in achieving the research objectives. The section also gives details on methods employed in carrying out the research. It covers the sub-section on research design adopted in conducting the study, the target population, data collection and eventually data analysis methods.

3.2 Research Design

The research adopted descriptive research design which was important in enabling the comparison of outsourcing strategies and competitive advantages. This design was deemed appropriate because it enabled the collection of a broad category of data (Cooper & Schindler, 2008). The data collected assisted in description of patterns of outsourcing strategies and how they influence competitive advantage of commercial banks.

Furthermore, Zikmund, Babin, Carr and Griffin (2013) argued that this technique gains its massive efficacy from its ability to be applied both widely and broadly. This type of research design further enabled the researcher to execute an in-depth investigation regarding the study objectives (Mugenda & Mugenda, 2009).

3.3 Target Population

Population of study can be explained as the total number of items, members, events, or hypothetical set of objects or people from which collection of data shall be based for generalization of given study Saunders, Lewis and Thornhill (2007). Kothari (2011) described population of the study as a general set of objects, happenings or individuals with similar traits related to a particular specification.

The population of interest focused on by the current research comprised of all the licensed commercial banks operating in Kenya. As at 31st December 2017, there were forty three (43) commercial banks registered under the Banking Act (refer Appendix II). However, the study focused on forty (40) commercial banks in Kenya excluding the three (3) commercial banks which were either under statutory management or in receivership. Due to the fact that the population size of the study was smaller and did not warranty sampling, census approach was followed where all the commercial banks in Kenya participated in this survey, thus translating to a total of forty (40) respondents.

3.4 Data Collection

This research focused on collecting primary data from Kenyan commercial banks. This is because the research data was collected through use a questionnaire as a research instrument. This research tool contained both closed and open ended questions with the aim of achieving the main objective of research of assessing the influence of outsourcing strategies on competitive advantage of commercial banks in Kenya. Likert scales questions were also included to determine opinions and observations from the respondents as guided by structured statements along a set of five scales.

The questionnaire designed by this study comprised of four sections. Section A included the background information on the respondent. Section B entailed questions related to background information on the bank. Section C comprised of questions on the aspect of outsourcing strategies. Section D contained questions related to competitive advantage (Refer appendix I).

The study anticipated to gather information from banks' employees residing in both top and middle management levels. This is because the employees in these levels are in charge of decision making and therefore participates in formulation of strategies. The questionnaire of the study was administered via electronic mail or through drop and pick up later methods. Data collection procedure enabled the gathering of data and information in a systematic manner and enhanced the questions answered and outcomes evaluated on the subject under investigation (Drost, 2012). The purpose of the study was explained through a letter of introduction which was accompanied by an assurance of data confidentiality. The response rate was increased through follow-ups which included text messages, emails, whatsapp, as well as telephone calls.

3.5 Data Analysis

The research applied quantitative analysis where data was analyzed by use of both descriptive and inferential statistics. The collected data underwent examination to ensure its completeness and comprehensibility. The coding and tabulation process was then followed before the descriptive analysis which was done with help of Statistical Package for Social Sciences (SPSS) version 23. After the analysis, the data output was interpreted descriptively where the findings were presented through use of charts, graphs, frequency tables and percentages. The main intention of using these illustrations was to make the data output more understandable and presentable.

On the other hand, inferential analysis was employed to estimate the relationship between outsourcing strategies and competitive advantage among commercial banks in Kenya. This was done through application of regression analysis model where *F*-test was used to establish the joint significance of coefficients while *t* – test and *p* – values was used as a measure of significance level of coefficients of the variables. Regression analysis was guided by the following regression analysis equation:

$CA = \alpha + \beta_1 OS_1 + \varepsilon$

Where:

CA	Competitive Advantage
OS_1	Outsourcing Strategies
α	is the constant
β_1	is regression coefficient
ε	Error term.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Chapter four covered the aspects of data presentation, interpretation and discussion of the findings. The aim of the study was to examine outsourcing strategies and competitive advantage of commercial banks in Kenya. The study's goal was achieved through analysis of the primary data gathered based on concepts under study. This chapter therefore is comprised of the following sub-sections: study's response rate, background information on the respondents, background information on the bank, outsourcing strategies, competitive advantage, regression results as well as discussion of the study findings.

4.2 Response Rate

The anticipation of the study was to collect primary data from forty (40) commercial banks registered under the Banking Act which were in operation as at 31st December 2017. The findings on response rate are as given in Table 4.1.

Table 4.1: Distribution of Response Rate

Responses	Frequency (n)	Frequency (%)
Responded	37	92.5
Not responded	3	7.5
Total	**40**	**100**

Source: Research Data (2018)

Even so the study expected to get 100% response rate, only respondents from 37 banks were able to respond and return back the research questionnaire. For that reason, it translated to an overwhelming response rate of 92.5 percent. This could therefore imply that, the remaining 8 percent of the target respondents either did not answer or did not return their questionnaires for inclusion. Another most likely reason which might have led to a response rate less than 100 percent would be due to the busy schedule which was experienced in workplaces of respondents and the shortest time given to respond to questionnaire. The targeted respondents included top level management and middle level management who are involved in decision making within the banking industry. Nonetheless, Mugenda and Mugenda (2012) advocated that a response rate ranging from 70 percent and above can be rendered excellent for analysis. Therefore, the response rate reported by this study was considered excellent for analysis and making conclusions.

4.3 Background Information on the Respondents

The sub-section of background information on the respondents addressed the issue of level of organizational structure in which respondents belonged, duration of work, and highest educational achievement.

4.3.1 Level of Organizational Structure

The research required the respondents to indicate the level of organizational structure in which they belonged and the results are as provided in Figure 4.1.

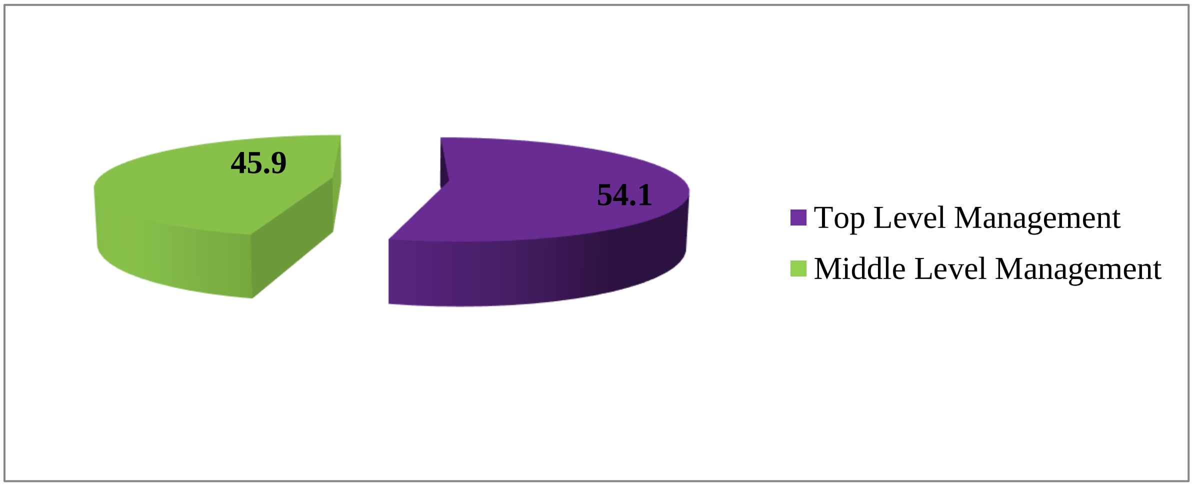


Figure 4.1: Distribution of Organizational Structure

It can be construed that most of the respondents who filled and returned their questionnaires for analysis were in the rank of top level management represented by 54.1%. On the other hand, those from the rank of middle level management had a representation of 45.9%. This could therefore indicate that the study focused on the exact respondents who are involved in making decision on whether to outsource or not.

4.3.2 Duration of Work

To ascertain the period of which respondents have been at their respective banks, the researcher resolved to categorize the duration into various manageable ranges from one year to over fifteen years as shown in Table 4.2. The results show more than a half (54.1%) of those who responded to the questionnaire, were found to have worked in their respective banks for a period of between ten and fifteen years. It was further established that those who had been in their place of work for duration of between 5 and 10 years, provided a representation of 24.3% The findings also revealed that those respondents who had been in their respective banks for a period of between one year and less than five years each had a representation of 10.8%. These findings therefore could indicate that the respondents had worked long enough at their respective banks and thus were in position to internalize the operations of commercial banks within Kenya.

Table 4.2: Work Duration

Duration in Years	Frequency (n)	Percent (%)
Between 10 and less than 15 years	20	54.1
Between 5 and less than 10 years	9	24.3
Between 1 and less than 5 years	4	10.8
Over 15 years	4	10.8
Total	**37**	**100**

Source: Research Data (2018)

4.3.3 Highest Education Achievement

On the question requiring the respondents to state their highest education achievements, the study provided the results as shown in Table 4.3.

Table 4.3: Distribution of Education Achievement

Education Level	Frequency (n)	Percent (%)
Graduate Level	25	67.6
Post Graduate Level	7	18.9
College Level	5	13.5
Total	**37**	**100**

Source: Research Data (2018)

The results in this table reveal that approximately (67.6%) of the respondents had achieved undergraduate degrees. About 18.9% of them were found to have attained post graduate degrees. Those who were found to have gone up to college level were five (5) with a representation of 13.5%. This could be an implication that the employees who responded to research questionnaires had prerequisite academic achievements to enable them execute their duties at their place of work and this helped them understand the subject being investigated.

4.4 Background Information on the Bank

The sub-section of background information on bank addressed the aspects of years of banks' operations, scope of banks operations, as well as ownership structure.

4.4.1 Years of Banks' Operation

To ascertain the duration to which commercial banks have been in operation, the study categorized years into various reasonable groups which ranged from less than 5 years to over 20 years. Table 4.4 provides responses on number of years of which commercial banks have been in operation. The study established that majority (59.5%) of commercial banks were found to have been in operation for a period 20 years and above. Those who were in the categories of operation ranging between 11 years and 15 yeaars and that of between 16 years and 20 years each had a representation of 16.2%. Approximately, 8.1% of the respondents disclosed that the commercial banks where they work had operated for a period of between 6 and 10 years. However, none of them had operated for less than 5 years. This could be an indication that most of commercial banks operating in Kenya are well established given the experience they have in the banking industry.

Table 4.4: Distribution of Years of Operation

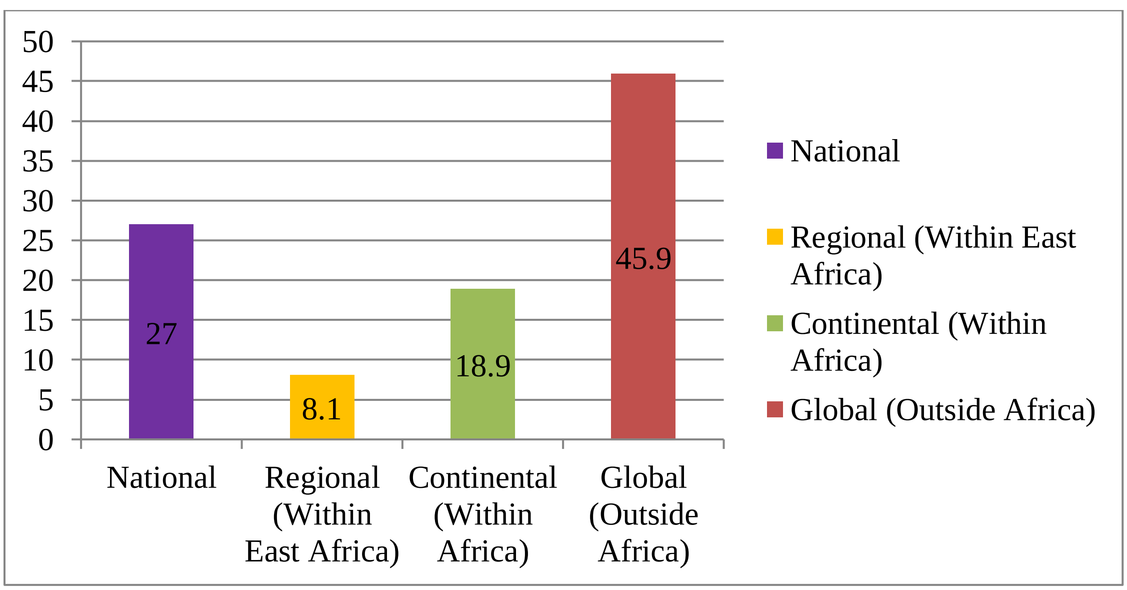
Category of Years of Operation	Frequency (n)	Percent (%)
Over 20 years	22	59.5
Between 11 and 15 years	6	16.2
Between 16 and 20 years	6	16.2
Between 6 and 10 years	3	8.1
Less than 5 years	0	0.0
Total	**37**	**100**

Source: Research Data (2018)

4.4.2 Scope of Banks' Operation

In determination of the scope of operation for various commercial banks in Kenya, the study's findings are as illustrated in Figure 4.2.

Figure 4.2: Scope of Banks' Operation



Source: Research Data (2018)

It can be figured out that majority of commercial banks (45.9%) were found to have a global coverage whose operations was within Kenya, Africa and beyond. An estimate of 27% of the commercial banks in Kenya was found to be operating locally. This was followed by those whose operations were within Africa with a representation of 18.9 percent. The regional operation was experienced in about 8.1 percent of commercial banks. The findings have implications that most of the commercial banks operating in Kenya have widely expanded to reach global perspective.

4.4.3 Banks' Ownership Structure

The findings on the aspect of ownership structure of experienced within commercial banks in Kenya are as provided in Table 4.5. The results show that more than half (54.1%) of commercial banks in Kenya were found to be owned by both local and foreign investors. The banks which had only foreign ownership gave a representation of 24.3 percent. Additionally, less than a quarter (21.6%) of them were found to be fully locally owned.

Table 4.5: Ownership Structure of Commercial Banks

Ownership	Frequency (n)	Percent (%)
Both locally and foreign owned	20	54.1
Fully foreign owned	9	24.3
Fully locally owned	8	21.6
Total	**37**	**100**

Source: Research Data (2018)

4.5 Outsourcing Strategies

In respect to sub-section of outsourcing strategies the following were addressed: outsourcing strategies used by banks to remain competitive; cost effectiveness; quality outsourcing; as well as focus on business core function.

4.5.1 Outsourcing Strategies for Competitiveness

The study inquired to know the kind of strategies that commercial banks rely on to ensure their competitive advantage and the results are as indicated in Table 4.6.

Table 4.6: Outsourcing Strategies for Competitiveness

Ownership	Frequency (n)	Percent (%)
Focus	19	48.7
Strategic repositioning	8	20.5
Disruptive innovation	8	20.5
Scale without mass	4	10.3
Total	**39**	**100**

Source: Research Data (2018)

The findings revealed that majority (48.7%) of the commercial banks in Kenya rely mostly on focus strategy to sustain their competitive advantage. Those which were found to apply strategic repositioning and disruptive innovation each had a representation of 20.5%, while the strategy of scale without limit mass was only reported in about 10.3 percent of banks under investigation. This could imply that many of the commercial banks in are strategically focused on the main goals and this helps them remain sustainable in the current competitive business environment.

4.5.2 Cost Effectiveness for Competitiveness

Aspects of cost effectiveness were tested based on the likert scale of 1 – 5 where 1 stood for no extent, 2 meant little extent, 3 was for moderate extent, 4 translated to great extent, and 5 represented very extent. The findings are as shown in Table 4.7.

Table 4.7: Cost Effectiveness for Competitiveness

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Having access to wider skills	37	4.000	5.000	4.72973	0.450225
Focusing on Core processes	37	4.000	5.000	4.70270	0.463373
Better service and product quality	37	4.000	5.000	4.67568	0.474579
Better Consumer relationship management	37	3.000	5.000	4.32432	0.747368
Flexibility	37	3.000	5.000	4.29730	0.617561

Source: Research Data (2018)

It can be construed that most of the respondents acknowledged that their bank focused more of having access to wider skills when outsourcing to a very great extent (Mean = 4.73, and a standard deviation of 0.45). Likewise, majority of the respondents felt that their respective bank's focus on core processes when outsourcing for cost effectiveness to a great extent (Mean = 4.70, Standard deviation = 0.46).

Commercial banks operating in Kenya were found to focus on better service and product quality to a very great extent when outsourcing for cost effectiveness (Mean = 4.68, Standard deviation = 0.48). Still on the same note, commercial banks focused on better consumer relationship management and flexibility when outsourcing for cost effectiveness since the provided a mean score of 4.32 and 4.30 respectively. The findings have implication that most commercial banks ensure cost effectiveness when outsourcing for competitiveness through having access to wider skills, focusing on core processes as well as better service and product quality.

4.5.3 Quality Outsourcing for Competitiveness

On the question requiring respondents to indicate the extent at which they agreed with the statements related to quality outsourcing and competitive advantage of commercial banks, the findings are as provided in Table 4.8. The responses were given based on likert scale of 1 – 5 where 1 was for no extent, 2 reflected little extent, 3 meant to a moderate extent, 4 was for great extent, and 5 stood for very great extent.

Table 4.8: Quality Outsourcing for Competitiveness

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Trust	37	4.000	5.000	4.89189	0.314800
Reliability	37	4.000	5.000	4.89189	0.314800
Experience	37	3.000	5.000	4.45946	0.605282
Flexibility	37	3.000	5.000	4.40541	0.643750

Source: Research Data (2018)

From the output given, it can be deduced quality outsourcing enable commercial banks retain trust among their service providers to a very great extent and this gave them a competitive edge (Mean = 4.89, Standard deviation of 0.315). Reliability was also another important aspect considered by commercial banks operating in Kenya when outsourcing since majority of respondents with a mean score of 4.89 and a standard deviation of 0.314 reported that this aspect contributed to competitive advantage of their bank to a very great extent. Furthermore, commercial banks were found to focus more on experience respondents reiterated that experience was a factor in outsourcing process to a great extent (Mean = 4.46, Standard deviation = 0.60). Consequently, the respondents ascertained that flexibility was considered by commercial banks in outsourcing to a great extent to remain competitive (Mean = 4.40, Standard deviation = 0.64). Therefore, it can be concluded that quality outsourcing among commercial banks in Kenya is based on trust, reliability, experience, and flexibility of service providers.

4.5.4 Focus on Business Core Function for Competitiveness

The study as well intended to have the respondents' feedback indicating the extent to which focus on core business functions for competitiveness. The responses were based on a likert scale measurement where 1 stood for no extent, 2 meant little extent, 3 was for moderate extent, 4 translated to great extent, and 5 represented very great extent. The results in Table 4.9 indicate that commercial banks focused on quality of services and products being offered which contributed to increase of banks' competitive edge to a very great extent (Mean = 4.81, and standard deviation of 0.40). In addition, banks' focusing on profit maximization was rated as enabler of higher competitive edge of commercial banks to a very great extent since this aspect gave a mean score of 4.70, together with a standard deviation of 0.74.

Table 4.9: Focus on Business Core Function for Competitiveness

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Quality of services and products offered	37	4.000	5.000	4.81081	0.397061
Profits	37	1.000	5.000	4.70270	0.740303
Efficiency	37	3.000	5.000	4.59459	0.599048
Effectiveness	37	4.000	5.000	4.56757	0.502247
Better Consumer relationship management	37	2.000	5.000	4.24324	0.683350

Source: Research Data (2018)

On the different note, the respondents ranked efficiency in outsourcing to a great extent (Mean = 4.59, Standard deviation = 0.59). Focus on effectiveness was as well found to contribute to achievement of competitive advantage among commercial banks to a great extent (Mean = 4.57, Standard deviation of 0.50). With a mean score of 4.24, banks were found to focus on better consumer relationship management to a great extent. Based on the mean results, commercial banks are found to focus on business core function to attain their competitive advantage mostly through offering quality of services and products; profit maximization; work efficiency; as well as observing effectiveness.

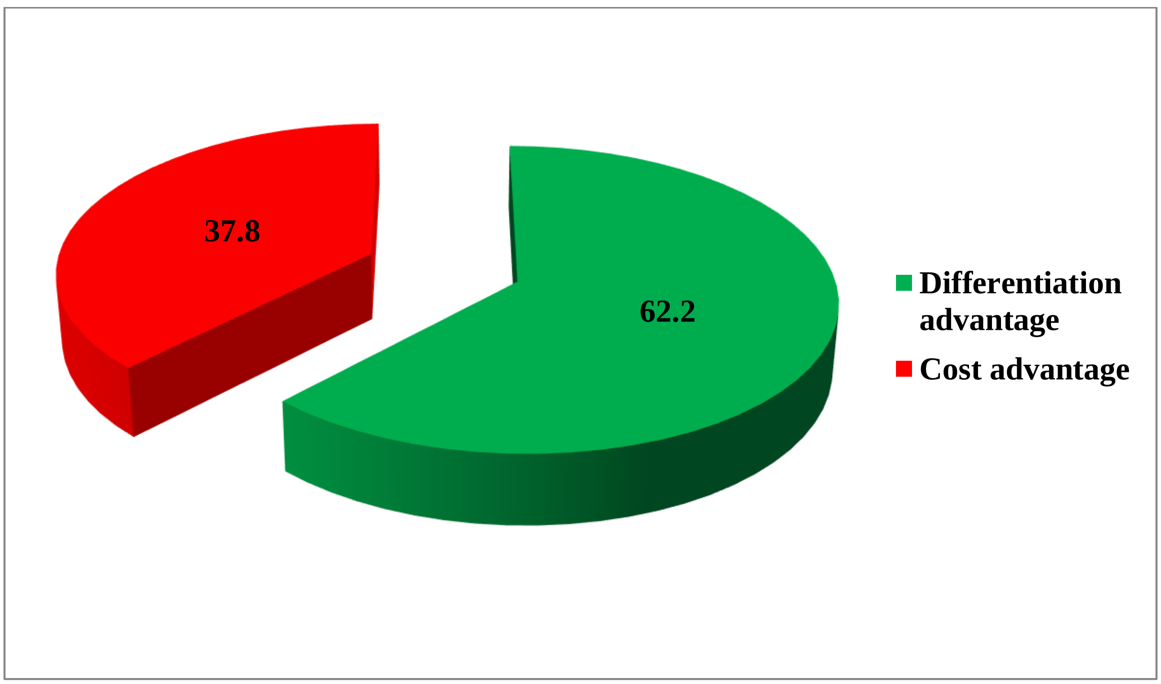
4.6 Competitive Advantage

Competitive advantage was the dependent variable of this study and was described through ascertaining the aspect of competitive advantage gained through outsourcing, threats of competitiveness, as well as products and services being outsourced by commercial banks for competitiveness.

4.6.1 Outsourcing Aspects Gained by Banks

The research ascertained the measures of competitive advantage that commercial banks had gained mostly through outsourcing and the upshots are as presented in Figure 4.3.

Figure 4.3: Outsourcing Aspects Gained by Commercial Banks



Source: Research Data (2018)

It can be seen that 62.2 percent of the respondents confirmed that their respective banks had mostly gained advantage in differentiation of products and services through outsourcing. The other 37.8 percent indicated that the commercial banks from which they work had gained cost advantage which was realized through outsourcing.

4.6.2 Threats of Competitiveness in Outsourcing

There was need to establish the challenges or threats to competitive advantage of commercial banks experienced through outsourcing of products and services. The estimation was based on the likert scale of 1 – 5 where 1 stood for no extent, 2 meant little extent, 3 was for moderate extent, 4 translated to great extent, and 5 represented very extent as given in Table 4.10.

Table 4.10: Threats of Competitiveness in Outsourcing

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Threat of new entrants and rivalry	35	3.000	5.000	4.14286	.733359
Threat of substitutes	35	1.000	5.000	3.25714	.852086
Powerful suppliers	35	2.000	5.000	3.20000	.719477
Powerful customers	35	1.000	5.000	2.97143	1.070616

Source: Research Data (2018)

Threat of new entrants and rivalry was found to be a major threat to achieving competitive advantage of commercial banks through outsourcing (Mean = 4.14, Standard deviation 0.73). Threat of substitutes and powerful suppliers were found to affect competitive advantage of commercial banks to a moderate extent since they provided mean scores of 3.26 and 3.20 respectively. However, powerful customers seem not pose much threat to competitiveness of commercial banks.

4.6.3 Products/Services Outsourced for Competitiveness

In relation to the products and services of which were being outsourced by commercial banks for competitiveness, the responses are as displayed in Table 4.11.

Table 4.11: Products/Services Outsourced for Competitiveness

Ownership	**Frequency (n)**	**Percent (%)**
Human Resource	34	23.3
Logistics and distribution	30	20.5
Software development	26	17.8
Data transcription services	18	12.3
Contact centres	12	8.2
Payroll and benefit administration	8	5.5
Research and Development services	8	5.5
Benefit Administration	5	3.4
Data entry services	5	3.4
Total	**146**	**100**

Source: Research Data (2018)

The findings indicate that majority (23.3%) of responses show that commercial banks in Kenya outsourced much in terms of human resource. This was followed by logistics and distribution services at 20.5 percent. Software development came as third key services being outsourced by banks for competitiveness by 17.8%. Data transcription services were also found to be outsourced by banks at 12.3%.

However, some products and services such as contact centres; payroll and benefit administration; research and development services; benefit administration; as well as data entry services seem to be done by the employees within the banks. Others services outsourced included: custodial services, security services, cash management, medical services, cleaning services and advertising. Therefore, the most key products and services sought externally include: human resource; logistics and distribution; software development; as well as data transcription services.

4.7 Regression Results

The study further required to estimate the effect of independent variable which in this case was outsourcing strategies on the dependent variable which in this study was competitive advantage. The estimation was done through use of regression model as indicated below:

$$CA = \alpha + \beta_1 OS_1 + \varepsilon$$

Where CA meant competitive advantage; α stood for constant realized when all the independent factors are equals to zero; β_1 was the coefficient of independent variable (outsourcing strategies) that determined the change in dependent variable (competitive advantage) with any unit change in predictor variable; OS represented outsourcing strategies; while Ɛ was the error term.

4.7.1 Model Summary

The summary results given in Table 4.12 indicates that the regression model provided a correlation R value of 0.476 and an R squared value of 0.226. This indicates that outsourcing strategies are able to explain 22.6% of the variation of competitive advantage of commercial banks. The rest can be explained by other factors not included in the model.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.476[a]	0.226	0.204	1.142280

a. Predictors: (Constant), Outsourcing Strategies

Source: Research Data (2018)

4.7.2 ANOVA

The output of ANOVA shown in Table 4.13 below gave a regression sum square of 13.359 and a residual sum square of 45.668 with mean squares of 13.359 for regression and 1.305 for residual.

Table 4.13: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	13.359	1	13.359	10.238	.003[b]
1	Residual	45.668	35	1.305		
	Total	59.027	36			

a. Dependent Variable: Competitive Advantage

b. Predictors: (Constant), Outsourcing Strategies

Source: Research Data (2018)

With an F ratio of 10.238 and a strong significant p – value of 0.003, the model shows that the predictor variable used in this study was acceptable and fit to determine competitive advantage of commercial banks. Therefore, this could imply that we reject any null hypothesis that outsourcing strategies have no effect on competitive advantage of commercial banks in Kenya.

4.7.3 Regression Coefficient

Moreover, the model gave estimations on the effect of the predictor (independent) variable under investigation on dependent variable and the findings of regression coefficient are as illustrated in Table 4.14.

Table 4.14: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.108	0.572		1.935	0.061	-0.054	2.270
	Outsourcing Strategies	0.744	0.233	0.476	3.200	0.003	0.272	1.217

a. Dependent Variable: Competitive Advantage

Source: Research Data (2018)

Based on the confidence interval of 95%, the estimations on coefficients revealed that outsourcing strategies significantly affect competitive advantage of commercial banks in Kenya given a β value of 0.744 and t – value of 3.200 (p – value = 0.003). In other words, a unit increase in outsourcing strategies can increase competitive advantage of commercial banks by 74.4%.

4.8 Discussion of the Findings

The estimates of the study findings on the influence of outsourcing strategies on competitive advantage of commercial banks in Kenya revealed that outsourcing strategies had ability of contribute to a sizeable margin towards competitive advantage of commercial bank. These findings corroborate with other scholars, research findings. For instance, the results of the study carried out by Giustiniano and Clarioni (2013) revealed that outsourcing could contribute to giving companies a sustainable competitive advantage.

It was established that most commercial banks ensured cost effectiveness when outsourcing for competitiveness through having access to wider skills, focusing on core processes as well as better service and product quality. Furthermore, the study found out that quality outsourcing among commercial banks in Kenya is based on trust, reliability, experience, and flexibility of service providers. A study by Nazeri, Damavand, Gholami, Ilam and Rashidi (2012) found out that outsourcing might lead to greater flexibility, production of higher quality goods, cost reductions, improved financial and non-financial performance and a whole lot better service experience.

Commercial banks are found to focus on business core function to attain their competitive advantage mostly through offering quality of services and products; profit maximization; work efficiency; as well as observing effectiveness. These findings are also agreeable with that of Karanja (2016) who found out that the reasons for offshore business process outsourcing included; cost cutting, increase in an organizations' profitability index, and lead to better service quality. The research carried out by Wachira, Brookes and Haines (2016) established that outsourcing yielded both positive and /or negative outcomes depending on the prevailing circumstances like risks prevailing in the business environment, organizational policies and regulations, business functions outsourced, and the competence and commitment of the outsourcing vendor.

Generally, results show that the services mostly outsourced by commercial banks were found to be human resource; logistics and distribution; software development; as well as data transcription services. Threat of new entrants and rivalry was found to be a major threat to achieving competitive advantage of commercial banks through outsourcing. In their study, González, Llopis and Gascó (2013) identified the changes in the operating environment including: pressure brought about by the regulatory authorities, high level of competition following high degree of globalization and the need for organizations to keep their operational costs low.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of a summary of the study findings, conclusion based on the findings provided in chapter four, recommendations of the study as well as suggestion for the further studies were highlighted.

5.2 Summary of the Findings

The main intention of this research was to examine the relationship between outsourcing strategies and competitive advantage of commercial banks operating in Kenya. Specifically, the study sought to identify the outsourcing strategies used in Kenyan commercial banks for competitiveness, and to establish effect of outsourcing strategies on competitive advantage of Kenyan commercial banks. Therefore, the study summarizes the findings as follows:

The study reported an overwhelming response rate of 92.5 percent where most of the respondents who filled and returned their questionnaires for analysis were in the rank of top level management. The results show that more than a half of those who responded to the questionnaire, were found to have worked in their respective banks for a period of between ten and fifteen years. The results revealed that majority of the respondents had achieved undergraduate degrees. The study established that majority of commercial banks were found to have been in operation for a period 20 years and above. It was figured out that majority of commercial banks were found to have a global coverage whose operations was within Kenya, Africa and beyond. The results show that more than half of commercial banks in Kenya were found to be owned by both local and foreign investors.

The findings revealed that majority of the commercial banks in Kenya rely mostly on focus strategy to sustain their competitive advantage. The results show that most commercial banks ensured cost effectiveness when outsourcing for competitiveness through having access to wider skills, focusing on core processes as well as better service and product quality. The quality outsourcing among commercial banks in Kenya was found to base on trust, reliability, experience, and flexibility of service providers. The mean results indicated that commercial banks are found to focus on business core function to attain their competitive advantage mostly through offering quality of services and products; profit maximization; work efficiency; as well as observing effectiveness.

Most of the respondents confirmed that their respective banks had mostly gained advantage in differentiation of products and services through outsourcing. Threat of new entrants and rivalry was found to be a major threat to competitive advantage achieved by commercial banks through outsourcing. The key products and services sought externally by commercial banks in Kenya included: human resource; logistics and distribution; software development; as well as data transcription services. Regression results show that outsourcing strategies are able to explain 22.6% of the variation of competitive advantage of commercial banks. The model gave an F ratio of 10.238 and a strong significant p – value of 0.003, the model shows that the predictor variable used in this study was acceptable and fit to determine competitive advantage of commercial banks. Therefore, the results indicated that we reject any null hypothesis that outsourcing strategies have no effect on competitive advantage of commercial banks in Kenya. The findings established that outsourcing strategies significantly affect competitive advantage of commercial banks in Kenya.

5.3 Conclusion

The findings established that the construct outsourcing strategies affect competitive advantage of commercial banks operating in Kenya. It can therefore be concluded that financial institutions compete well in dynamic business environment when they embrace outsourcing strategies and this is done based on the institutions' resources and capabilities. Outsourcing strategies can be used to create unique or important position that involve various sets of undertakings, which are required by banks in choosing a product or service, based on either cost advantage, or differentiation advantage, or both.

The requirement of financial institutions to be selective in making choice in a competitive range of activities can help them gain better competitive advantage which could include strategic repositioning, disruptive innovation, scale without mass as well as focus strategies. Among the activities which can be outsourced by many commercial banks in Kenya included human resource; logistics and distribution; software development; as well as data transcription services. This could be true since most banks seek help in terms of cash transit to their various ATMs and branches. The aspect of software development is on the rise among the banks since majority of them have embraced digital banking.

Presence of stiff competition in dynamic business environment could either imply that a given bank is able to produce a particular product or service valued by its customers as compared to that of their competitors, or rather the production of this service or product is done at a cost which lower than its rivals. Therefore, financial institutions tend to maintain their sustainability in competitive business environment through outsourcing.

5.4 Recommendations for Policy and Practice

Based on the study findings, the study made the following recommendations:

Commercial banks should adopt outsourcing strategies where possible to be able to better their service delivery and ensure quality. Adoption of outsourcing strategies can as well assist in gaining wider experience from qualified professionals and help in achieving competiveness among financial institutions.

Financial institutions should perform cost benefit analysis before choosing a particular outsourcing strategy to their competitiveness. This can be done through proper scrutiny of outsourcing partners' profiles based on experience and knowledge of products and services being offered.

The study further recommends that there is need for top level manager to make diligent decision on outsourcing strategies to be utilized to gain competitive advantage. Commercial banks are also advised embrace outsourcing more with focus on institutions goals and objectives. This can be done through setting of proper timelines on duration to be taken to effect decisions on outsourcing.

5.5 Suggestions for Further Study

The focus of this study was on the relationship between outsourcing strategies and competitive advantage of commercial banks operating in Kenya. There is need for a similar study to be extended in financial institutions to establish the similarity of the finding. The research also suggests that the future studies should focus on different variables other than those used in this study.

This research is considered to be a cross-sectional study that used quantitative approach. It only captured the perceptions and opinions of respondents. The cross-sectional study using the quantitative approach was selected because it was the most appropriate method available to address the issues given limited time and financial constraints. Therefore, there is need for a similar research to be carried out based on qualitative approaches.

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APPENDICES

Appendix I: Research Questionnaire

This research is on **Outsourcing Strategies and Competitive Advantage of Commercial Banks in Kenya.** You are kindly requested to complete the questionnaire as objectively as possible and be assured that the information collected is only for academic purpose and will uphold the principle of confidentiality and anonymity**.**

Section A: Background Information on the Respondent

1. In what level of organisational structure do you belong?

Top Management [ ] Middle Level Management [ ]

2. Duration of work in the bank (Please tick your answer below).

Less than 1 year [ ]

Between 1 and less than 5 years [ ]

Between 5 and less than 10 years [ ]

Between 10 and less than 15 years [ ]

Over 15 years [ ]

3. State your highest education level.

Secondary Level [ ] Graduate Level [ ]

College Level [ ] Post Graduate Level [ ]

Section B: Background Information on the Bank

4. **How many years have your respective bank have been in operation?**

Less than 5 years ☐

Between 6 and 10 years ☐

Between 11 and 15 years ☐

Between 16 and 20 years ☐

Over 20 years ☐

5. **Scope of operation of your organization**

   a) National [ ]

   b) Regional (Within East Africa) [ ]

   c) Continental (Within Africa) [ ]

   d) Global (Outside Africa) [ ]

6. **Ownership structure of the bank**

   1) Fully locally owned [ ]

   2) Fully foreign owned [ ]

   3) Both locally and foreign owned [ ]

Section C: Outsourcing Strategies

7. **Which of the following outsourcing strategies does your bank rely on mostly in achieving its competitiveness?**

   Strategic repositioning [ ] Disruptive innovation [ ]

   Scale without mass [ ] Focus [ ]

   Others, (please specify) …………………………………………………………

8. **Based on a scale of 1 – 5, how does the following affect competitive advantage of the bank as far as outsourcing for cost effectiveness is concerned?** [1] No Extent [2] Little extent [3] Moderate extent [4] Great Extent [5] Very Great Extent

	1	**2**	**3**	**4**	**5**
Focusing on Core processes					
Flexibility					
Having access to wider skills					
Better service and product quality					
Better Consumer relationship management					

9. **On a scale of 1 — 5, please rate the extent to which following aspects affect competitive advantage of the Bank as far as quality outsourcing is concern.** [1] No Extent [2] Little extent [3] Moderate extent [4] Great Extent [5] Very Great Extent. **(**Please tick one that applies)

	1	**2**	**3**	**4**	**5**
Experience					
Flexibility					
Reliability					
Trust					

10. **Based on a scale of 1 – 5, rate to what extent does following affect competitive advantage of the bank focusing on core business function when outsourcing is concerned?** [1] No Extent [2] Little extent [3] Moderate extent [4] Great Extent [5] Very Great Extent **(**Please tick where appropriate).

	1	**2**	**3**	**4**	**5**
Quality of services and products offered					
Effectiveness					
Efficiency					
Profits					
Better Consumer relationship management					

<u>Section D: Competitive Advantage</u>

11. **Which aspect of competitive advantage has your bank gained mostly through outsourcing**

    Differentiation advantage [ ] Cost advantage [ ]

    Others, (please specify) …………………………………………………

12. **Rate the extent of how the following threats have affected the competitive advantage of your bank as far as outsourcing is concerned outsourcing.** 1] No Extent [2] Little extent [3] Moderate extent [4] Great Extent [5] Very Great Extent **(**Please tick where appropriate).

	1	**2**	**3**	**4**	**5**
Threat of substitutes					
Powerful customers					
Threat of new entrants and rivalry					
Powerful suppliers					

13. **Which of the following products/services has your bank outsourced for competitiveness? (**Please tick where appropriate).

[ ] Software development

[ ] Human Resource

[ ] Payroll and benefit administration

[ ] Research and Development services

[ ] Logistics and distribution

[ ] Contact centres

[ ] Benefit Administration

[ ] Data transcription services

[ ] Data entry services

[ ] Call centres

Others, please specify …………………………………………………..................

END

Appendix II: List of Commercial Banks in Kenya as at December 2017

1 KCB Bank Kenya Ltd

2 Equity Bank (Kenya) Ltd

3 Co-operative Bank of Kenya Ltd

4 Barclays Bank of Kenya Ltd

5 Standard Chartered Bank Kenya Ltd

6 Diamond Trust Bank Kenya Ltd

7 I & M Bank Ltd

8 Commercial Bank of Africa Ltd

9 Citibank N.A Kenya

10 NIC Bank Kenya PLC

11 Stanbic Bank Kenya Ltd

12 Bank of Baroda (K) Ltd

13 Bank of India

14 Prime Bank Ltd

15 Victoria Commercial Bank Ltd

16 National Bank of Kenya Ltd

17 Habib Bank A. G. Zurich

18 HFC Ltd

19 Gulf African Bank Ltd

20 Guaranty Trust Bank (Kenya) Ltd

21 Guardian Bank Ltd

22 First Community Bank Ltd

23 African Banking Corporation Ltd

24 Credit Bank Ltd

25 M-Oriental Bank Ltd

26 Paramount Bank Ltd

27 Development Bank of Kenya Ltd

28 Transnational Bank Ltd

29 Bank of Africa Kenya Ltd

30 UBA Kenya Bank Ltd

31 Middle East Bank (K) Ltd

32 Mayfair Bank Ltd

33 SBM Bank (Kenya) Ltd

34 Consolidated Bank of Kenya Ltd

35 Sidian Bank Ltd

36 Jamii Bora Bank Ltd

37 DIB Bank Kenya Ltd

38 Family Bank Ltd

39 Eco-bank Kenya Ltd

40 Spire Bank Ltd

41 Charterhouse Bank Ltd*

42 Chase Bank (K) Ltd**

43 Imperial Bank Ltd**

***Banks under statutory management**

****Banks in receivership**

Source: Central Bank of Kenya (2017)